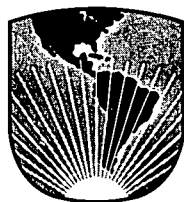


INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Eleventh Meeting
of the
Board of Governors

Punta del Este, April 1970



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PREFACE

The Eleventh Meeting of the Board of Governors of the Inter-American Development Bank was held in Punta del Este, Uruguay, April 20-24, 1970. All sessions took place in the *Casino del Estado*.

Mr. Jorge Pacheco Areco, President of the Republic of Uruguay, attended the Inaugural Session and formally opened the meeting. Mr. José Carlos Pena, President of the *Banco de la República Oriental del Uruguay*, 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 Tenth and Eleventh Meetings. It also includes a roster of the delegates of the member countries and the observers who attended the meeting, as well as the participants in a round table discussion on *The First Decade of the IDB: Prospects for the Future*.

Jorge Hazera
Secretary

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AGENDA

1. Election of the Chairman of the Board of Governors.
2. Tenth Annual Report of the Bank, 1969:
 - a. Financial Statement, Ordinary Capital Resources.
 - b. Financial Statement, Fund for Special Operations.
3. Increase in the Resources of the Bank.
4. Place and Date of the Twelfth Meeting of the Board of Governors.

Schedule of Sessions

Sunday, April 19, 1970

3:00 p.m. Preliminary Session (Chief of Delegation).

Monday, April 20, 1970

5:00 p.m. Inaugural Session (First Plenary Session).

1. Address by Mr. José Luis Bouscayrol, Governor for Guatemala.
2. Approval of the Agenda of the Meeting.
3. Election of the Chairman of the Board of Governors.
4. Address by Mr. Jorge Pacheco Areco, President of the Republic of Uruguay.
5. Address by Mr. Antonio Ortiz Mena, Governor for Mexico, on behalf of the visiting delegations.
6. Address by Mr. José Carlos Pena, Governor for Uruguay and Chairman of the Board of Governors.

Tuesday, April 21, 1970

10:00 a.m. Second Plenary Session.

1. Tenth Annual Report of the Bank, 1969:
 - a. Financial Report, Ordinary Capital Resources.
 - b. Financial Report, Fund for Special Operations.
2. Address by Mr. Felipe Herrera, President of the Bank.

3:00 p.m. Round Table: *The First Decade of the IDB: Prospects for the Future* (Part I).

Wednesday, April 22, 1970

10:00 a.m. Third Plenary Session.

1. Membership of the Board of Executive Directors.
2. Address by Mr. José María Dagnino Pastore, Governor for Argentina.
3. Address by Mr. Francisco Morales Bermúdez, Governor for Peru.
4. Address by Mr. César Barrientos, Governor for Paraguay.
5. Address by Mr. Antonio Ortiz Mena, Governor for Mexico.
6. Address by Mr. Juan José Martínez, Governor for Nicaragua, on behalf of the Central American Countries.

3:00 p.m. Round Table: *The First Decade of the IDB: Prospects for the Future* (Part II).

Thursday, April 23, 1970

9:00 a.m. Special Plenary Session.

Address by Mr. Raúl Prebisch, Director of the Latin American Institute for Economic and Social Planning.

10:00 a.m. Fourth Plenary Session.

1. Address by Mr. Ernane Galvéas, Alternate Governor for Brazil.
2. Address by Mr. David M. Kennedy, Governor for the United States.
3. Address by Mr. Edmundo Valencia, Governor for Bolivia.
4. Address by Mr. Andrés Zaldívar Larraín, Governor for Chile.
5. Address by Mr. G. Arthur Brown, Alternate Governor for Jamaica.
6. Address by Mr. Germán Botero de los Ríos, Alternate Governor for Colombia.

Friday, April 24, 1970

10:00 a.m. Closing Session (Fifth Plenary Session).

1. Increase in the Resources of the Bank.
2. Measures to Assure an Increased Flow of Resources to the Bank from Nonmember Countries.
3. Place and Date of the Twelfth Meeting of the Board of Governors.
4. Address by Mr. Augusto Barreiro Solórzano, Alternate Governor for Ecuador.
5. Address by Mr. Luis Enrique Oberto, Governor for Venezuela.
6. Address by Mr. José Carlos Pena, Governor for Uruguay and Chairman of the Board of Governors.
7. Remarks of Mr. Felipe Herrera, President of the Bank.
8. Address by Mr. César Barrientos, Governor for Paraguay, on behalf of the visiting delegations.
9. Formal Closing of the Meeting.

ADDRESSES

**INAUGURAL SESSION
(FIRST PLENARY SESSION)
APRIL 20, 1970**

Address by Mr. José Luis Bouscayrol, Governor for Guatemala and Minister of Economy, at the Inaugural Session

It is with singular pleasure and deep satisfaction that I address this inaugural session of the Eleventh Meeting of the Board of Governors of the Inter-American Development Bank.

The pleasure stems from seeing this great inter-American family, which is an example of solidarity for the entire world, gathered together once again. The satisfaction arises from the realization that our dynamic bank has completed its first ten years of creative institutional life. During those ten years it has evolved and developed into something more than just a bank: a financial complex devoted to economic and social development in its most varied aspects.

In my country, Guatemala, you paid me the signal honor of electing me Chairman of the Tenth Meeting of the Board of Governors, an honor for which I again express my thanks. It is not by mere chance that as we enter our second decade we should be gathered here in Uruguay holding our Board of Governors Meeting, for Uruguay has been the site of other inter-American meetings of importance. Punta del Este has become a historic place in the annals of inter-American affairs. Here was born the most admirable document ever signed on matters of social and economic significance. The Charter bearing the city's name is a genuine expression of the most cherished hopes of our peoples. For various reasons, the goals of the Charter have not all been accomplished. But this makes them no less valid for us today, nor does it detract from their vital importance. Punta del Este was also the site of the second Meeting of Presidents of America, a meeting at which the highest political leaders of the continent declared their firm determination to launch an extraordinary effort of hemispheric cooperation to improve the living conditions of the people of the Americas. I am confident that these magnificent precedents will so inspire this distinguished group that its decisions will be as far-reaching in importance as others made here before.

It also gives me great pleasure to extend a most cordial and heartfelt welcome to the twenty-third member of the Inter-American Development Bank, Jamaica, whose representative is here today. The last three years have seen a steady growth in the size of this great family: Jamaica joined in December 1969; earlier in March 1969 Barbados became our twenty-second member, and in 1967 Trinidad and Tobago became the twenty-first. These three English-speaking countries of the Caribbean area have strengthened the Bank and, at the same time, are sharing in the benefits of our common efforts.

As we have been informed this meeting will be the occasion for a review of developments during the Bank's first decade of activities. It is always useful to glance back at the road already traveled, in order to profit from past experience. Many goals may have been accomplished in full, others are progressing satisfactorily, but, as always, certain ideals remain unfulfilled. What is really important is that we determine the reasons why we failed to achieve all that we set out to do; that we identify obstacles so that we can surmount them in the future; that we examine the causes of any failures with greater vigor and dynamism, if there were any; in short, that we try to build on the firm foundation of past experience.

It is true that the management of the Bank, aided by its excellent staff, has shown a keen spirit of innovation and vision in the performance of its responsibilities. It is a fact that ways have been found of increasing the resources of the Bank and that their growth has been constant. And it is a fact that the Bank has directed its lending operations into fields never before attempted by international institutions and has become, more than simply a bank, a magnificent instrument of development. But it is equally true that our needs are many, that our people are impatient with the slow pace of our progress, and that the younger generations are finding it increasingly difficult to satisfy their employment, education and health needs. And this is why we who are responsible for directing and guiding the economies and finances of our countries are duty-bound to seek ways and means of accelerating their economic and social development so as to reduce the enormous gap between groups and help to make life more worthy of being lived. The Inter-American Development Bank, without a doubt, is called upon to be one of the strongest links in the chain of hemisphere solidarity, for sustained economic development and effective improvement of social conditions will be the principal pillars of peace among nations and brotherhood among men. It is not my task to recount even briefly the Bank's achievements during the last ten years. That will be our task for the next few days. I cannot refrain, however, from mentioning the \$3,430 million loaned by the Bank since its inception, in proportions ranging from 24 per cent for the agricultural sector to 3 per cent for preinvestment studies and export financing. But it is certainly deplorable—and here again it is essential to examine the causes and seek the remedies—that only 50.3 per cent of this very significant amount had been disbursed by the end of December 1969. This is a very slow pace, and it seems to me that after ten years of experience both the Bank and the borrowing countries should find no difficulty in devising

ways of speeding up the rate of disbursement, so that new investment will have a more timely and accelerated impact on the economy.

As for the resources available to the Bank, these amount to the very significant sum of \$6,073 million, of which \$5,478 million are the Bank's own funds, \$525 million are administered by the Bank on behalf of the United States Government and \$70 million are administered by the Bank for non-member countries.

I understand the President of the Inter-American Bank, our friend Felipe Herrera, has reported that this meeting of the Board of Governors, which we are inaugurating today, will consider recommendations for the establishment of an affiliate of the Bank to promote the development of the Latin American private sector. This affiliate might provide funds for equity investment in private enterprises, as well as grant loans. With this new venture, the Bank would also become a development bank for private investment. I am extremely gratified that this matter is being brought to our attention, as I have always thought that in the final analysis private enterprise is the large contributing factor to economic development and hence to a higher employment level. We should bear in mind that, with its population approaching 250 million Latin America needs to provide at least 3 million new jobs each year for the young men and women who enter the labor force; and to the extent that we fail to create a sufficient number of jobs, the cumulative employment gap may come to exert tremendous pressure on our economies, with the potential of giving rise to the most serious political and social conflicts. Allow me to recall a brief passage from my remarks at the inaugural meeting of the Board of Governors held in Guatemala exactly a year ago.

"Because of lack of opportunities, a sizable segment of Latin American youth is in a state of complete frustration. Nothing good can be expected from a rising generation that has lost faith in its future. Instability and insecurity are contagious feelings that provoke uncertainty in all sectors. There is therefore an urgent need to develop specific programs to educate young people and to provide them with opportunities and, with an absolutely practical view, to create job opportunities, particularly for young people, so that their energies may be directed toward construction, rather than destruction. Such programs would constitute an important step toward the achievement of a more vigorous economy and, therefore, of conditions for more equitable social progress."

I believe my previous remarks will retain their validity for a long time to come. Thus I look with pleasure upon this new idea of establish-

ing an affiliate of the Bank devoted to strengthening private enterprise, an idea which we will soon discuss.

Extremely concerned as I am with this problem, I would consider myself remiss if I failed to repeat another passage from my statement a year ago, since it is closely related to what I have just said. I said then:

"One of the main causes of underdevelopment (in the Latin American countries) is the deficiency of entrepreneurial spirit evident among our people . . . clearly this lack of entrepreneurial spirit is largely responsible for the backwardness of large segments of the populations of Indo-Spanish America. It follows that anything we can do to stimulate, arouse and develop this spirit of enterprise must inevitably yield benefits to the Latin American economies and the well-being of our peoples."

I invite this distinguished gathering to give serious thought to the necessity of expanding the role of the Bank by means of programs designed to strengthen the entrepreneurial spirit in our countries, so greatly in need of accelerating the pace of their economic development.

It is appropriate to emphasize that this Eleventh Meeting of the Board of Governors is taking place at the start of the Second Development Decade. There are good and sufficient reasons to feel optimistic regarding the prospects for improvements in the terms of inter-American financing and world trade. The Consultation and Negotiation Committee established by the IA-ECOSOC at its recent meeting in Caracas will become another valuable instrument in both of these fields. This Committee is starting its action on a more promising foundation as a result of the new policy formulated by the President of the United States, Mr. Richard M. Nixon, who has ordered a re-examination of burdensome terms and restrictions attached to loans granted with funds provided by that friendly nation. This re-examination, he said, is designed to modify or eliminate those terms and restrictions.

On another front, a better future for Latin American trade relations with the United States and the rest of the world may be envisaged. We hope that the recent Geneva meetings of the United Nations Special Committee on Preferences will lead to the establishment of a system of preferences benefiting all developing countries. These two levers, financing and trade, together with vigorous internal efforts, will effectively accelerate the economic and social development of our peoples.

In this process, my fellow Governors, we may rest assured that the Inter-American Development Bank, thanks to the valuable experience obtained in its first ten years, will play a vitally important role. The brilliant achievements of its President, Mr. Felipe Herrera, and his able staff, are a guarantee that this will be so.

We are deeply grateful to the enlightened Government of Uruguay for having offered us this beautiful city as the site of our meetings. We recognize their generous hospitality and are confident that the splendid setting for our deliberations will be a source of inspiration for all of us.

Once again, my fellow Governors, let me express my deep gratitude to all of you for my election last year as Chairman of the Tenth Meeting of the Board of Governors of the Bank, an election which, as I said at the time, I accepted as a tribute to Guatemala and to all of Central America.

Address by Mr. Jorge Pacheco Areco, President of the Republic of Uruguay, at the Inaugural Session

Uruguay takes pride today in extending its hospitality for this important event. Thanks to the generosity of the American countries our nation has been established as the traditional site of the most significant conferences of the inter-American system, culminating in the Declaration of the Presidents of America in 1967.

Looking back over the past decade, we can see that many hopes have been awakened, only to be followed by inevitable disillusionments. This experience, which can guide us in our day-to-day tasks, imposes on us a special obligation to control our rhetorical enthusiasm, and temper expectations with possibilities of fulfilling them. Otherwise, we will generate only disappointment, bitterness and frustration.

The question of why this decade, which has brought substantial progress of every sort to our region, has also produced tensions, a hardening of positions, violence and polarization, has been asked so many times that it has become a stereotype. In planning during this period, the peoples of the Americas have concentrated their fundamental action on the economic aspect, and the efforts of the economists, accompanied by a deluge of conferences, reports and rhetorical exercises, have defined development strategy in terms of economic re-planing. Yet these efforts have failed to eliminate tensions and have, on occasion, created unrealistic expectations that have helped to exacerbate them still further.

Does this mean that development strategy has been headed in the wrong direction, that it has come too late or that it has been applied on too small a scale? Or can the answer be that the source of tensions runs much deeper than the strictly economic surface? The 1960s have been called the decade of the economists. I wonder whether in the 1970s the efforts of the economists should not be supplemented by the contribution of historians, psychologists and sociologists.

It has been traditional to analyze Latin America in terms of its economic deficiencies. Its image as a hemisphere plagued by social instability, along with its inadequate rate of development, is explained in certain international circles as due to the so-called Latin temperament. Even the most casual observer, however, cannot fail to realize that this situation is by no means peculiar to Latin America. For the truth is that the hemisphere is ridden by tensions from Alaska to Cape Horn. In reality, the entire world is tension-ridden, from the coasts of the Americas to the confines of the Far East. From north to south, from east to west, one area after another is plagued by poverty and ignorance, even in the midst of education and prosperity. Tensions, social instability and

violence are neither monopoly nor exclusive preserve of areas wracked by poverty and ignorance. They are also legacy of cultured and prosperous lands as well.

This necessarily leads to the conclusion that factors other than economics and culture must be taken into account, that we must consider other variables and other composite elements, perhaps historical, perhaps sociological or psychological. How else can we explain the violence of Quebec separatism in prosperous Canada? How else can we reconcile the student uprising with the spiraling cultural progress and wealth of the United States or comprehend the violence in Northern Ireland and the riots of young Dutchmen and Scandinavians? How else can we reconcile the vaunted egalitarianism of the Marxist-Leninist countries with the emergence of new social classes and discrimination against minorities? How can we reconcile Maoist philosophy with the upheaval created by the rampant revolt of Chinese youth in every corner of that country's provinces?

It is obvious that the image of Latin America as a continent that is the exclusive domain of violence and instability must be reevaluated and rescaled in the light of a world in tumult. And it is equally obvious that the Latin American image cannot be fully projected solely in terms of economic or educational analyses.

We all know that ideas are what hold nations together, creating for each its own standards, its own scales of historical, cultural and moral values. We know, too, how these standards and these scales of value change over the course of history and how nations that have destroyed themselves in bloody wars, divided by their religious, political or cultural concepts, have been able to find a common denominator, such as was the miraculous evolution of the European Common Market.

In other areas, however, the clash of ideologies is becoming sharper and their coexistence appears, for the time being at least, virtually irreconcilable. Is this not palpable evidence that we are experiencing a drastic thoroughgoing revision of standards and scales of values, that new conceptual dimensions are being created and that until this process is completed, social imbalances and tensions will continue along a course very difficult to direct?

It is, accordingly, becoming more and more difficult, in this period of transition and substitution, to acknowledge or justify those who set themselves up as the possessors of absolute truths. How can we legitimize the attitude of those who, armed with such ephemeral truths, can be so blind as to claim a position as exporters of their dogmas or, still worse, prophets crusading for their violent gospel?

In the midst of these disturbances at the world level, in the midst

of the hemispheric agitation in North and South America, we must discharge our duty as leaders, with the intellectual humility of those who do not consider themselves to possess absolute truths, but with the firmness and decision that should mark leaders aware of their historical responsibilities.

This task is common to all of us meeting here today, who are greatly responsible for implementing a strategy for the development of the Latin American region and for hemispheric coexistence. We fully realize the scope of this undertaking and its difficulties, and we believe that a keen awareness and an exact definition of these problems is an essential requisite for our success.

We must, first of all, be particularly careful to prevent rhetorical enthusiasm from leading us to overestimate the role of our inter-American banking organization and thus create expectations beyond our possibilities. The Bank is primarily a credit institution. And all the international credit agencies should confine themselves to this function, refraining from substituting for or interfering in matters of the exclusive responsibility of the respective governments. International bureaucracies have the same merits and offer the same risks as national bureaucracies. We must seek a solid balance to ensure that all nationalities are adequately considered, in both the composition of its staff and the distribution of its credits. We have confidence in the recognized capacity and dedication of President Felipe Herrera, of the Executive Directors and of the technicians of the Bank, and we view with satisfaction their efforts to secure the resources needed for effective action. We also view with satisfaction the efforts directed toward the geographic relocation of both the Bank and its related organs. Uruguay, which has been the site of the most important international events in the inter-American system, offers its hospitality as of now should such efforts materialize.

Our task is vast and difficult, but to struggle for noble causes is to live life fully. We share the problems of Latin America, its diversities and its similarities. We know how difficult it is to find the least common denominator, equally valid for Indian America, of centuries-old tradition, and for the America colonized by European emigrations, also possessors of a long tradition and their own philosophy. We hope that the immensity of our task will neither overwhelm nor discourage us, but that it will serve as an incentive to raise us to the level of the challenge confronting those of us who have the privilege and the responsibility of witnessing and participating in the creation of a true New World.

In the name of the government and the people of Uruguay, I welcome all of you here and express our most sincere wishes for the success of your labors.

Address by Mr. Antonio Ortiz Mena, Governor for Mexico and Secretary of Finance and Public Credit, on behalf of the Delegations, at the Inaugural Session

It is now becoming traditional practice in our inter-American relations to connect Uruguay, and specifically Punta del Este, with outstanding events of hemisphere interest.

Today we are here for the Annual Meeting of the Board of Governors of the Inter-American Development Bank, and along with it to celebrate ten years of its activity. For this reason, you have most generously appointed me to speak at this inaugural session. This exceptional honor culminates my uninterrupted attendance at all the meetings of the Bank since it was established at San Salvador.

In their decisions adopted here in 1967, the Presidents of America—with all their high authority—attested the importance of the Bank for Latin American economic policy. Today, the presence of you, the highest financial authorities of the hemisphere, corroborates that importance.

As in the case with many other institutions of the Inter-American system, the history of our Bank is long and checkered, reflecting a process often repeated in the establishment of international organizations. A visionary idea—sometimes only a dream—leads to initial discussion of its feasibility and scope, then years and decades of latent hopes; finally, a determined human effort and a combination of circumstances affecting the hemisphere and the world translate that idea into reality.

It seems fitting to recall one of its most important chapters. Without overlooking the earliest report, presented in 1844 by Juan Bautista Alberdi, it was at the First International Conference of American States held in Washington in 1889 that, in terms of reference characteristic of the times, the possibility of establishing a private inter-American bank to finance hemispheric trade, with branches or agencies in its member countries, was discussed.

The idea was examined for a second time at the subsequent Pan American Conference held in Mexico in 1902; but it was not until the Seventh Inter-American Conference held in Montevideo that it was formally discussed again, at the suggestion of my country. That is to say, 37 years ago we were examining in Uruguay, in a totally different atmosphere, the establishment of an inter-American organization for economic and financial cooperation that would have as its most important arm, an inter-American bank. From that time on the bank was never again conceived as a private institution.

Under different circumstances, but still with some doubts on the part of certain countries, it was again proposed at the Meeting of Minis-

ters of Finance of the Americas held in Panama in 1949. While the proposed financial institution was seen primarily to have exchange and monetary functions, it also had functions of channeling investments to promote the economic development of the countries of the Americas.

About that time, as a result of the pressures of postwar economic policy and the new needs which called for greater world solidarity, the International Monetary Fund and the International Bank for Reconstruction and Development were established to meet the demands that all the economies were increasingly experiencing, and it was believed that their action would have universal application. This was completed within the hemisphere, in the judgment of the developed countries, by the Export-Import Bank, established in 1934.

At the Ninth Inter-American Conference held in Bogotá in 1948, in which the inter-American system was fundamentally established and special emphasis was placed for the first time on economic matters, new calls were sounded for the creation at the earliest possible time of an inter-American bank. At that time and subsequently, the idea of a hemispheric development corporation was contested on the grounds that there were already two banking institutions in existence, both very sound and useful, the World Bank and the Export-Import Bank, which could meet the needs of the countries of the Americas.

On various occasions the Inter-American Economic and Social Council, established pursuant to the OAS charter, discussed proposals for channeling international cooperation. The most important of these was that made in Quintandinha in 1954, at the Meeting of Ministers of Finance or Economic Affairs, the conclusions of which stressed the fact that the resources furnished by existing international financial organizations were inadequate for the development of Latin America and restated the advantages to be derived from channeling loans toward productive investments that would make it possible to cancel debts promptly, support specific development projects and achieve equilibrium in the balance of payments.

It was not until 1958, when some countries which did not view the establishment of an inter-American regional development institution with favor radically changed their position, that its establishment was recommended by the United States and all the members of the System; the Committee of 21 and the OAS Council followed suit. A special committee was entrusted with the negotiation and drafting of the Agreement Establishing the institution, the final act of which was signed April 8, 1959, and entered into effect on December 30 of the same year.

The events that ensued are well known to us, for they belong to our time. Their formal beginning was the First Meeting of the Board of

Governors held in San Salvador, where our esteemed President, Felipe Herrera, was unanimously elected to direct the Bank, and the Regulations of the Board of Governors and the By-Laws of the institution were adopted.

I do not wish to review at length activities and policies in which we have all participated; but I believe it desirable to do so, within certain limitations, in order to give a clear and precise idea of the rapid development of the Bank during this decade, of the way it has served Latin American interests, and of its intelligent adjustment to varying economic circumstances during the decade.

From the start it was felt that the role of the Bank should be not to replace but to supplement that of the other organizations, and that its capital and other statutory funds alone would not suffice as a source of available funds; but that it should be an instrument for channeling the increasing resources obtained in international markets toward Latin America in the long-term. This could happen only if loans granted by the Bank had guarantees, yields and sound characteristics comparable to those of the best international financial organizations; but with the proviso that transactions would have to be adjusted to the actual needs and conditions of our development. Mexico has emphasized since the San Salvador meeting, that it should never be forgotten that each country has its own solutions, linked to its traditions, resources, and social and political circumstances.

The IDB soon began to earn prestige and, before two years had elapsed, had placed its first bond issue with Italian banks. It has not ceased in its endeavors to obtain funds in the capital export markets, using traditional methods and novel arrangements; this has enabled it, as of December 31, 1969, to obtain borrowings for an original amount of \$895 million. It speaks well of the Bank's efforts that in this flow of public and private resources channeled to the development of Latin America, it has obtained contributions in one form or another from nonmember countries and enterprises amounting to \$471 million.

To the Bank's own resources, was added, in a first tribute to its effectiveness the Fund established by the Government of the United States in the Act of Bogotá, which became the Social Progress Trust Fund.

Since the Bank was established, the flow of external financing toward Latin America—and this was one of its main objectives—has been more regular, in contrast to the previous decade, when long-term loans granted by the United States and international financial institutions experienced yearly fluctuations which hindered long-term planning and a sustained rate of economic expansion.

This means that the Bank's lending policy has been based on the soundest banking techniques, yet has not neglected projects with an eminently social content, which are so necessary to the hemisphere. It might even be said that these were, in part, the fundamental reasons for establishing the Bank since, previously, international financial institutions did not as a rule agree to grant loans to cover local costs or soft loans, but preferred highly profitable projects, with emphasis on major industries.

In contrast, the Inter-American Bank pioneered in the multinational financing of an impressive number of activities. Among others, it has covered water supply and sewage systems; environmental sanitation, housing and urban development; land settlement and agrarian reform; direct support to state development corporations; financing the export of capital goods; higher education; integration and multinational projects; preinvestment studies, and financing of new tourist areas. This range of operations, to which, of course, the traditional fields—electric power, irrigation, highways should be added—has been responsible for the increase that accounts for the fact that the loans, which at the end of 1961 amounted to \$300 million, stood at approximately \$3.5 billion at the end of 1969, in 565 transactions. Almost two-thirds of this amount was granted in the form of soft loans.

In accordance with Latin America's priority needs, out of the total loans granted, 24.3 per cent went to agriculture; 16.8 per cent to industry and mining; 15.2 per cent to transportation and communications; 13.9 per cent to electric power; 13.3 per cent to water supply and sewage systems; 9.4 per cent to housing; 4 per cent to education; 1.9 per cent to preinvestment projects, and 1.2 per cent to financing capital goods exports.

As I have previously mentioned, one of the most important consequences of this volume is the mobilization of local resources which it induces; the \$3.5 billion mentioned supported projects costing approximately \$10 billion. As a result the Bank has not only become a solid support for Latin American development, but has also served as a pattern for the establishment of other institutions that have modeled their structure and operation on it, such as the Asian Development Bank and the African Bank, although each of these has its own particular characteristics.

It is perhaps unnecessary to mention how much Latin American integration owes to the IDB, so much so, that it has been rightly called the Bank of Integration. To date, it has contributed approximately \$400 million in transactions designed to promote integration in the

fields of export financing, development of multinational areas, training and research, electric power, transportation and telecommunications.

While we can feel reasonably satisfied with the achievement of the past decade, we must hope and endeavor that the decade of the seventies will hold still greater success in store for the IDB. In order to solve the problem facing the economy of Latin America in this new period ahead, it must be prepared to meet the changes that have taken place to envisage policies additional to those it has already tried and tested.

Of course, perhaps the most important advance in its policies—and this might call for amendment of its by-laws—would be to authorize the Bank to participate in financing programs; for in this way, the application of the overall resources supplied, joined to the domestic efforts of our countries, would have more weight. Furthermore, this concept could encompass an eclectic formula, which would be the financing of sectoral programs.

Since the Guatemala meeting we have stressed that the fisheries sector has a promising future, as FAO has always maintained and as is supported by IDB reports, not only because of the abundant resources available, but also because of the ever-increasing demand noted in all the countries. Moreover, it is one of the few cases in which the increase and exploitation of a natural resource will improve the national diet and export possibilities.

During the past year, in compliance with our agreements, the Bank approved a three-year plan for the development of fishing and the fisheries industry, thus becoming a pioneer institution in a new field.

While on this point, it should not be forgotten that the construction of fishing ports will also foster integration in all its aspects and that support of research on marine resources and their conservation is multinational in scope.

The Bank has not neglected certain sectors of education, since without suitable training, it is difficult to turn the new technologies and scientific advances to account. It must therefore increase its support to technical and advanced education, not only in the field of teaching, but also in the modernization of the equipment of universities and polytechnic institutes. This is particularly true in Latin America where population rates indicate that its young population will increase sharply during the next decade.

The Bank's administration has been working arduously in the field of technology. In addition to the effort to improve credit operations proper, an attempt has been made to bring world experts and scholars to cooperate in a multinational integration project to establish a Latin American Common Market for science and technology, so that our

countries may improve the training of technicians, prevent them from leaving their countries, encourage research and establish centers for industrial education and business administration and manpower training.

Financing designed to foster exports has already had a favorable impact; however, with regard to this vital sector for the hemisphere, the Bank should in future associate its resources with programs designed to encourage and carry out a vigorous campaign to promote exports of manufactures and capital goods. To that end, it is advisable to review not only the list of goods that can be financed but also the terms and conditions of the credits. There is nothing to prevent us from already envisaging the possibility of promoting extracontinental exports.

It is added cause for rejoicing to welcome Jamaica as a new member on this occasion. With its participation, the members of the IDB number 23. Jamaica's admission confirms once again the identity of the goals and principles of the nations of the Americas and the trend of the countries of the Caribbean—to which we all feel so close—to strengthen the ties of brotherhood that unite them with the rest of the continent.

I shall close this address with a final remark: our Bank would not have risen from nothing to its present position without the determined, hard-working, intelligent and persevering action of its administration and of the great Latin American who has been its president since its inception, Felipe Herrera. To him who combines excellent technical qualifications with the highest human qualities to form an outstanding personality, our thanks and congratulations are due.

We have received many tokens of the generous hospitality of Uruguay; the proverbial courtesy of its noble people has been evident in every detail since our arrival in the country; for this we now express our appreciation to its Government and its people.

It is fitting that the Bank's activities should conform to the matter-of-factness of economic relations; but since they are not intended to satisfy private interests, but to improve the living conditions of our peoples not only in material things but also in their best ethical essence, we can think of no better thought than that of Ariel de Rodó—who was the inspiration of the youth of my time in tackling the most difficult ventures—who perceived that the reign of the spirit was only possible when a certain level of material well-being had been achieved.

Address by the Chairman of the Board of Governors,
Mr. José Carlos Pena, President of the Banco de la Repú-
blica Oriental del Uruguay and Governor for Uruguay,
at the Inaugural Session

Development: an Act of Will

In view of the essential link between our Bank and development, I have thought it appropriate on this occasion to express some thoughts on the subject of development. The focus of my discussion is limited by both time and opportunity, for even if it were likely that I could make a personal contribution to the theory of development, it is clear that in the present circumstances such a possibility is far removed from my goal or intention.

I should like to focus today on a single aspect which is often overlooked or only weakly implied, namely development as an act of will.

I do not pretend to reveal any new truth when I say that no development is possible without the will to develop. Development is not something exogenous to us; it is not a mysterious force that enters our lives and improves them in spite of our personal attitudes. Rather, it is invariably the result of our own actions. Among the many cogent observations in the Pearson report there is one that is especially a *propos* in the present context: "Development must come from within, and no amount of external aid will suffice where there is no national will to adopt the necessary fundamental changes."

While everyone knows this, not everyone says it or, even less, preaches or practices what it implies. To the contrary, we have frequently witnessed the critical attitude of those who are "impatient for development," those static gentlemen hoping for dynamic changes in the economies, those partisans of "instant development" who seem to think that development springs from governmental decrees and not from the will of the people. Those who hold to this way of thinking are first cousins to the persons who believe that development is limited by the level of existing savings, which acts as a brake on investment and therefore on the rate of growth, and that consequently there can be no development without a policy for the expansion of savings, which, in these cases, simply put, means a liberal policy for the expansion of the money supply.

In both cases, the effort of will is nonexistent and there can be no development. These concepts of development for all through the efforts of others (or of no one at all) may at some future time seem quaint

when viewed in a historical perspective, but at present they are harmful and misleading when seen from the standpoint of today's practice and theory.

We recognize that just as it is an over-simplification to speak of the rate of interest in the singular as if there were not a plurality of interest rates, it would also be simplistic to speak of development as a single act of the will, for here too there is a plurality involved, in this case, a plurality of wills. By the same token, if development is a result, it is a result of a complex of wills: the will of the public and private sectors, which brings in the theory of inflation, in the former, and the theory of productivity in the latter.

Development and the Theory of Inflation

There are various theories which attempt to explain the connection between inflation and development. For the purposes of this discussion I shall examine two of these theories very briefly. The first establishes a cause-and-effect relationship between development and inflation, while the second attempts to show that development is dependent on inflation.

The first of these propositions holds that when a country increases its rate of development substantially it thereby exerts heavy pressure on its existing resources and that this inevitably leads to a rise in prices. I believe, like Milton Friedman, that this line of reasoning is lacking in validity because it confuses physical volume with monetary volume and fails to recognize that what really matters is how the resources needed for development are obtained. If they are obtained through taxes, borrowings or self-financing of enterprises, the development achieved does not imply inflation. Conversely, if development is financed through a policy of excessive expansion of the money supply, the responsibility for the resulting inflation lies with the monetary authorities and not with development.

There are many instances where significant rates of development are actually accompanied by substantial declines in prices. And just as it is more accurate to attribute a low level of savings to inadequate economic progress than to attribute the lack of economic progress to insufficient savings, in many cases, if not in all, it can be said that economic development has led to a drop in prices rather than that the decline in prices has led to a faster rate of development.

The second proposition holds that inflation is a dynamic factor that stimulates economic growth. It is dynamic and stimulating because:

(1) it results in a negative distribution of income by transferring income to those with the highest propensity for saving and, in this way, through an increase in the level of domestic savings, promotes investment, and (2) it operates through the issue of currency—which in the last analysis represents either a tax or new borrowings, depending on how it affects the level of prices—as a source of governmental funds for the financing of development.

Here, too, I share the opinion of Friedman that in certain cases a redistribution of income may have positive effects on development, as occurred, for instance, in the fifteenth and sixteenth centuries, but I also agree that these positive effects will come about only when inflation is not anticipated; that is, when the expectations of a rise in prices are equal to zero, for to the extent that this is not so, the expectation of inflation will lead to successive adjustments in asset holdings, and this in turn, if the government maintains its policy, will lead to increasingly higher prices and probably to a declining rate of growth or even stagnation of the gross product.

What then are the relationships between inflation and development? It seems to me that the following conclusions are self-evident:

1. A substantial rate of development does not imply inflation; it is not theoretically correct to affirm that there is a permanent cause-and-effect relationship between one and the other. A rapid rate of development is compatible with a stable, descending or moderately rising level of prices.

2. While it is possible to construct a model in which inflation stimulates development, such a model would be unrealistic in most cases because it would rest on the rather unlikely assumption that there are no expectations of rising prices before and during the process of inflation, or that, if there are, the asset holdings are not restructured. There is no doubt that in the absence of defensive adjustments inflation would have dynamic effects on growth, but the problem is that it is equally certain that in the vast majority of countries (and I would venture to say in all countries, for can there be any country today that has not lost its ingenuousness and innocence where inflation is concerned) such protective adjustments will be made.

3. If inflation is not tied to development and is not a necessary requisite for development, it follows logically that a stable or, at least, basically stable, level of prices is a convenient device, on the basis of the first assumption, and a necessity, from the second standpoint, for effectively promoting development. And it is here that the decision, the act of will of the governments, has its aim and its purpose. A policy of stable prices implies a high demand for money and therefore a rising

level of domestic savings and a sound and profitable banking system; it also implies a low interest rate and, accordingly, it strengthens the trend toward obtaining an adequate marginal return on capital, one making possible an optimum level of investment and, through this investment, an increase in income, product and employment. And to the extent that we make good use of the resources derived from domestic savings we reduce the need for resources of external origin and increase the effectiveness of those we utilize. For if development is an act of will, it is also efficiency.

Development and Productivity

But if in the public sector the deliberate action which is essential for spurring a development process has its essential (though not exclusive) manifestation in a policy of stable prices, in the private sector, both on the management and labor side, it is manifested through measures aimed at bringing about a high rate of increase in productivity.

As Keynes has said in his fundamental work: "In other times . . . investment depended on the existence of a sufficient number of individuals of sanguine temperament and constructive impulses who entered into business undertakings as a livelihood, without basing themselves on precise computations of probable gains." To the extent that businessmen take decisions that make them dynamic protagonists and agents of change (change in their own arena of business, from an individual point of view, but also change in the over-all economy, from the macro-economic point of view), they will set in motion the forces and create the conditions needed to foster increasing research, dynamic technological innovation, and rethinking of production and marketing methods. Investment will multiply and lead to accelerated growth. It is only with men such as these, driven by their own volition and self-confidence, aware of risks but willing to take them, that true development is possible. Let it be known and, if known, not forgotten, that it was the appearance of such a man, the modern businessman, that led to the birth of modern capitalism. The system sprang from the man, capitalism from the capitalist, and if there was an industrial revolution it was only because there were men, magnificent men, to conceive and execute it and carry it out.

It is evident—and Kaldor, among others, has said it—that once the economy is re-created by men of this stature, progress tends to become self-propelling and, in response to needs arising from expanded production, increasingly higher rates of population growth and capital accum-

mulation are required. And the greater the expansionist trend, the greater the ease with which it will surmount any obstacles placed in its way by expansion itself, for at this stage of the cycle, economic growth derives its strength from the very fact that each new bottleneck or obstacle stemming from growth will challenge the modern and vigorous businessmen to introduce new techniques.

But history is not written by businessmen alone. Men of labor must accompany government and businessmen in the development process. They too must decide for themselves what they want and seek to achieve it. They too can, as indeed they must, actively attempt to attain substantial rises in productivity, for if the goals of every government should be "full employment and maximum economic growth with a stable price level, it is clear that a high rate of productivity is the appropriate and indispensable means of reaching these objectives. Demands for higher wages irrespective of average rates of productivity will resolve no problems and, in fact, will create them. We must not forget that a rise in wages has two effects: (1) increased costs, and (2) increased demand. If the increase in costs and demand is not to result in higher prices it must be offset by a parallel rise in productivity. Higher productivity means an increase in the supply of goods and services (which satisfies the rise in demand) and therefore a decline in costs (which counters the increased wage component). Under these conditions, salaries and the production of goods for consumption by the community can be increased without altering the price level: as a result, not only will real wages have been improved, but, in addition, the groundwork will have been laid for a dynamic process of development.

Closing Thoughts

It should be clearly understood that development is a result of the concerted wills of governments, businessmen and workers. The economy, thus conceived, is centered on man himself, and the responsibility for development is seen to lie with the community as a whole. Governments have the obligation, first of all, to want development, and then to pursue it steadfastly; one of the principal contributions they can make in this sense is to maintain a stable price level that will permit the forces of the economy, freely and without distortions or friction of any kind, to create the conditions and incentives required for growth. Businessmen must play a leading role in this process, for they are the vital and sorely needed factor and, in the final analysis, the entire outcome will depend on their creative drive, their willingness to take a risk and

their firmness and determination. And wage-earners must also play their part in the common task: there can be no inequities or lagging sectors. If man is the promotor of development he is also its end; if we all share a common destiny, then development is our common concern.

SECOND PLENARY SESSION
APRIL 21, 1970

Address by Mr. Felipe Herrera, President of the Bank at the Second Plenary Session

It is a pleasure for me, as President of the Bank, to extend to the Governors, observers, and special guests a cordial greeting on behalf of the Board of Executive Directors and Management of the Bank and to make a special mention of the presence at this meeting of a new member country. I refer to Jamaica, which joined the Bank December 30, 1969. With its admission and that of Barbados, which took place March 19, 1969, our institution now has 23 member countries.

It is traditional on this occasion for the President of the Bank to give an account of the results of the Bank's activities during the preceding year. At this meeting I believe it useful to discuss these activities within the framework of the first decade of the existence of the Inter-American Development Bank and the broader framework of the "First Development Decade" as well as the beginning of a new period in which the international community is discussing a new strategy for external co-operation in the light of the experience of the 1960s. In these remarks, I will only touch on the highlights of those developments, since they are analyzed in fuller detail in the two reports already submitted to our member governments: The Bank's Tenth Annual Report and its report on socio-economic progress in Latin America.

A Significant Year: 1969

The year 1969 was an exceptional one for the Bank within the framework of the decade:

- The Bank authorized 67 loans totaling \$630 million, thus fully attaining the goal projected at the Governors' meeting in Guatemala City. This volume of loans compares with a yearly average of \$350 million authorized by the Bank during 1961-68 and with the volume of \$430 million in 1968.
- Actual utilization of Bank resources reached a record level with disbursements reaching \$394 million, compared with \$291 million in 1968.
- The Bank mobilized an additional \$663 million for Latin America's development. Particularly significant is the fact that \$150 million of that sum was raised in non-member countries, even though 1969 was one of the most difficult years in the capital markets, owing to limited accessibility to those markets and the high cost of money.
- The Bank's earnings were greater than those of any previous year. This was particularly so for the ordinary capital resources, which had a

net profit of more than \$20 million, or 50 per cent greater than 1968. This increased the reserves for that capital to more than \$85 million, compared to \$60 million at the end of 1968.

A Significant Site: Punta del Este

We realize that the Governors attach a very special significance to this meeting, not only because it marks the close of our first ten years of activity and the First Development Decade, but also because it is being held in a city which has been closely linked to many major events which have taken place in inter-American relations during our initial decade of activity. It was here in Punta del Este in August 1961 that a new policy of regional cooperation was brought into being to accelerate the economic and social development of Latin America. And it was here just three years ago that the Presidents of America reaffirmed the guiding principles of the Charter of Punta del Este and committed themselves to a new action plan of profound political significance to consolidate the integration of Latin America, proposing the establishment of a Latin American common market to be initiated in 1970 and completed within the next 15 years. Those two meetings gave new dimensions to the IDB by assigning it additional responsibilities in the process of social transformation, planning and regional economic integration. We are confident that this new gathering of the inter-American community in Punta del Este will again signify a new era of expanding responsibilities for the Bank. The Bank's Board of Executive Directors and Management thus await with great interest the results of the discussions of the next few days, which will undoubtedly benefit from the papers submitted to the Round Table at the meeting, whose central topic is *The First Decade of the IDB: Prospects for the Future*.

Latin America and International Cooperation

The Development Decade

The facts contained in our two annual reports delineate the Inter-American Bank as an organization molded in a pattern of meeting the needs of its member countries and of finding viable solutions to the problems prevailing in the world during the decade just ended. It is pertinent now to consider the Bank from a new angle: from the standpoint of its possible role at this crucial point of convergence and divergence, when the 1960s flow into the 1970s and the latter embark on a new direction.

The year 1960 marked the beginning of a decade of hopeful international expectations. A spirit of reform went hand-in-hand with aspirations for improvement of the great masses, and formulas for financial and technical cooperation among nations were pointed to as the most effective instruments for combating economic and social underdevelopment in our countries. Acting in this spirit, the United Nations denominated the 10-year period then beginning as the Development Decade and outlined a program of action for the attainment of its aims.

For Latin America 1960 was also germinal. It was the year in which the legal foundations for the Latin American Free Trade Association and the Central American Common Market were laid. It was the year in which the process of development and its financing in Latin America took new directions, derived from the Act of Bogota, that were later to be consecrated in the Charter of Punta del Este and further developed and refined through successive declarations and consensuses at Altagracia, at Tequendama, at Punta del Este, at Viña del Mar, at Port-of-Spain, up to the most recent agreements and proposals formulated under the inter-American system.

It is apparent that the achievements of the past decade have fallen short of initial aspirations; indeed the economic and technological gap between the underdeveloped countries and the rich nations of the world has widened. However, over the past ten years, the underdeveloped nations have become more pragmatic and realistic. They not only have a better grasp of the difficulties and obstacles confronting their efforts, but have, to some extent, become more skeptical of the very validity of certain development models. On both sides there is, accordingly, a desire for self-criticism and in-depth analysis of the true situation.

This is why programs of both bilateral and multilateral external assistance have been subjected to repeated evaluation. Profound research studies conducted in the past few months has produced such important documents as the Pearson, Tinbergen, Jackson and Peterson reports. Within the next few days the Inter-American Bank will have the satisfaction of submitting the report on Latin American conditions prepared by Dr. Raúl Prebisch at our request. This is a singularly important document, since it combines the extensive and wise experience of this leading economist with the technical support of the Latin American Institute for Economic and Social Planning (ILPES), of which he is director.

The Inter-American Bank is in a privileged position to benefit from these recent evaluations. On the one hand our existence has corresponded chronologically with the First Development Decade; on the other, due to our involvement with the problems of our member countries, we have

had to test new methods in and develop new approaches to international development finance.

Financial Cooperation: New Approaches

In recent years a number of circumstances have arisen which have cast some doubt on the prospects for external financial cooperation as originally conceived and put into practice. Among these circumstances are the growing pressures on available resources in the major capital-exporting countries as a result of pressing domestic problems. At the same time political circumstances are changing in the international sphere, and nationalism is growing in the underdeveloped countries. In the industrially advanced nations there is a growing disenchantment with the perhaps overly optimistic expectations held originally concerning the speed with which the problems of developing countries could be overcome through external aid. Advanced, as well as developing countries, are arriving at the conclusion that economic development by itself does not necessarily bring about a rapid solution to the social and political tensions which international cooperation was expected to overcome. On the other hand, the efforts of the industrially advanced countries have been patently insufficient and have failed to achieve the goal, put forth by the United Nations, providing for a transfer of 1 per cent of their gross domestic product to the developing countries.

External aid has frequently been distorted when conceived in terms of the foreign policy aims of the industrially advanced nations or when directed toward secondary objectives tied to their own interests. In fact, the mechanisms of external aid often reveal the interest of such nations in promoting exports of their own goods, capital and technology. There is now sufficient basic information to allow such cooperation to be defined in terms of a transfer of public resources effected at costs below those prevailing in capital markets and consequently providing for an actual transfer of savings entailing certain sacrifices for the donor countries. An important additional benefit accruing from the recent studies is a more reliable distinction between defense assistance, aid provided for emergency situations and general welfare, and "cooperation for development." This distinction was recommended in a vigorous manner to the President of the United States in the report prepared by Mr. Peterson and his associates.

For a long time an artificial distinction has also been made between external financial aid and the other components of international cooperation, especially those relating to trade, the movement of private capital, and the transfer of technology. The trend today is to restate the meaning

of external aid in a broader context of international cooperation which involves other aspects, particularly trade. The pioneering effort made by the United Nations Conference on Trade and Development (UNCTAD) helped to shape and consolidate a number of innovations recently set down in official reports, particularly the Pearson report.

Another important corollary of this multiform examination is the recognition that external cooperation should be essentially relevant to the aims set forth by recipient countries themselves for their own economic and social development, and that such cooperation should be based, as much as possible, on their ability to draw up their own "development scheme" and to mobilize the local resources needed to carry it out. Circumstances are now ripe for a clear acknowledgment of the complementary character of external aid; that external aid should be perceived as an instrument to bring into being the model of society that the new countries hope to build; and that in granting such aid, profound consideration should be given to the objectives and instruments chosen by the countries themselves.

Another conclusion derived from the experience of the past few years has to do with the desirability of using "multilateral channels" of international finance. Although bilateral schemes still predominate in international capital transfers, a reversal of this trend has become visible in the last few years. About 15 per cent of all external assistance to all the underdeveloped countries of the world is currently furnished through multilateral mechanisms. In the past decade, the proportion for Latin America has been much greater, amounting to 38 per cent between 1961 and 1968. In addition to the general considerations favoring the multilateral approach in our hemisphere, there are the characteristics that make our hemisphere quite different from other developing regions of the world, such as the geographic and economic diversity of our countries; the effect of strong demographic and employment pressures; the existence of a mixed-economy system; the greater institutional and technical maturity of some of our countries compared to other areas, and the advances in planning attained by some of our members. Without undue optimism, and in spite of the presently limited scope of international financial cooperation, prospects for our regional institution to further strengthen its potential for service to Latin America are promising.

Latin American Development Trends

Let us now briefly examine the framework within which we had to act during the decade just ended, and the projections of our future efforts. Over the past ten years our region attained a 5 per cent rate of

growth in gross domestic product, a rate which rose to about 5.7 per cent in 1968 and 1969. This is a higher rate than that achieved by most industrial nations at similar stages in their economic development, and one that meets the goal which had been established in general for all developing countries.

Particularly dynamic were the industrial sector, which grew at 5.4 per cent yearly, electric power at 5.7 per cent yearly, and construction at 8.7 per cent yearly. However, the manufacturing industry in Latin America will be faced with new conditions in the 1970 decade. There is now a general awareness that the simple process of "import substitution" is coming to an end in many of our nations, that it is essential to undertake a vigorous effort to promote industrial exports—worldwide as well as in Latin America—and that this requires our industry to solve fundamental problems of scale, organization and technology. Despite its relative lag, agriculture increased at a 4 per cent yearly average during the past decade and shows promise for future modernization not only due to the application of the methods and techniques of the "green revolution," but also because of determined decisions taken by many of our countries to change the traditionally feudal base of this sector of their economics. Turning to another point, significant improvements have been made in bringing inflationary processes under control in several member countries traditionally affected by monetary and financial imbalances. For the most part, such advances have been associated with successful efforts to strengthen the finances of the sectors involved. There has also been some success in easing the pressures and, in some cases, the crises afflicting the balance of payments position of countries in the region. Most of this success is due to the favorable development of the region's export trade in the past few years and to better economic policies at the local level. For example, management of exchange policies has been improved in many countries, and measures to develop the export trade are being used more effectively. This has permitted the removal of some restrictions on imports formerly retarding growth. And at the same time foreign exchange reserves have increased throughout the region.

In spite of many obstacles and, at times, misgivings and distrust in sectors that believed their interests would suffer, steady progress toward economic integration has been made in the region. In fact, one might call the ten-year period now ending the Decade of Latin American Economic Integration. Formulas have been sought and found to meet the complex problems inherent in this process and to reconcile interests now at different stages of development. Institutions have been established or strengthened and their goals have been set with increasingly greater

clarity at the highest levels of government. The new subregional groups have become a reality of great significance for economic integration.

Several sectors of the Latin American community are now aware of the economic benefits already attained through regional integration, and they now perceive more clearly than ever that a speed-up of integration could further their own development. Lastly, our countries now have a better understanding of the political significance of integration and of the greater influence which a united and economically vigorous Latin America could exert in the international community.

Unfortunately, progress made has been largely confined to the "modern" sector of our individual societies; the impact on the "marginal" sectors has been rather limited, as clearly shown by the high unemployment levels, the sluggish growth of farm production and the prevalence of an inadequate structure of income distribution and consumption. We must not forget that Latin America has the highest rate of population growth in the world. In contrast to nations who have undergone the industrial revolution, we have experienced "urbanization without industrialization." We are becoming rapidly urbanized, but to the people in our cities, whose number is speedily increasing as a result of natural growth or internal migration, we can offer neither the employment opportunities nor the community services appropriate to a modern city. Latin America is fast becoming a "continent of cities," a situation for which it is unprepared, and it would be pointless to dwell on the volume of investment needed to solve such a problem.

Unemployment and the need to absorb surplus labor will be two of the major domestic obstacles that Latin American development efforts will face in the coming decade. The fact is that from 10 to 20 per cent of the total labor force of our countries is unemployed. From 1950 to 1965 the number of persons unemployed increased from three to nine million and the unemployment rate increased from 5.6 to 11.1 per cent, not counting underemployment. Even more significant conclusions can be drawn by examining the changes in Latin America's employment structure. Estimates show that in 1930 about 63 per cent of the Latin American labor force was engaged in agriculture; today it is only 40 per cent. Of course, this decrease does not mean that agriculture will cease to support a large proportion of surplus labor through various forms of disguised unemployment. Moreover, industry in Latin America has failed effectively to absorb the labor force migrating from rural areas, as it has in other parts of the world. In the past 20 years, the proportion of the labor force employed in industry declined from 35 to 30 per cent, although there was a proportional increase in employment in the service

sector. From another viewpoint, the estimated growth of the non-agricultural labor force during that period amounted to some 30 million persons for Latin America as a whole. Only 25 per cent of that number was absorbed by industry. Considering the difference in productivity between a farm worker and an industrial worker, one can readily perceive the development potential which the Latin American countries are failing to use.

These factors are the cause of the great imbalances prevailing in Latin America with respect to personal income and consumption. The income of 40 per cent of all Latin Americans at the lowest level of the earnings pyramid is only one-tenth as large as the income of the 20 per cent at the apex. It is therefore not surprising that 60 per cent of the Latin American people acquire less than 20 per cent of the total supply of manufactures. The enlarged market that would result from increased income for rural workers and the absorption by industry of the surplus labor force, would create an expansion of our economies of spectacular proportion. In the meantime, persistence of the situation outlined explains not only the widespread tensions afflicting the continent, but also the dilemmas of allocating investment resources between economic and social ends. This also explains why per capita investment rates have not tended to increase in Latin America.

Withal, the balance over the past decade can be considered favorable viewed from the standpoint of the capability of our countries to plan their development; to set priorities for investment, to formulate and execute specific projects, and to mobilize domestic resources for such purposes, especially from the public sector. Fiscal revenues for the region as a whole have grown at a faster rate than the gross product. Current income, savings and capital investments of central governments have increased, while currently expenditures as a percentage of the former have declined. Government deficits have been substantially reduced and governments in Latin America have been able to finance a growing proportion of public investments with resources effectively mobilized through tax levies. The region's economic recovery in the last two years is due in large measure to such institutional advances. These developments account for the fact that 93 per cent of regional investment over the decade has been financed with domestic resources. That percentage compares favorably with that recorded in other developing areas of the world.

The domestic efforts just outlined have been made in the past decade within the framework of an international economic climate unfavorable to Latin America. Over the past 20 years we have been subjected to perilously erratic terms of trade generally showing a tendency to decline.

Although there has been some recovery in the past few years, terms of trade declined by 24 per cent between 1954 and 1966. Prices for Latin American exports rose to a record level in 1951, declined constantly up to 1962, and tended to recover slowly toward 1968. However, 1968 levels were only 3 per cent above those of 1950, while the prices of exports from industrially advanced nations rose by 24 per cent over the same period. Unquestionably the countries of our region that have achieved the highest rates of growth in recent years have also enjoyed an expansion of the external sector of their economies.

As pointed out by the Latin American countries at world and regional meetings held to examine the underlying causes of the slow pace of development, the "trade gap" has its counterpart in a "financial gap," that is, insufficient financial resources to make up for the weakness in the growth of foreign trade and the consistently inadequate rate of investment.

The report on economic and social progress in Latin America submitted by the Bank to the member governments contains a thorough examination of this subject. Therefore, I will only mention that the net flow of external finance to the hemisphere through public channels has remained at practically the same level during the decade just ended: about a billion dollars per year. Private external financing, which in the first part of the decade was quite low compared with preceding years, has shown an upward trend in the past few years.

In net terms, public multilateral aid is growing. This trend is even more evident in the amounts authorized for development projects. In 1961, for example, such authorizations amounted to \$535 million; by 1968 they exceeded \$1 billion. It is evident that the overall IDB effort, to which we will refer later, has had a considerable effect on this increase. IDB loans have tended to compensate for certain limitations in the flow of new external resources to Latin America from other sources. Without the Bank's lending, both from the standpoint of quality and quantity, international finance in the last decade would have had a much more limited effect.

In recent months, there has been renewed concern about growing external indebtedness in our hemisphere. The Bank's socio-economic report shows that Latin America's external public debt in 1961 was slightly more than \$8 billion; by the end of 1968 this figure had more than doubled. This has been a particularly serious situation for some of our member countries, and has led in some cases to refinancing operations. Generalizations should not be made, however, since seven member countries now owe 90 per cent of all outstanding obligations.

The ability to service such obligations is more important than the

total volume of obligations, and the best indicator of this is a percentage comparison of debt payments with total visible and invisible export earnings. In 1968 the average for all Latin America was about 15 per cent; however, in three of the larger countries it exceeded 20 per cent. An analysis of these figures leads to the obvious conclusion that our member countries need to increase their exports substantially and need to obtain more adequate prices for them.

The dangers of external indebtedness may be reduced and may even tend to disappear provided that the external financing essential to development is furnished on suitable conditions in respect to terms, interest rates and currency of repayment. Most loans of the Inter-American Bank fortunately fall into this pattern.

I would like to recall that global investment in Latin America, which at 17 per cent of the gross domestic product may in itself seem adequate, is wholly inadequate in the face of population growth and new collective requirements. Latin America's rates of investment and savings over the past decade have been on the average less than those of the industrial nations, but equal to those of other developing nations. However, none of our countries has achieved a 25 per cent rate of capital formation, as some other developing countries have.

It is absolutely essential that we achieve an investment coefficient of more than 20 per cent in the next few years if we are to attain growth rates exceeding 7 per cent, or even greater than 6 per cent. Such rates of growth are indispensable for our countries as a whole to arrive at the point of economic "take-off" by the end of this century. I might recall that present Latin American income is equivalent to that of Italy 20 years ago. We thus can be optimistic about the future, provided our continent launches an intensive and sustained effort to organize for economic and social progress. It has often been said, and the Latin American experience in the last decade has shown, that this task must be accomplished primarily through the mobilization of domestic resources. International financial cooperation, although limited in quantity, will continue to perform a selective function that offers no alternative to genuine capital formation nor to technological improvement. The work of the Inter-American Bank acquires particular significance in relation to the goal of ensuring that an adequate volume of external financial resources will be forthcoming during the decade now upon us, particularly if we consider that official bilateral aid is becoming limited and that many of our countries face difficulties in securing foreign private capital.

Let us examine the performance of the IDB in the process of capital formation in Latin America.

The Inter-American Bank's Accomplishments

Loans and Disbursements

In its 1961-69 period of operations, the Inter-American Bank attained a cumulative portfolio of 565 loans totaling \$3,430 million. Of this total, 38 per cent came from the ordinary capital resources, 46 per cent from the Fund for Special Operations, 14 per cent from the Social Progress Trust Fund and 2 per cent from funds administered by the Bank for Canada, Sweden and the United Kingdom. Thus more than 60 per cent of these loans were "soft" operations.

The total resources mobilized in projects financed by the Bank aggregate more than \$9.5 billion, which means that for every dollar contributed by our institution, the borrowers contributed approximately two dollars, mainly in local currencies, in addition to other parallel financing obtained.

Cumulative disbursements during 1961-69 totaled \$1,726 million, or slightly more than 50 per cent of the volume of loans approved by the Bank. Table III shows how the time required to disburse successive amounts of \$300 million has been steadily reduced. The reduction achieved in time required to complete preparations for the authorization of loans in successive amounts of \$600 million is also shown. Some 225 projects representing 30 per cent of funds committed have already been completed. This illustrates the progress being made in works financed with IDB help.

Largely as a result of the "preinvestment" activities undertaken by the Bank in earlier years, the Bank now has a "pipeline" of possible projects representing a total value of \$1.8 billion. This figure, at the close of the decade, contrasts with the circumstances under which the Bank initiated its activities and shows that many of the Latin American countries now have an effective technical capacity for preparation of their investment projects and programs.

Distribution of Loans

An examination of the distribution of resources committed by the Bank in the various sectors of economic and social development of the Latin American countries shows that 42 per cent of these funds have been channeled into what we might term directly productive activities. Agriculture accounted for \$834 million, representing 24 per cent of the portfolio, and industry (including export financing) and mining

amounted for \$618 million, or 18 per cent. Physical infrastructure—transportation systems, ports, telecommunications and the generation and distribution of electric power—received loans amounting to nearly \$1 billion, that is, 29 per cent of the total volume. Urban development and sanitary installations—projects designed to resolve the problems of housing, water supply and sewage—accounted for \$780 million, or 23 per cent. Higher education and preinvestment activities received more than \$200 million, or 6 per cent. This distribution not only indicates the sectors to which we have assigned priority but also reveals a significant balance among the demands confronting us. I might emphasize that these sectors are closely inter-related within the context of development in each of our member countries and the region as a whole. The progress of one affects and is, in turn, affected by advances occurring in the others:

Limitations and obstacles arising in one extend to others in the community, making it necessary to coordinate measures directed toward the growth of each as well as of the region as a whole, through a comparative balance in investments required. This consideration has led to an intensification of the Bank's concern for operating within the framework of economic policies, which in a planned way seek the economic progress as well as the social welfare of its member countries.

The Bank's cooperation in helping to finance the growth of the countries of this hemisphere has been based on two fundamental principles. On the one hand, the Bank has sought to make a maximum contribution to the progress of its less developed member countries, and on the other it has given priority to projects with an economic integration content (Table V) that has stamped us unmistakably as the "Bank of Latin American Integration." I outlined these concerns 10 years ago in San Salvador, following my election as President of the Bank, in suggesting certain operating criteria which should govern the Bank's action:

"It is a fact that in our hemisphere, made up as it is of nations and regions in the process of development, there are areas which for various reasons are less advanced than others. We cannot be indifferent to this fact as we visualize the economic unity of Latin America. As in the framework of a national economy, the backwardness of one part of the territory may create serious problems for the entire unit; also in the hemisphere zones or nations notably underdeveloped this can mean dangerous imbalances or tensions for the economic, political and social future of our community of nations. We should then, to the extent permitted by the resources available and the provisions of our Agreement, give priority to the solution of this problem. Let us not forget that we

have not established an institution for isolated nations but rather for a hemisphere as a strong and integrated unit.

"We should also give priority to those operations that may contribute to economic integration. The possibility of using freely the local currency of those countries that have already attained a certain level of industrialization allows us to hope that we may orient our policy toward the strengthening of regional markets now in the process of formation, as well as toward other objectives. In this connection I note also the problem of various countries which, being in a position to export capital goods, find themselves unable to fully utilize their installed industrial capacity for lack of adequate credit mechanisms."

It might be pointed out that the comparatively less developed countries have, as a whole, received credits at the rate of \$25 per inhabitant, compared to a hemispheric average of \$13. Furthermore, 88 per cent of those credits were authorized in "soft loans," which means that amortization terms, grace periods and interest rates were more generous than average Bank conditions. Nearly \$400 million of our funds have been earmarked for projects with an "integration" content, mostly for multinational investment projects, the remainder being used to finance the intraregional exports of capital goods, technical cooperation and training activities and institutional support.

Another projection of these concerns is the trend by the more highly developed Latin American countries to strengthen the resources of the Bank to support the less advanced nations. Thus, an authentic mechanism of "inter-Latin American mutual aid and cooperation" is taking shape in our Bank. I might point out that Latin America has made a contribution in dollars totaling \$120 million to the Bank's resources. Of this amount, Argentina, Brazil and Mexico have contributed 57 per cent. Central banks in the hemisphere have also purchased short-term Bank securities presently totaling \$78 million. Those three countries purchased nearly 60 per cent of that amount. During the last fiscal year, Argentina, Brazil, Mexico and Venezuela agreed to the utilization of part of their contributions in national currencies to finance local costs in less developed countries, and Argentina recently offered to accept responsibility for portions of the local contributions to be made by Bolivia, Paraguay and Uruguay to the overall cost of projects financed with IDB loans.

Agriculture

Bank loans for the agricultural sector in Latin America accounted for more than half of all external financing furnished to the region during

the past decade for this sector. The projects financed include such diverse fields as irrigation, farm and livestock credit, rural settlement, agricultural mechanization and electrification, commodity marketing, formation of farm cooperatives, financing of extension and research services and campaigns against foot-and-mouth disease. The Bank initially financed projects in only some of these fields, but gradually widened its activities to meet needs emerging in the member countries as their agrarian institutions and policies were consolidated. If the loans granted for rural access roads, rural electrification, housing and water supply in the countryside are added to the figure given for agricultural financing, the Bank's commitment of resources over the past decade for rural development as a whole amounts to the substantial sum of \$1.1 billion.

The action described above is helping to bring into production nearly 6.5 million acres of arable land, of which 3.6 million were in full production at the end of 1969. Through overall loans granted by the Bank to agricultural development institutions, some 730,000 individual credits were extended to small- and medium-scale farmers. In all, projects and programs financed by the Bank are benefiting a total of 6.6 million farmers.

In support of agricultural projects which foster economic integration in Latin America, the Bank has granted loans to Argentina, Chile and Paraguay to finance programs to eradicate foot-and-mouth disease, and is considering a loan application from Brazil for the same purpose. Bolivia, Ecuador, Peru, Uruguay and Venezuela are preparing similar projects, in some instances with our technical participation.

The agricultural sector accounted for about one-third of all loans granted in 1969. A total of 25 loans amounting to \$202 million went to that sector and 84 per cent of that amount was granted on "soft" terms. This volume represents the largest annual support for that sector in the Bank's ten years of activities and was distributed as follows: 43 per cent for farm credit facilities in Argentina, Bolivia, Brazil, Ecuador, El Salvador, Guatemala, Nicaragua and Panama; 17 per cent for irrigation projects in Mexico; 14 per cent for marketing in Chile and Colombia; 13 per cent for rural settlement in Chile and Honduras; 7 per cent for agricultural extension and research in Argentina, Costa Rica and Ecuador, and 6 per cent for a foot-and-mouth disease campaign in Argentina.

The serious shortage of protein foods in the region is a matter of common knowledge. Aware of this problem, the Bank in the past year carried out studies on policies and strategies to encourage fishery development in the member countries.

Industrial Development

The IDB has been a powerful force in fostering the industrialization of Latin America over the last decade. On the national level, it has supported the expansion and technological improvement of industries by encouraging them to achieve more competitive cost levels and at the regional level, it has helped to increase intraregional trade and diversify manufactured exports by supporting new industries or expanding existing ones.

The Bank's support for the industrial sector has included: (a) direct loans for a total of \$211 million for the construction or expansion of 50 large manufacturing and mining plants, of which 39 had been completed by the end of last year; (b) overall loans to national development agencies for a total of \$366 million, to finance more than 4,000 small- and medium-scale industrial projects, and (c) financing of exports of capital goods among the Latin American countries, through lines of credit amounting to \$40 million extended to national export financing agencies in Argentina, Brazil, Mexico, Peru and Venezuela.

Direct loans, for example, have supported the meat-packing, petrochemical and steel industries in Argentina; the extraction and processing of iron ore and the textile and food industries in northern Brazil; the refining and petrochemical industries and the paper and cellulose industries in Chile; the dairy industry in Nicaragua; vegetable oils and the textile industries in Paraguay; the fertilizer industry in Venezuela; the rehabilitation of the tin mining industry in Bolivia; the chemical fiber industry in Colombia, and meat-packing, cement and refining industries in Uruguay.

In 1969, five new industrial loans for a total of \$35 million were approved. One provided technical services for the first stage of the construction of an integrated steel plant in Argentina. All the others were overall loans for small- and medium-scale industry in Chile, the Dominican Republic, Ecuador and Paraguay. Also last year additional financing aggregating \$7.6 million was earmarked to promote exports of capital goods from Argentina, Brazil, Mexico and Venezuela to other member countries.

In response to interest expressed at the meeting of the Board of Governors last year, the Bank has prepared two reports of importance to the industrial future of Latin America. The first deals with the possibility of establishing a financing subsidiary of the Bank for "industrial enterprises." The second seeks to improve and expand the financing mechanism for capital goods exports. In both cases, the Bank had the advice

of outside experts whose studies are being examined at present by the Board of Directors.

Development Banks

During 1969 the Bank continued to employ the mechanism of "overall loans," under which credits are extended to small and medium industrial and agricultural enterprises through national development agencies. Eighteen new overall loans were authorized for an amount equivalent to \$132 million, bringing aggregate funds committed during 1961-69 through this method to more than \$760 million, representing 22.5 per cent of the Bank's total credit volume. These loans have been made to 50 development institutions in virtually all the member countries; several of these are making use of lines of credit for the second, third and even fourth time.

From the start of our activities, it was clear that, in attempts to aid Latin American local productive enterprise, usually small or medium in size, it was impossible to deal and negotiate directly with the many entrepreneurs who needed international credit on suitable conditions, but had no access to such credit under prevailing finance policies. I expressed this concern as follows in my San Salvador speech:

"I attach great importance to the possibilities the Bank has, in carrying out its operations, of working through national organizations created for the purpose of providing financial aid for economic development, whether they be promotional organizations, development banks, agricultural or industrial banks, etc. I believe that the experience of such organizations, and their knowledge of the economy and of the needs of their respective countries, may enable them to become suitable channels for the utilization of part of the Bank's resources. There are also important areas usually covered by small or medium-size private associations or enterprises where we may contribute with our resources most productively; in this respect, our assistance would probably be more useful and give maximum results in the fields of agriculture and animal husbandry, and in industrialization. For this purpose we must also look for support from local private financial organizations, particularly through investment institutions and stock markets. The aforementioned concepts enable us to foresee that the Inter-American Development Bank's cooperation with development organizations, with central and private banking systems, and with the financial markets of each country will naturally be very close."

Experience during the decade indicates that, in practice, the Inter-American Bank has become a true "central bank of the Latin American

Development agencies." This is due not only to the financial resources made available to them, but also to the technical cooperation the Bank has provided to strengthen those agencies and improve their institutional and managerial practices. I might point out that our resources, along with their own funds and those of the beneficiary enterprises, have financed a total of \$3 billion in projects.

In this regard, the Bank has also supported multilateral initiatives. We have referred at other meetings of this Board of Governors to the Inter-American Bank's participation in the formation and financial consolidation of the Central American Bank for Economic Integration and the Atlantic Community Development Group for Latin America (ADELA). In recent months we have given technical advisory services for the formation of the Caribbean Development Bank, whose appearance on the hemispheric scene is most welcome since it will expedite the integration ties sought by a great many of the Caribbean countries. We also look forward to future cooperation with the Andean Development Corporation, legally established last January.

Economic Infrastructure

At the end of a decade of activity, the Bank can point with great satisfaction to its credit operations in the sector of Latin American economic infrastructure to which it allocated loans totaling nearly \$1 billion. This financial cooperation is closely related to the aspirations of the Latin American countries for physical integration and, specifically, proper interconnection of their road systems: 30 per cent of such assistance went to projects of interest to two or more countries.

In this way we have complied with the mandate received from the meeting of the Presidents of America in this city in April 1967, who stated:

"The economic integration of Latin America demands a vigorous and sustained effort to complete and modernize the physical infrastructure of the region. It is necessary to build a land transport network and improve all types of transport systems to facilitate the movement of persons and goods throughout the hemisphere; to establish an adequate and efficient telecommunications system and interconnected power systems; and jointly to develop international watersheds, frontier regions and economic areas that include the territory of two or more countries. In Latin America there are in existence projects in all these fields, at different stages of preparation or implementation, but in many cases the completion of prior studies, financial resources, or merely the

coordination of efforts and the decision to bring them to fruition are lacking.”

Transportation

The \$400 million in loans authorized by the Bank for highway projects during the past decade amounted to more than 50 per cent of all external financing received by Latin America for that purpose. That volume of loans is helping to finance nearly 21,500 miles of roads throughout the hemisphere, of which 7,400 are already in service. The Bank has also loaned nearly \$80 million to improve 14 major ports located in five countries, among them the ports of Buenos Aires, Montevideo, Buenaventura, Paranaguá, Barranquilla, Cartagena, Santa Marta and Acajutla.

During 1969 the Bank authorized a record \$190 million in loans for transportation and communications. Among these were loans for the construction of the Trans-Chaco Highway in Paraguay and the Pasto-Popayán Highway in Colombia, for a study of the Rio Branco-Peruvian Border Highway in Brazil and for construction of a channel linking the port of Buenos Aires to ports on the Paraná River. Other road projects approved in 1969 are contributing to the construction of 860 miles of federal highways in Mexico and 3,900 miles of rural access roads in Chile, Colombia, Costa Rica and Mexico.

Electric Power

During the past decade, the Bank has authorized \$473 million in loans for projects to generate, transmit and distribute electric power, representing a total investment of \$2 billion. These projects are helping to create additional power capacity in the hemisphere totaling nearly 7 million kilowatts. They include 40,000 miles of transmission lines and benefit 26 million persons and 540 localities. In financing electric power projects, the Bank has not only furnished its own resources but has also cooperated with several of its member countries in securing additional external credits for large-scale works.

Last year the Bank approved nine loans for \$118.5 million for power projects in Argentina, Bolivia, Peru, Chile and Brazil. In the last two countries, Bank loans are financing new rural electrification programs. Credits to Argentina and Brazil for \$5 million and \$11 million, respectively, were for projects to enable the Province of Misiones in Argentina and the State of Paraná in Brazil to import power from the Bank-financed Acaray plant in Paraguay.

Telecommunications

Since 1967, the Bank has cooperated actively in the field of telecommunications. By the end of 1969 it had authorized loans for \$46 million in Bolivia, Brazil, Chile and the five Central American countries. Virtually all of these projects call for the expansion of the respective national network and its connection to international communications satellite systems. Within this group of operations, the Bank extended a loan of \$26 million in 1969 to modernize telephone and telex services in the heavily populated State of Bahia in Brazil.

Last year the President of the Bank had the satisfaction of signing in Washington with the Director of the United Nations Development Programme (UNDP) and the ambassadors of 14 Latin American countries, an agreement under which UNDP, for which the Bank acts as executing agency, is furnishing financial assistance to the member countries for the preparation of preinvestment studies of the national segments required to establish the Inter-American Telecommunications Network (ITN). The studies are being carried out by a group of experts hired by the Bank in collaboration with specialized international consultants. Plans call for concluding this undertaking by the end of the year and offering the member countries of the Bank the fundamental bases for organizing the network, which will form part of the world telecommunications system designed by the International Telecommunications Union. We are confident that the ITN network will be able to begin operations by 1973. This will be Latin America's first multinational investment program in the field of telecommunications, so vital to our economic integration.

Multinational Studies for Regional Infrastructure

The Bank's concern for encouraging the preparation and execution of multinational projects, such as the one described, is reflected in the fact that at present an analytical inventory of physical infrastructure projects and programs in terms of integration needs is being prepared. This inventory is expected to permit identification of the most promising investment opportunities in the field.

The Bank has also financed the execution of studies designed to identify projects of mutual interest to two or more neighboring countries in their respective border zones. The first two studies of this type were undertaken at the request of the Governments of Colombia, Ecuador and Venezuela on their corresponding common boundaries;

similar studies were conducted subsequently in border areas of Argentina and Chile.

A natural factor operating in favor of the integration of zones of multinational interest are the watersheds common to several countries. Latin America has three large multinational watersheds, the Amazon, the Orinoco and the River Plate, in addition to a series of intermediate basins on the Pacific Coast and in Central America. At a time when we are concerned with finding specific formulas for rational use of these resources, it is appropriate to cite José Enrique Rodó in reference to the River Plate and Amazon Basins:

"I see the course of these two colossal rivers, rising from the heart of our America and spreading the largess of their waters throughout the continent, as a symbol of the historic destiny of those two halves of the Iberian race that also share equally in the history and the future of the New World: the Luso-Americans and the Hispano-Americans, the Portuguese and the Spanish of the Americas, with their close bonds of ethnic origin, like these two great rivers, drawn together at the sources of their explorations and conquests as the slopes of both watersheds, are often indistinguishable to the geographer; turbulent and impetuous in the heroic era of their adventures and feats like those rivers at the flood, then slowing with majestic calm the pace of their history as the rivers, too, are lulled, broadening the reach of their waters to pour into the immense ocean of the human spirit, bitter and brackish with the sorrow and the effort of centuries, their eternal gift of fresh water, the pure water of a future transfigured by justice, by peace and by the devoted friendship of man for brother man."

River Plate Basin

In addition to navigation, many multinational prospects for development can be identified in these vast watersheds, including the harnessing of water for irrigation and electric power generation, regulation of flow, protection of river headwaters and flood control, common access to raw material sources and the eventual establishment of new "poles of development" to facilitate the incorporation of riparian zones within the neighboring economies. The Bank's first experience concerned the River Plate Basin, when the governments of Argentina, Bolivia, Brazil, Paraguay and Uruguay expressed in 1965 their desire to have us undertake a preliminary study as a basis for the implementation of a program of multinational, bilateral and national works contributing to the progress of the region. This request, expanded and refined at various meetings of the foreign ministers of the basin countries, led to the presentation

to representatives of the riparian countries of a preliminary report during the last meeting of the Board of Governors. This report is not intended to function as a regional planning effort but to serve as a framework of reference for the adoption of such multilateral measures as the governments may decide to undertake in connection with an inventory of 86 projects and studies in the field of hydraulic resources, power and transportation.

Various projects financed by the Bank in Uruguay are particularly important within the context of physical integration of the Basin countries. The construction of the Tacuarembó-Paysandú segment of National Route 26 is helping to consolidate the latter urban center as a pole of economic development. But it also opens up promising prospects in the light of possible construction of the Paysandú-Colón (Argentina) bridge, by which this highway will serve to integrate that important region of Uruguay with northeastern Argentina. The construction of Route 9 from Rocha and Chuy to the Brazilian border should be viewed in the same perspective. It will strengthen integration between Uruguayan road systems and those of southern Brazil, routes that have already helped to expand the number of Brazilian tourists from 13,000 in 1960 to more than 50,000 last year. Modernization of the Port of Montevideo is another Bank financing operation of singular significance in that physical integration plan. Approximately 95 per cent of the country's foreign trade is handled by this port. The Bank is also considering a request to finance construction of the Fray Bentos-Puerto Unzué bridge, which would forge another effective link between the road systems of Uruguay and Argentina. In addition, we have helped to finance a feasibility study on a project designed to interconnect the Uruguayan and Argentine electric power distribution systems.

Urban Development

Latin America's shortcomings in terms of housing and urban development in general have been subject to systematic analysis since 1960. The Inter-American Bank, mindful of its mandate, as expressed in the Act of Bogotá, to provide financing in this field, has consistently been aware of the essential limitation imposed by the shortage of financial resources *vis-à-vis* the scope of the problem of housing and provision of water and sewage services. Recognition of this situation has led the Bank to adopt various measures for the establishment or strengthening of national mechanisms designed to channel larger volumes of domestic savings into the construction of housing for low- and medium-income families and, in turn, to establish or strengthen agencies

responsible for planning, financing and executing housing projects in its member countries. In this way, it has endeavored to employ its resources as a catalyst for greater national effort in both financing and institutional terms.

During the past decade, the Bank allocated a total of \$323 million to finance housing units for low-income sectors. Fourteen housing agencies in the Latin American countries received this type of financial assistance and four similar agencies were set up with our technical assistance. The loans are helping to build 328,000 housing units benefiting 2.2 million persons. By the end of 1969 more than 255,000 units had already been completed and the rest were under construction.

The Bank has made a similar contribution to the strengthening of institutions and agencies responsible for providing water supply and sewage services in the Latin American cities by improving the efficiency of their operations and increasing the yield of their rate structures. The purpose of this action has been to make the regular operations of these agencies self-financing and to insure that their activities will be directed toward long-range programs ensuring rational expansion of their capacity. The resources allocated by the Bank during the past decade to the financing of urban water and sewage services amounted to \$457 million and are contributing to the executing of projects worth more than \$1 billion benefiting an estimated 50 million persons. These figures show that the Bank has cooperated in efforts to provide water supply and sewage to one out of every five persons now living in the region. Bank loans are helping to build more than 3,600 urban and rural water installations, of which 2,500 were completed by the end of 1969. They have also financed the construction of 362 sewage systems, of which 268 are already in service.

In 1969 the Bank authorized two loans for \$11 million for urban development projects in Central America. They include one to the Municipality of El Salvador for construction of four new farm markets and the expansion of two existing markets, and another in Guatemala for the construction of nearly 6,000 housing units, along with related improvements and community services.

With regard to sanitary facilities, the Bank authorized five new loans in 1969 to finance three projects for a total of \$37 million. These operations will supply water to the cities of Monterrey, Mexico; Medellín, Colombia, and Guatemala City.

The Bank recently revised its operating policy on urban development to include the financing of integrated urban development programs and projects. From the start consideration is given to a maximum of compatible solutions, including housing and such other urban services

as shops and markets, health facilities, adequate transportation, recreation areas and public utilities. All of these are included in the phase of project preparation. The Bank has shared the concern expressed by the United Nations with regard to the problem of urban growth in the developing countries in a recent and meaningful report:

"We must ask ourselves whether a creative urbanization strategy would not in itself have a positive effect on the major causes of frustration in the development process today. No government has yet made controlled urbanization a central goal of its development strategy and only now, when the dangers of explosive urbanization are becoming increasingly apparent, are questions being asked that could lead to a clearer formulation of policies."

The Bank of the University

Throughout its ten years of operations, the Bank has authorized a total of 46 loans for more than \$137 million to strengthen advanced education and research and intermediate technical training in the region. Of that total, \$119 million supported the development of 94 university teaching and research centers with 256,000 students, representing more than one-third of total university enrollment for 1969. The Bank's contribution has been designed fundamentally to strengthen institutional development programs and to improve teaching and research in the basic sciences and in such applied sciences as agriculture and engineering. Three loans amounting to \$18 million have contributed to the execution of national programs for development of vocational technical training in Argentina, Brazil and Panama, which are benefiting 465 intermediate technical and industrial apprenticeship schools enrolling 172,000 students.

University enrollment has increased during the past decade on an average of 10 per cent a year, or in relative terms from 25 to 45 students per 10,000 inhabitants. This growing demand for access to the university system together with the need for adapting educational institutions to changing conditions in the regional countries, has induced a series of reforms in university academic and administrative structure and program teaching methods and orientation. Our Bank has actively supported this process. Its loans have encouraged educational planning, the development of science teaching, scientific and technological research, equipment of laboratories and other modern educational media, upgrading and training of teachers, incorporation of full-time teachers, establishment of scholarship systems for needy students and reform of university financial administration.

In 1969, the Bank authorized four loans to educational institutions

in Argentina, Ecuador, Guatemala and Panama for a total of \$26.4 million. Two of these are designed to support national programs for integral development of technical vocational training in Argentina and Panama; the other two will expand and modernize university institutions in Ecuador and Guatemala.

Uruguay and the IDB

Upon conclusion of this overall review of the Bank's sectoral activity during the decade, and particularly over the past year, it is useful to include the case study of a given country, and there can be no better illustration than an analysis of the situation in our host country. For this purpose, I have prepared a special section on the Bank's activities in Uruguay which I have attached at the end of my text.

Institutional View

Pursuant to a resolution adopted by the last meeting in Guatemala City, the Board of Executive Directors has submitted to the Governors a special report containing the major functional procedures governing our current implementation of the mandates contained in the Agreement and of the guidelines provided by the member countries. This report indicates that the most outstanding features of the Bank's institutional action during the past decade are as follows: (a) the affirmation of multilateralism; (b) operating flexibility, and (c) the innovative and multiplier effect of its credit activity. To supplement the present account allow me to refer briefly to those characteristics.

The Bank: a Multilateral Institution

The multilateral nature of our Bank is clearly reflected in its management and its decision-making process. During its formative period the possible danger inherent in establishing a "bank managed by its debtors" was pointed out. It was feared that, in decisions adopted by an agency of this type, the specific interests of member countries would exert greater influence than the technical requirements of banking operations. Following a decade of experience we can say that, despite the natural and proper influence of the member countries on the conduct of the Bank, the levels of efficiency essential to a development banking institution have remained unaffected. Furthermore, this beneficiary participation provides regional banks with a "special image" that explains why

their establishment is currently being favored. The October 1968 edition of the journal, "International Affairs," published by the Royal Institute for International Affairs, states that: "one should not underestimate the political significance of an institution that takes some of the dreariness out of international development finance. . . . Such success as the IADB can claim for itself is to be found in its *élan*. It is a question of style."

The best expression of the Bank's multilateralism is to be found in the decision-making process employed in handling its policies and operation, which are the result of continuing exchange and consultation with the member countries, as well as with other international agencies making decisions in this field.

The Bank's decentralization of activities and its capacity for utilizing both institutions and financial and technical resources in the borrower countries themselves as channels and multiplier factors for its operations are other outstanding aspects of this multilateralism. The Bank's support for local enterprise is demonstrated by the fact that half of the Bank's credits to productive sectors have been channeled through national development agencies.

The growing presence of the Bank in its member countries is part of the same pattern. The process of installing and strengthening local offices in each country has been completed during the past five years. I might recall at this point the hope I expressed at the First Meeting of the Board of Governors:

"We are resolved to create a sound and efficient institution that will inspire confidence and therefore attract the interests of the capital markets. But we must also resolve, with the same determination and conviction, that our Bank function and develop in close contact with our communities. We must take the initiative in approaching them. . . . I also foresee, once the first stages of organization are completed, that commensurate with our available resources, we will be able to establish regional offices, through which will be channeled a great part of the future dealings of the Bank with interested groups in our member countries."

IDB Operating Flexibility

Operating flexibility has been another distinctive feature of the Bank's action during its first decade. One of the conclusions drawn from the experience of international financing agencies over the last ten years is the need for adopting terms and conditions of external aid to the requirements of the developing countries instead of adhering

strictly to standard models or too rigid procedures. The Bank has been a pioneer in this area.

The concept of "domestic effort" has been a cause for growing concern in recent years. This is partly because external financing agencies have been assuming an increasingly larger advisory role with respect to aid-receiving countries and partly because of the somewhat disillusioned reaction of capital-supplying countries to the seemingly slow results of external cooperation. Accordingly, there is a tendency, first, to tie the allocation of external resources more closely to mobilization of productive factors by the recipient country and, secondly, to attempt to measure this effort.

These proposals, reasonable enough in themselves, occasionally involve complex considerations. First, the emphasis on evaluation of domestic efforts, as a premise for assistance, assumes that the goals of these "efforts" and the appropriate policies for their implementation should be agreed upon, or at least clearly understood, between aid recipients and suppliers. Secondly, the technical difficulties inherent in an attempt to quantify such action cannot be ignored. The Bank is responsible for ensuring not only that the investments financed with its loans are carried out efficiently at the level of specific projects and programs, but also that they make an optimum contribution to overall national development, which usually calls for a macroeconomic evaluation. For this reason, in addition to evaluating each project in terms of technical, economic, institutional and financial feasibility, the Bank is obliged to examine the more general policies employed by each country in the monetary, fiscal and balance of payments areas, as well as in the specific sector to which the project pertains. However, the Bank believes that the formulation of such policies is the prerogative of the member countries and that their examination or evaluation should be undertaken by an appropriate multinational forum that can provide a broad exchange of ideas and views between national representatives and international financing agencies, as exemplified by the Inter-American Committee on the Alliance for Progress (CIAP).

The Agreement stipulates that the Bank shall grant loans solely for specific projects. This approach is diametrically opposed to "program financing." The definition adopted by our Charter reflects cumulative experience with regard to international financing at the end of the 1950s. It also implies recognition of the advantages offered by a specific approach from the standpoint of analysis of the projects submitted for consideration to a financing agency, control of their execution and evaluation of their economic impact. There are two exceptions to the restriction noted: projects forming part of a national development

program and "overall" loans are eligible for financing. By these means, it has been possible to provide adequate coverage for small and medium projects which would otherwise have had no direct access to international credit. In addition, they have allowed for a much more integrated approach to sectoral programs that can be achieved through the financing of specific projects.

The Bank recognizes the existence of a "mixed economy system" in Latin America and makes no distinctions in its operations between public and private sectors. In practice, the Bank examines each loan application on its own merits, regardless of whether the applicant is a government agency or a private enterprise. In these, as in other matters, the Bank is guided by the policies adopted by its member countries. These concepts were foreshadowed ten years ago in the statement that:

" . . . the Bank will overcome the artificial distinctions between the public and private sectors which are theoretically emphasized. The degree of importance of one or the other in the economic structure of a country depends on its particular institutional structure. It is not appropriate for the Bank to interfere in this respect. The coexistence of public and private enterprise is a fact in our economic communities; the Bank in its lending policy should be interested only in the degree of efficiency with which these activities are managed and the benefits which, for them and for the national economies as a whole, are obtained through the utilization of its funds."

The Bank and International Financing Innovations

The Bank is aware of the supplementary and "catalytic" nature of external assistance, which has been made increasingly clear by experience over the past decade. Some of the major goals set by the Bank within this general context are to call the attention of member governments and other international agencies to crucial sectors of development and channel into these sectors the "seed capital" required to promote a self-sustained flow of investments; to detect "bottlenecks" and help to eliminate them; to contribute to expanding the store of technical knowledge and to disseminating the innovative activities essential to every development process; to promote greater coordination between national and foreign development agencies; to encourage the mobilization of domestic and international financing resources, and to strengthen the technical capacity of its member countries to define and implement development goals.

Particular mention should be made of the pioneering and innovative role played by the Bank in financing Latin American development. When the Bank was formed, most external funds were channeled into

the transportation and power sectors and secondarily into industry. The Bank helped to change this and even, in some cases, to improve patterns of investment in the member countries themselves, through a continuing search for solutions. In reviewing the Bank's sectoral activity, we have already noted certain aspects of these new directions, particularly in the fields of regional economic integration, support to agriculture and local industry, and financing of urban development, sanitation and higher education programs.

In the final analysis, the function of foreign aid is not merely to transfer resources but essentially to serve as an efficient instrument in providing the beneficiary countries with a greater technological and organizational capacity and in strengthening the institutional, technical and human "infrastructure" needed to facilitate more rapid mobilization and more effective utilization of domestic resources.

An initial indication of this attitude can be found in the Bank's association with the planning process in its member countries. At present, virtually all the countries in the region have prepared long-range plans with positive results. The Bank has been closely identified with this process through its participation in the periodic reviews carried out by *CIAP* and in the programming of operations within the context of national development plans. The Bank has also given direct support to national planning institutions, first through the OAS-IDB-ECLA Tripartite Committee and subsequently through special arrangements for collaboration with certain countries. Bank participation in the establishment of the Latin American Institute for Economic and Social Planning was another decisive step in the same direction.

In addition to increasing its rate of investment, Latin America needs to improve the caliber of that process by stepping up preinvestment activities. Investment in our hemisphere is not only insufficient but is still in some cases governed by obsolete priorities; its sectoral or geographic distribution is unbalanced; its solutions are often excessively costly or entail inadequate use of existing resources and, as a general rule, it lacks desired coherence and continuity. Thus, investment patterns in Latin America must be improved. The Bank has made a substantial contribution in this connection, channeling \$66 million, on a reimbursable basis, into such activities, including the formation of national preinvestment funds and the Preinvestment Fund for Latin American Integration. This support is proving decisive in filling the pipeline of projects available to the Bank.

The meeting of the Board of Governors in Guatemala City authorized a new multilateral increase in the Preinvestment Fund for Latin American Integration, particularly with regard to its nonreimbursable

availabilities. To date, technical assistance activities amounting to nearly \$7 million have been financed with the Fund. The increase, recently implemented, amounts to approximately \$2 million. Contributions, which are voluntary, have been received from nearly all our member countries.

Along the same lines, we might point out that at the IA-ECOSOC meeting in Caracas in January of this year, the United States offered to donate the sum of \$15 million for the preparation of development projects to be financed in Latin America wholly or partially by external credits. The Bank would be responsible for administering the fund, with *CIAP* participating in the determination of priorities for its utilization. The standards that will govern use of these resources are now being drafted.

The Bank's active concern for strengthening savings and investment in Latin America is a matter of record. In addition to our collaboration with dozens of financing agencies, we have recently begun, on the basis of capital market studies carried out in some of our member countries, to implement programs of technical cooperation designed to strengthen such markets. We do this in the conviction that current levels of savings in Latin America can be bolstered to an unsuspected extent, in the light of certain national experiences, by strengthening institutional and operational aspects aimed at mobilizing personal and corporate savings.

The Bank's contribution to the administrative and institutional strengthening of its member countries should also be stressed. Increasing recognition is being accorded to the fact that development of a country is not exclusively the function of its capitalization rate but includes its organizational capacity as well. However, countries that have made significant progress in certain sectors of national endeavor are in many cases handicapped by inadequate administrative structures.

Within the framework of its financial cooperation, the Bank has also made deliberate and systematic efforts to support the modernization of Latin American institutional structures. Successful results have been obtained through the application of measures agreed to by the Bank and its borrowers. These measures are designed to bring about institutional improvements in the agencies responsible for executing the respective investment projects. In addition, the Bank has played a decisive role in setting up such institutional mechanisms as national savings and loan systems for the construction of low-cost housing; machinery for the administration of community services; supervised credit systems for low-income farmers; plans for coordination of higher education at the national level; export credit systems and national development institutions, including such significant regional or sub-regional initiatives as the Institute for Latin American Integration, the Latin American Institute

for Economic and Social Planning, and the Central American Bank for Economic Integration.

Bank efforts in the field of training have also exerted a significant impact. To date, training has been extended to more than 5,300 executives and technicians through courses of various types offered by the Bank directly or in conjunction with other organizations.

For a long time external aid was divorced from technical cooperation. Prior to 1960 technical assistance designed to promote the preparation of new development projects was not always followed by the financial support needed to take advantage of the new investment opportunities. For their part international agencies supplying financing for investment projects paid scant attention to technical assistance activities. As already noted concern for this sector was one of the innovations introduced by the Bank in international financing.

To date, the Bank has made available to its member countries, on a reimbursable or nonreimbursable basis, \$130 million in technical assistance for training, preparation or supervision of specific projects, general and special studies, and promotional activities. This amount includes technical assistance furnished by the Bank for regional economic integration.

It can be said with confidence that the Bank has largely satisfied the desires and aspirations expressed in San Salvador with regard to this type of activity:

"Technical assistance furnished by the Bank can be very useful in the preparation of specific projects that support requests for loans. Also, upon request of member countries, the Bank could extend a more ambitious service of providing assistance in general planning. Long-range planning determines precise goals in the fundamental tasks of economic development and tends toward a better utilization of resources and labor which does not exclude but rather furthers the interests, in countries such as ours, of private initiative and enterprise. It has been said that one of the impediments to our development is the scarcity of qualified entrepreneurs and managers. Here, also there is no institution more appropriate than the Bank to help remove this obstacle. It is not a question of giving advice or knowledge that can only be gained through experience; however, we can, in cooperation with the groups involved, create or expand training institutions for scientific management of the type already functioning successfully in several Latin American cities. It may likewise be important to give our assistance in the improvement or the creation of local financial institutions in the countries, especially of investment banks with capital from either public or private sources."

Financial Resources

Need for Additional Funds

The "ideological contribution" of the Bank to the economic and social development of its member countries, that is, the identification of new areas, priorities and techniques relating to this process, obviously demands a growing supply of resources. The establishment of the Bank was a decisive milestone in the mobilization of additional resources, both external and internal, for Latin American development. During the evolution of the Bank, it was maintained in some circles that the establishment of a regional bank was unnecessary inasmuch as the comparatively few investment projects available in Latin America had access to international financing sources already established. It was also feared that the emergence of the new multinational financing mechanism would serve to divert the resources assigned by existing agencies to Latin America into other regions of the developing world. The facts show that, very much to the contrary, the activities carried out by the IDB coincided with a sharp upturn in the volume of external public resources channeled into the hemisphere. In fact the annual average of multilateral financing, which has amounted to \$56 million during 1951-60, rose to more than \$300 million in the following decade. Likewise, the annual average of bilateral aid, comparing the same periods increased from \$194 million to \$616 million.

The initial problems caused by a limited supply of adequate investment projects were solved and, in recent years, the Bank has been operating on the basis of a steadily increasing demand for its funds, which are proving increasingly limited in the light of requirements for long-term financing stimulated by a more adequate absorption capacity on the part of Latin America.

New Resources

Last year was one of great importance for the expansion of our funds. During the course of the year the Bank secured additional resources amounting to \$663 million, including: (a) \$400 million contributed to the Fund for Special Operations as the third and final installment in the increase in that Fund approved in 1967; (b) \$145 million raised for inclusion in the ordinary capital through bond issues and borrowings in Austria, Germany, Italy, Japan, Sweden and the United Kingdom; (c) \$32 million obtained through the sale of short-term bonds

to Latin American central banks, and (d) loan amortizations amounting to \$80 million. In addition, there was the \$1 million *Populorum Progressio* Fund and \$5 million authorized by the Netherlands Government for parallel financing. During 1969 the Bank entered only the capital markets of non-member countries and the amount of its loan recoveries was the largest ever received in a single year. Thanks to this mobilization of resources, the Bank was able to achieve the record volume of lending previously noted.

Growth of Bank Resources

The Bank was originally conceived as an organization with funds amounting to \$1 billion, of which \$850 million constituted its ordinary capital and \$150 million its Fund for Special Operations. Of the ordinary capital, \$380 million was in the form of "paid-in" shares, to be made available over a period of three years by the member countries. The balance represented subscriptions of callable capital which would serve as backing for future borrowings in the capital markets. These original figures projected a financing agency whose loans were not likely to exceed \$100 million a year.

In contrast we now see an organization with actual or potential resources amounting to nearly \$6 billion (Table VII). Obviously this spectacular growth would not have been possible without the unstinting support of all the member countries, particularly the United States, and the contributions received from non-member countries. Much of the capacity for generating additional funds, particularly for the ordinary capital, was made possible by the financial soundness of the Bank, which combined with its excellent portfolio, has earned its negotiable securities as consistent triple-A rating.

Ordinary Capital

The ordinary capital of the Bank has been increased twice, once in 1964 and again in 1967, for an aggregate amount of \$2 billion in the form of subscriptions to callable capital. With the backing of the callable capital we have succeeded in obtaining funds, in the form of bond issues and direct loans, for nearly \$770 million, which is double the amount of the paid-in capital. It is of interest to recall that at the beginning of our activities it was believed that by far the largest share of our debt securities would be placed in the United States. According to current figures, the funds obtained from that source account for 51 per cent, with the balance consisting of 41 per cent procured in Austria, Belgium, Finland, Ger-

many, Israel, Italy, Japan, the Netherlands, South Africa, Spain, Sweden, Switzerland and the United Kingdom, and 8 per cent coming from the sale of short-term bonds to Latin American central banks. Because in recent years we have had to rely on issues or borrowings in the world markets, we have been obliged to meet the interest costs prevailing in those financial centers, and it is this that has raised the interest rate of our ordinary loans to 8 per cent.

The problem of high interest rates and restrictions prevailing in the capital markets has been the subject of an in-depth analysis by our Board of Executive Directors. We have referred to this problem in recent meetings of the Board of Governors. One response to these difficulties is the proposal by the Board of Directors that the ordinary funds be replenished, in part, with new paid-in capital.

Soft Resources

When the Agreement Establishing the Bank set up the Fund for Special Operations with resources of \$150 million, a secondary source of operational support was created for the handling of loans not normally covered by ordinary financing. This was the origin of the "soft operations" of the institution, which are now more significant in quantitative terms than the "conventional" financing.

In September 1960 while our institution was in the organizational stage, the countries of the inter-American system, motivated by the Act of Bogota, decided to entrust to the Bank the administration of the Social Progress Trust Fund. This fund amounted originally to \$394 million and was subsequently expanded in February 1964 to \$525 million. The purpose of the fund, all of whose resources were provided by the United States, was to enable the Bank to finance significant "special investments" for which the "special" resources were insufficient. The Trust Fund was designed specifically to finance projects in the fields of agricultural development, housing, sanitation and higher education. These programs, following the launching of the Alliance for Progress program, were considered to be part of that policy. In line with this, the Bank adopted the practice of seeing to it that such investments were part of development plans and broader reforms in the beneficiary countries in which the latter mobilized sizable local resources.

At the annual meeting in Panama City in April 1964, the Board of Governors, with a view to simplifying the financial and operating structure of the Bank, decided that all future increases in the "soft" resources should be made to the Fund for Special Operations. Thus, since November 1965, when the Trust Fund was depleted, the Fund for Special

Operations has received substantial increases which have enabled the Bank to maintain the pace of its soft financing for both economic and social projects. It will be recalled that the first increase in the Fund for Special Operations, approved in January 1964, was for \$73 million, followed by a second increase, at the Panama Meeting, in the amount of \$900 million, and a third in 1967 for \$1.2 billion. The latter two increases have been made with a 75 per cent participation by the United States and the balance in the form of contributions of Latin American local currencies. The successive increments in the Fund for Special Operations have brought it to more than \$2.3 billion at present.

Of particular importance has been the "soft" financing to cover "local costs" of projects. It is estimated that 70 per cent of the total amount of the "soft" financing has been allocated to local costs, in comparison to 40 per cent of the ordinary capital financing. This has permitted the IDB to take an active part in the financing of Latin American agriculture and of thousands of small and medium industrial enterprises, as well as housing, sanitation, higher education and technical training programs, investments which by their very nature entailed a limited demand for external resources. As noted, in a decade characterized by an increase in Latin America's external indebtedness, another positive factor for the regional economy is that the member countries have been able to use local currencies to pay a high percentage of their debt to the Inter-American Bank. It was feared that the Bank might face an accumulation of Latin American currencies in its ordinary currency and that, as indicated by other experiences, these funds might remain unused. Fortunately, this has not been the case. Both the Board of Directors and the Management have made every effort to ensure sustained utilization of both the foreign exchange and local currencies held by the Bank.

Provision of Funds by Non-Member Countries

In setting up the Inter-American Bank, its founders felt that its ordinary resources should be supplemented by future sales of its securities in financial centers outside the hemisphere. This was the basis for the early contacts with the capital-exporting countries, for the establishment of a special office in Europe at the beginning of 1962, and for our participation in the work of the Development Assistance Committee (DAC), of the Organization for Economic Cooperation and Development (OECD). There is no need here for detailed account of the lengthy and intensive work of developing prospects for closer financial and technical collaboration with industrialized non-member countries, since a special report has been distributed to you relating this experience.

To sum up, the various types of funds procured through such efforts totaled \$470 million at the end of last year. In the past few days, owing to the additional contribution received from Canada (10 million Canadian dollars), arrangements with Norway for \$6 million and negotiations with France, the sum can be estimated to have risen to nearly \$500 million. A substantial part of these resources was derived from the sale of bonds in the Western European markets, with the remainder representing various types of financial agreements: direct loans, the sale of participations, trust funds and parallel financing. These contributions, which totaled \$218 million at the end of 1967, have more than doubled in the past two years. Table VIII lists the non-member countries and the amounts of their respective contributions.

We have already sketched the recurrent difficulties we have encountered in the international capital markets during the period. In the case of non-member countries, this encourages us to seek other formulas designed to maintain an adequate additional flow of resources, not only in the short range but also in terms of a more systematic programming for the future, including possible formal association of those countries with our organization. This matter, on which views have been expressed in recent years at both the meetings of the Board of Governors and the sessions of the Board of Executive Directors, has taken on a new relevance and will undoubtedly be considered during the course of this meeting. Various alternatives have been proposed and all of them deserve careful examination, since in many cases they go beyond financial formulas and may affect the very nature and structure of the Bank.

Perhaps one of the most fully developed aspects of these new formulas is the consideration of Canadian membership in our Bank. A formal opinion has already been expressed in this connection by virtue of the decision of the Caracas meeting, in 1963, which increased the capital available for subscription by new members by \$300 million and at the same time envisaged the possibility of adding another member to the Board of Executive Directors. Broader formulas opening up the possibility of membership in the Bank to all industrialized countries, through an arrangement similar to that employed in the Asian Bank, would require not only preliminary agreements with these nations but also a renegotiation of our present Charter, followed by legislative ratification.

On many occasions, on a personal basis I have expressed the theory that the European countries might constitute a "multilateral investment fund for Latin America" to be administered by our organization. This idea has been explored through the mechanisms of the European Common Market, where it was recently given a positive reception. Consideration might also be given to the establishment of a "fund of non-member

countries" as a subsidiary of the Bank. I am thinking in terms of the legal structure of the International Development Association, whose assets were contributed by the developed countries and are administered by the World Bank, and whose establishment did not distort the basic structure of the Bank. I see no reason why an affiliate of this type could not be directed by a Council composed of Directors representing the member countries of the Bank and representatives of the contributors to that Fund. Credit operations would be handled by the IDB Management, in order to avoid the need to set up new bureaucratic machinery. Experience has shown us that many of the applications from our member countries could be financed jointly with our own resources and with those from a fund such as this.

Increase in Resources

Unquestionably the most important topic on the agenda of this meeting is the proposal of the Board of Executive Directors for immediate action to expand Bank funds. We are pleased to acknowledge that this step has been made possible by the offer of the United States, which in the past few weeks officially has notified the other member countries of the Bank that it is agreeable, on the basis of multilateral contributions, to multilateral increases in both "windows" of the Bank.

The salient aspects of the proposal of the Board of Directors are as follows:

(a) The ordinary capital would be increased by \$2 billion, of which \$400 million would be provided by the member countries in proportion to their original subscriptions, and paid over periods of three to five years, depending on the volume of each subscription. The new quotas would be paid 50 per cent in dollars and the remainder in local currency. In addition, the members would subscribe a total of \$1.6 billion in callable capital in two installments.

(b) The Fund for Special Operations would be increased by an amount of between \$1.2 and \$1.5 billion. The proportion of these contributions has yet to be determined. In any case, the largest shareholders would contribute between 66 per cent and 75 per cent of the total. The contributions would be paid in 1971, 1972 and 1973.

I believe it unnecessary to dwell on the importance of this proposal. We are fully aware not only of the need to expand the Bank's resources in order to enable it to continue performing its fundamental role in the long-term financing of Latin America's development, but also of its obligation, based on decisions of recent inter-American meetings, to strengthen multilateral mechanisms for regional economic cooperation.

The report of the Peterson Committee, which recently submitted its recommendations to the President of the United States concerning that country's foreign aid policy, refers to the need for strengthening the resources of regional banks, particularly the Inter-American Bank to enable it to reach a credit capacity of \$900 million a year.

It is important for part of the increase in the ordinary capital to take the form of "paid-in" capital, to permit continued lending at interest rates compatible with long-term public financing. The substantial increase proposed for the Fund for Special Operations will enable us to continue supplying resources on flexible terms, particularly to the comparatively less developed nations. The proposal also envisages the possibility that loans might be made repayable in the currencies lent without hardening the general terms of the Fund. This would provide increased supplies of foreign exchange in the future for soft loans.

Once the Governors have approved a suitable formula, we will be able (if the legislative and legal formalities can be completed by the end of the year) to plan our operating activities for the first part of the 1970s on a solid basis. If we bear in mind that our original structure of \$1 billion was expanded over the decade to nearly \$6 billion, and if we then consider the proposed new increases, which could reasonably be figured at \$3.5 billion, we arrive at a new total of nearly \$10 billion, or ten times our original assets, which would consolidate the position of the Bank as a powerful instrument of investment.

Final Considerations

A number of different comments have been made throughout this review, some in reference to our organization, particularly as viewed in the perspective of the decade now ending; others connected with Latin American problems, in which we are deeply concerned for both institutional and professional reasons, and still others designed to place the Bank and Latin America within their proper and essential context of inter-American and international relations in general.

I should like to sum up some of these views to present the following conclusions:

First: Following a decade of intensive activity, within the framework of a changing and dynamic Latin American reality, the role of the Inter-American Bank can be described in the words I used in beginning my term as its President: "At the same time that it is a bank, it is something more than a bank." On that occasion, I added:

"The different motivations that will influence the activities of the

Inter-American Development Bank, and the nature of the general setting in which it will have to act, indicate how complex our institution will be. It is a banking organization, specialized in the regional financing of economic development projects. However, at the same time that it is a bank, it is something more than a bank. We are a bank . . . in that our transactions and loans must adhere closely to the principles of profit and soundness, and in that the Institution must in its initial stage place efficiency ahead of any other consideration. However, we are more than just a bank if we consider that our ultimate objective is to accelerate the development of all of Latin America; if we remember that part of our resources will come not only from private capital markets, but from individual taxpayers of the Americas, whether of modest or great means; . . . if we try to orient our activity toward undertakings of great collective value, such as the creation of the Latin American Common Market; if we strive to promote the use of planning techniques for economic development; if we are convinced that . . . we . . . should face the many problems existing in the fields of education and health in our countries."

I have mentioned that, having set up a sound and efficient financial mechanism, capable of institutional expansion, and at present, equipped with the necessary human and financial resources, we have not neglected our basic mission of being a great regional public service committed to promoting the utilization and expansion of all forces helping to accelerate Latin America's full development. This characteristic is the source of the *mystique* that envelops our institution. At the Bank we have succeeded in forging a financial, human and political inter-American undertaking at the service of our peoples in their collective search for the "common good" of our societies and our great hemispheric homeland.

Second: The Bank is exerting a strong influence on capital formation in the hemisphere. We have pointed out that a substantial part of this process is financed with funds generated by the efforts of our own people and by the mechanisms guiding the productive forces in our communities. Yet over and above an automatic accounting of the direct, and even the indirect, contribution to progress in our countries, our presence and our technical action are influencing the building of societies that must adapt at an ever more rapid rate to the contradictions inherent in the world today resulting from the intrinsic imbalance between the evolution and history of mankind and the advances made in physical and natural sciences.

We realize that in this task events tend to overtake us and that we no sooner evolve what we believe to be a proper solution to a new challenge, than it eludes us and becomes magnified out of all proportion, like

a desert mirage that deludes the traveler into thinking he is nearing an oasis. Our duty is to carry on this task of Sisyphus in the firm conviction that each step we take is contributing to the progress of the hemisphere. We were concerned with the need for modernizing our agriculture and adopting new techniques, only to discover that such innovation was counterproductive unless the surplus labor force could be employed in other activities; we supported national industrialization, only to realize that this process required adaptation to more refined technical procedures; stiffer competition and the demands of growing markets which also needed to be integrated; we participated in establishing an infrastructure of roads, ports, electricity and urban works, only to find that the permanence and progressiveness of this effort depended on the extent to which it could be extended beyond the national to the multinational sphere; we took up the problems of housing and sanitation in our cities, only to learn that urban development could not be isolated from the general context of the economy but must be supported by a sound productive base; we tried to help our universities to absorb the heavier quantitative and qualitative pressures of a continent with a growing majority of young people, only to become aware of the fact that coverage of contemporary science and technology was meaningless if it failed to relate to an over-all solution to the problem of manpower utilization on many complex levels.

Emphasis has been placed on our position as the "Bank of the University," the "Bank of Integration" and the "Bank of the National Development Agencies"; we might perhaps encompass all these definitions by shouldering the difficult task of functioning as a "Bank of Ideas" which aims to make its diverse resources and experience available to those who are ultimately responsible for shaping their own destiny.

Third: The progress achieved by the countries of the region during the past decade has been substantial and, in some cases, spectacular. But it is clear that such progress has tended to concentrate in the more modern and dynamic sectors of our societies. Internal imbalance between the more favored groups and the great marginal masses persists, and the problems of urban overcrowding and insufficient employment capacity are becoming more acute. However, perhaps the most important result of our endeavors has been the definite progress of the Latin American nations toward establishment of the fundamental conditions required for development from the socio-cultural, institutional and technical standpoints, as well as in terms of manpower supply, ability, experience and skill in management of development policies.

Although international cooperation will continue to be necessary in the years ahead, and to an even greater extent than in the past, changes

are already taking place in its implementation. The concepts of multi-lateral cooperation are gaining ground in the world of the 1970s. Within the framework of this new strategy we must improve our own capacity for service along institutional and operational lines.

In this respect we must, of course, avoid the arrogance of considering ourselves to be more efficient than our governments or their people or wiser than those who may have had to attain goals more complex than ours. The Bank should at all times be responsive to the needs of its own countries and to the new prospects opening up in the world today. This approach will be more necessary than ever in an international situation of unresolved tensions, of continuing maladjustment of men to their social and natural environment, where new demands are being made by new generations.

While increasing our technical capacity, we must therefore maintain an open sociological and historical perspective with regard to the changes occurring in a Latin America where dynamic expansion is now an established fact. We are wholly convinced that, regardless of the turn of future events, our societies will increasingly call for greater organization, better use of production factors and, particularly, an increased capacity to generate the financial and technical resources required by the world of tomorrow. Since channeling this is essentially a political problem, we must follow as closely as possible the wishes of our own people in shaping their collective destinies, although it is not in our power to provide ultimate solutions, even had they not become obsolete in the changing circumstances of this latter part of the Twentieth Century. Within this framework of international cooperation, in which we perform an important role, the transfer of knowledge and experience from other areas and of financial resources that can serve to enrich our own economic development will become increasingly more selective.

Fourth: We would like to stress that, since the Bank evolved in this decade in response to economic and social development problems of the hemisphere and new factors in inter-American relations, it has consistently been marked by a "cosmopolitan" approach. We can state, without fear of contradiction, that our organization, operating on the basis of constructive inter-American participation and influenced by a Latin American *mystique*, is also motivated by a strong international conscience.

For this reason our organization, while designed as a factor of regionalization and of the struggle to overcome our underdevelopment, has remained receptive to the major trends and ideas of the contemporary world. Indeed, such a stance was inevitable. For when Latin America strives for national and regional growth it does so with the aim of securing a more influential position in the international sphere, *vis-à-vis* the

great centers of power in the industrialized world, and to what we hope will prove to be an increasingly fruitful and educational coexistence with other groups of developing nations. Moreover, many of the difficulties restricting our development are caused by outside factors, particularly those deriving from trade relations that have not yet reached the equitable level to which we all aspire.

Fifth: In view of the foregoing remarks, we feel it would be presumptuous on our part and historically meaningless to initiate the 1970s by attempting at this time to provide any final evaluation of past achievements or to prescribe any rigid course of action for the future. The accelerated way in which we initiated many of our activities, most of which have, over the years, proved sound, obliged us, first of all, to consolidate our original aims, while at the same time discarding or improving those experiments which events have shown to be misdirected or in which our efforts may have been disproportionate to the benefits generated. Fortunately, in contrast to the situation a decade ago when the experience of others that could be drawn upon was conventional in nature and based on concepts that were inoperative or merely imitative within our own frame of references, we now have the advantage of our own fund of experience to help us to review many of the basic premises of international economic cooperation, a review from which we can benefit greatly.

Sixth: Although I shall leave for the closing session a further examination of possible bases for strengthening our activities as we begin a new decade, with particular attention to observations made by the Governors during this meeting, I believe we might suggest at this point the following guidelines for future action:

(a) The average of the first nine years of IDB credit activities shows that we have been able to commit funds amounting to an annual total of \$400 million. Last year this average rose by 50 per cent. In the current year we expect to maintain, and even show a reasonable increase, over the 1969 volume of credit.

If the Governors approve the increase in resources submitted to them for consideration, and the pertinent resolution is duly ratified by the national congresses, as has been the case whenever the Inter-American Bank has requested an increase in its funds, we see no obstacle to programming over the next five-year period a total Bank investment in the hemisphere amounting to \$4 billion, that is, double the rate of our operations in the decade now closing.

(b) The Bank should accentuate its positive steps over the past two years in its capacity as the "Bank of Latin American Integration." In addition to financial resources, I believe we have acquired the experience

and technical knowledge needed to promote a larger volume of financing for regional projects. This will reinforce the effectiveness of our role in the irreversible trend toward integration of the hemisphere. We must, consequently, intensify our technical and financial participation in multinational projects, by investments in physical infrastructure, the promotion of industries for an expanded market and the expansion of financing for inter-Latin American exports. The Bank must also further emphasize the regional context of its work in the fields of education, science and technology and, in general, the training and preparation of our human and institutional resources.

(c) We must strengthen our action in agriculture, directing efforts toward the introduction of new agrarian techniques in the hemisphere and taking into consideration new experiences deriving from the "green revolution." We must place similar or greater emphasis on substantially stronger support for the industrial sector, extending our traditional financing for small and medium industries at the local level to include industrial economies of scale, which are the very basis for modernization of our productive system. In this same context it will be useful to continue to explore the possibilities and prospects of a subsidiary provided with sufficient resources and flexibility to meet the demands of Latin American industrial enterprises.

(d) Within a comparatively short span we must be in a position to undertake operations in fields for which preparations have already been made, such as the fishery and tourism industries and rational development of the forestry industry.

(e) We must continue and intensify our social investments, in accordance with the new criteria established for urban growth, which should also be considered irreversible. In this area special consideration must be given to population, employment and marginality problems. The foregoing will entail not only the use of financial resources, but also more vigorous assistance in the necessary research and planning work which this challenge demands from the Latin American countries.

(f) We must strengthen our position as the "Bank of the Latin American University," continuing to seek formulas for cooperation in the new science and technology policies of the member countries. In this field we must assign due importance to studying and rationalizing the use of natural resources.

(g) We must strengthen our technical cooperation, preinvestment and institutional and managerial development efforts which enable the countries to make better use of their own potential in behalf of common progress.

Seventh: The areas of concern outlined will require us to define even

more precisely appropriate development financing policies for the seventies. To this end, cooperation other international financing sources and improved technical liaison with the domestic efforts of the countries themselves are more vital than ever.

The broader sphere of responsibilities proposed will also require us to step up our continuing efforts to adapt the operational and technical machinery of the Bank. Even though our technical units are operating with positive efficiency, as demonstrated by the results described in the respective reports, this will call for a strengthening of our personnel. In this respect, we must not neglect our direct contacts with the member countries through our regional offices and experts in the field.

Mr. Chairman, distinguished Governors: In concluding this address, I call upon the Governors to express their concerns, in accordance with the tradition at these meetings, so that we may chart new courses of action that will help us to weather the journey ahead that begins today in Punta del Este.

The inspirational spirit of the Republic of Uruguay present here today for the good of the Americas is best symbolized by the immortal figure of Artigas, of whom his compatriot Juan Zorrilla de San Martín said:

"You will not find in the history of the continent a more classic or more Homeric figure than that offered by the history of our homeland. The venerable Artigas, despite an urban and patrician background, despite an independent social position and an education and culture remarkable for his day, was devoted to the people and to the people alone. He believed in them, never doubting their powers or their virtues, implicitly trusting in native democracy. Artigas believed in the people, in the cosmic, partly chaotic mass that could nonetheless be brought to fulfillment by the creative word. He spoke that word and from this genesis there came forth the new fatherland, republican from birth."

Addendum

Bank Activities in Uruguay

General Aspects

In its first decade of operations, the Bank contributed to the economic and social development of Uruguay through the authorization of 19 loans for a total of \$77.7 million; this volume of financing made it possible to undertake investments aggregating \$250 million. Uruguay received \$27 per capita from the Bank, as compared to an average of \$13 for all member countries.

As of December 31, 1969, \$26.4 million of the total loan volume had been disbursed. This represents 36.8 per cent of the sums authorized to that date and 55.9 per cent of loans eligible for disbursement.

The Bank's portfolio in Uruguay includes loans for industrial development, particularly of its mineral and extensive livestock resources, for a total of 29 per cent; economic infrastructure, 36 per cent; urban development (housing, water supply and sewage projects) 31 per cent, and preinvestment and technical assistance activities, the remaining 4 per cent.

Special emphasis in the Bank's lending in Uruguay has been placed on the development of industrial activities, especially on those aimed at expanding the export capacity of the Uruguayan economy. Considerable attention has also been devoted to road and port infrastructure to facilitate the distribution and marketing of national production in the domestic and international markets and to create conditions for modernizing the national highway system with a view to interconnecting it with the systems of neighboring Argentina and Brazil, in support of the government's tourism development policy. The other sector that has received strong financial support from the Bank is sanitation, that is, water supply and sewage services for a number of communities, primarily those located on the coast. In allocating these resources, the immediate social objective of raising living standards was taken into account, as well as the establishment of adequate sanitary conditions designed to consolidate those localities as centers of tourist attraction.

It can be concluded, in consequence, that the Bank's portfolio has contributed essentially to generating a larger volume of foreign exchange earnings for the Uruguayan economy, through both tourism and industrial development, while at the same time it has supported domestic efforts to attain balanced development of the various regions of the country and made it possible to generate new productive employment and increased tax revenue. The Bank's financial and technical cooperation in the formulation and execution of rationalization programs undertaken by major national enterprises has been no less important. Furthermore, Bank technical cooperation has served to finance the preparatory stages of national development programs and technical and economic feasibility studies on projects in a number of economic and social development sectors.

Lending by Sectors

Industry

In the industrial sector the Bank has cooperated in two ways: through overall loans granted to the *Banco de la República Oriental del*

Uruguay (*BROU*) and through direct loans to various enterprises. Overall loans for a total of \$9 million have been utilized to develop such important industries as the manufacture of electronic equipment components, processing of synthetic textile fibers and mining and milling of dolomite for export. Through this type of loan it has also been possible to cooperate in the installation of metal silos and mechanical equipment for the storage and handling of cereals and grains. Recently the Bank granted a new overall industrial loan to *BROU*. The first loan, approved in 1963, has been entirely committed. This operation is the first to provide for the financing of small hotels and other facilities connected with the development of tourism.

Among the specific industrial projects financed with Bank assistance, are the expansion and modernization of the oil refinery of the *Administración Nacional de Combustibles, Alcohol y Portland (ANCAP)*, which will refine crude oil at a lower cost and at the same time facilitate the distribution of piped gas to the city of Montevideo and the unloading of imported lubricants and start-up of domestic asphalt production. The same loan contributed to expansion of the *ANCAP* cement factory in the city of Minas, increasing its output from 120,000 to 240,000 tons a year and enabling the country to meet rising domestic demand and maintain exports of this product to Paraguay and neighboring areas of Brazil and Argentina. The Bank subsequently agreed to participate in the financing of a second *ANCAP* cement plant in the city of Paysandú, in view of the growing demand in Uruguay and neighboring countries. This plant will supply all of the northern part of the country directly and be in a favorable position to export to Brazil and Argentina. Other industrial projects the Bank has helped to finance have served to improve a meat-packing plant and to expand and modernize the cooperative milk plant of the *Cooperativa Nacional de Productores de Leche (CONAPROLE)*, the largest in the country.

In brief, Uruguayan industry has benefited from Bank loans earmarked for the construction or expansion of five plants; of these, the modernized refinery and the first *ANCAP* cement plant are currently in service. Furthermore, it has been possible to install or expand 15 small- and medium-sized mining and industrial enterprises chargeable to the overall loans granted to the *BROU*.

The Bank is now studying the financing of a comprehensive program aimed at expanding and improving the national meat-packing industry as a whole, which would make it possible to increase the volume and value of meat exports. This program is expected to be extremely important to the national economy, since it would help, on the one hand, to standardize marketing on the domestic and international markets and, on the other, to channel increased production of meat cuts and boned

and frozen meat into the external market, increasing the volume and unit value of exports with consequent benefit to the balance of payments. The rise in cattle slaughtering as a result of expansion of the meat-packing industry would, in turn, lead to an increase in livestock production and the use of certain by-products that are currently discarded.

Infrastructure

In the economic infrastructure sector the Bank has contributed to the attainment of several national development and regional integration goals by means of loans aggregating some \$28 million. One such goal involved the decentralization of economic activity in the Montevideo area by promoting consolidation of the important pole of development in Paysandú, through the reconstruction of the section of Route 26 between that city and Tacuarembó. Once the proposed Paysandú-Colón bridge has been constructed, this highway would connect the road system of northern Uruguay with the system in northeastern Argentina, to form the first overland link between the two countries, while at the same time facilitating access to Brazil from both regions. The Bank has also assigned funds to the modernization of the section of Route 9 between Rocha and Chuy, which will consolidate tourist development in the Santa Teresa area and attract a flow of tourists to the beach resorts of Punta del Este and adjacent areas. In the same context, the Bank is encouraging the use of resources previously granted to the *BROU* as a Preinvestment Fund for preparation of a feasibility study on modernization of the Carrasco and Laguna del Sauce airports.

The Bank is also actively considering the possibility of financing a bridge across the Uruguay River joining the localities of Fray Bentos (Uruguay) and Puerto Unzué (Argentina) to link up the road systems of both countries. This project is expected to provide a strong incentive to subregional physical integration.

The Bank's credit activity in the sector of national road infrastructure will finance the construction of a total of 290 miles of roads, of which 100 miles are already completed and in service.

The Bank is also helping to expand and modernize the port of Montevideo through a \$9.4-million loan. This project will increase international trade by reducing costs and will provide other benefits in the handling of freight, mainly of national origin. This loan is designed to finance the enlargement and repair of wharves; construction of various civil works; dredging and clearing of the access channel; repair of existing equipment; purchase of new equipment, and improvement of load-

ing, towing and salvage services. It also includes technical assistance for the installation of loading equipment, maintenance systems and the improvement of administrative, financial and accounting procedures of the *Administración Nacional de Puertos*, which is carrying out the project. The operation also includes a parallel loan from the Government of the Netherlands for the equivalent of \$3.25 million. The investments envisaged in this project, amounting to \$17.6 million, will provide a strong incentive to the economic development of Uruguay, since approximately 95 per cent of the country's foreign trade is handled by this port. The project will help to convert the port of Montevideo into one of the largest and most modern in Latin America.

Sanitation

The Bank is also participating in the financing of water supply and sewage projects to benefit several cities and rural communities in Uruguay through loans totaling \$16.2 million. Two such loans, for an aggregate of \$8.2 million, were used to expand the water supply and sewage system of Montevideo, with the *Administración de Obras Sanitarias del Estado* (OSE) acting as executing agency. Implementation of these works tripled the city's water supply capacity, which will be sufficient to meet demands up to 1980. The sewage system of Montevideo is also being expanded with the laying of approximately 40 miles of pipe in low-income districts. Both these Bank loans have been fully disbursed and many of the facilities are now in service, significantly benefiting the population in the capital.

In 1965 two loans were granted for a total of \$3.6 million to help finance the construction of a central water supply system capable of supplying the needs of several resort areas located along the 43-mile coastal strip which includes Punta del Este, Piriápolis, San Carlos and Maldonado. The local resident population of 40,000 is increased by approximately 100,000 tourists during the summer months.

With respect to the development of water supply services in the interior, the Bank is providing \$4.4 million, granted in 1967, to finance a program designed to supply 13 communities: Artigas, Colonia, Rivera, Pando, Lascano, Sarandí del Yi, San José, Cardona, Sarandí Grande, Isidoro Noblia, Villa Darwin, Santa Lucía and Carmelo.

The loans made by the Bank are contributing to the construction of 83 water systems and two sewage systems in the areas mentioned. An estimated minimum of 1.6 million persons, or 60 per cent of the country's total population, will benefit from the implementation of these projects.

Housing

In the field of housing in 1963, the Bank approved a loan for \$8 million to finance part of a program to build 4,100 housing units for low-income families, of which 2,600 units are located in Montevideo and 1,500 throughout the rest of the country.

Preinvestment

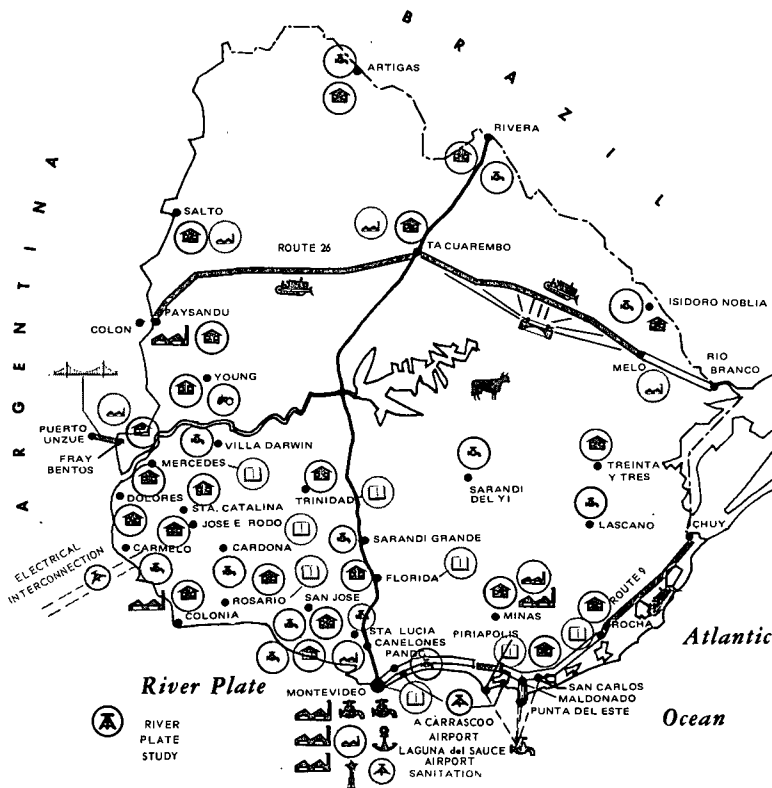
In the preinvestment field the Bank authorized a \$1.5-million loan in 1966 to the *BROU* to help establish a Preinvestment Fund; its initial capital amounted to \$2 million. It is expected that 70 per cent of the resources of this fund will be used for feasibility studies on specific projects and the remaining 30 per cent for general studies to identify investment opportunities. Among the studies financed with resources from this fund, are the feasibility study for interconnection and use of electrical systems along the Uruguay River and in Montevideo-Río Negro, on the one hand, and the Greater Buenos Aires system, in Argentina, on the other. The same fund will finance a technical and economic feasibility study of the works required for disposal of sewage in Montevideo, which is currently discharged with a minimum of treatment near the beach resorts and could eventually cause serious damage to public health and tourist development.

Technical Assistance

In the field of technical assistance for institutional support, the Bank has assisted *ANCAP* in financing a program for the modernization of its financial and accounting systems and the *Administración Nacional de Puertos* for similar purposes. Furthermore, the Bank has financed advisory services in connection with the preparation of economic and social development programs, institutional improvement in the public sector and the training of personnel. The Bank's technical cooperation also covers the preparation of technical and economic feasibility studies on specific investment projects in the areas of industrial and agricultural development, housing and sanitation.

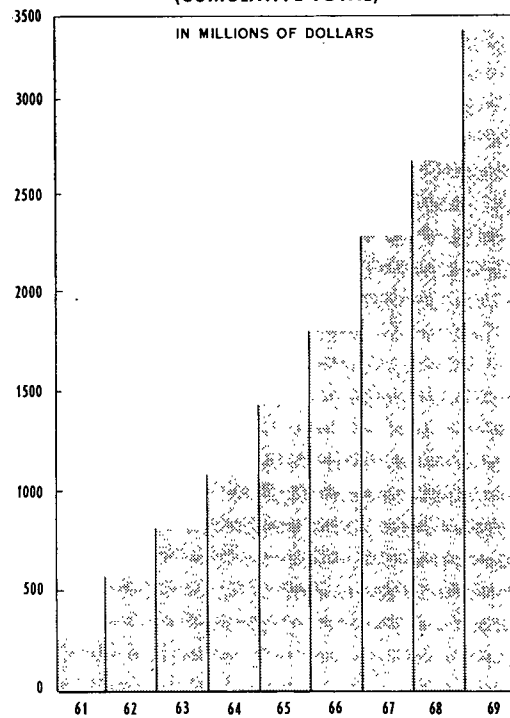
**MAPS AND GRAPHS ILLUSTRATING
THE SPEECH BY MR. FELIPE HERRERA
AT THE SECOND PLENARY SESSION AND
THE ADDENDUM ON URUGUAY**

IDB'S ACTIVITIES IN URUGUAY

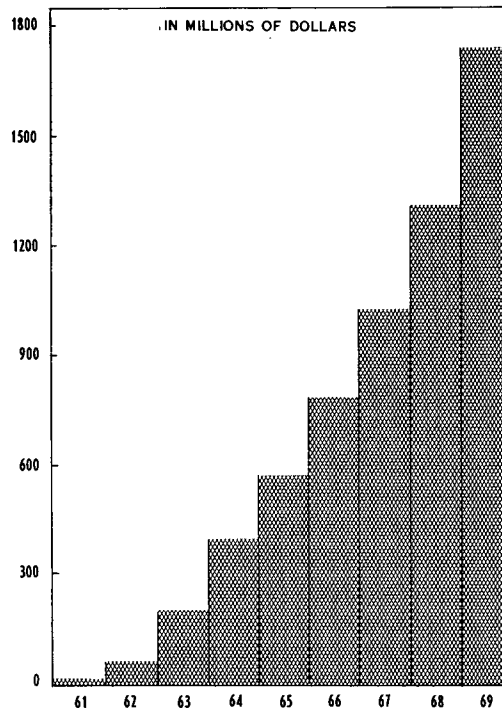


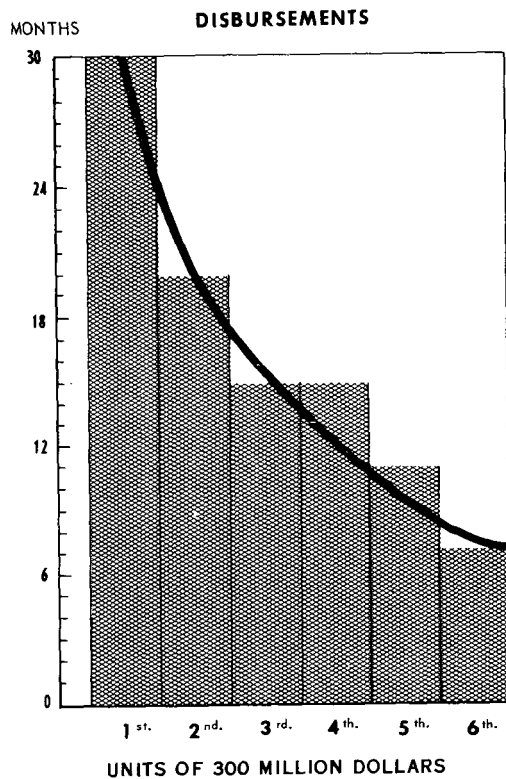
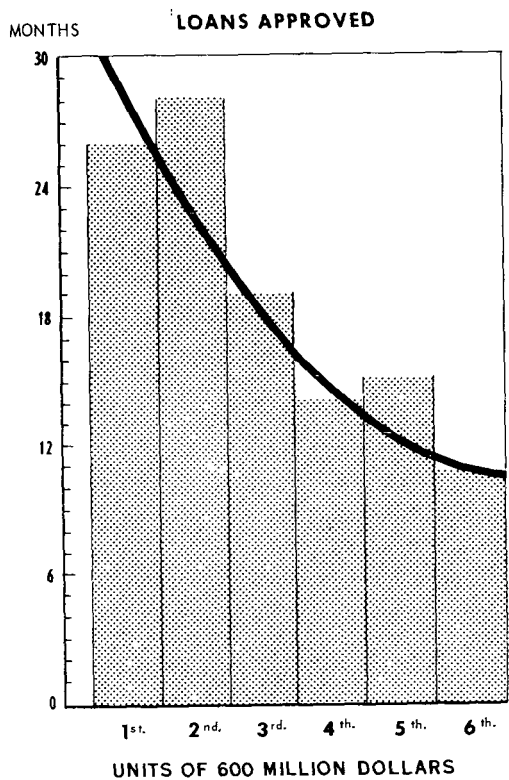
| | | | | | |
|---|-------------------------------|---|---------------------|---|---------------------------------|
|  | LOANS APPROVED |  | INDUSTRY AND MINING |  | BRIDGES |
|  | PROGRAMS UNDER STUDY |  | SANITATION |  | HARBORS |
|  | PORTION OF OVER-ALL FINANCING |  | EDUCATION |  | AGRICULTURE |
|  | HIGHWAYS |  | PREINVESTMENT |  | FOOT-AND-MOUTH DISEASE PROJECTS |
|  | HOUSING |  | COMMUNICATIONS | | |

LOANS
(CUMULATIVE TOTAL)



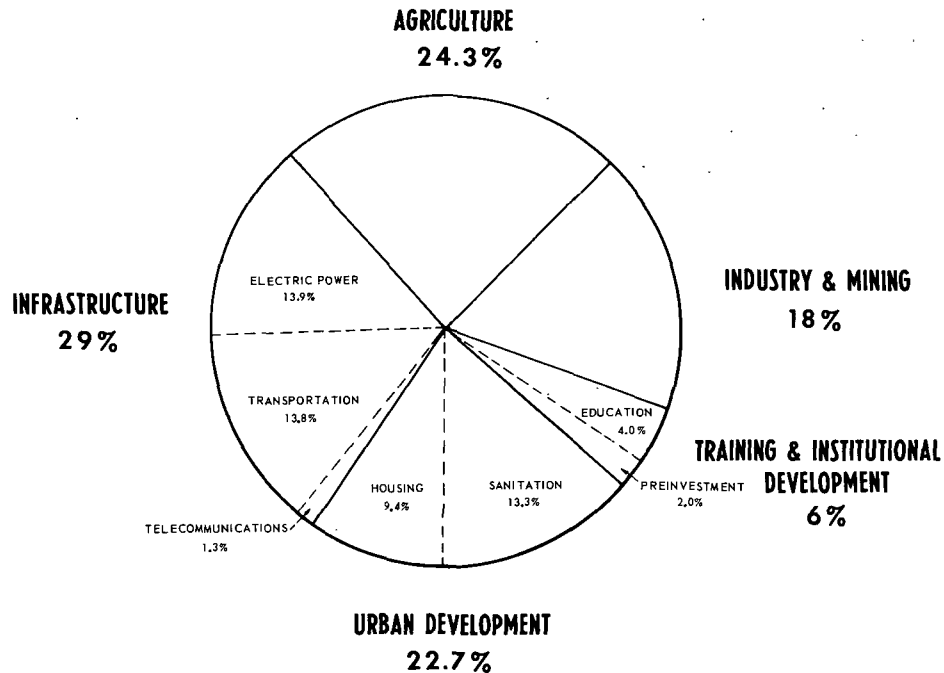
DISBURSEMENTS
(CUMULATIVE TOTAL)





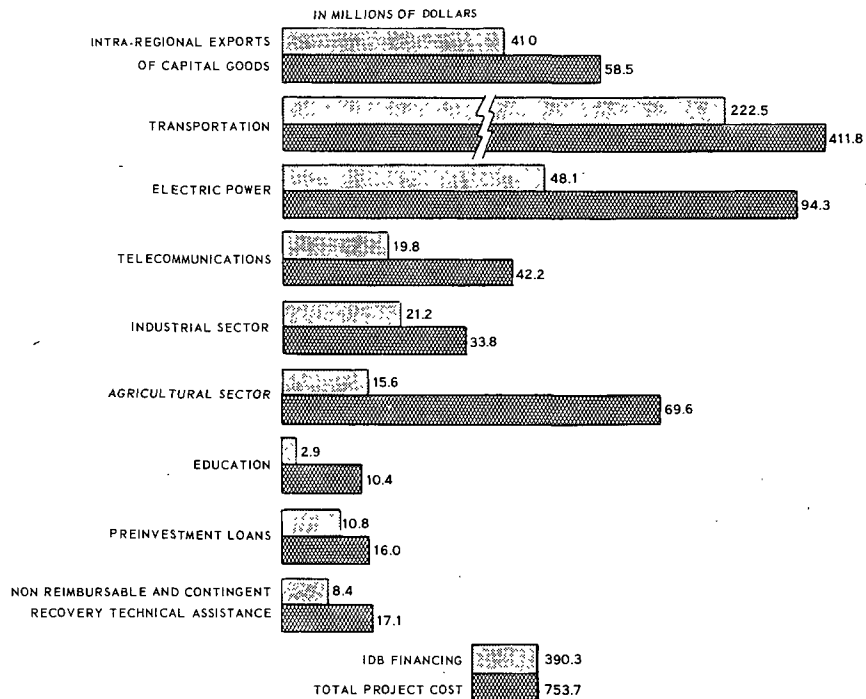
III

**APPORTIONMENT OF LOANS
1961 - 1969**



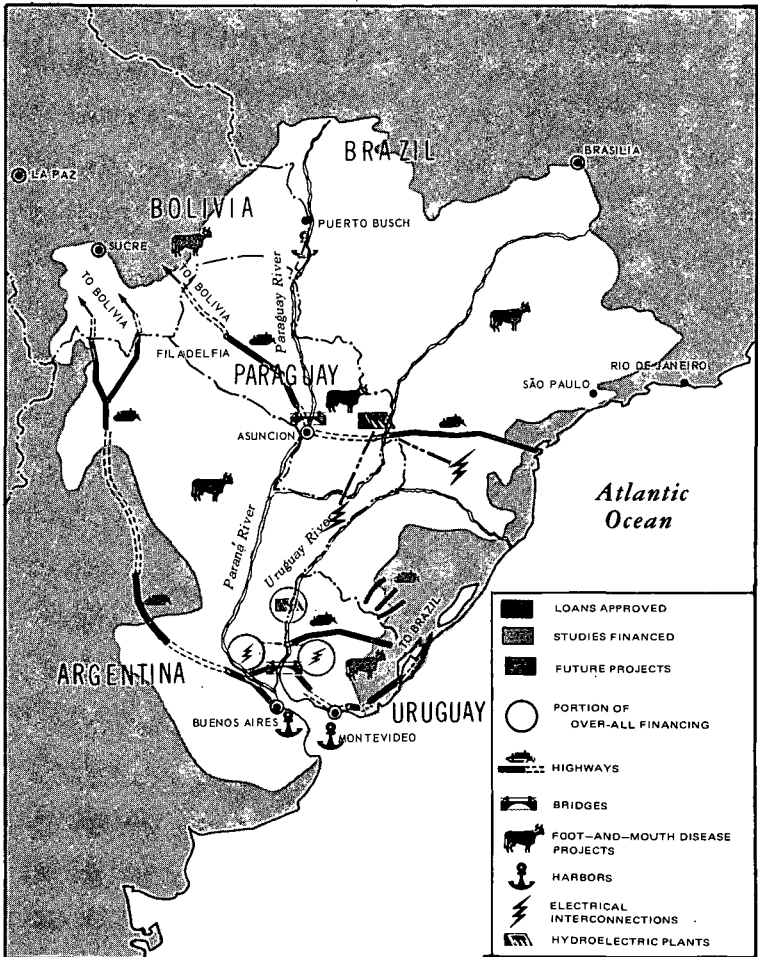
IDB FINANCING OF LATIN AMERICAN INTEGRATION, 1961-1969

AS OF DECEMBER 31, 1969



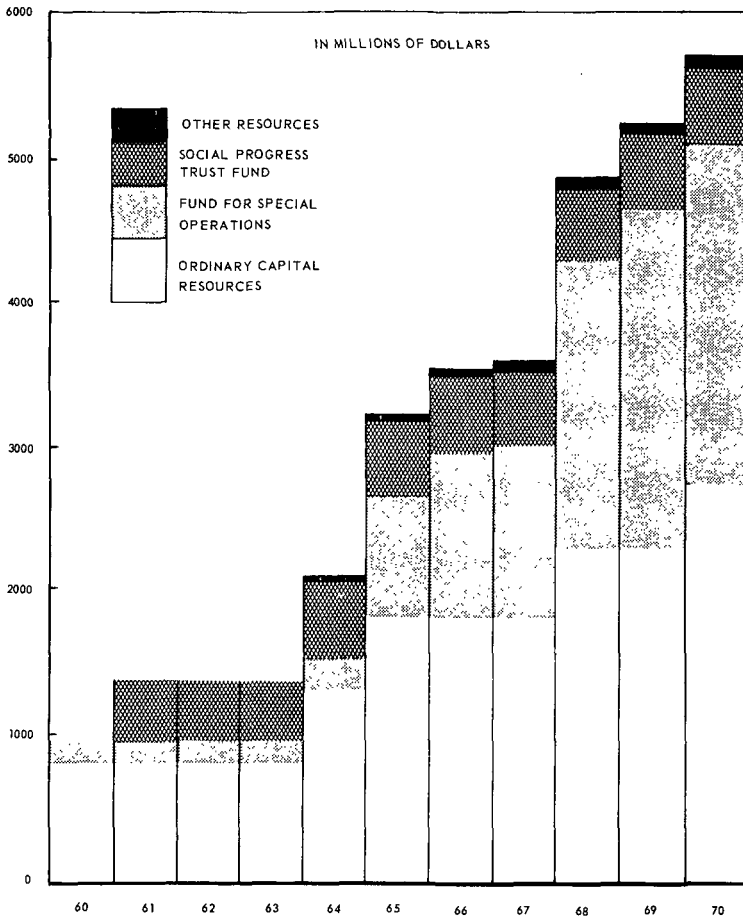
VI

PRINCIPAL ACTIVITIES OF MULTINATIONAL IMPACT IN THE PLATE RIVER BASIN

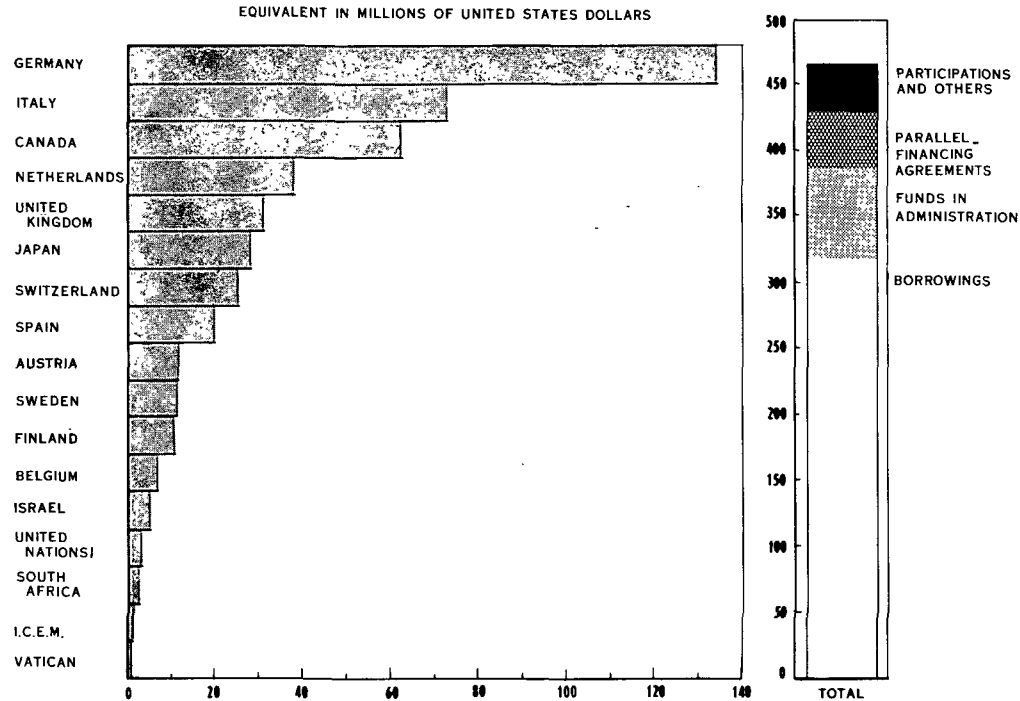


VII

RESOURCES 1960 - 1970



**FINANCING PROVIDED BY ORGANIZATIONS AND NON-MEMBER COUNTRIES
UP TO DECEMBER 31, 1969**



THIRD PLENARY SESSION
APRIL 22, 1970

**Address by Mr. José María Dagnino Pastore, Governor
for Argentina and Minister of Economic Affairs and
Labor, at the Third Plenary Session**

It is an honor for me to represent Argentina, in my capacity as a Governor of the Inter-American Development Bank, at this meeting and it is a source of special satisfaction that this should coincide with the celebration of the Bank's First Decade.

I should also like to say how pleased the Argentine delegation is to be attending this meeting in the land of Artigas, with which our country maintains strong and deeply rooted ties of friendship.

We have been extremely interested in the very important statement on the present situation and future prospects of Latin America delivered here by His Excellency the President of the Republic of Uruguay.

The opening address of the outgoing Chairman, José Luis Bouscayrol, Governor for Guatemala, brought back fond memories of last year's meeting and the past decade was recalled for us by our dean, Antonio Ortiz Mena, Governor for Mexico.

The new Chairman of the Board offered us perceptive comments on the contradictory position of those who condemn inflation while at the same time trying to accomplish everything at once. Finally, guided by the wise words of Felipe Herrera, we have relived the difficulties overcome and the progress achieved by the Bank during its first decade.

Like the distinguished spokesmen who have preceded me, I too wish to reiterate the fraternal feelings of my country, Argentina, which are rooted in history and in the social solidarity we practice and hope to expand.

Fellow Governors: The 1960s began for the Latin American countries with great hopes for the future, since the nations of the world committed themselves to usher in a new era, which led the United Nations to designate it the First Development Decade.

It saw the birth of the Alliance for Progress as the hemisphere's response to the challenge of narrowing the gap between per capita incomes in the industrialized and in the developing countries. In addition, the financial keystone of the inter-American system was established when, on December 30, 1959, five countries deposited the pertinent instrument of ratification and brought the Inter-American Bank into being.

When this machinery was in full operation, the countries of the hemisphere embarked on a great undertaking: the economic and social

development of Latin America. We knew that it would be no easy task and that stumbling blocks encumbered the road ahead, but we entered upon it boldly, determined to move ahead.

The capital requirements of the Latin American economies were immense, existing equipment was in many cases obsolete and the volume of new investments demanded by a constantly changing world seemed impossible to achieve.

Priority investments included the construction of roads to transport products to consumer centers and to export ports, the installation of electric power plants essential to industrial development, research and agricultural credit to increase levels of domestic consumption and surpluses for export and industrial development.

At the same time, there was an urgent need to satisfy the social demands of our peoples, consisting mainly of greater educational opportunities at every level, provision of water supply services and construction of housing, all essential for the well-being of millions of Latin Americans who were engaged in the difficult process of accelerating economic progress in the region as a means of achieving their full human and spiritual development.

Today, ten years after the establishment of the Inter-American Bank, I propose that we turn back for a moment to examine together the work accomplished and then look forward to what the future holds for us in the 1970s.

The first task of the Bank was to obtain the necessary investment funds. At the time of its establishment, its resources amounted to nearly \$850 million in ordinary capital and a little less than \$150 million in the Fund for Special Operations, that is, almost \$1 billion in all. Prudent administration, under the presidency of Dr. Felipe Herrera, has enabled the Bank to end the decade with authorized resources of more than \$6 billion, including \$3.15 billion in ordinary capital, \$2.3 billion in the Fund for Special Operations, \$525 million in the Social Progress Trust Fund and approximately \$70 million in funds which it administers.

The volume of authorized loans has reached figures difficult to imagine at the time the Bank opened its doors. Thus its records show the approval during the decade of 565 loans for a total of almost \$3.5 billion.

However, it is not only the volume of loans alone that makes the work accomplished significant; one of the most outstanding achievements of the Bank is perhaps its qualitative and innovative aspects. In this field the Bank has taken the leadership in certain sectors that up until that time had not received financing from international institutions.

Such is the case with preinvestment loans, whose results have begun to materialize as the studies on project feasibility and engineering design have been incorporated into the investment programs of the respective countries.

It is also true of sanitation and housing projects, for which imagination and flexibility in the application of banking policy were required.

The financing of exports of capital goods between the countries of the region is another such activity. The success of the program will be even greater if the eligible list of goods were expanded and if the program could be broadened to include sales to countries outside of the region.

This, in short, has been the work accomplished during its first ten years by an institution in which millions of Latin Americans placed their faith.

What are the prospects for the decade ahead? A clear view and a deeper awareness of Latin America's own destiny by its leaders, professionals, bankers, industrialists, and workers convince us that it will be perhaps more necessary than before to redouble efforts and to take the great step forward that circumstances and time require.

The groundwork having been laid in the 1960s, a period of more arduous work approaches to accelerate the capitalization of our economies so as to bring about a substantial improvement in the living standard of our peoples.

The Inter-American Bank should prepare itself for this new stage and should rapidly reach a \$1 billion a year loan portfolio as a means of financing economic progress and duly meeting the demand created by both economic and social projects that form part of development programs of the countries.

To achieve this goal, extraordinary efforts must be made to secure a larger volume of resources and to make policies more responsive and mechanisms more responsible and flexible.

In reference to the first aspect, it is of the greatest importance that, at the same time as the countries in the hemisphere make the effort to increase the callable and paid-in capital of the Bank, the Bank should function as an investment bank and present the most extensive spectrum of financing possibilities without adhering to rigid formulas.

With regard to the second aspect, operating mechanisms and policies must be adapted to the new circumstances. In this connection, and in order to accelerate the process of industrialization, the Bank should take specific steps in the field of industrial financing.

The economic development of our nations requires a growing demand for the capital goods produced by their industries so that they

can operate at the cost and efficiency levels required by modern technology. The Bank should support and encourage this process, adopting new forms of preferential incentives for the local suppliers of equipment, in line with the characteristics of the various industries and countries.

The Bank possesses one of the most important tools for favoring the industrialization of the countries, at equivalent levels of international efficiency: this is the extension of facilities to enable the industry of the member states to increase their participation in purchasing equipment, within national boundaries, for projects financed by the Bank. It is recommended that this possibility be examined by the Board of Executive Directors.

At the same time, the Bank should place emphasis on the financing of projects in the most dynamic industries. Petrochemicals, steel, heavy chemistry and metallurgy should be given a preferential place in the next few years. In this way, the Bank will lead the new industrial revolution demanded by Latin America.

It is pertinent to cite the decision of the Board of Executive Directors, in response to proposals by the Governors at the Tenth Meeting, recommending a study on the advisability of setting up a regional mechanism for the expansion of Latin American enterprise. The initial results of this study point to the need for an agency dedicated to such activities. Consequently, we recommend the establishment of a finance corporation for Latin America devoted to the financing of private enterprise and that the Board of Directors be instructed to study the necessary legal and financial arrangements, for establishing it.

With respect to agencies of the Bank, I should like to express our satisfaction with the work which we are jointly doing in the Institute for Latin American Integration, which in its short but effective life has carved out its own place in the inter-American system.

One of the most significant of our countries' limitations in achieving higher growth rates is the lack of dynamism in the external sector. In the past 20 years Latin American exports rose much more slowly than did those of the rest of the world. The region's share in world trade fell from 10.4 per cent of the total in the period 1950-54 to 6 per cent in the last five years. We, therefore, consider it to be a matter of the highest priority that the Board of Executive Directors without delay prepare an export financing program geared to present circumstances.

We consider it desirable for the Bank to strengthen the sectors it has supported during the first decade of its operations, for example the agricultural sector, which received the highest share (24 per cent) of loans during this period. However, it would be desirable to add certain

activities that have now assumed top priority, among them urban development projects, public services such as communications and postal services, tourism, and development of fishery and forestry resources.

In 1969, the Bank's loans totaled \$631 million, the highest in its history. It also had the highest level of loans from the ordinary resources, \$209 million, and from the Fund for Special Operations, \$412 million.

The resources available for ordinary capital operations must be increased so that high-yield projects can be covered. It is also necessary to maintain and increase the resources of the Fund for Special Operations to expand the volume of loans to the relatively less developed countries and to finance social projects and those intended for the lesser developed regions in the member countries.

In order to preserve the multinational character of each of the resources of the Bank, all the nations of Latin America must have access to the various funds. The financial position of one country should not be confused with its general economic situation or with the position of any of its regions or sectors.

In a period of high interest rates throughout the world, the function of an interational financing agency is most apparent in stabilizing the interest rates which the developing countries must pay in order to finance their investment programs. The Bank has assumed this function and has adopted the policy of combining "hard" and "soft" funds for the same project in order to make the operations more accessible to borrowers. It is essential for the Bank to continue this policy in the future.

The Latin American countries are receiving the dividends of more consistent policies geared to the changing circumstances of modern times. Within this framework of reference, mention should be made of the recovery of the Argentine economy, which has expanded in recent years by 4.8 and 6.9 per cent, respectively, thus doubling the rate recorded between 1960 and 1967.

Such achievements have been made possible by a firm and realistic economic policy that began with a frontal attack on the inflationary process experienced by the country, in which the average price increase in 1960-67 was 25 per cent. By 1969 it had been reduced to 7.6 per cent, as a result of a monetary and fiscal policy planned in coordination with the various fields of activity.

Mention should be made of the satisfactory coefficient of investment, 22 per cent, most of which was financed by domestic savings and in accordance with the aim of accelerating capital formation.

The results of the economic policy are also apparent in the labor field. The unemployment rate declined in 1969 to 4.1 per cent, the lowest figure since statistics have been kept. At the same time, as a consequence of the behavior of prices and the increase in nominal wages, the real wage of the standard family in 1969 increased by 5.4 per cent.

This shows that with the domestic effort of our countries, backed by economic and social policies clearly aimed at national development, greater well-being can be achieved for our peoples.

In 1970 the prospects of the Argentine economy are promising. The national government is implementing policies aimed at achieving a period of sustained and stable expansion. The outlook for the external sector is very favorable, exports being estimated at \$1.8 billion, as opposed to \$1.6 billion in 1969, the highest figure in the past 30 years.

Economic activity will continue to expand at the high rates of the last two years, especially the dynamic industrial sectors. To that end large-scale projects have been started this year for the production of iron, steel, aluminum and copper, and policies in the field of petrochemicals, sodium carbonate, and newsprint have been approved. A vast public investment program is also in progress amounting to nearly \$2 billion.

Great efforts are being made by the member countries for the welfare of their peoples and it is at this juncture, more than at any other, that the inter-American system must demonstrate greater unity and support the action of the nations at the domestic level. This should be done through both a steady and increasing flow of external funds and the concerted effort of the member states inspired by a common ideal.

In line with the principle that the Latin American countries assume greater responsibility for the progress of the region, the Government of the Republic of Argentina, aware of the need for accelerating the economic growth of the relatively less developed countries, has provided the Inter-American Bank with funds for participation in the financing of specific projects in Bolivia, Paraguay and Uruguay.

Since one of the most important factors limiting increased capitalization of our economies is the difficulty of obtaining domestic counterpart funds, arrangements have been made for this Argentine participation to be considered as additional and counted as part of the local contribution, thus giving a regional character to such counterpart funds.

Another proposal made to the President of the Bank was designed to liberalize the use of Argentine pesos in the Fund for Special Operations for preinvestment projects in other member countries.

As President Felipe Herrera correctly pointed out yesterday, our

Bank has gone from modest beginnings to the execution of very large and ambitious projects, in which the Latin American countries will have greater responsibilities. For that reason it appears advisable to us for the Board of Executive Directors to consider the definitive location of the Bank in one of the Latin American countries. Argentina would be most happy to welcome it and for that purpose it will henceforward put its best efforts at the service of the inter-American system.

Fellow Governors: We have come to the end of the Development Decade. Progress is part of our destiny in the new decade. Latin America will find the power within the depths of its being to forward the great design which the faith and tenacity of its sons has helped to form. Argentina promises to do its part in this effort. But this is not all. In the words of President Onagnía:

"Since things must be subordinated to people and since it is our fate to be a spiritually powerful nation, more than an economically strong country, our material progress will be directed toward and placed at the service of the improvement of mankind."

Accordingly, Argentina pledges something that embodies and transcends material effort: its sense of fellowship, a fellowship that goes beyond borders and reaches to the furthest confines of the hemisphere. There we will find the force to meet the challenges that await us in the future.

**Address by Mr. Francisco Morales Bermúdez, Governor
for Peru and Minister of Economic Affairs and Finance,
at the Third Plenary Session**

I

This is the first annual meeting of the Board of Governors of the Inter-American Development Bank which I have the honor to attend. I therefore wish to express, in the name of the Revolutionary Government of the Armed Forces of Peru and on my own behalf, our thanks to the Government of our sister Republic of Uruguay for its generous hospitality as well as our satisfaction that this Eleventh Annual Meeting is being held in Punta del Este. For our countries Punta del Este is of great significance as the place where eventful meetings were held and decisions important to the development of inter-American cooperation were taken.

I also wish to thank the President, the Board of Executive Directors, and the staff of the Bank for the reports they have submitted to us, which provide a basis for evaluating the activities of the Bank not only in the past year but also in the ten years that have elapsed since it opened its doors.

This Eleventh Meeting of the Board of Governors is not one more routine gathering; it is of signal importance. It coincides with the end of the first decade of the Bank's activities, and it therefore behooves us to make a fuller appraisal of the achievements of the Bank during the period and to suggest, in the light of the experience gained in earlier years, certain objectives and types of action for the future, within the general framework of the expectations and results of inter-American cooperation over the past decade, as well as the demands made on such cooperation by the urgent need for achieving during the decade ahead much more positive results from our joint efforts to accelerate the integration and socio-economic development of the nations of Latin America.

II

In the last decade, major features of inter-American economic cooperation were the strong hope that it would remove obstacles to the development of Latin America and the enthusiasm and determination to put this cooperation on a permanent footing through the establishment of appropriate institutions and the adoption of decisions, recom-

mendations and programs directed toward solving the critical problems of development.

The main milestones on the road to regional cooperation have been the establishment of the Latin American Free Trade Association, the Act of Bogotá, the operations of the Inter-American Development Bank, the Charter of Punta del Este, the Inter-American Committee on the Alliance for Progress, the Charter of Alta Gracia, the Protocol of Buenos Aires, the Action Plan of Viña del Mar, the Declaration of the Presidents of America and the Declaration of Santo Domingo.

These institutions, agreements, and resolutions recommended the application of specific measures to promote Latin American development, including multilateral cooperation, an increase in investment resources, the reform of economic and social structures, modification of Latin America's relations with the United States, and joint action to secure the elimination of trade barriers, tariffs and other obstacles to Latin American exports, including manufactures and semimanufactures, and the flotation of bond issues on the securities and capital markets of the developed countries.

Although it is still too early to make a detailed appraisal of inter-American economic cooperation in the past decade, there is no doubt that its results have been disheartening and not commensurate with what Latin America expected of economic development and social progress from the strengthening of that cooperation. In other words, it has not been possible to attain a desirable rate of expansion and the disparity in production, income, and living standards that existed at the beginning of the decade is even more marked today.

III

The Latin American countries themselves, at least in certain instances, have undoubtedly contributed to this situation through mismanagement of domestic policy, as was the case of Peru. For this reason the Revolutionary Government of the Armed Forces has embarked on drastic structural reforms. "The action of the Revolutionary Government stems from the need to overhaul social, economic and educational structures; and to maintain a clearly defined nationalistic approach, an independent and sovereign stance, respectful of international treaties signed and faithful to the principles of our western and Christian tradition."

The highest priority has been assigned to the reform of our country's agrarian structures through the full implementation of an advanced Agrarian Reform Law that is bringing about the social emanci-

pation of our rural population without curtailing production which, in many cases, has been increased.

It should be recalled that in the Declaration to the Peoples of America, issued at this historic site of Punta del Este in August 1961, it was specifically agreed "To encourage, in accordance with the characteristics of each country (and Peru has its own special features) programs of comprehensive agrarian reform, leading to the effective transformation . . . of unjust structures and systems of land tenure and use; with a view to replacing latifundia and dwarf holdings by an equitable system of property so that . . . the land will become for the man who works it the basis of his economic stability, the foundation of his increasing welfare, and the guarantee of his freedom and dignity."

The Agrarian Reform Law is being applied in Peru throughout the national territory with no privileges or exceptions favoring special groups or interests. The establishment of agrarian cooperatives is well advanced and the transitional system set up enables us to guide the process and supervise production levels. This development is also providing an incentive to Peruvian industry, whose future depends, among other factors, on the formation of a highly diversified domestic consumption market.

Industrialization, for which a new basic law is being drawn up, is one of the major goals of the Revolutionary Government, and is supported by the reallocation of resources deriving from agrarian reform.

To round out the framework of Peruvian economic policy, I should like to point out that a few days ago the government enacted a new Law Governing the Mining Industry. It stipulates that the refining and marketing of copper shall be the exclusive responsibility of the state, which may participate in the refining of other metals but is also entitled to delegate this function to private undertaking. The marketing of copper will gradually be taken over by the state and will become fully operative within 18 months. A tax system applying specifically to mining that is compatible with the interests of both investors and the state is under consideration and arrangements are being made for the operation of mines either by private enterprises or by joint ventures in which the state will share responsibilities with the private entrepreneur.

Furthermore, the current fishery policy includes the marketing by the state of fishmeal and fish oil and the intensification of fishing for human consumption.

The drafting of a Basic Credit Reform Law, consistent with the policies pursued in the various sectors of the national economy that need support is nearing completion.

Peru's participation in the Andean Subregional Group is both a

challenge to the industrial sector and an incentive based on competition in an expanded market. We believe that integration is a historic requirement in a realistic policy of survival that seeks joint action as an external mechanism for achieving development, respects the sovereign will of the states, decreases the heavy dependence on industrialized countries, and encourages the formation of a new style of international community, implementing new, more equitable and more humanistic formulas of cooperation that define a true "development strategy" for reducing today's growing imbalance and correcting the injustices it entails. This obligation implies an awareness on the part of the industrialized countries and the international agencies of their responsibility for the comprehensive development of mankind, by eliminating unfair treatment to enable the developing nations, as a result of their own domestic effort, to become the masters of their destiny.

IV

We consider the following to be basic aspects of development strategy:

(A) To create conditions for equitable international trade by eliminating unfair obstacles; to support regional banks such as the IDB in financing export credits, without which developing countries cannot compete in the capital goods markets.

(B) To encourage mutually advantageous foreign private investment subject to national laws and interests. Unfortunately, until now, while foreign investments in our countries have left us the relative benefit of technology, they have depleted our capital, since the ratio between the amounts invested and the profits and other items exported has been highly unfavorable to us. It is therefore necessary to find formulas that will make the needs of investors compatible with ours. In this respect, the Peruvian thesis set forth a few days ago by the President of the Republic establishes that "foreign investments might be channeled through joint or private ventures subject to reversion to the state after a fixed term, once the total investment and an acceptable amount of gains have been covered by the profits—all this being defined in a contract, the term of which would depend on the nature of the enterprise. In this way, foreign entrepreneurs would have their capital and profits assured, but all undertakings in which foreign capital was invested would gradually become national enterprises in which the state will have a controlling interest. We believe this might be one way of making the interests of our countries compatible with those of anyone who wishes to invest in Latin America." In this connection, I

should like to add a paragraph contained in the report of the Pearson Committee: "In order to obtain greater advantages from foreign investment, developing countries should adopt adequate fiscal and industrial policies so that investments will contribute as much as possible to training of the labor force, to local industry and to national growth, at the same time avoiding excessive fiscal protection and concessions."

(C) To plan the flow of foreign resources necessary for developing countries. Insofar as volume is concerned, industrialized countries should consider their contributions not as a gift but as a necessity to achieve a world balance, as a duty imposed by international solidarity and social justice, seeking a more humane world wherein the greater development of industrialized countries will not be an obstacle to the development of the countries beset by hunger and unemployment. It should be considered normal for a developed country to devote part of its production to meet these needs. A World Development Fund, fed by 1 or 2 per cent of the Gross National Product of the developed countries, administered by existing international organizations, with a regional and multinational approach should be a challenge to strengthen the bases of a concerted program to make the global strategy feasible, as an instrument for achieving self-sustained development. This assistance should not be subject to conditions; interest rates and repayment periods should be such as to avoid a deficient debt structure; there should be reciprocity to guarantee efficient use of the loan, but no interference in the policy of the debtor country, which is the sovereign master of this policy and entitled to the freedom to seek the kind of society it prefers.

(D) To solve the serious problem of foreign indebtedness. Developing countries such as ours are compelled to seek continuous adjustments of their debts. The creditors—industrialized countries or their private enterprises—are often responsible for debts contracted under unfavorable conditions for the purchase of capital goods, and even though many of our countries pursue sound and orderly financial policies, they nevertheless subject us to painful refinancing on very short terms, instead of solving the problem by rearranging or restructuring the loans in accordance with our needs and our development plans. What have international organizations done to help solve this serious problem?

V

At a meeting such as this of the Inter-American Development Bank, we must stress the concept of "development" and the difficulties

experienced by Latin America in attaining it. We should start from the view of a world divided into two hemispheres. The Northern Hemisphere contains almost 90 per cent of the area not covered by the seas and therefore concentrates the economic capacity that determines its power. The Southern Hemisphere, composed of seas and scanty land areas, comprises a large part of Latin America which, because of its geographic location, is on the fringe of the large centers of power and of the main poles of growth. On this picture of its geographical location we should superimpose the political picture: a Latin America which in the world community of nations still appears divided, without cohesion, not presenting a single front to enable it to defend its common interests in the continent and in the world.

At the Sixth Annual Meetings of the IA-ECOSOC held last June in Port-of-Spain, we stated that we might call the past decade "the decade of declarations" and that we hoped that the present decade of the 70s would be more fruitful, really humane and therefore more just, and that it might come to be known as "the decade of achievements." Today we must confirm that in the decade that has just ended the gap between us and the developed world widened because fundamentally there was no continental doctrine for development and, still less, development policies with a continental approach; the situation has been aggravated by inconsistent actions that have failed to correlate its political, social and economic problems of the broad region that is our great Latin American homeland. In consequence, the pronounced imbalance in internal structures and the marked dependency on foreign countries that sum up the problems of Latin America still persist.

The experience of little over a year in the office to which I had the honor of being appointed by the Revolutionary Government of the Armed Forces of my country, and the negotiations for the last refinancing of the Peruvian foreign debt have shown, in my opinion, and I wish I were wrong, that the industrialized countries do not have the correct approach to Latin American development and today, particularly in Peru, where the deep and long-delayed structural changes are not well understood either at the international level or by a few Peruvians who are concerned only with interests that are contrary to the common good and where minds are not open to change, which prevents them from cooperating in making resources available to the community with due regard to social justice in order to achieve genuine national unity within the true concept of a social and humane democracy."

This mentality open to change should lead industrialized countries, their leaders and the international organizations to understand that our people, having achieved political independence "feel the need to add

to it an autonomous and worthwhile socio-economic development in order to assure that the currently underprivileged national majorities will attain living standards compatible with human dignity."

VI

Neither the shortsightedness and impositions of capitalism nor the impositions and arbitrariness of communism will lead to a balance in world politics; neither the one nor the other will assure the economic independence of developing countries.

Communism, which destroys the essential freedoms of a democratic regime, and capitalism, which admits them in a restricted form, provided they submit to its interests and unilateral pressures, are not acceptable patterns of development for the national majorities of an underdeveloped people. Nowadays we need creative ideas, new methods and unselfish intentions, based on a knowledge and analysis of actual Latin American conditions which will lead immediately and consciously to the goals of structural change and not leave the future to the free play of the dialectics of history.

If there is some merit to these ideas, it might be that they move us to redouble the voluntary efforts of our countries toward integration, in order to defend our external sector more effectively and achieve our internal development more efficiently through structural and functional reforms and not necessarily by means of foreign resources, upholding our sovereignty, limiting it multilaterally and by our own sovereign will solely in those respects that will facilitate subregional or regional integration. Foreign aid is not decisive for a people's development. Such aid can only be effective if based on the rational transformation of the social and economic structure of our countries and if it is geared to the requirements of the recipient country. A flow of capital toward more highly profitable sectors may not contribute to development but to increased socio-economic imbalances as well as those of the economy as a whole.

The process of rapprochement and integration within the general scheme of development strategy may be regarded as a natural and normal process, conditioned by the need for "inward cooperation" and "outward defense" in economic and political matters.

We might conclude with the following statements which perhaps are or may become universally accepted principles:

- Development is motivated by a reduction or limitation in outside dependence or exploitation by outside sources.

- Domestic effort is the decisive factor in development.
- Certain types of foreign aid can have a negative effect on development. (This is not the case when it is kept within the limits of the state's decision in regard to the place, time and use of such aid).
- Integration is a normal process and, at the present time, a necessary one.

The degree of success obtained in combining pragmatically the factors derived from the foregoing principles will be the best way of making nationalism not only a "state of mind" but also an instrument for improving the standard of living in our countries and for ensuring the exercise of genuine sovereign action on the continental and world level.

In a country like Peru this implies reorganizing the bases of society in order to create another wherein benefits will be distributed equitably in direct proportion to efforts and privations for which underprivileged social groups are often not compensated; a dynamic economic democracy designed to carry into effect the action that the State must perform to achieve the well-being of the community. Freedom to the extent that it is possible and desirable in the interests of the community, and planning as an instrument to attain that goal, is what defines the reach of this economic democracy that we wish to achieve, supported by a sound and deep nationalism and through a peaceful and methodical revolution organized by the constituted power.

This is the philosophy of development that is guiding the action of the Peruvian Revolution in the local and international sphere.

VII

However, the characteristics outlined should not mislead us about the general significance of inter-American economic cooperation measures for Latin America in the past decade. The fact that those measures have far from fulfilled our expectations and have not eliminated all the external obstacles that hinder development does not imply that they should be considered entirely negative; they have obviously reduced those obstacles to some extent and that is undoubtedly a first step toward the goals of regional economic cooperation.

This is precisely the case of the Inter-American Development Bank which, notwithstanding the fact that it has not done all that was expected of it, has helped to reduce the shortage of capital in the region, and has channeled a large volume of additional financial resources toward

high priority economic and social development projects; this has made the Bank one of the most efficient of the mechanisms established during the past decade to hasten Latin American progress. It therefore behooves us to offer our congratulations to the successive Boards of Executive Directors, and the Administration in general; under the able and persevering direction of Mr. Felipe Herrera, and to thank Argentina, which has represented us on the Board of Executive Directors.

A study of the reports presented by the Bank, particularly those prepared for this annual meeting, show that in the ten years of its operations there has been a constant expansion and diversification of loans, as well as a continual improvement in financial results. It is consequently gratifying to note that the Bank has increased authorizations from \$277 million in 1961 to \$3,430 million in 1969, thus becoming the main source of public development financing in the region; furthermore, it has diversified the sectors to which loans were made, thus making credit available to some that formerly had no possibilities of obtaining adequate international financing.

It is also particularly gratifying to observe that the Bank has stressed support for Latin American integration, devoting more than \$400 million to this purpose, and has assigned high priority to the industrial development of the region, granting loans in excess of \$577 million without thereby neglecting agricultural financing, and has channeled a substantial volume of loans through the national promotional organizations of each country.

In this same context, it is only fair to recognize the importance of the loans that the Bank has devoted to export financing and preinvestment expenses, as well as to technical assistance for the preparation of projects and training for the implementation of development programs and projects.

VIII

With regard to the financial support my country has received from the Bank, an analysis of the transactions carried out during the past ten years shows that Perú has received loans for a total of \$169.5 million, or 46 per cent of the total cost of the projects financed. These loans have been granted to virtually all the sectors served by the Bank. Housing and agricultural development projects received the highest percentages, 30 per cent and 25 per cent, respectively. Of the other sectors, basic urban and rural sanitation were assigned 20 per cent, industry 16 per cent, education 5 per cent, preinvestment studies 2 per cent, and transportation 2 per cent.

Approximately 50 per cent of all loans have been used. This is an acceptable rate, especially in loans from the Fund for Special Operations, and represents a gradual improvement, thanks to the measures adopted by the present government. Lastly, we find that in general the projects that have received IDB financing are being implemented in accordance with sound technical and financial practice, and thus represent a very positive contribution to the programs of the public and private sectors.

The significance of the loans granted by the Inter-American Development Bank for the economic development and social progress of Peru will best be appreciated if we bear in mind that they represented approximately 9 per cent of the total foreign loans from all sources received by Peru during the same period.

This action of the Bank for the economic development of Peru has nevertheless been seriously outbalanced during the past two years by the fact that, notwithstanding the improvement of the fiscal and monetary situation and the profound structural changes adopted by the Revolutionary Government of the Armed Forces of Peru, only a \$9-million loan to the *Corporación Peruana del Santa* and a \$12.5-million loan for the Housing Bank were received. My government trusts that this situation will change and that the Inter-American Development Bank will give favorable consideration to the loan applications that my country has submitted to it, particularly that for the irrigation of Majes, in the Department of Arequipa, a major project for this important area of the country. It should be remembered here that the first loan granted by the IDB to Peru was to benefit the town of Arequipa. This project deserves top priority since the investment will bring 23,000 hectares into production in its first stage, and an additional 30,000 hectares in the second stage, in a depressed socio-economic area where it is essential to increase the supply of agricultural products and also to overcome the bottlenecks hampering the advance of an important pole of national economic development in the southern part of the country, namely Arequipa and adjacent areas.

On the other hand, with reference to loan applications, it is not superfluous to request at this meeting that requests be handled with greater speed and, with regard to disbursements, to request less delay in the procedure for using loans already granted. While these claims are worthy of attention, there is another fundamental aspect which deserves priority attention at this time: that is the disproportion between the amount of the total loans and the magnitude of the tasks waiting to be undertaken in the country's struggle against underdevelopment. Although this confirms the theory that there is no substitute

for domestic effort, it should not lead us to a negative attitude as to what can be expected from international financial assistance when it is soundly and correctly directed and when it comes from a regional organization such as the Bank.

The government of Peru wishes to leave expressly on record its firm intention to cooperate in the proposed program of increasing capital resources, in floating bonds and, in general, in every endeavor designed to obtain funds commensurate with the projects to be financed. An increase in the ordinary paid-in capital will make it possible to achieve a combination of resources, thus avoiding an increase in current interest rates, which are steadily rising in the world market.

Longer amortization and grace periods are both in consonance with regional creditworthiness, even though payment would have to be made in the same currency as the loan disbursements.

IX

Up to this point I have endeavored to deal exclusively with the action of the Inter-American Development Bank within the framework of efforts, decisions, and results of inter-American economic cooperation, during the past decade. I should now like to make a few suggestions designed to strengthen the operational activities of the Bank, as well as its capacity to contribute to Latin America's economic development, within the new framework of regional cooperation embodied in the Consensus of Viña del Mar adopted by the Special Commission for Latin American Coordination (CECLA), and in the resolutions of the Eighth Special Meeting of the Inter-American Economic and Social Council (IA-ECOSOC), both at the ministerial level.

Both these meetings, which we might describe as vitally important for the future of inter-American economic cooperation, fully recognized that during the past decade there has been a wide gap between expectations and the results of that cooperation in terms of economic development and social progress of the Latin American countries, and new bases, objectives and procedures were proposed with a view to preventing persistence of that gap in the years ahead and making it possible to attain the levels of progress desired by the people.

Among the recommendations proposed to this end, several refer directly to the Inter-American Development Bank. The most essential of these are the following:

- To increase significantly the Fund for Special Operations and the ordinary capital of the Bank.

- To include in the review of its operating policy the possible expansion of overall or sectoral program loans.

- To urge the Board of Executive Directors and the management to conclude the study on conditions for utilization of its funds under the export financing program and to ensure that the supplementation of this financing in no way entails the diversion of resources currently allocated to priority programs.

- To adopt appropriate measures with regard to the principles governing inter-American financing in order to strengthen the multi-lateral approach in the formulation of its policies and decisions. In this connection it is considered advisable for the member countries of the system to reaffirm their commitment of strict respect for independence of the loan granting process, from considerations of a political nature or of possible problems between countries.

- To conduct a study on revision of criteria, with a view to changing the procedure for the authorization of soft resources, designed to meet social needs of all countries of the region.

The Peruvian Government considers that these suggestions put forth by CECLA and IA-ECOSOC are appropriate for the strengthening of regional economic and financial cooperation. Therefore, I wish to state that we support and will vote in favor of all measures aimed at the most rapid possible implementation of such suggestions.

For this reason, we are pleased that the Board of Executive Directors of the Bank has evaluated the suggestions made by CECLA and IA-ECOSOC and is proposing at this Meeting an increase in the capital resources of the Bank, having distributed to us in advance, despite the short time available, an analysis of the prospective constitution of a regional finance corporation, together with the study on financing of exports of capital goods.

The proposed increases in both the ordinary capital and the Fund for Special Operations are significant, and I believe that the effort required from the member countries for their fulfillment will be wholly offset by the benefits to be generated in terms of expanded IDB operating and lending capacity. I feel, however, that these general capital increases should be accompanied by a review of individual contributions in order to adapt them to current conditions and to the economic and financial changes that have taken place in the countries of Latin America.

The projected formation of a regional finance corporation should be carefully evaluated and a study made of the advisability of extending

its industrial promotion action to cover public enterprises and mixed enterprises with state participation rather than confining it solely to private enterprises. In addition, in view of the establishment of the Andean Development Corporation the action of the regional finance corporation should be channeled through that corporation with reference to support for companies located within the Andean Subregional Group.

Finally, we believe that the study on financing of exports of capital goods should be approved and suggestions made for its prompt implementation aimed at strengthening the Latin American external sector, also incorporating within the list of products eligible for financing durable consumer goods and others usually sold at terms of more than 180 days in the world market.

On this point, we feel, however, that in the current process of review of the bases of regional cooperation and formulation of new objectives and operating mechanisms, it is advisable to supplement the *measures recommended by CECLA and IA-ECOSOC*, as well as those presented by the Board of Executive Directors, by others relating to operational and even administrative aspects of the Bank.

Among the operational measures we should like to suggest, first, a substantial increase in the percentage of loans granted through the national development agencies in each country and extension of this procedure, which has helped greatly to expedite the loan operating mechanism, to include the financing of public investment projects contained in annual economic and social development plans. Secondly, we recommend that the Bank's action be extended to the rescheduling of external public indebtedness of the Latin American countries when necessary for the purpose of balancing payments.

In the area of administrative measures, we should like to suggest revision of the system of voting a loan authorization in order to eliminate the indirect veto of the country exercising a voting power of more than one third, since this system is economically and financially unsatisfactory. Along the same lines, pursuant to the position maintained by Peru in all the agencies of regional and international cooperation, we believe that the time has come to consider revising the provisions that permit re-election for successive terms, since this, for obvious reasons, tends to make it difficult to bring in persons who also have useful experiences to contribute to the Bank. It would also be desirable, for the same reasons, to revise the system of election of the executive authorities of the Bank to ensure that Executive Directors are drawn from all the member countries.

Transfer of the headquarters of the Bank to a Latin American

capital would have special significance and is inspired by the new Latin American approach from the Consensus of Viña del Mar. Furthermore, such a move could offer the unquestionable advantage of locating the Bank in the same region where it is conducting the financial and technical assistance operations for which it was established. In this regard, Peru fully supports the proposal which has been made by the Governor for Argentina.

Various official documents and statements in Latin America have urged the need for counteracting the negative effect produced by foreign mutual funds on the regional economies. It would be desirable, for that reason, for the Inter-American Development Bank to undertake a study of the problem and to suggest measures of immediate action at the international level designed to prevent the flight of capital entailed by this type of institution.

Moreover, secret or coded bank accounts are a means of evading national and even international tax and monetary control. There is no justification for their existence, since anyone who has come by his money honestly has no reason for concealing it. It would also be advisable for the IDB to coordinate actions in defense of our countries with the World Bank and the International Monetary Fund to eliminate once and for all these accounts that upset the international economic order. Our inescapable obligation of preserving the hopes placed in the new decade and ensuring that there will be no repetition of the dangerous gap between expectations and achievements challenges our imagination and our capacity for evolving better and more efficient mechanisms of cooperation to supplement or improve existing ones.

The successful experience of regionalization in the solution of development financing problems achieved through the Inter-American Development Bank and similar agencies set up in other parts of the world should be utilized and extended to the area of regional solution of monetary and balance of payments problems. To this end, the establishment of a regional monetary fund to collaborate in finding suitable solutions to the particular monetary problems confronting Latin America would constitute a new and fundamental step in the improvement of inter-American cooperation. The coordinated action of this fund with the Inter-American Development Bank would signify for the region more adequate attention to its problems and the special needs of developing countries.

The Inter-American Development Bank could collaborate actively in the materialization of this idea by furnishing financial and eventually technical assistance to the balance of payments support mechanism set up by the LAFTA member countries in the Agreement of Santo

Domingo, inasmuch as the nature of the functions entrusted to this mechanism make it in fact the forerunner of a regional monetary fund such as that described.

In the opinion of Peru, the need for new financing resources should not lead to the admission of new member countries to the IDB. With the exception of Canada, which should receive special consideration if it does not join the OAS, the mass inclusion of developed countries within the Board of Executive Directors and the management will not work to the advantage of the flexible and authentically Latin American bank demanded by our peoples.

The obstacles preventing the IDB from operating in the Latin American acceptances market are well known. Despite its success to date in the international private banking market, future IDB leadership in the cause of Latin American indebtedness is of such outstanding importance that it is well worthwhile to take up this matter, even on a tentative basis, within prudent initial limits. The fact that such a step can offer a solution to the long-standing problem of the flight of local capital in itself justifies the attention our Bank is devoting to this problem.

It is for us a source of concern that ten years after the modest LAFTA experiment the same low percentage persists in inter-regional trade, while the percentage of its participation in world trade is declining. Latin America cannot influence the supply or demand for its products at the extra-regional level. The program for financing goods exports sponsored by the IDB and the effective application to loans of an incentive margin of preference for goods and services of Latin American origin, should be transformed over the next few years into efficient promotional mechanisms for all the member countries, proportionately to the prospects of each. With regard to the first of these factors, Peru repeats that the resources of the programs should be increased, the list of goods eligible for financing expanded to include services and other durable capital goods and the territorial sphere of exports extended to finance those destined for extra-regional markets.

The trend toward large-volume loans, especially overall credits, and the search for new fields of action reveal an institutional concern that deserves our strongest encouragement. Such is the case of the policies on fishery activity and tourism, two areas that exert a powerful impact on the Peruvian economy.

We hope that in the immediate future the operating policy of our Bank will reach the same level of efficiency aimed at by its administrative policy, in order to ensure that loan applications will be processed rapidly and accurately, without providing contradictory solutions for

identical cases and above all without exaggerating a perfectionism that is inconsistent with conditions in Latin America. After ten years of activity, the member countries are most eager to avoid having their Bank take on the characteristics of an international bureaucracy more concerned with statistical projections and audit control than with finding practical solutions to present problems. All of us want a sound IDB loan portfolio composed of well-conceived and better executed projects, but this does not justify the possible creation of an international financing situation requiring useless supplementary data, for such a development, if uncontrolled, could depress the status of the Bank far below its proper standing in terms of operating flexibility.

For all these reasons, we might ask whether this is not the time to confer greater administrative autonomy on the IDB offices in member countries, with a view to having them utilize their extensive background knowledge to advance much farther in the processing of loans and in the authorization of disbursements up to a certain amount subject to subsequent review at Bank headquarters. The technical maturity of the IDB professional staff justifies a demonstration of confidence in both operational aspects.

I should like to emphasize one essential aspect: the multilateral nature of the IDB. To the extent that resources are utilized within strict standards determining the feasibility of a project or program, the member countries will be sure that the activities of the Bank to which they belong are conducted within channels proper for their situation. Because of our confidence that this multilateral aid approach will prevail, Peru has remained in the Inter-American Development Bank, which is one of the basic mechanisms of inter-American economic cooperation.

Allow me, fellow Governors, to express the most sincere desire of the Peruvian Government that the open and thorough examination made in this Eleventh Meeting of the Board of Governors, and especially at its round table, of tasks to be undertaken in the new decade of the 70s will serve to revitalize our Inter-American Development Bank. The peoples of all Latin America join us in this hope. And if we are honored by the designation of Lima as the site of the next meeting in 1971, as is our wish, the Government of Peru promises to provide the courtesies and maximum facilities characteristic of traditional Peruvian hospitality, for Lima will indeed be highly pleased to play host to such illustrious guests.

Address by Mr. César Barrientos, Governor for Paraguay and Minister of Finance, at the Third Plenary Session

It is gratifying to gather once again at this meeting of the Board of Governors of the Inter-American Development Bank, which each year adds another milestone marking the progress of development in our hemisphere. Our pleasure is increased when we feel the affection and cordiality of the noble Uruguayan people around us and when we recall we are in the birthplace of the Alliance for Progress, one of the strongest movements seeking cooperation in our growth, and one supporting and supported by the activities of our institution, and also on the scene where the Latin American Free Trade Association, one of the efforts aimed at achieving integration in our hemisphere, was established and where it carries on its activities.

At the last meeting of the Board of Governors, Mr. David Kennedy, Governor for the United States of America and Secretary of the Treasury, remarked that "the countries of our hemisphere have learned the hard way that inflation, if left unchecked, is a vicious enemy of development and wildly dissipates its benefits."

Over a decade ago, the Government of Paraguay embarked with great success on a campaign against the serious damage caused by inflation, which always brings in its train the increasing impoverishment of the working class, the systematic decapitalization of business enterprises and a strong discouragement of domestic and foreign investment. For these reasons, my country is applying a firm policy designed to endow its economy and its finances with an anti-inflationary structure, and I can state with great satisfaction that the monetary, fiscal, banking and investment promotion measures in force guarantee the soundness of our currency in the future.

Owing to circumstances that equally affect the majority of Latin American countries, connected with the deterioration of the terms of trade, my Government has recently taken a number of positive steps to strengthen the balance of payments and safeguard monetary stability, among the most important of which are: those intended to promote our exports, such as the establishment of the export promotion center; credit facilities for the main export products; fiscal incentives for new exportable production items; improvement of administrative mechanisms in the fiscal field; encouragement to imports of capital goods for production and industry, and enactment of the law on tourism which is gradually becoming an important branch of activity of the national economy.

As reported to the previous meeting of the Board of Governors,

thanks to this policy, economic and monetary stability continues to be reflected in highly encouraging figures in such indexes as the value of our currency, prices, wages, the cost of living and domestic savings.

As a result of this climate of stability, peace and the traditional hospitality of our people, we are constantly finding that there is interest on the part of foreign investors in building new industrial plants, essentially for processing national raw materials, and we also find there is evident confidence on the part of the large number of tourists who come to Paraguay to visit its centers of attraction, which leads to the belief that if tourism is intensively exploited in the future it will greatly benefit the country.

There are encouraging economic and social developments whose immediate results are far outstripped by their implications for the future. Among these are the Acaray power plant, whose output will have a tremendous impact in the next five years on the economy, and the incipient cement industry, which is producing Portland cement. There is no question but that the fate of Latin America is closely tied to the momentum given to industrialization and to the modernization of its plants. Indeed, the awesome tragedy implied by the critical imbalance between the prices of raw materials supplied by developing countries and the prices of manufactured goods makes it imperative for our countries to adopt a firm determination to develop their industries and the prospect of our attaining approximate equality in economic development—even in the long-term—with the more advanced countries ought to be viewed with sympathy by the more developed countries if they are not to lose their place as important factors of economic and social progress.

Acknowledging this truth, my country is directing its investments toward transformation of the economy. And we sincerely believe that events in the next five years will show the wisdom of this decision: first, because an abundant supply of electric power will assure a more dynamic pace of industrial investment, and second, because the growing supply of Portland cement will spur the construction industry.

It should be noted in this respect that my country will soon be providing electric energy to neighboring countries and has begun to export some of our new production of cement. In other words, these investments are already aiding our balance of payments, by yielding export earnings and replacing imports, and are also furthering the aims of Latin American integration.

Another major component of our government's investment policy is the growing of wheat, which in a relatively short time will begin to yield important benefits for our balance of payments position, since it is

estimated that foreign exchange savings yielded by such investments will greatly reduce our yearly spending on imports.

This effort is more deserving of foreign capital investment support than others, since farm machinery imports, which are financed on short terms, absorb a major portion of our foreign exchange earnings, and the establishment of this type of enterprise would remove a considerable burden from our finances.

Through adequate legislative incentives, the government of Paraguay has opened the door to investors who wish to engage in this activity, for which success may be anticipated, considering the high yields per acre and the efforts being made.

Finally, it should be pointed out that the government has granted concessions to major petroleum companies for prospecting, drilling, exploration, and subsequent production operations in the Paraguayan Chaco, since the geology of that area shows great promise for finding black gold.

The government of His Excellency, General of the Army Alfredo Stroessner, attaches particular importance to infrastructure in planning its investment programs—without neglecting projects in the productive sectors—because it is aware that such a policy justifies the existence of programs having the dual objective of advancing the country's physical integration and laying the foundation for the country to undertake integration projects of regional scope as well as multinational projects with neighboring countries. Last month saw the opening of an asphalt-paved road linking the city of Encarnación with Argentina, which will serve as an outlet for the produce of a vast agricultural and livestock producing area. This road, together with the roadway connecting Paraguay and Brazil over the majestic Bridge of Friendship is an authentic integration achievement for our America and opens up possibilities for the development of areas having great potential reserves.

Toward the same end of regional and hemisphere integration, the Bank has just made a loan to Paraguay for \$26.4 million for paving a 265-mile section of the Trans-Chaco highway over more than half its present length, which will give dynamic possibilities to this enormous area of our country, and at the same time will put into effective service a decisively important link connecting the Bolivarian highway with the River Plate basin and the Atlantic ports. My country is keenly interested in developing highway connections with the major road networks in the hemisphere. We realize that our geographic location will allow us to play an important role in surface transport and in the economic, social and cultural exchange of the American peoples.

Paraguay has received financial and technical assistance from the

Inter-American Bank in the amount \$98.2 million. The total cost of the projects financed is \$166.9 million, which shows the enormous domestic effort the country is making to implement these projects. Of the total amount loaned, the Bank has disbursed the sum of \$43.5 million.

In its ten years of institutional life, our great institution has earned the sincere recognition of the people of Latin America for its meritorious service in the cause of humanity. During this long and arduous journey, we have all observed the need—in spite of the magnitude of the task before us—to speak out and insist upon a solution to certain grave problems of the international economy which are directly related to hemisphere development, and which I shall attempt to describe very briefly.

The purchasing power of our peoples can be increased only by advancing their education and technical ability, which is to say that man must be capitalized as an asset in order that he may contribute his strength and intelligence to transforming the primary commodities offered by nature. As instructive examples we have the great industrial powers whose people have largely solved the problem of meager purchasing power and become powerful contributors to domestic progress and who in our time have become the knights of the space age.

We recognize that the Inter-American Bank is playing an important part in promoting the progress of industrialization, and our countries are witnesses and executors of this policy. But in the next decade the Bank must strive with even greater ingenuity and determination to help countries contribute effectively to reducing the gap between the industrial nations and those that produce raw materials. Whereas 87 per cent of all Latin American exports to industrial nations consist of raw materials, two-thirds of all exports by industrial nations consist of manufactured goods. We admire and applaud the capacity of the industrial nations, but it is nonetheless reasonable for our countries to try to attain a faster pace of industrial development in pursuit of greater purchasing power, and, accordingly, a higher standard of living.

At this new stage in the institutional life of the IDB, we are convinced that the tried and proven mechanism for acquisition of financial resources will be used with ever increasing intensity so that the Bank will be able in the near future to obtain sufficient funds to meet its responsibilities. This is the only way it can effectively advance the uppermost aims of industrialization, the financing of which requires terms of adequate length, including appropriate periods of grace, and rates of interest suitable for industrial development.

We are certain that our Bank will shoulder increasing responsi-

bilities for seeking support from the industrialized countries that purchase raw materials from Latin America, working with other international organizations, sponsored by the industrialized countries themselves, which are pursuing similar aims. We are also certain that in the decade of the 70s the search will continue for a means of aiding the member countries to sell their products abroad.

President Nixon's message to the Congress of the United States on February 18, 1970, has stirred our expectations, and we would hope that replenishment of our Bank's resources will continue to flow without interruption in a manner that will end uncertainty in the countries that place their hope in our institution.

We welcome our new member, Jamaica, for we hold the conviction that the growth of the IDB family will open up increasingly greater possibilities for mutual aid and support in the achievement of our common ideals of progress, peace and freedom.

On behalf of the Paraguayan people, and particularly of the President of the Republic, General Alfredo Stroessner, I offer very special and particular congratulations to the leader of our great institution, Dr. Felipe Herrera, who with a firm and expert hand is steering our ship of Latin American states on a course of progress. His effective performance during the sixties is proof of his great capacity, talent and honesty in managing the funds of the Bank, and he deserves the best wishes of all the member countries, as do also his capable associates who, in carrying out their duties, have demonstrated their dedication, their industry and their sense of American solidarity.

We are grateful for the hospitality of the people and government of Uruguay and for the cordiality and solidarity of our colleagues, the Governors and the members of their delegations, who make this meeting an excellent opportunity for Latin Americans to work together for our ultimate goal of the progress of our peoples.

Address by Mr. Antonio Ortiz Mena, Governor for Mexico and Secretary of Finance and Public Credit, at the Third Plenary Session

I take this opportunity as Governor for Mexico to convey to the noble people of Uruguay and to its eminent government, the cordial and fraternal greetings of the President of my country and of the Mexican people.

On the occasion of this annual meeting of the Board of Governors of the Inter-American Development Bank, which also commemorates the first ten years of its activity, I bring to the Bank the greetings and encouragement of President Díaz Ordaz, and I can find no better epitaph than the words he spoke at our Seventh Meeting held in Mexico City, when he asked that "inter-American cooperation through our Bank should effectively serve the fundamental aim we all pursue: to raise the level of living of our peoples, in liberty and equity, and thus achieve social justice."

After studying the report of the administration, which points to 1969 as the most dynamic year in the life of our Bank, a year that brings the decade to a close and holds out bright prospects for the future, and after listening to some authoritative presentations by other Governors, I wish only to comment briefly on a few points of particular interest.

For Mexico, as a borrower from the Bank, last year was also the best year. The number of loans we received for strategic sectors of our development was more than double the yearly average authorized between 1961 and 1968.

The Bank has responded in particular to my government's interest in support of the agricultural sector. Agriculture is a problem sector in all Latin American countries, but in Mexico, because of the number and condition of the people involved, it underlies all our social, economic and political programs. We are therefore pleased to state that the Bank has become the most important source of external financial assistance for Mexican agriculture.

In another sector which by its very nature is linked to our rural environment—namely irrigation—Mexico has received from the Bank a considerable volume of financing—slightly more than 50 per cent of the total—for projects, which, together with the local contribution, will improve 1,580,000 acres of land.

For communications my country has received nearly \$100 million which has helped to build more than 6,800 miles of roadways, including

a large number of access roads that have linked isolated rural areas with the nation's main road network.

Each year the Bank is steadily enlarging its technical assistance activities, thereby ensuring that financial aid produces its full effect. In 1969 we received technical assistance, in one instance, in connection with a program to improve agricultural productivity; in another, for a study of transfer of technology, and, in a third, to investigate the economic effects of housing investments. For our part we have provided technical assistance, at the request of the Bank, for irrigation projects and road construction.

We are very pleased that the Bank continues to lend support to projects and studies for the purpose of promoting the integration of Latin America, including some very important projects in the River Plate Basin. There are other regions to which efforts should similarly be directed for geopolitical reasons; one good example is the region comprising the Caribbean and the Gulf of Mexico countries, whose dealings, paradoxically greater in Colonial times, have diminished. Yet trade and economic relations between them should be rapidly expanded.

For such purposes, the Bank must have sufficient resources—particularly for use on “soft” terms—so that within two or three years, it can furnish a volume of credit of approximately \$1 billion per year.

One way of doing this, which has already been discussed by the Board of Executive Directors, is to increase the ordinary capital of the Bank and the resources of the Fund for Special Operations. My country is willing to make the additional effort these contributions entail, on such terms and in such proportions as this meeting of the Board of Governors deems the most appropriate.

In speaking of the need for greater resources for lending, principally for making “soft” loans, it must be borne in mind—as I already took the liberty of stating in Washington and Guatemala—that the Bank has acquired such maturity and prestige that non-OAS member countries are now interested in joining the Bank—on such conditions as will be prescribed for them, and, as a result, would provide new resources to meet Latin American needs.

It would also be advisable to explore possibilities for parallel financing operations; and although IDB has limited experience with this mechanism, used in other international institutions, it has at all times been in touch with countries and agencies providing this type of financing.

Through such parallel loans, projects submitted by loan applicants can be expanded and the Bank's own resources reduced, whenever third parties lend support on favorable terms. Of course, these loans entail

a very large import component, but they do facilitate dealings with supplier countries, which are spared expenses and studies, and they do eliminate the disadvantages of tied loans. Furthermore, since they entail international competitive bidding, there is competition as far as costs is concerned, which is of benefit to borrowers and helps to regulate the capital markets.

Through the International Bank for Reconstruction and Development, Mexico has successfully entered into loan agreements of this joint type, in particular for the electric power sector, with Belgium, Canada, France, Germany, Italy, Japan, Sweden, Switzerland, the United Kingdom and the United States.

My fellow Governors: During these last few days, we have appreciated and are very grateful for the hospitality of Uruguay. An example of civility and democracy, its Republican virtues have always shined. The whole continent has benefited from reading the works of its jurists and writers, and the list of brilliant authors who have helped to delineate Latin America's own thinking is long. For a Mexican, in addition, the profound sorrow demonstrated by this noble country over the death of our ambassador and great poet, Amado Nervo, is unforgettable.

Address by Mr. Juan José Martínez, Governor for Nicaragua and Minister of Economy, Industry and Commerce, on Behalf of the Central American Countries, at the Third Plenary Session

Last year Central America had the honor of serving as the site of the Tenth Meeting of the Board of Governors. Now in 1970 it is our privilege to hold the meeting in this noble land of Uruguay, a country to which all of us in the Latin American family are bound by the most sincere affection. For this reason, I am pleased to convey to its people and government the expression of the friendship of Central America, the region for which I have the special pleasure of speaking this morning.

The meeting we are attending assumes special significance in that it marks the end of the Bank's first ten years of activity, the period during which one of our oldest and most cherished aspirations—that of having a financial institution of our own and shaping it to meet our most vital development needs—was brought to fruition. Today we reap the resultant benefits throughout Latin America. But the Bank has not been just one more source of financial resources. It has sought new approaches and practices in external financing which are the key to its evolution as a truly valuable instrument, for it was this constructive work that helped to improve certain concepts that imposed unduly rigid conditions on the international financial aid available to our countries and substantially impaired their development potential.

It is a pleasure to be able to note that the Inter-American Bank is now more directly responsive to our own directives. We should like to say, in this regard, that regardless of what new schemes result from the process of adjustment taking place in the world today, the IDB is bound to retain and strengthen its role as the basic instrument of international cooperation for the continued development of Latin America in the decade ahead.

Nonetheless, the advances made up to now, significant as they are, should not lead us to conclude that we are close to attaining our goals. Quite to the contrary, they should prompt us to continue giving our support to the best initiatives devised by Latin America and by the IDB as its financial institution. This would seem to be ample justification for new activities which, along with improving on the progress already made and consolidating its results, will respond to the top priority problems faced by our countries. One of these problems lies in the need to give greater thrust to the multinational programs of economic integration and cooperation.

In Central America the IDB has given decided support to a number of programs instituted by the Central American Bank for Economic Integration, the financial institution of our area. But there is much that still remains to be done. The available resources need to be enlarged so that we can develop sufficient momentum to break the obstacles to our desired economic transformations. Although pleased with the gains, we should not overlook the new requirements posed by the very progress our countries are making. Increasing amounts of funds are needed for activities ranging from studies or research on new opportunities for development and cooperation among countries, to financing exports of products that might gradually enable us to loosen the stranglehold of the terms of trade on our foreign transactions. All of these tasks are vital to the progress of Latin America, as is the task of discarding obsolete patterns that impose a project-by-project allotment of resources, ignoring the organic unity which is a proper characteristic of every well-conceived national development program.

The effectiveness of external financing would increase considerably if these concerns could be clearly understood, and the advances made by the IDB are making this possible, for the highest priorities are generally aimed at imparting a stronger thrust through comprehensive, cohesive action to integrated programs and projects at either a regional or national level.

There is a growing realization today that financial assistance is unlikely to yield its best results unless accompanied by a realistic understanding of specific Latin American development problems: by knowledge that can lead to effective action in support of financial aid. A matter of particular importance is the establishment of suitable mechanisms that will—together with providing more flexible terms and rules for the channeling of credit—strengthen the flow of funds for technical assistance, preinvestment studies, working capital and items classed until now as local counterpart contribution, or that will help to streamline processing systems. There is nothing new in these ideas, many of which we have been discussing for some time. The only thing new is that it is becoming possible to translate them into viable measures under cohesive schemes based on the pioneering efforts of the Inter-American Bank and other international institutions.

All of this is especially applicable to less developed countries. And it is precisely in this field that the work of the IDB assumes the greatest importance, because it is aimed at reducing one of the widest gaps dividing the world today, one which in Latin America may well be the greatest obstacle to a sound regional unity.

There is also room for further improvement of methods. For

instance, if the IDB's concern with offering funds at a reasonable interest rate is understood by providing loan packages combining funds obtained under different conditions, it is very possible that the original purposes of the special funds would in certain cases be altered.

In speaking for the Central American nations, Guatemala, El Salvador, Honduras, Costa Rica and my own country, Nicaragua, I believe I have voiced concerns shared by other countries of Latin America. And I would venture to reaffirm a thought I expressed at the Tenth Meeting of this Board: that the Latin American Bank must rely increasingly on a policy specifically designed to meet our needs as well as those of countries at other stages of development.

We are convinced that this will come about because we know our problems and because we are well aware of the intentions of the Management and Directors of the IDB and those of Dr. Felipe Herrera, who in addition to being equally familiar with our problems, is anxious to do his utmost so that the Inter-American Bank will measure up to the noble and useful purposes for which it was created.

I sincerely believe, too, that as the IDB goes, so goes the development of our peoples.

SPECIAL PLENARY SESSION

APRIL 23, 1970

Address by Dr. Raúl Prebisch, at the Special Plenary Session

When Mr. Felipe Herrera asked me to prepare this report, he did not have to exert his justly renowned powers of persuasion, since I was eager to accept the invitation, as much due to the challenge of the problems involved as to the fact that I had spent several years traveling throughout the world and I now wanted to return to Latin America with a fresh outlook—an outlook which would be influenced by my experiences in other countries. These experiences had strengthened my conviction that the development problems of Latin America are much less formidable and far more manageable than those of other regions. Our area undoubtedly has substantial forces of expansion. Where they have proved active, very satisfactory growth rates have been recorded, some persistently, others sporadically. This is not true of a good many developing countries. Hence, from this standpoint I believe Latin America is in a privileged position.

Notwithstanding, we must acknowledge that there are a number of very grave factors hampering development. In the report, I have undertaken to examine these very frankly and objectively, without ever failing to recognize that Latin America is a complex region, encompassing a wide variety of situations. There are sharp differences from country to country, but there are also a number of what may be described as common denominators.

Moreover, in assessing present conditions, I would not wish to overlook several important programs now being carried out in the region, such as the vital structural reforms underway in some of the countries—and already completed in others—which have contributed greatly to the attainment of satisfactory growth rates. The Latin Ameri-

NOTE: On Thursday, April 23, 1970, at 9 a.m. a special plenary session of the Meeting of the Board of Governors was held to hear Dr. Raúl Prebisch, Director of the Latin American Institute for Economic and Social Planning, make a formal presentation of his report on "Change and Development: The Great Task for Latin America."

Dr. Prebisch made the report at the request of the Bank which had asked him to head a task force to evaluate the true significance of international financial assistance to Latin America over the past years. The study was originally suggested by Dr. Carlos Lleras Restrepo, President of Colombia, at the inaugural session of the Ninth Meeting of the Board of Governors in Bogotá, Colombia, in 1968. Dr. Lleras also suggested that the study evaluate the development efforts made by the countries of the region and what can and must be done to correct defects in the development endeavors at the national and international levels.

can industrialization effort over the past forty years has been impressive, as has the development of large cities in the area. Similarly, there has been a remarkable series of authentic cultural manifestations in our nations. Impressive also are the very vigorous and constant efforts made by some of them to combat spiralling inflation. This is, in truth, a very onerous task because, until the rate of development has been accelerated and the factors hindering such acceleration have been eradicated, it will be extremely difficult to wipe out the forces of inflation in Latin America's economy.

Why then the concern which is evident throughout this report? Why then do I persist in the thesis that Latin America, on the whole, has not yet learned how to meet the situation created by the sharp growth of population? Were I not concerned with these matters, I would not have undertaken to write the report, but instead limited my reply to Mr. Herrera to a six-page memorandum. If the report, instead, has become disproportionately bulky in the number of pages, charts and diagrams it contains, it is merely occasioned by the fact that I deem the problem we are studying to be a very grave one. However, just as I hold this belief, so am I convinced that there is a solution for the problem. Consequently, my report will not constitute—as has been alleged—an apocalyptic vision of Latin America, for we are not on the brink of any cataclysm such as that attributed to me. Latin America is fully able to solve her problems, but to do so she requires international cooperation. My report is therefore an appeal for international cooperation, on terms which I will define further on.

Let me now summarize in a few brief words the conclusions of the work submitted. Its central theme is that there is a dynamic insufficiency in the Latin American economy, manifested principally by the fact that the economic system—as it now exists and operates—has proved incapable of productively employing the labor force being siphoned off from agriculture. With the exception of two countries—Mexico and Argentina—and for differing reasons in each, the major portion of the agricultural exodus has not been productively absorbed into industry, mining or the building trades, activities which I will subsequently designate "the industry group." In Latin America these are activities with a high per capita product, and the very fact of transferring labor from the rural areas to them should have led to a substantial increase in average per capita income. Yet this has not been the case. The agricultural labor surplus has spread through and overcrowded an extensive range of services, in addition to contributing to unemployment, which is constantly spreading in most of the region. That this vast potential productive capacity represented by the labor

force is not being efficiently utilized can only be regarded as a highly adverse factor, and one which is extremely burdensome to the economy as a whole.

Despite the draining off of agricultural labor, there still remains a large surplus of workers in rural areas from Mexico on south. Perhaps Argentina and in some aspects Uruguay have been free of this phenomenon, particularly the former in the Pampas region. But, one must acknowledge that surplus labor exists in Argentina's cities, her industries and her services.

Similarly, to a greater or a lesser degree, all Latin American countries currently face this waste of labor. This undoubtedly affects the whole economy and exerts a downward pressure on per capita income throughout the economy.

Yet that is not the whole picture. We know that for the most part, poor use is made of the soil in Latin America. Here and there, and particularly in connection with agricultural exports—and in some countries even in respect to farm products for domestic consumption—we see the use of advanced techniques. However, in the large majority of cases, and more especially in that of agricultural output for domestic consumption, the prevailing methods are obsolete and productivity levels are low. Hence the remarkably low standards of living of Latin America's rural masses. And precisely because those standards are so low, these people, when they ultimately leave the rural area and move to the cities, come together to create marginal groups, the productivity of which is likewise excessively low.

Estimates based on hypotheses developed by the Latin American Institute for Economic and Social Planning and the UN Economic Commission for Latin America (ECLA)—taking into account margins of error inherent in such figures—lead one to the conclusion that, even considering generally accepted differences among countries, in Latin America as a whole, 60 per cent of the population consumes little more than 20 per cent of all consumer goods and an even smaller proportion of manufactured goods. Consequently the problem of incorporating the backward masses into the social structure becomes one of fundamental importance. In this connection, the report contains a graph of great interest, showing the development of Latin America's labor force. To begin with, it plots the decline in the proportion of agricultural labor to the labor force as a whole and then proceeds to show the increases outside the agricultural sector. There is, of course, nothing unusual about this phenomenon, nor does it constitute any innovation. Latin America by no means diverges from a pattern that is universal and independent of economic and social systems. Moreover, the greater the

degree of technical progress in agriculture—a vital trend—the sharper will be the downswing in the proportion of agricultural labor.

Another of the charts underlines what in my opinion is a very grave feature, that is, the failure of the industrial labor force to show a corresponding proportionate increase, as is normal and has occurred throughout the rest of the world. However, it will be seen that in Latin America, with the exception of two countries, the proportion of industrial labor has fallen instead of rising. Whereas in 1950, 35 per cent of the non-agricultural labor force was located in the industrial group, in 1970 it was no more than 30 per cent. Withal, during this period the proportion of labor in service fields rose and that is precisely where labor surplus is concentrated. It may appear to have been absorbed by the sector but it is an entirely spurious absorption, which is what makes the situation so serious.

In the course of the many conversations in which I engaged prior to starting on the writing of the report, I was occasionally told that I exaggerated the significance of this phenomenon and that, in fact, agriculture could support a greater volume of labor in Latin America than it supports at present. Let us not nurture this vain illusion any longer. Latin American agriculture needs to increase its productivity levels, it needs a genuine technological revolution, the so-called "green revolution," if the standards of living of the masses are to be improved.

Evidently, land redistribution will contribute to bettering the position of many rural families, but this is not enough. The dynamic solution for the problem—and that is what we are ultimately seeking—can only be achieved through a cautiously introduced program of technical progress, embracing improved land use, even with present-day techniques. It must be borne in mind that the greater the per capita product of agriculture, the stronger the sector's tendency to rid itself of excess labor. What, then, should be done? Develop the industrial group's capacity to absorb such labor. Industry has played a weak role in this connection; it should play a very fundamental part.

It is essential to accelerate the rate of Latin American industrialization. This statement may surprise some of my listeners when they recall that within and outside Latin America it is frequently alleged that the role of industry has been over-emphasized and that attention should now be directed to agriculture, as if the one precluded the other. They do not; on the contrary, they are closely interwoven. Obviously, technical improvements must be introduced into agriculture and its product must be expanded. However, if this is done without any corresponding acceleration of the industrialization rate, the resultant phenomenon of dynamic insufficiency will become all the more grave.

Nonetheless, industrialization will not develop on its own. It can only be accelerated if measures are adopted to intensify the general growth rate, that is, the development rate of the Latin American economy as a whole. Industrialization is part of a series of phenomena, but I insist that it is essential to the solution of the agricultural problem and to the social integration of the backward masses in our countries.

Clearly, given the practical philosophy underlying my report and given the aims shared by the President of the Inter-American Development Bank and its Board of Directors, with regard not only to acquiring a general framework within which to examine the problems but also to obtaining some idea of how best to combat the difficulties, I have not been content just to analyze the problem, in itself a complex task, though I have sought to present the results in a simple manner, but I have sought to determine the best line of action.

In what should such action consist? Principally, it must be borne in mind that the acceleration of the growth rate calls for the performance of very fundamental and significant actions, and that these will require a high degree of discipline in the development of our countries. What development rate is required to correct the phenomenon of Latin America's dynamic insufficiency? We have made a good many estimates, involving very careful calculations, because we needed to refine assumptions and not begin with unrealistic premises. Undoubtedly, in the computer era, such calculations have become a great deal easier. I only wish that a computer had been available in my youth, for it would have enabled me to write much more than I did, even though some of the work might have been far less deserving of attention. I say this because on occasion machines have been known to betray man and computers perhaps involve us in a series of exercises which lead us into a veritable labyrinth of results and conclusions. Therefore, it is essential to proceed cautiously, both with computers and other mechanical devices, and to know how to handle and control them.

Relying on the active cooperation of my colleagues in the Institute and in ECLA's Santiago office, we began an intensive phase of work, selecting a wide series of assumptions, ultimately bringing us to the following conclusion: Latin America—which has shown a not unsatisfactory though insufficient annual average growth rate of 5.2 per cent over the past 20 years—must make an effort over the next 10 years of achieving an annual growth rate of 8 per cent.

This is not unrealistic. Mexico, for example, has achieved a 7 per cent growth rate over the last 10 years while other countries are likewise improving their position in this respect. The effort which must be made is crucial but, in my opinion, it is perfectly attainable.

What does this involve? What must be done to attain an 8 per cent growth rate?

I insist that this 8 per cent is an average growth rate. I am not proposing a strategy for Latin America as a whole, since that would be an absurdity. The strategy must fundamentally be national; however, a means must be found of uniting country to country and linking strategies to world trade. I am doing no more than sketching in the general outline and suggesting the orders of magnitude. Let it not be said, therefore, that I am bringing together heterogeneous items. All I am doing is affording you an initial approach to what is an extremely complex problem.

So, what are the requisites for attaining the aforesaid 8 per cent growth rate? To do this Latin America must carry out a number of fundamental requirements. In the first place, those associated with world trade. We are all aware that, in our region, the growth rate of exports—chiefly of the traditional primary products—is unusually low. Furthermore, over the past 20 years, that rate has fallen to an even lower level due to the deterioration of the terms of trade, the effects of which have been quite serious. Thus, to achieve an 8 per cent expansion rate, a very vigorous effort will be necessary in the export sector. Let us have no illusions. The success of that effort will depend only in part on traditional exports, regardless of how radically the major industrial centers change their policies regarding Latin American primary products. In the report, I give a number of calculations but I do not propose to burden my remarks with figures, since I do not wish to give more than a very general view of the problem.

What we must emphasize are industrial exports. Everyone has now reached the conclusion that it is essential for Latin America to make a supreme effort in that direction. It is not enough for the countries of the Northern Hemisphere to agree—as appears that they do—to a non-discriminatory preferential policy designed to offer incentives for the export of manufactured goods. Latin America must make a very great effort, and Felipe Herrera has underlined the interest of the Inter-American Bank in contributing to this end, with its resources and possibly through various promotional formulas. All the more so if—as I believe it is essential to do—a subsidiary is established for the purpose of rendering assistance to Latin American private enterprise.

All of us know how difficult the problem of exporting manufactured goods is. How, then, can we calculate Latin America's likely potential for industrial exports? Here we are in an unexplored area where fantasy can go far. In our calculations we began with the prudent estimate—which hopefully can be surpassed—that as a whole,

Latin America could increase its industrial exports by 15 per cent per annum, a rate achieved over the past decade by those countries which most rapidly have increased their export of goods. Yet, even were such an expansion to be achieved, the contribution of industrial exports toward the attaining of the 8 per cent growth rate would still remain relatively small. What is more, and again adopting the most prudent of bases for the calculations, we estimated what might be the required level of foreign loans for the target envisioned, and were forced to conclude that such cooperation could hardly reach the volume necessary to cover the totality of import demand.

Therefore, the efforts to be made with a view to import substitution will have to become a great deal stronger than previously. In the past, such efforts have been more intense. Indeed, the report presents a number of tables showing the contribution made earlier by import substitution policies to the economic growth of Latin America. In some countries the efforts were truly impressive. One example is Brazil, whose real annual average growth rate exceeded 6 per cent, while the terms of trade showed an average annual improvement of one per cent under the earlier regime, whereas the introduction of an import substitution policy brought about an improvement of 5 per cent more in the country's terms of trade.

At this point, I would like to ask a fundamental question. If greater efforts must be made to intensify the level of import substitution, is it possible to continue to do so in the water-tight national compartments in which the process of industrialization has developed? Is there any probability of attaining our goal if, in each country, we insist on building industrial microcosms in which the whole range of consumer, intermediary and capital goods are produced? Undoubtedly, almost anything that is required can be manufactured. But, at what price and under what conditions? Is Latin America likely to find a means of circumventing the requirements of modern technology, which calls for large-scale markets, industrialization and diversification? Why then should we seek to pursue industrialization on the restrictive basis of domestic markets, even in those countries with the largest populations in Latin America? This is a fundamental question and there is scarcely any need to emphasize it further since the President of the Bank has been a fervent apostle of the doctrine, even to the point of personal sacrifice at times. Yet such sacrifices are worthy for the cause in which they are made is a great one, and one of fundamental importance.

I would draw the attention of the Latin American countries to this point because it has given rise to much misunderstanding, in which there is a mixture of fantasy, of misguided national interest and a prejudice

regarding integration. Without arrogance, I would like to tell my Latin American colleagues to avoid this path, because it is madness, because it is an aberration that goes against the requisites of technological progress, for economic growth and for the best interests of each of our countries. A strange theory has been propounded in this connection: that we must first begin integration within the nation and only then within the continent. This is false. There can be no internal social integration unless there is clearly-defined integration of basic industry throughout our region. My logic is quite simple. In order to gather the backward masses and integrate them into *higher* income levels in Latin America, the regional growth rate must be accelerated, and this, in turn, calls for an intensive export effort. This intensive export effort depends not only on the shipment of manufactured goods to the rest of the world but also on trade within Latin America. This is the integration of basic industry.

We have heard with pleasure Mr. Herrera's reference to the work of the Latin American Free Trade Association (LAFTA). It has been remarkable. The report contains tables showing the stimulus LAFTA has provided to the expansion of reciprocal trade throughout the region. But let us not be misled. In ten years, LAFTA has not drawn up a single integration agreement for basic industries, that is, those industries which produce products whose demands expand rapidly with economic development. We have had a substantial volume of trade, but not in basic products, which would seem essential if we are to overcome the foreign strangle-hold. Hence, to entertain the notion that the solution for the problem of internal integration can be achieved independently of the integration of basic industries—which can be left for later—is to indulge in the incongruous. Domestic integration implies expanded exports and an adequate volume of exports cannot be attained unless recourse is had to the vast potential of reciprocal foreign trade between the Latin American nations, a potential which thus far we have not known how to utilize. I might add that many times during the years I served as Secretary General of UNCTAD I felt somewhat uncomfortable in the course of conversations with delegates and economists from the countries of the northern hemisphere, because when I insisted on the need for changes in trade policies of the large nations toward the developing countries, they would ask, "What are you doing for yourselves?" Or again, "What are you doing about industrialization?" Or, "Why do you not trade your products among yourselves?" "Why do you insist that we lower our own trade barriers when you have failed to do so among yourselves?" What reply could I make? I could hardly say, "Gentlemen, you do it first and then we will follow," because I do not accept the validity of such an argument.

Another aspect of considerable significance which I would like to analyze at this point is international financial cooperation. Efforts to expand exports and to accelerate the integration of basic industries are not going to produce instant results; they will take time. Meanwhile, the investment effort required to attain the 8 per cent growth rate target within a decade, broadly speaking, will require imports of capital goods until such a time as the process of import substitution has enabled us to obtain an increasing proportion of them from Latin American sources. It is here that I see the need for foreign loans in order, particularly in the early years, to ensure us the necessary freedom of action to cover imports of capital goods, which would remain beyond our reach were we to rely solely on our own resources, since this involves much more time. In connection with the proposal for the 8 per cent growth rate, a series of estimates was prepared for this report, showing the necessary magnitude of such foreign assistance to provide effective cooperation in Latin America's domestic efforts.

At the same time, it is important to bear in mind that a very substantial difference exists between a slow-moving flow of international financial resources and the effects of a massive effort during the early years. In other words, a given volume of resources heavily concentrated at the outset has a much greater effect than the same volume spread thinly over a long period of time. Indeed, this point is of utmost significance. I hold that in the majority of the Latin American countries, a considerable amount of idle capacity is to be encountered in the economy. This exists in industry as well as in agriculture. Therefore, if an initial stimulus for economic growth can be given through investments in the economic or social infrastructure, the growth rate can be accelerated by means of financial cooperation from abroad, at the same time easing the strain on the domestic savings effort. This is because in order to increase savings, there must be a margin for free play, some initial expansion of income to serve as an incentive for the task of domestic capital accumulation. Nor can this be regarded as wishful thinking for it is what we have witnessed in Latin America, when, for example, exports rise from one year to the next and this trend persists over two or three years, or when there is a sustained increase in foreign financial inflows. At such times, a sharp rise is observed in the growth rate. Why? Not because the investments made produced immediate results but because there was idle capacity in the economy and the stimulus provided from outside the region afforded a means of utilizing that capacity. However, when cyclical movements cause a subsequent contraction of exports, there is a corresponding slowdown in the economy. What we propose in the report is that the initial stimulus be given

and that measures be taken to prevent any subsequent weakening of the economy. The original incentives must be followed up with a program of financial cooperation, as well as of cooperation in the trade sector and of vigorous internal efforts.

Once the necessary volume of foreign financial resources was estimated, with a view to establishing the respective order of magnitude, the calculation of the scale of the requisite internal effort was undertaken. The clear conclusion which we reached was that we could not and should not expect international financial cooperation to solve the problem of increasing our investment rate. That depends primarily on a domestic effort which can and must be made. It is unthinkable, economically unsound and in my own personal opinion politically unacceptable to allow a nation to sink itself in debt rather than engage itself in a sustained and serious national effort. I maintain that such an effort can be made by Latin America, and that the task can be pursued without restricting consumption of the masses. If it would suffice to concentrate on the increment to consumption perhaps it might be necessary to limit the consumption of no more than 2 per cent of the population, that is the proportion enjoying an excessively high share of the volume of total consumption. But this would depend on the particular country and the particular circumstances prevailing at the time. However, in Latin America as a whole, given a stimulus such as that I described, and providing it occurs at the outset, a substantial increment in domestic capital accumulation could take place without any adverse impact on consumption levels. On the contrary, they might well be raised. Unquestionably, the task is not an easy one, for consumption desires are sharply felt in all the social strata. Each country will have to gauge its own efforts in terms of its individual position, from the social standpoint. If the target envisaged in accelerating the growth rate is the integration of the backward masses, clearly they cannot be expected to limit their consumption, since the initial level is very low. Such action would have to be taken by other social groups, with a notion of the social implications of development. The report sets forth a number of calculations made in connection with this aspect. However, I do not propose to cite them here as I wish to limit myself to more general considerations.

I attach a great deal of importance to the internal effort. Yet I must also emphasize that such an endeavor would be extremely difficult—and, in some countries, politically difficult—without adequate foreign cooperation. For many years, I have been arguing in favor of a rational foreign cooperation policy. I spent six years at UNCTAD insisting on this subject. I need not insist more not because I have

grown tired of presenting the argument, for I do not tire of saying the truth, but because others have now taken up the task. Witness the Pearson Report. How many idealistic, irresponsible, and exaggerated statements it contains! Do you know why? Because it has adopted UNCTAD recommendations which six years ago were regarded as exaggerated, irresponsible and idealistic. Those things that met with great ideological resistance in Geneva and in New Delhi have now been gathered together with high moral and intellectual authority by the members of the Pearson Committee. To their great merit. I am not implying that their report contains nothing else, for it contains many very valuable and positive additions. However, the report does serve to prove once again that persistence in disseminating certain basic tenets opens up the path to their acceptance, just as earlier, in Latin America, persistence in the proclaiming of certain theses led to their adoption in the Charter of Punta del Este.

Another very useful document is the Peterson Report, in the formulation of which outstanding United States businessmen played a role. It is my belief that ten years ago—even five years ago—one would have been hard pressed to find as clear a statement in favor of a genuine policy of international financial cooperation such as that contained in this report.

My praise for these two documents would have been even greater had they stressed an aspect which is a source of growing concern to me, namely the question of Latin American private enterprise. Over the course of the past few years, Mr. Herrera has devoted considerable attention to the scheme for a Latin American Financial Corporation, which appears to be of great regional significance, in my opinion. Why? Because problems must be examined, not in the light of circumstantial considerations, but from the long-term aspect, if the aim is to find basic common interests among the countries in the Northern Hemisphere, such as the United States, Europe and Japan. At a later date, the Socialist countries might be included in this group but at present they are not ready to play the role which might be expected of them in the execution of a policy of international cooperation, and they have rejected the proposal to contribute an amount equivalent to one per cent of their gross national product alleging that they were not responsible for events in the developing world. Their stand must be respected but it is to be hoped that they will change their mind in time, in favor of an equally worthy attitude, namely that of financial cooperation.

The reports cited above fail to give proper emphasis to the question of support for Latin American private enterprise. The latter's technological and financial weaknesses are self-evident, while the superiority

of other nations, in this respect, is equally patent. In my own view, the fundamental problem of cooperation lies in strengthening Latin American enterprise so that it may play its appropriate and all-important development role. If we adopt the argument that development is every country's own responsibility, then it behooves us to intensify our own development and to provide Latin American enterprise—whether private or state-owned, as the case may be—with the capacity to do that for which at present it lacks the necessary know-how, in order that the region's technological inferiority may be eliminated.

Hence the reason for my envisaging foreign private investment from this standpoint. It is without any doubt a very powerful means for transmitting technology and contributing investment resources, but we must find new formulas for it. That is what is being done in Latin America. What is more, both in the United States and in Europe, more progressive thinkers are likewise seeking new means whereby the role of foreign private enterprise can be made compatible with the strengthening of national enterprise throughout Latin America. Different methods are under examination. The suggestions embrace both partnership alone, or partnership now and the acquiring of control at a later date. The various proposals must be analyzed objectively and adapted to the individual circumstances of the country, always with a great deal of realism. A country can bar foreign investment or leave it completely free, but it must not seek to submit foreign investment to a regime which the foreign investor cannot accept. It would be overly naive to conceive of such a policy. Thus, it is essential to discuss the matter, to establish a dialogue, to formulate certain long-term targets and to approach these gradually in order to achieve the desired ends.

There is, in addition, the basic matter of the balance of payments. If there is one phenomenon that stands out clearly in our report it is this process of foreign strangulation of the Latin American economy, resulting from the tendency of imports to expand at a much higher rate than either income or the burden of debt. This is a very serious obstacle to development and one which must be overcome. Hence, foreign private investment should be directed primarily to assisting us in increasing exports and—in conjunction with domestic enterprise—should enter into all integration plans encompassing basic industries.

This by no means implies that it should be the task of the Inter-American Bank or the World Bank to direct integration plans. No, these integration plans must be formulated by the governments concerned. The banks must follow along. Mr. Herrera is familiar with this view, because I have discussed it with him many times and he is firmly convinced this is as it should be. Let us make ourselves clear:

it is up to the governments concerned to determine, in conjunction with domestic or foreign private enterprise, all aspects of the integration of basic industries.

Making due allowance for this aspect, I acknowledge my great admiration for the aforesaid two reports. They represent a very valuable contribution to the subject, without prejudice to others which it would be unnecessary to mention here.

My concept of the role of foreign financial cooperation should not lead to the belief that a very vast volume of resources is required. Indeed, such a volume would be pointless if the countries involved are each ready to make a sizeable domestic effort. And without that domestic effort, there can be no solid development to ensure progressive economic independence. Furthermore, we must not ignore the risk of intensifying certain forms of dependence which would be unsuitable to the Latin American countries as well as to the nations of the Northern Hemisphere, from the long-term view. All this, of course, is also quite independent of circumstantial or incidental considerations.

The Pearson Report has supported in part UNCTAD's recommendation that the industrial nations should contribute to the growth of the developing countries by transferring to the latter an amount equivalent to 1 per cent of their gross product. In the past, Latin America's share in this flow has varied from 15 to 20 per cent of the total. My report contains figures showing that if, by 1975, the figure of 1 per cent is attained, and Latin America as a whole obtains 15 per cent or more of that total, the region will have ample financial resources with which to supplement its own investment capacity, providing the terms governing the new inflows are more reasonable than those prevailing earlier.

On this point there is a general consensus either in terms of refinancing or in terms combining future resource contributions in such a manner as to ensure that the average debt service would be lower. Some idea of the magnitude of the problem can be gleaned from the following: Total yearly amortization and interest payments on Latin America's prevailing public debt is equivalent to 19 per cent of the total yearly debt. I do not believe that there is any economy that can operate under such conditions. Even though interest charges might be moderate if amortization rates are high—and in this respect export credits are largely responsible—the economy cannot function freely. There is little need to emphasize this point since I have the impression that there has been considerable progress in worldwide views on this matter. President Nixon himself has requested that the subject be studied with a view to finding a solution for the problem.

Over the next decade, it will be necessary to pursue a widely

different policy from that adopted in the past. The investment of international financial resources should involve two aims which have not been attained in our countries, not only because of an inadequate policy of cooperation but because Latin America, on the whole, has lacked any clearly defined policy in connection therewith. In my report I present a series of charts showing that among all the Latin American countries—with the exception of two—over the past twenty years, the proportion of domestic to total investment has declined rather than increased. In other words, owing to the inadequacy of foreign resources, together with the adverse conditions under which such funds have been granted, on the one hand, and on the other to the absence of an appropriate policy, designed to curb the increment in consumption, should it exceed certain limits—an inevitable requirement—the rate of investments made with resources of domestic origin has fallen rather than risen throughout Latin America.

The presence of foreign investment should also have afforded us greater freedom of action in making payments abroad. Nonetheless, the region would appear to be facing another regrettable paradox in this connection. The volume of loans granted was small and the burden of financial charges extremely onerous. Moreover, this situation does not appear to be counter-balanced by a policy designed to stimulate development of exports which would provide funds with which to cover not only this financial burden but also the growing volume of imports concomitant to development.

Withal, the blame must not be limited to those abroad. There was a great deal that Latin America could have done, measures that some countries adopted and others ignored. Unquestionably, export opportunities have been wasted and progress toward the establishment of an actively operating Common Market has been slow and wavering. Thus, the foreign stranglehold on the economy—which in part stems from external factors—also originates, to a substantial degree, in Latin America's lack of decisiveness in acting upon the forces of its own development.

Absolute discipline is required—I would go so far as to say it is inescapable—if Latin America is to develop. A firm and unremitting policy to discipline exports must be adopted. Similarly, stern regulations are necessary to orient domestic capital accumulation, as well as for the reinvestment of profits accruing to our enterprise, to stimulate savings and to extend credit to the masses. The measures thus far adopted in the region possibly have not always sufficed. Governed by a strong sense of restraint, it will be necessary to take other special measures.

In like manner, discipline must also be displayed in the elimination

of the structural obstacles to development. To achieve the 8 per cent growth rate, agricultural output must be greatly augmented. Industrial production, likewise, must be expanded and there is an aspect which must be unequivocally emphasized for Latin American manufacturers, namely that the path to expansion through import substitution is becoming progressively narrower. It behooves us to develop the domestic market, that vast market waiting to be opened up to Latin American industrialization, that vast potential of which only partial use is being made. The fact is that 60 per cent of the population absorbs less than 20 per cent of Latin America's manufactures. These figures serve to indicate the enormous potentialities of the market lying before the region's industrial entrepreneurs if inward growth can be developed simultaneously with outward expansion.

In just the same way as there are very solid structural obstacles hampering improved land use in Latin America, so there are countries in the region which have found a means of eliminating such obstacles and so have grown more rapidly than countries which have not eliminated them. Yet there are still those who persist in not recognizing that the prevailing system of land tenure constitutes one of the gravest impediments to technical progress. The terms of the problem vary in accordance with the country involved. However, I insist that the problem exists even in countries where there are persons who deny the presence of a land tenure problem, despite ample evidence of its many manifestations, and despite the fact that foreseeable productivity increases have not occurred, partly owing to deficiencies in the tenure system and partly due to the lack of any official measure in respect thereof, although attempts are now being made to rectify this situation.

Structural errors also exist in the industrial field. Latin America's industrialization movement cannot be pursued in the face of the existing and extraordinary wall of tariff barriers and restrictions hampering the free play of the forces of competition on the domestic market. Both under our prevailing system and under the Socialist regimes, it has been found that competition serves as the basic incentive for any increment to productivity. No improvement—in the desired measure—in Latin America's per capital income can be effected while the aforesaid inducements are not offered to industry, although the latter has given evidence of its capacity and aptitude for growth. However capable a man may be and however good his intentions, he will not work as he should unless he is prodded by a strong competitive stimulus.

Moreover, unless social mobility prevails in Latin America, no effective increases of production or of technical progress can be achieved. Hence the importance of sponsoring the rapid development of such

mobility and of recognizing that it involves more than a mere problem of education. It consists, above all, in affording employment opportunities since the dynamic insufficiency of the economy will have much graver repercussions if the rural population is provided with better educational facilities and technical knowledge but lacks employment opportunities. The spectacle we are witnessing throughout Latin America, one to which reference was made early in this meeting, offers ample proof of this. Here we see young people, professionals, doctors, technicians and nurses emigrating to find work elsewhere. Gentlemen, this constitutes a loss of income which far exceeds any capital flight you may observe. And it is not by enacting prohibitive measures that we can put a stop to the brain drain. Employment opportunities must be provided and the Latin American economy must be effectively expanded. The cream of Latin America's technicians and leaders will have no alternative but to emigrate if we continue to content ourselves with limited domestic markets, tending to debilitate the capacity and incentives of such persons.

Hence, from every standpoint, the acceleration of the growth rate is essential. And the large economic market is also necessary as is the large cultural and technological space. Some days ago, the Mexican Secretary of Finance referred with good reason to a need for a scientific and technological Common Market. Unquestionably, Latin American cooperation must embrace each of these fields.

In speaking of the disciplining of development, I would wish to add—with the modesty an economist reserves for such matters—that we likewise require discipline in the political art of development. We are standing at the crossroads. New formulas must be sought to make aspirations of political perfection, which we all share in Latin America, compatible with the demands of economic development. Yet I do not believe that such compatibility can be attained unless the popular basis for development is made more ample. Yet I would flee from populism, to which subject several paragraphs have been devoted in the report. A popular basis, active participation by the different sectors and groups of the population in connection with developmental planning and strategy, this I hold important. Without such participation, I do not believe one can arrive at any degree of voluntary and deliberate discipline, thus avoiding a forced development. I do not mean to imply that, on occasion, the regimentation of development does not prove effective, for we have had occasion to witness its success. Yet such efficiency is acquired at an enormous political and social cost.

In order to progress in the political art of development it is essential for Latin America to think things out for itself. We frequently refer

to dependence. Yes, we must eliminate all forms of dependence in Latin America, but we must not overlook the existence of a form of intellectual dependence. This involves imitating what is done elsewhere without submitting any of it to a critical analysis or assuming that Latin America's development must follow the lines of development observed in what are now far more advanced nations. Yet this is not true and development does not necessarily take place in this way. Although present-day technology offers mankind a unique opportunity in its history to be rid of the age-old burden of labor, such progress is nevertheless rife with profound contractions which must be eradicated. There is a great difference between the extraordinary growth of the population, the origins of which lie in scientific and technological progress, and the degree of capital accumulation.

Moreover, the prevailing technological levels compel us, on the one hand, to ensure a growing degree of capital density per capita, while on the other hand, mass communication techniques, the multiple methods of persuasion and of dissemination, as well as the many varied forms of consumption in the more highly developed nations, are all constantly curtailing the volume of resources available for investment. All these aspects stem from technological progress, as does the tendency of primary exports to expand very slowly. Hence, in Latin America, we must find a means of examining and solving these new problems. It is up to us to study them and to devote ourselves sincerely to the task in hand. We cannot bring from outside that which we must undertake ourselves. This rule is of fundamental importance. And it is equally important to look into the future, to direct our analysis beyond the mere scope of the economic system. In Latin America, we are working to improve the measurable welfare levels of the masses and that is the primary target of the report. Yet, is it circumscribed to that? Technology will tend progressively to reduce the time which must be devoted to production and distribution. There will be a growing amount of time available for other human activities which cannot be encompassed by the economic system and which are not subject to economic incentives. They require other stimuli. This is a problem of vital human significance. Latin America can and must make its contribution to the posing of this problem, one that is disquietening particularly for the younger generations within our frontiers and beyond them.

To what nature of a society do we aspire? What will be its predominant values? Can the type of society being established in other regions be copied, despite their inherent evils, of which we are becoming increasingly aware? Or must we all collaborate in attempting to solve what is an essentially human conundrum, namely that of the

standard of living and of the corresponding values which should be established among us? Latin America can and must seek its own formulas and—for the very reason that technology offers such tremendous possibilities—must take every precaution to ensure that we are not subordinated to that technology.

We must be able to exercise control over our contemporary techniques. The Latin American man must not allow himself to be constrained by such techniques. This is no easy enterprise but one that calls for careful thought and a profound degree of emotion. Not only development but all that lies beyond the economic realm embraces a baffling series of intricate problems in which the emotional element is of the utmost significance. Yet it is not the sole factor. Hence much caution is required. Emotion is vital, it always has been and always will continue to be of paramount importance in all of the great adventures undertaken by man and by the human mind. Yet emotion must be offset at all times by foreight and rationality. Without emotion there would be no astronauts, but without calculation and rationalization they would not have reached their goal. Rationality and foresight play a fundamental role. Currently, the exaggerated enthusiasms which at times inspire ardors and even the *élan* of others less youthful who fail to give proper thought to these difficulties, have led some to deny the very need for rationality in the economic field. This is indeed a grievous error. Rationality may be superfluous for purposes of destruction but it becomes indispensable when the time for construction arrives. Then one cannot escape from the need for rationality and for foresight.

My report, thus, is an appeal for rationality and foresight both within and beyond Latin America. Policies of international cooperation must be guided by this spirit of rationality, so that their means and objectives shall be compatible with an uncluttered vision of exalted objectives and with the wide scope of the efforts required to attain such goals. Emotion on the one hand and rationality and foresight on the other. With reference to such cooperation, if the more highly developed countries acknowledge—as they are doing—that economic development is a problem common to all of mankind, they must likewise recognize that the converging and mutual responsibilities of all those involved must be adroitly blended for the successful solution of the problems, and in turn allied with emotion, rationality and foresight. Thus what we need is emotion to face the problem, and rationality and foresight to ensure the success of this great human adventure called economic development.

FOURTH PLENARY SESSION
APRIL 23, 1970

Address by Mr. Ernane Galvêas, President of the Central Bank of Brazil and Alternate Governor for Brazil, at the Fourth Plenary Session

It is an honor and a privilege for the Brazilian Delegation to attend the Eleventh Meeting of the Board of Governors of the Inter-American Development Bank, which also commemorates the tenth anniversary of its establishment. I wish to express the thanks of the Government of Brazil for its outstanding achievements.

This meeting is an important milestone in the remarkable history of the Bank and it is a happy coincidence that it is being held in Uruguay, a country of such great renown and, more precisely, in the hospitable city of Punta del Este, the scene of the most important achievements in the field of inter-American cooperation and the site of so many historic decisions that have changed the course of events in the life of the peoples and the countries of this hemisphere.

There is little point in again tracing the history of the Bank since its establishment. Nevertheless, it should be borne in mind that our hopes were not disappointed, the hopes which took us to the meeting in San Salvador in 1960, that established the Bank. Little by little the small seedling of an idea put forward at the First Inter-American Conference held in Washington in 1889 has grown into a magnificent tree. At that historic moment of the founding of the Bank there were many who yearned for a future rich in accomplishments, but few who could anticipate the greatness to come. And all of us who had the privilege of closely following its successful path are exceedingly gratified over the admirable growth of this organization, guided by a working philosophy in which technical competence is united with the enthusiasm and idealism of its leaders and its staff, has become one of the most efficient instruments for the economic development of Latin America.

The address of President Herrera, a masterly summation of the activities of the Bank from 1960 to 1970, ably traced the route which has been followed. I believe that it would be desirable for the Bank to prepare, on the basis of the extensive material he used for his speech and following the same basic lines, for submission to the Governors, a detailed survey of its achievements in the decade and to formulate projections for its activity in the decade ahead.

Appearing at an opportune moment, when serious symptoms of great economic difficulties threatening to envelop Latin-America in the most serious social and political problems became apparent, the Bank became an escape valve for our problems. Since then it has increased its

resources sixfold; the loans granted and the technical assistance provided have made it possible to undertake some 560 projects at a total cost of about \$10 billion. Much of that is due to the pioneering spirit of the Bank; from the outset it put aside routine banking practices and entered the more difficult field of helping member countries to increase their capacity to identify, select, and prepare investment projects, to carry out high priority programs in the social and economic fields, and to *strengthen national mechanisms for mobilizing the internal resources that were to sustain the development of Latin America.*

A "Bank of New Ideas," as it has been called, the IDB established the first multinational export financing program which enabled Latin American capital goods to be sold on the markets in the region, thereby *stimulating the adoption of similar programs in the member countries.*

It also pioneered in the field of agriculture, as it did in the financing of education, sanitation, housing and other important social fields. With respect to regional and continental integration, its influence has already been effectively brought to bear through a number of accomplishments, outstanding among which is the work of the Institute for Latin American Integration, support for integration systems, studies and financing for the development of frontier regions, export financing, the multilateral preinvestment fund, in addition to the construction of highways, communications, and electric power plants which, little by little, are reducing the distances that separate our countries and are creating a physical and economic infrastructure that will enable us to reach the new stage of integration provided for in Article 61 of the Treaty of Montevideo and in the recently signed Protocol of Caracas.

The Inter-American Bank has endeavored rapidly to meet our challenges, sometimes long before they became real difficulties. The studies we requested at earlier meetings are now well advanced, in particular that relating to the setting-up of a mechanism for providing support for the incipient capital markets of Latin American countries. We believe that the establishment of an agency like the International Finance Corporation of the World Bank meets those requirements. We would only like to suggest that, whatever type of agency is approved, it should remain within the Bank in order to avoid the danger involved in starting to split up the institution.

We also have before us the recommendation of the Board of Executive Directors that the ordinary capital resources be increased by \$2 billion and those of the Fund for Special Operation by \$1.5 billion. This call for capital, which is being made one year in advance, is a clear demonstration of the high degree of cooperation and understanding that Latin America has reached with the great country of the North, a

cooperation and understanding which justifies our desire and concern that the IDB remain a regional bank.

Latin America is preparing to make the great leap forward in economic development. Financial cooperation of the great industrial countries is vital to Latin America, which is a great importer of external capital needed to supplement its own scanty resources for the formation of essential investments.

For this reason, we are concerned by the downtrend in the proportion of funds which the countries of the Development Assistance Committee (DAC) are ear-marking for capital transfer to the underdeveloped countries. The European Fund, which President Felipe Herrera is so vigorously advocating, would be an ideal solution, enabling the industrialized countries of Europe to put on a rational basis the individual and separate aid provided now by Austria, Belgium, Finland, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland and the United Kingdom, as well as Canada, Israel, Japan, South Africa and the Vatican.

We believe that Latin America is deserving of confidence. The internal effort being made in all our countries is the expression of the will of the peoples of this continent to break the age-old chains of poverty and to achieve the first goals of development.

We are entering the decade of the 70s with renewed hopes, encouraged by the declarations and the promises that we are on the threshold of a new conception of international cooperation. Certain recent reports, prepared by eminent men who have made a name for themselves in business or in science, point in this direction. Latin America has the right to expect that these promises and ideas will not be forgotten or become disappointments, as has happened on so many occasions in the past.

We are confident that our aspirations in international trade will not find new tariff or other barriers raised against them, that access to modern technology will not be only a privilege of the great powers, and that international financial cooperation will, in the decade now beginning, become an effective instrument for promoting the economic and social development of the underdeveloped world.

In the years ahead, many obstacles will have to be overcome, many difficulties will have to be removed. The Inter-American Bank is a tangible example of what we have already done and of what we can do.

Fellow Governors: Any account of the successful path of the IDB would not be complete if we did not associate this commemoration with the illustrious figure of the great statesman whose name is today

identified with this institution. Felipe Herrera has been the great leader of this victorious campaign. We pay tribute and recognition to him. It is also only fair to record the positive contributions of his directors and staff, whose competence and hard work account for the prestige and the high repute that the Bank has enjoyed, in this decade, throughout the world.

**Address by Mr. David M. Kennedy, Governor for the
United States of America and Secretary of the Treasury,
at the Fourth Plenary Session**

The inter-American community is again grateful to the Government and people of Uruguay for providing this beautiful and historic city as the site of our deliberations. Here, where Presidents of the Americas have conferred and contemporary inter-American solidarity has been forged, we have an opportunity this week to give concrete reality to our mature partnership, in the framework of this decade's program of Action for Progress. We are also fortunate to have here with us, for the first time, the Governor for Jamaica, whom we welcome as our newest member.

In this year when we celebrate the first decade of the Bank under the able leadership of President Herrera and the Board of Executive Directors, I have organized my observations around three points: (1) the significance to the Bank of the last decade, (2) the proposed increase in Bank resources, and (3) perspectives for the future.

The Bank's First Decade

The world, our hemisphere and this Bank have undergone extraordinary changes since the first Board of Governors met in San Salvador in early 1960. Ten years ago, foreign assistance had only recently changed focus from the reconstruction of relatively advanced countries to the development of underdeveloped ones. Advanced countries other than the United States were just beginning to make significant contributions to development assistance. The terms of such assistance were often poorly adapted to the prospective balance of payments situations of borrowing countries. In the multilateral assistance field, there was the World Bank, but its concessional lending instrument, the International Development Association, was untested. Multilateral financial cooperation for regional development was, until the establishment of the Inter-American Bank, non-existent.

Today's contrast with 1960 is striking. Development assistance, its form and its degree of multilateralism have changed markedly. This Bank has emerged as a major element in the inter-American structure. It has demonstrated the validity of the idea of multilateral development cooperation at the regional level. And it can justly regard itself as the trail blazer for other regional institutions, such as the Asian Development Bank.

A second contrast can be found in the ability of a regional institution such as the Bank to reach out and mobilize funds in the world capital markets, using for this purpose the guarantee provided by its members. Its bonds are now widely held and its financial standing highly respected. Through its patient efforts in world financial centers, the Bank itself has been an important instrument in changing the forms and practices of development finance.

A third difference relates to the kinds of activities in which we now think it appropriate for development institutions to engage. This Bank has led the way in directing attention of development agencies to areas that had been relatively neglected or even considered inappropriate for the attention of international financial institutions. These include education, health and the difficult problems of rural poverty. Lending in these frontier areas of development assistance has gained respectability only within the last ten years. This Bank—supported in the early years, I am proud to say, by the Social Progress Trust Fund provided by the United States—has played a catalytic role in the emergence of new attitudes.

Ten years of experience has made us all more realistic in our approach to development. We have learned that there is no single formula for development applicable to all countries. Each nation is different and each requires a different mix of resources. We recognize more clearly now the importance of a sound framework of fiscal, monetary, exchange and investment policies within which development can take place. And we perceive now more clearly than ever that external assistance can only be efficiently utilized where there is an intense domestic will to develop. This must be accompanied by a readiness to commit domestic resources to the development task in the fullest measure.

Thus, the opening of this decade presents new opportunities to the Bank. It can become more selective, both in terms of the types of activities it finances and the quality of economic performance it expects of borrowers as a condition of its lending. With such selectivity, and a continuation of its distinctive Latin and pioneering spirit, the Bank can make the decade of the 70s a fitting and fruitful successor to the 60s.

Increase in Resources

The main task of this meeting is to make adequate provision for obtaining the capital resources needed by the Bank in the first half of its second decade of lending. I have been authorized by President Nixon to announce that the United States is prepared to join Latin American

efforts in accomplishing this task. In the context of a proposal with full Latin American support, we would be prepared to approach the U. S. Congress promptly for increases in both our ordinary capital subscription and our contribution to the Fund for Special Operations. Specifically, the United States would be prepared to seek legislative authority for:

- An increase in its paid-in ordinary capital subscription of \$150 million combined with a \$674 million increase in its callable ordinary capital subscription, both as our established share of a \$2-billion overall increase in the Bank's ordinary capital resources.

- A substantial contribution to the Fund for Special Operations as part of an overall increase in Fund resources which would reflect the progress Latin American economies have made these past ten years, as well as their commitment to the role of multilateral institutions in development.

Resources should be sought in a magnitude which will cover requirements foreseen for the Bank in a three to five year period. They should permit the Bank to provide half again as much financing per year as the approximately \$600 million which the Bank committed in loans in 1969. Moreover, they should ensure funding for new types and directions of activities that are now under preliminary consideration in the Bank.

But provision for the future requires more than money alone. It requires adaptation to reflect new realities in the 70s. It requires new relationships beyond the hemisphere to reflect Latin America's growing integration into the world economy and the world's growing commitment to multilateral development financing.

I have three major areas in mind where beneficial changes could be made. First, the present practice of extending Fund for Special Operations loans on a local currency repayable basis involves the potential problem of excess accumulations of such currencies in the Bank's accounts. A shift to a policy of repayment in the currencies lent, combined with an appropriate easing of repayment terms as necessary, would avoid the problem. This would permit the Fund ultimately to become a revolving source of hard currency financing. I understand that a move in this direction already has widespread support.

Second, our concern for achieving more balanced growth in the hemisphere suggests that the financial needs of the least developed members should have first claim on the Bank's concessional loan resources. The opposite side of the same coin is that the region's more advanced countries should place relatively greater reliance on ordinary

capital financing. This could be considered a cooperative contribution on the part of the stronger countries toward self-help in the hemispheric sense. It would also complement the willingness of the larger members to allow a greater usefulness of their local currency subscriptions to the Fund for Special Operations. In this latter connection an expansion of the group of countries allowing this broader use would be widely applauded.

Finally, I believe that multiple benefits would accrue not only to the Bank but to Latin American development in general if other developed countries—regional and non-regional—could be brought within the Bank's membership. Additional ordinary capital resources would become available and access to capital markets would be easier. Membership would also elicit additional concessional loan resources more effectively. In the light of experience elsewhere I am confident that these benefits can be obtained without changing the essentially regional character of the Bank. Indeed, it is my confidence in the permanent Latin character of our Bank which permits this judgment. Serious efforts to move in this desirable direction have important and broadening support and steps are needed now to move toward the removal of existing barriers. This is the time to begin. I strongly urge that the Board of Governors take the necessary steps which will lead to opening our doors to Canada and others.

The provision of the resources called for and the adoption of the policy changes recommended entails real burdens and real sacrifices for all of us. Nevertheless—and with full consideration of the intense competing demands for budgetary resources—I offer full assurance of President Nixon's readiness to support these financial and policy measures. I believe such support constitutes solid evidence of our commitment to Latin America and to hemispheric development.

Perspectives for the Future

In reviewing the last decade I came across the following statement made by one of my predecessors, Robert B. Anderson, the first Bank Governor for the United States, at the inaugural meeting of this Board:

"The creation of the Bank does not in itself solve any of the problems with which we are all so concerned; yet it does provide us with an effective framework in which men of good will can join with the confidence that through the exercise of thought, diligence, and mutual respect they can achieve great benefit for their peoples."

This judgment is still true today and it remains the framework

within which we will meet the challenges in the decade ahead. Four challenges to the Bank should be noted.

First, multilateral institutions will undoubtedly assume a greater role in providing financial and technical assistance. Within this hemisphere, the Bank is in an excellent position to continue leadership in financing development. But to do so fully will require closer collaboration and coordination with the other bilateral and multilateral financing agencies, and with the Inter-American Committee for the Alliance for Progress. This will assure that scarce external funds are being most effectively utilized and that the Bank has access to the best hemispheric judgments on whether or not a borrowing country itself is pursuing proper development policies and programs.

Second, the Bank's internal organization, management and procedures will have to continue to adapt to changing conditions.

Third, the next decade challenges the Bank to participate directly and indirectly in encouraging private initiative and free market forces. While it is clear that each nation must fashion its own policies about the role of public and private sector activities, and of domestic and foreign private investment in its society, the posture of the Bank will be guided, I hope, by practical considerations of efficient economic development. In this regard, I look forward with interest to the deliberations of the Board on expanding the Bank's role in assisting private productive enterprise. In particular I hope that it will be possible to employ in this effort the existing extensive framework of *financieras* and other financial intermediaries.

Fourth, the next decade should see more countries advancing toward self-sustained institutional, financial and social growth. This will permit a greater number of the stronger member countries to assist the least developed through both technical and economic assistance. And it will contribute to the strengthening of the multilateral character of the Bank.

These and many other challenges of the 70s lie ahead of us. I am confident that the leadership of this great institution, supported by the Bank's capable staff, will effectively meet these challenges with inventiveness, wisdom and determination.

The actions we are taking this week to increase the resources of the Inter-American Development Bank make clear our strong support of this inter-American institution. President Nixon, in February, outlined in realistic terms the basis on which we must face this decade of the 70s:

"There are no short cuts to economic and social progress. This is a reality, but also a source of hope, for collaborative effort can achieve

much. And it is increasingly understood among developed and developing nations that economic development is an international responsibility."

The Inter-American Development Bank is a fine example of a multilateral institution through which this responsibility is effected. The United States is proud to be a member.

**Address by Mr. Edmundo Valencia, Governor for Bolivia
and Minister of Economic Affairs, at the Fourth Plenary
Session**

It is a great pleasure for me to bring you the greetings of the government and people of Bolivia who are following our discussions with profound interest. I also wish to express my deepest gratitude to the government and people of Uruguay for their kind and generous hospitality.

The Eleventh Meeting of the Board of Governors of the Bank is taking place at a time when efforts are being made at the regional and world levels to evaluate the results of international cooperation in the past decade and to define the goals of the decade ahead. Without the slightest doubt 1970 is a crucial year. At the United Nations, efforts are being made to delineate the activities to be undertaken in the Second Development Decade, while the Inter-American Economic and Social Council is endeavouring to devise new forms and give new scope to inter-American cooperation in trade, financial and technical assistance, transfer of technology, and social progress. Also in 1970 economic integration programs in Latin America are strengthening their machinery and adapting themselves to the realities of life, with the Latin American Free Trade Association embarking on a vast action program and the initial consolidation of subregional groupings, which will undoubtedly accelerate integration as a whole. In the ambit of national and international activities, designed to overcome the underdevelopment and the economic dependence of Latin American countries, the IDB has a key role to play.

The IDB, which was established for the purpose of aiding the economic and social development of our countries, has satisfactorily fulfilled its purposes in its first ten years of existence. It is for this reason that I wish to acknowledge the endeavors of Dr. Felipe Herrera, the President of the Bank, and of his staff who support him so ably.

The investments channeled by the IDB, coupled with national funds, are a positive factor in Latin America's efforts to overcome the obstacles to economic and social development.

The experience gained by the Bank points to the need for steadily increasing the availability of financial and technical resources. At the same time it is urgent for such resources to be so oriented that they have the desired impact on our economies. Because of the need for new financial resources, the Bank, from the very outset, has repeatedly had to increase its ordinary capital resources and its Fund for Special

Operations. This shows that forecasts concerning capital requirements were inadequate.

It is precisely for that reason that we are considering a proposal for a new increase in capital on the basis of contributions from the member countries, a proposal which we, in principle, subscribe to.

We cannot disregard the fact that, during its first decade, the Inter-American Development Bank has done its best to give preferential attention to the needs of the relatively less developed countries. Although there is unanimous recognition of the pressing need to give them special priority in order to assist them in their efforts to bridge the widening economic gap that separates them from the other nations of the continent, we believe that it is necessary to continue to strengthen the policies and mechanisms that benefit those countries. In our opinion the funds at present available and the possible future increases are sufficient to allow the adoption of policies providing for preferential treatment of the relatively less economically developed countries, since their special situation calls for a substantially greater joint effort capable of speedily producing a genuine change in their economies.

In trade relations, at least with Latin America, certain preferential treatment is being applied to the less economically developed countries. However, experience has shown that good intentions come to naught if trade preferences are not backed up by a sizable amount of flexible financial assistance commensurate with the needs of those countries.

In this connection I should like to express my satisfaction with the proposal of the Government of the Republic of Argentina to contribute to the financing of projects to be undertaken in the less developed countries, including Bolivia.

This assistance, which supplements the domestic contributions, together with that of the Bank, is an expression of international fellowship and is a new step forward in preferential and effective aid in the financial field to the relatively less economically developed countries.

The financial cooperation of the Inter-American Development Bank, as has been correctly pointed out, has made a significant contribution to the activities of the government and of public enterprises. In view of the special features of most of our countries and the lack of traditional financing systems, we believe that direct assistance to governments and to public enterprises must be continually increased. However, bearing in mind the role of Latin American private enterprise in the economic development of our countries, financial assistance to them is also extremely important. We therefore look with favor upon suggestions that a study be made of the possibility of establishing a special financial agency, affiliated with the Bank, which would increase regional

financial resources available to Latin American private enterprises for initiating economic activities or carrying out expansion, modernization, or reorganization programs.

The fact that additional countries have joined the Bank in recent years is both encouraging and gratifying. The inclusion of new members requires us to look closely at the institutional structure of some of the administrative organs of the Bank, such as the Board of Executive Directors, with a view to ensuring them appropriate and fair representation. Therefore, taking up earlier proposals, my delegation has joined with the Governors for Paraguay and for Uruguay in urging the Board of Executive Directors to examine the possibility of adding one new Board member to ensure suitable representation in the administration of the Bank, keeping in mind the need for an appropriate geographical distribution.

In our opinion, the offer of the Argentine Republic to establish a new headquarters for the IDB is interesting and merits consideration by the Board of Directors.

From 1960 to date, the IDB has granted Bolivia assistance and loans totaling \$103,310,000 to finance primarily specific projects in the agricultural, mining, and industrial sectors.

These external resources, added to the internal efforts, have helped my country, as have other factors, to maintain in recent years a rate of growth which, although it cannot be considered satisfactory, has accelerated the mobilization of its economic potentialities. In round figures, the annual financial assistance of the Bank to Bolivia has averaged \$10,331,000. Without belittling its importance, it is nevertheless, from our standpoint, insufficient due to our low internal savings capacity which contrasts with the growing needs of our economy. Since the Bank is the main multilateral financing agency in my country, its role in supporting national development plans is of outstanding importance and could be even more so if its assistance were to substantially exceed what it has been in the last ten years. In this connection my government, in carrying out its economic policy, has clearly established the levels of financial and technical assistance needed to achieve accelerated development. We therefore believe that it is possible to make a joint effort which, in the near future, will make the Bank into the most important promotor of Bolivia's social progress and economic development.

My government believes, as it has stated publicly, that "the development of a country, like Bolivia, which belongs to the poverty-stricken and dependent group, cannot take place along purely capitalistic or purely socialistic lines but must be based on a national revolutionary

model, in which state, social, cooperative and community ownership of the means of production exists side by side with private property.

It is also convinced that "external oppression affects all social classes and distorts national life." It has therefore considered it necessary "to promote social unity through the nationalist revolution, which is the way to development and independence for the poor nations of the world." It has also stated its conviction that "development is not an end in itself for the attainment of which human dignity and national sovereignty must be sacrificed, but a means of achieving national independence and of establishing social justice in Bolivia."

In accordance with these principles, the Government of Bolivia has adopted a national economic development model tailored to the particular circumstances of the country and ensuring direct and independent control of its structures. As it has shown, Bolivia rejects any form of external pressure that threatens its sovereignty. It has therefore opposed both the absorptive forces of external capital, which seek to supplant the will and the interests of the state as well as outside extremist aggression and violence that seeks to impose alien economic and political models upon it.

The economic policy of my government is directed toward breaking out of the traditional society that characterizes my country, through economic planning and the joint effort of public and private enterprise, and by decisively changing the system of production and the distribution of income, thereby facilitating accelerated change.

To put this policy into effect, the Government of Bolivia believes it to be of vital importance that it directly control the exploitation of nonrenewable natural resources as well as the strategic and dynamic sectors of the economy. Direct control of the natural resources of the country allows my government, free of distorting pressures, to guide the Bolivian economy and to ensure the people a just and real share in the increase in the domestic product. By means of direct public control of the basic and strategic sectors of the economy the Bolivian Government intends to initiate truly dynamic activities capable of modifying traditional structures, of promoting change, and of opening up real possibilities for a rational and large-scale mobilization of all factors of production.

In accordance with this policy my government has reverted the oil fields to the state. This measure, which provides for the payment of compensation for the investments made, has been inspired by the need to recover for the state a natural resource that benefited a few and to exercise full sovereignty over such resources so as to be able to act with independence in planning economic development.

The Government of Bolivia recognizes the strategic importance of private investment, both national and foreign, in the process of economic development and of a climate favorable to it. We have stressed the need for its contribution, and we are pursuing a policy of reciprocal assistance between the public and private sectors of the country, which are drawing closer together as they both come to recognize the existence of common goals.

In the economic and social development of Bolivia, as in that of other countries, foreign aid is essential. With constructive intent and faithful to the principles it supports, my Government has therefore undertaken promising programs of cooperation with friendly nations. In this way, with the contribution of direct foreign private investment or through support of public and private enterprises in Bolivia, important projects designed to accelerate the economic growth of the country are being carried out.

Mr. Chairman, Fellow Governors: If we take a positive attitude to the accomplishments of the last ten years and adopt new approaches in line with the growing aspirations of our people, the decade that has begun could open up new and promising prospects for the future of our countries. Faced with underdevelopment, hunger, ignorance, and poverty we have the difficult task of speeding international action seeking a better and fairer distribution of the world's wealth, to avoid an explosive confrontation between two-thirds of humanity that is sunk in underdevelopment and the third that lives in opulent regions.

In view of the experience gained, we consider it desirable to continue expanding the programs of the IDB, thus increasing its importance and enhancing its prestige.

For that reason certain aspects such as the following deserve preferential attention:

(1) Continuous improvement of measures benefitting the relatively less developed countries.

(2) Support of intraregional exports of both primary and intermediate goods, based on the present arrangements for financing the export of capital goods.

(3) Expansion of loan arrangements so as to make it possible, in special circumstances, to provide working capital.

(4) Participation by the Bank in studies and activities for solving the pressing problem of external indebtedness, balance of payments difficulties, and the financing, where appropriate, of stabilization funds under international commodity agreements.

Fellow Governors: We believed it was our duty to submit these suggestions to you for the purpose of contributing to the progressive improvement of our Bank. We could have omitted them, but our silence would not have been justified, for these suggestions are the fruit of our experience.

In concluding, with renewed faith in our America, I bow to the flags of all the member countries of the Inter-American Development Bank, in the sincere desire that their proud colors will blend to form a rainbow that foretokens peace and prosperity in our hemisphere.

I sincerely hope that, since we are all for the IDB, it will be for all of us, but especially for those countries that most need its assistance. That will be the finest expression of its name, of its purposes and of its goals.

May God, the Supreme Arbiter and protector of all peoples and our individual and collective effort, crown our noble purposes with success.

Address by Mr. Andrés Zaldívar Larraín, Governor for Chile and Ministry of Finance, at the Fourth Plenary Session

It is a source of great satisfaction for the members of the Chilean delegation to meet with their colleagues and friends, the Governors of the Inter-American Development Bank, in the Republic of Uruguay and particularly in the city of Punta del Este, which, because of its traditional democratic and republican spirit, has often been chosen as the site of important meetings that have marked fundamental stages in the history of our America and in the sphere of international cooperation.

At the end of the 1950s, there was widespread discussion of what was then considered to be a daring idea, the establishment of a financing institution designed to serve as the fundamental moving force of Latin American progress. This idea, advocated by Chile among other countries, rapidly became an impressive reality. Such was the origin of the Inter-American Development Bank, whose initial resources of about \$1 billion have today grown to a capital of more than \$6 billion, accompanied by increasingly efficient and complete action.

The Inter-American Bank's success which we are celebrating here encourages us to continue to advocate new proposals under discussion at the American and world levels that derive from the urgent need for providing bold and imaginative solutions to the vital problems confronting our countries.

In addition to paying tribute to this success, we should like at this time to emphasize the strong socio-economic content of the Bank's activities in Chile. Its cooperation has been extensive and productive, covering many sectors, such as industry, agriculture, housing, health, transportation and communications, education, electric power and technical assistance. IDB aid has been valuable, for example, in the construction of a petroleum refinery and an ethylene plant, expansion of a cellulose factory, building of irrigation facilities, supply of electricity to rural areas in 22 provinces, and the construction of international roads.

During its first decade, the Bank has invested in Chile more than \$300 million in loans, which helped to mobilize resources totaling \$900 million.

The Chilean Government wishes to express once more its appreciation for the significant collaboration furnished by the IDB in its programs to provide greater momentum for the country's economic development and to achieve better living conditions for its inhabitants.

At the beginning of this second decade, it is important to seek new means of improving the action of the Bank. In this connection, I should like to outline broadly, but as specifically as possible, some of the lines of action and goals which, in our opinion, should be considered by the Bank in the future.

In the first place, I believe it is of interest to make certain observations on operational aspects of the Bank. We have been pleased with the efforts it has carried out to ensure maximum quality and preparation of projects as well as in granting credits, in addition to its work in improving the operating capacity of national counterpart agencies. However, we feel it will be most useful for the Bank to examine its action in this field in depth, inasmuch as experience has shown us that, despite its efficient aid, many problems are still unsolved due to a lack of technical capacity of our countries to properly present projects or to carry them out, once approved by the Bank.

In order to deal with the situation described above and with new economic and social demands arising in the future, the Bank will undoubtedly need a sufficient number of qualified technical teams. To this end, taking into account the difficulty of finding technical personnel of real ability, we believe that it might be advisable to have the various development and executive agencies in the public sector of our countries make their best experts available to the Bank for specific periods. Although we recognize the limited nature of our own manpower, we feel it is well worthwhile to make an effort in this direction to benefit the entire American community.

Along this same line of thought, we consider it necessary for the Bank to improve its administrative organization still further in order to avoid becoming a future target of the same criticism made of other international financing agencies of trying to impose organizational schemes that sometimes seem to exceed the limits of strict administration and intrude in the internal strategy and policy of economic and social development in each country.

Obviously, a sovereign nation cannot allow any foreign institution whatever, from another country or multilateral, regardless of its good intentions, to invade areas that are reserved to the national community concerned.

The Bank's evolution during its first ten years and the increase in development needs of the countries of the region indicate that its activities will expand progressively and significantly. It is a certainty that the Bank should and will grow.

We have observed that when an international institution expands, it runs a serious risk of becoming dehumanized. We do not want this

to happen to the IDB. On the contrary, we want its hard-won image of an institution at the service of our peoples to be further enhanced. This will require it to continue functioning as the institution of support for socio-economic development programs that benefit the most needy countries first.

I do not want to dwell on this point, since I am sure that the management of the Bank will be fully aware of these considerations.

With regard to the future activities and our expectations of the Bank, we cannot fail to make certain observations on the following matters: (a) reducing the cost of development financing; (b) untying credits; (c) international insurance for foreign capital financing and investment; (d) channeling multilateral cooperation, and (e) growing support for Latin American integration.

With reference to the first topic, several Governors, including myself, have pointed out at previous meetings the need for setting up a fund to subsidize interest. Unfortunately, to date it has not been possible to implement this idea.

We realize that when the Bank applies to the capital markets it must compete with commercial institutions. This is the reason for the comparatively high cost of this type of financing. To offset this, the possibility of creating the interest subsidy fund financed by the developed countries or of making mixed loans combining ordinary and special funds in a given proportion, would have to be considered. An important decision such as this could be timed to coincide with the determination to admit other countries to membership in the Bank, as envisaged in the resolution already discussed by the Board of Directors. The governmental funds thus obtained should be used by the Bank in loans extended on conditions similar to those applicable to loans now being made from the Fund for Special Operations.

The international community is probably not yet ready for measures of this kind, but we believe it is headed in this direction, as indicated by the Pearson and other reports. And the Bank ought to join in this movement.

The Government of Chile attaches great importance to the problem of tied loans, because they seriously limit the ability of the developing countries to produce and export commodities and capital goods, and also restrict their freedom to spend the proceeds of the loans for purchases in the markets offering the best advantages. This matter has been considered at length in various international forums and the Latin American countries, in the Special Committee for Latin American Coordination (CECLA), unanimously agreed that the system should be eliminated.

We were happy to see the position adopted by President Richard Nixon of the United States, concerning the untying of United States credits. We regard this gesture, which we are confident will be made a reality, as the auspicious beginning of an attitude that should become more widespread in the international community. The Bank should join the ranks of those who strive for total untying of credits granted by developed countries and international institutions to the developing world.

As for international insurance for foreign credit and investment, we believe that the Bank should cooperate with the institutions working in this field to bring it about as soon as possible.

I have also said that the Bank should assume an increasingly important role in the channeling of multilateral cooperation. This type of cooperation, we believe, must become more substantial in comparison with bilateral aid. A similar position was adopted by the Latin American countries at the meetings of *CECLA* and *IA-ECOSOC*. The Bank's efforts in the area of multilateral cooperation have been effective and we are sure that the Bank will find ways to increase the flow of such aid.

To conclude this contribution of ideas, I shall refer to Latin American integration, which has been the constant concern of the Bank since its inception, and to the development of which it has contributed substantially. We support the decision of the Bank to promote specific multinational projects, and we believe the Bank should concentrate its major efforts in this field. Projects such as the Valparaíso-Mendoza road have a much greater effect on integration than many international meetings and seminars devoted to discussing and spreading the idea of integration. The experience we have gained in this project leads us to encourage and request the Bank to carry out increasingly active work in this sphere.

Another problem of integration that I believe will soon have to be faced, at least in the Andean market, is how to finance the reconversion of industries that become non-competitive after tariff barriers are eliminated. By helping to find a solution to this problem the Bank can make another concrete contribution to the furtherance of integration.

Finally, I wish to refer to a mechanism that could be a valuable instrument to encourage and develop the production of capital goods in our country and thus contribute not only to the industrial development of the region, but also to integration itself. This mechanism is the financing of intraregional exports of capital goods by providing lines of credit to national organizations. We believe that the adoption of a more flexible procedure would permit increased use of this mechanism,

assuring the attainment of the purposes for which it was established.

Fellow Governors: I do not wish to end my statement without paying a sincere tribute to my dear friend Felipe Herrera, who has been our President these ten years, and to our executive directors and professional and administrative personnel. They have undoubtedly devoted their best efforts to helping the Bank attain the position it now holds in the concert of nations. Chile has faith in them and in this institution and will do its utmost so that in the future, by its action, we may do away with poverty and injustice in every corner of the Americas. We are grateful to and proud of our Bank, and we are convinced, in view of its past history, that it will successfully meet whatever new challenge may arise during the present decade.

Address by Mr. G. Arthur Brown, Alternate Governor for Jamaica, at the Fourth Plenary Session

Before commencing my address, I would like to read to you a message from Jamaica's distinguished Prime Minister, the Right Honorable Hugh Shearer: "Please accept my heartiest congratulations for the magnificent contribution which the Inter-American Development Bank has made to the development of member countries during the first ten years of its existence. During this period, Jamaica has only been able to admire from a distance the dynamic leadership given by the President, Executive Directors and Officials of the Bank. We very much look forward to playing our part as a full member of the Bank's family in the years to come."

Mr. Chairman, Jamaica was formally admitted to membership of the Bank on December 30, 1969, a date which marked the Tenth Anniversary of the founding of the Bank. I hope that this happy coincidence of our admittance on the Bank's tenth birthday will augur well for ourselves as well as for the Bank. This is the first occasion therefore on which the Governor from Jamaica has the honor of taking his place at a meeting of the Bank and I am most gratified at the sincerity of the welcome which has been extended to us from all quarters. I assure you that these sentiments are very much appreciated and will be passed on to my government.

We have been excellently provided for by the Government of Uruguay and I am most grateful for the warm hospitality which it has extended to the members of my delegation. I would like to take the opportunity, Mr. Chairman, to congratulate you both on your appointment as Chairman and on the excellent speech which you gave on your appointment. In addition, the address of the President of the Republic of Uruguay, in my view, gave us a profound analysis of the problems and tensions affecting the world today. He has shattered many popular illusions and misconceptions and I was personally very glad to have been privileged to listen to him.

As new members, we will not presume to take this occasion to lecture you. We are at present familiarizing ourselves with the Bank's operations. In this process we have already been greatly assisted by our Executive Director for Mexico. He and his alternate have gone out of their way to help us.

In his wide ranging and brilliant address, on which we heartily congratulate him, the President of the Bank, Dr. Felipe Herrera, gave a masterly review of the Bank's contribution to economic development in the region and provoked in us the immediate reaction of disappoint-

ment of what we had missed by not having been in the Bank during the first ten years of its existence. Now that we have remedied this situation, I wish you, Mr. Chairman and the members of the Board of Governors, to know that Jamaica will not be looking at this institution as one from which it gets, and to which it will give nothing in return. Neither do we intend to be merely passive members. We propose to be active participants and will join wholeheartedly with all other members in any plans for which there is a consensus.

In this spirit, we fully support the proposals for the increase in the ordinary resources of the Bank, notwithstanding the fact unlike other members who have already paid up their original capital subscription and benefitted therefrom, it will be necessary for us to find both the installments on the original capital and the installments on the additional capital at the same time. It is, Mr. Chairman, as if having paid your subscription to a club, you are told on the first day of your attendance that the fees have been increased.

As regards the proposals for the increase in the Fund for Special Operations, we support the position expressed by the distinguished Governor for Mexico, namely that we will abide by any formula which gains the consensus of the Governors. We believe in this case that the expansion of the resources of the Fund for Special Operations should not be retarded by undue preoccupation with the niceties of a formula where it appears that there is reasonable room for compromise. Whilst on this question of the Fund for Special Operations, Jamaica very much supports the more flexible policies of the Bank in making soft funds available to all member countries strictly on the basis of project criteria. There is no doubt that there are levels of underdevelopment in areas in all our countries and the support of soft funds for economic infrastructure is crucial for our forward progress. We would hope that the Bank continues with these policies in this field.

It appears that there is still not a consensus as to whether or not the Bank should extend its membership to countries which are not members of the Organization of American States. We realize that the considerations are complex, that the factors involved are not merely economic but are affected by considerations of history, culture and a feeling of brotherhood. Jamaica's basic philosophy is outward looking and we very much hope that it will be possible to find a formula which would increase the participation in the Bank by the developed countries of the world without affecting its essential character. As a start, we would certainly hope, provided it is the wish of that Government, that a way be found for Canada to be associated in a more formal manner with the Bank. This could possibly form a precedent by which through a

highly selective process and on the basis of individual negotiations in which rights and responsibilities were agreed, a restricted number of countries could be brought into the Bank in some category which might be described as associate memberships.

We have noted with considerable interest the work which the Bank is doing in the field of export-credit financing for capital goods. We regard this activity as being of the greatest importance for developing countries in the region, particularly because of the effects of economic integration. A free-trade area known as CARIFTA has recently been established among the Commonwealth Caribbean Countries and the support of some export-credit financing facility could significantly assist export manufacturers in our countries to expand and compete successfully with export manufacturers from the developed countries. Like most of Latin America, Jamaica has suffered from a stagnation of primary exports. It has become quite clear that there is an uncertain and difficult future for primary products. Exports of manufactured goods would be considerably assisted by the availability of an export-credit facility on a medium-term basis.

We have found of great significance the activity of the Inter-American Bank in channeling funds through national development banks for utilization in developing countries, particularly in the industrial sector. In this respect the Bank is performing a role rather greater than that of a mere bank which lends money; it is building national financial institutions with the capability of generating national growth.

We would like to add a word of encouragement to the Bank in its pioneering efforts in the field of tourism. For member countries in the Caribbean, tourism is a vital sector. We have always regarded this sector as no different from other productive sectors of the economy, for example, the manufacturing sector, since tourism brings with it benefits of substantial income and employment as well as significant increments of foreign exchange.

In closing, Mr. Chairman, on behalf of Jamaica I extend best wishes to the Bank for the decade ahead. Jamaica regards the Inter-American Bank not only as an entity for accelerating economic development of a number of countries but as an expression of further cooperation to achieve hemispheric unity.

Address by Mr. Germán Botero de los Ríos, Alternate Governor for Colombia and General Manager of the Banco de la República, at the Fourth Plenary Session

The unexpected absence of the Minister of Finance and Governor for Colombia from this meeting of the Board of Governors, has given me the privilege of addressing you today on behalf of Colombia. The Minister's absence due to the elections in our country will be fully understood by the Governors here assembled. We are very pleased that the platform of the National Transformation Front triumphed in what perhaps was the most fought-over election in our entire democratic history. The Minister has instructed me to explain that electoral duties require his absence today contrary to his own personal wishes. To all of you, and to the leaders of the Inter-American Development Bank, he expresses his gratitude for the cooperation received during his four-year tenure as Governor of the Inter-American Bank. The President of Colombia, Dr. Carlos Lleras Restrepo, whose message was read to you yesterday morning, has also instructed me to convey his most sincere wishes for the success of the discussions and goals of this meeting.

As many of you know, Colombia in recent years, particularly in the last four, has made outstanding gains in economic growth and in executing its economic policy. The end of 1966 was marked by external crisis resulting from the serious situation in the coffee market during the fourth quarter, combined with longstanding foreign exchange conditions, and other inflationary forces. It was necessary at that time to adopt serious and radical monetary and exchange measures that were rather unorthodox and not entirely consistent with the advice and recommendations of the highest international authorities. By means of the strict implementation of this unique austerity policy, Colombia after three years is able to show a very satisfactory balance. Orderly and intelligent management of our limited foreign exchange supply and the effort to promote nontraditional exports have rapidly and steadily consolidated a reserve position seldom equaled in our history. From the totally negative balance recorded just four years ago we have achieved a positive international reserve balance sufficient to cover our current external payments for three to four months, in full accordance with our requirements in this area. As for nontraditional exports, that is, exports other than coffee and petroleum, some remarkable changes have taken place. Between 1968 and 1969 these exports rose by 32 per cent to about \$205 million. Continued growth at the same or even a much lower level will soon enable our country to count on non-coffee

exports as a mainstay of our foreign trade and thus of our economic development. These exports not only include more than 1,000 commodities but also reach a wide range of markets, all of which point to a strengthening of our external sector.

These achievements in the foreign exchange field are both the cause and effect of a careful fiscal and monetary policy, particularly an outstanding fiscal performance, which have led to substantial efforts on behalf of such key points of social change as agrarian reform, housing and education. By way of summary, gentlemen, let me point out that the national product since 1969 has been increasing at a rate of 6.5 per cent; however, once population growth is added in, this figure is brought down to slightly more than 3 per cent per capita, an acceptable rate in our history, though it does not satisfy our aspirations. It is, of course, to be expected that from 1970 on we will far exceed this 6.5 per cent expansion. We have contained inflation within very tolerable margins, with the rate during the last three years not exceeding 6 or 7 per cent annually.

The Inter-American Bank, whose decade we commemorate, has rendered invaluable services to Colombia in many different fields, particularly education, housing and agriculture. Colombia has received nearly \$142 million from the Bank's ordinary capital, \$143 million from the Fund for Special Operations and \$49 million from the Social Progress Trust Fund.

Of these amounts, a major share was allocated to sewage systems, electric power, education and to small and medium industry, as outlined in the report of the Bank. Dr. Felipe Herrera has already referred to the significance of the Popayán-Pasto highway, a link in the Pan American Highway that will serve to strengthen our ties with our highly regarded Ecuadoran neighbors. Again, to cite only a few cases of the Inter-American Bank's admirable work, I might mention the Caribbean Coastal Highway linking Venezuela and Colombia, which will not only improve the movement of goods between the two countries but, even more importantly, the ever-increasing flow of two-way tourism, with consequent benefits to such historic cities as Cartagena and Santa Marta. These examples prove the extraordinary work which the Inter-American Bank is carrying out in the field of integration. It is clearly evident that economic integration can be achieved only through adequate systems of communications.

A summary of the loans made by the Bank to Colombia follows:

Bank Loans to Colombia

(Expressed in dollars)

1960-1969

| <i>Sector</i> | <i>Number</i> | <i>Amount</i> | <i>Disbursed</i> | <i>Outstanding</i> |
|--------------------------|---------------|---------------|------------------|--------------------|
| Electric Power | 6 | 83,257,923 | 17,375,604 | 17,029,873 |
| Agriculture | 8 | 65,223,757 | 24,703,064 | 23,673,778 |
| Industry | 8 | 36,636,430 | 26,751,686 | 20,072,326 |
| Transportation | 5 | 59,900,000 | 14,554,943 | 12,294,469 |
| Housing | 4 | 34,300,000 | 26,591,772 | 24,639,415 |
| Water and Sewage systems | 10 | 43,450,570 | 34,329,805 | 28,206,328 |
| Education | 6 | 22,200,000 | 9,980,385 | 9,700,489 |
| Preinvestment | 5 | 5,530,690 | 2,001,145 | 1,183,974 |
| Total: | 52 | 350,499,370 | 156,288,404 | 136,800,652 |

Source: 1969 Inter-American Development Bank Tenth Annual Report

Further analysis would illustrate the extent of the Bank's effective performance. While hopes might go beyond these achievements, as far as Colombia is concerned, we must acknowledge the scope of the work already carried out or scheduled. Previous speakers have suggested far-ranging ideas and aspirations which I am confident the Inter-American Bank will take into consideration in the future. Nevertheless, I would like to refer to a few of them and some that may not have been taken here which might be taken into account in the future.

First, the suggestion that the financial corporation to be formed by the Bank be projected through the Andean Development Corporation merits our support. But no change should be made in the essential structure of the Andean Development Corporation, conceived as a function of integration, nor should programs inconsistent with its aims be brought into its frame of reference.

Second, we consider the suggested research or study on mutual funds and the means of channelling those resources into Latin American development rather than to the benefit of highly capitalized countries to be of the utmost importance. The President of Colombia recently asked the Andean Group to undertake practical and vigorous action in this connection. We cannot allow baseless fears, lack of patriotism or ignorance of investment yields in our countries to work to the advantage of the rich nations at the expense of the poor, for no more serious blow could be struck against the savings goals of our peoples.

The President of Colombia sent a message to the Second Period of

the Meetings Commission on the Agreement of Cartagena in Lima, March 9-13, which said:

"The Government of Colombia views with alarm the increased advertising by foreign mutual funds in publications circulating primarily in Latin America. This advertising is an open invitation for the flight of Latin American capital—a flight which is then criticized in the press of the countries in which these mutual funds are based and which benefit from the flight of capital which adversely affects the Latin American economy.

"In Colombia the operation of such funds is forbidden by law. Nonetheless we think this problem should be studied by the Andean Group when our countries prepare themselves to establish a wider market which will require large investments and close coordination of national economic policies.

"I therefore suggest presenting to the Mixed Commission our concern and request that regional formulas to prevent the flight of capital be studied."

We support the increase in the Bank's capital. No other action is so vital and timely as this one and we look forward confidently to the outcome of these negotiations.

We also support the utilization of local currencies, as suggested to Colombia, on terms and conditions to be determined in due course. We believe, of course, that such currencies should be used primarily to promote the export of capital goods.

We endorse the policy of repaying new loans from the Fund for Special Operations in hard currency, provided better terms and interest rates can be arranged. This step would strengthen the Fund through the comparative decline in its local currency holdings, which would otherwise undoubtedly record a sharp rise in the future.

We also favor studying the possibility of other countries participating in the Bank, subject naturally to a knowledge of the conditions of their participation and with the understanding that the present Latin American strength in the Bank not be lessened or destroyed.

Finally, I should like to mention two particular developments. The financial mechanism established by reciprocal agreements of the LAFTA countries and the Lima Clearing House are producing truly encouraging results. The new protocol to be discussed by LAFTA's Currency and Finance Committee at Viña del Mar is another major step forward that shows how far a common endeavor can go in improving structures to benefit our economic integration. I believe the Inter-American Bank, with its typically imaginative approach, can make a substantial contribution to the full maturity and vigor expected of systems such as these.

I should also like to comment briefly on the special drawings rights. The Latin countries and the IDB should step up their efforts to prevent

this liquidity mechanism from entailing a proportional benefit for contributing countries. Instead, it should be possible, and soon, for the provision of such liquidity to be in inverse proportion to the needs. This will be the only way to achieve on the international level the social justice which so greatly concerns us and which is demanded on the domestic front and for which we are making a major effort. With respect to this or any other device, the rich, who have more, must help the poor, who are many. Implementation of the contents of the Charter of Jamaica, drafted by Latin American central bankers, must be unremittingly pursued by both the Bank and the signatories.

In September of 1954, Felipe Herrera traveled the length and breadth of the Americas like a new Man of La Mancha across the fields of Montiel to rekindle the dialogue on Latin America's long-standing goal of a regional bank—a goal which dated back to the first Inter-American Conference in 1889. This tenacious endeavor moved the hemisphere toward final materialization of the concept whose first ten years we are celebrating here.

The formation and accomplishments of the Bank must be acknowledged as one of the greatest achievements of the Americas. At the time the Bank's charter was discussed in 1959, we envisaged it as a means of opening up broader horizons toward which efforts, techniques and resources would be directed and coordinated. But we also visualized the Bank as the great forum for the presentation, discussion and resolution of Latin American concerns dreamed of by the great men of our hemisphere. A retrospective glance is enough to show how the Inter-American Bank has been influential in changing conditions on loans, including interest rates, terms and purpose. Without exaggerating it can be stated that this change in the international credit structure is due in large measure to our Bank.

As President Lleras stated in the message read here yesterday: "On the occasion of this Eleventh Meeting of the Board of Governors of the IDB, I should like to emphasize the effectiveness of the Bank in contributing to the economic and social development of our Latin American countries and the ability and prudence exhibited by you and by the Bank's Directors in managing its operations.

"The IDB stands today as a great example of solidarity among the peoples of the hemisphere and has the capacity of being the most useful instrument for enlarging the scope of the cooperation our countries require and which they should receive free from political pressures or excessive red tape. The joint effort of the United States and the Latin American countries within the Bank has set an inspiring precedent."

We are most happy, Mr. Chairman, to be assembled here in Punta del Este, where so many major events relevant to the future of the Americas have taken place over the last decade. Many authorities more competent and learned than myself have already evaluated or will in the near future evaluate these events. But I see this beautiful and hospitable site as the setting for Bolivar's dream at the dawn of our independence, when he predicted that Panama would become for the Americas what the Corinthian Isthmus was for the ancient Greeks. Leaving aside the question of geographic location, which has been rendered irrelevant by progress in transportation far beyond his imaginings, Uruguay and Punta del Este are proving to these Latin countries so well beloved by the Libertador that, joined by their powerful neighbors to the North, they can work and strive together in a concerted effort for the common good.

CLOSING SESSION
(FIFTH PLENARY SESSION)
APRIL 24, 1970

Address by Mr. Augusto Barreiro Solórzano, Alternate Governor for Ecuador and Minister of Industry and Commerce, at the Closing Plenary Session

With genuine optimism we have examined during the working sessions carried out in this hospitable country the progress achieved by the Inter-American Development Bank during its first decade of activity.

Bank President Felipe Herrera gave a careful account of the historic period we are commemorating this week. No one can deny him the satisfaction of having completed 10 years of dedicated work, during which the Bank increased its capital six times over, carrying out credit operations for \$3,430 million which have generated a total investment of \$9.5 billion. The Bank is today one of the foremost financing organizations in the world and has gained the confidence, not only of the Latin American nations, but also of countries outside the hemisphere that have significantly supported it in its mission as a financial agent of the development of our region.

These facts alone demonstrate the dynamic role of the Bank and of its executive and administrative personnel in the development of Latin America. But it has performed another function of similar importance that should be stressed. This is its influence on other international institutions. The IDB pioneered in financing social projects and in promoting the Latin American integration movement. These activities should be kept in mind, both to acknowledge the progress made and, above all, to ensure that the IDB will preserve its distinctive characteristics as an effective financing mechanism, an institution that can foresee the future of Latin America and an agent of promotion for the socio-economic changes required by our countries in order to attain higher living standards and greater social justice.

For this reason, my delegation proposes to this meeting of the Board of Governors that it unanimously express its appreciation to Dr. Felipe Herrera and to the executive and administrative staff of the Inter-American Development Bank for their devoted efforts on behalf of Latin American development.

It is desirable to review these historic facts because of the satisfaction and optimism they engender. Let us now consider the responsibility entailed in the task the Latin American countries have set for the IDB in the future. We must admit that the Decade of the 60s left us a legacy of negative experiences and many frustrations. Only a few of the goals established in the Charter of Punta del Este have been fulfilled. Many of them are far from attainment and require even greater efforts from the Latin American countries and more effective

external financial support with respect to volume, opportunity and conditions.

Perhaps more than one-half of Latin America's population is still disadvantaged in terms of economic income, social status, cultural level and lack of participation in political activity.

There is a drastic imbalance in the use of economic space, with large rural areas saturated by a landless population on the one hand and ample idle natural resources on the other hand.

An alarmingly unequal distribution of national income and wealth persists.

Domestic markets are limited and evolution of the national economies is marked by serious financial imbalances and major distortions in production and demand structures.

These negative characteristics of the Latin American economies are not transitory circumstances but the inevitable result of a system of socio-economic development that tends to perpetuate them and aggravate their intensity.

External economic relations are the basic factor in Latin American development but at the same time account for a considerable share of its disequilibrium.

The consequences that might result from prolongation of this type of outward-looking growth is a fundamental aspect to which the American community should give deep thought.

The different elasticity of demand for primary and industrial products, with their effects on the terms of trade, was in the past the major factor in external imbalance. Today, however, this is being reinforced by dangerous trends toward new factors of imbalance. These include the following.

First, the concentration and domination of technology in and by a very small group of highly developed countries tends to accentuate relations of dependency that cannot be offset; particularly if the Latin American countries remain sharply compartmentalized.

Second, there is a definite propensity toward autonomous supply of the industrial centers, as a by-product of technological progress.

Third, the process of substitution of natural raw materials by artificial materials is being transmitted extraordinarily rapidly to the very countries producing natural raw materials, which means that the underdeveloped countries are failing to make use of their own resources and are overloading the balance of payments with new imports that serve to depress such resources.

Fourth, the domestic market of the underdeveloped countries is being increasingly supplied by foreign companies located within their

territories; this generates a flow of remittances abroad that exercises strong pressure on the balance of payments.

Fifth, it should be noted that the growing technological complexity of industry imposes a process of "industrial regression" upon the underdeveloped countries and those with narrower markets. All of this process severely restricts the possibilities of industrialization in the smaller countries and creates conditions that progressively weaken the negotiating power of these nations vis-à-vis those that are larger or more highly developed. This is the reason for the integration movement of Latin America, seeking broader integrated spaces permitting a process of development with expanded prospects, and greater solidity and independence with a view to utilizing their undeveloped resources and achieving specific objectives within reasonable schedules.

Inevitably, the economic context outlined above also has determined the characteristics of Ecuadoran development. Our economy is functionally related to the growth of its exports. Any weakening of that sector leads to a series of effects that result in stagnation of the economy as a whole.

During 1950-54, owing to the rapid expansion of per capita exports (5.3 per cent a year), all macro-economic variables rose spectacularly, including imports and investments, at rates of nearly 14 per cent and 12 per cent a year, respectively. This period covers an accelerated process of accumulation prompted particularly by the upswing in the banana economy, which was one of the factors expanding market bases and making it possible to promote industrialization.

In contrast, during 1955-61, per capita exports declined to 0.2 per cent a year, implying a deterioration in the growth rates as compared to the preceding five years. The dependence is clearly reflected by the reduction in growth of the gross domestic product, which amounted to barely 0.6 per cent on a per capita basis.

Since 1962, limited recovery has coincided with the appearance of a series of structural imbalances in the fiscal field, in the balance of payments and in domestic price levels.

A number of factors account for this development. The growth rate of exports proved insufficient to sustain the demand for foreign exchange deriving from different phases of the economic process. The new responsibilities of the public sector resulting from social population pressures were expressed in a more active policy of development promotion at the expense of a considerable increase in current expenditures and to the detriment of public investments financed by the national budget. In view of the deficient traditional system of generating income for the state and simultaneous deterioration of the external sector, it

was necessary to resort to external resources to finance a part of the capital budget of the public sector, which increased balance of payments pressure.

Over the last few years, deficits on the balance of payments current account rose to a level of almost \$150 million in 1962-68, following a surplus of nearly \$8 million in 1950-55.

The sluggish growth of production for domestic supply and the persistence of regressive income distribution methods in the agricultural sector are additional factors of pressure on imports.

Industrialization and rapid urbanization have, owing to extensive incentives to the industrial sector, led to a rapid growth in imports of raw materials, fuels and capital goods, accompanied by the restriction of public sector receipts and the creation of inevitable export imperatives to finance the process.

In synthesis, this series of trends toward imbalances in the external and fiscal sector, together with the deterioration in the purchasing power of sizable segments of the population, accounts for the system's inability to provide employment for the growing labor force and for the increase in urban and rural marginality.

Elimination of these obstacles calls for dynamic decisions to ensure a substantial change in relations between the various production factors and income distribution mechanisms within the context of an overall strategy. On the basis of this reality, my government is carrying out as many of the inevitable reforms as are possible, with a view to substantially expanding the domestic market and participating actively in the Latin American regional and subregional integration movement in order to expand the national market and make better use of opportunities provided by the extrazonal market.

These problems, especially in the fiscal, financial and balance of payments areas, are a legacy from the past. We realize that this is a disturbing and complex time in our economic history, both internally and in respect to the integration commitments deriving from the signature of the Agreement of Cartagena. It is a difficult transitional period that calls for great sacrifices, but the prospects over the intermediate range are promising. We are pleased to make the following observations in this respect.

The petroleum reserves identified to date in eastern Ecuador are so large that it has been decided to construct an oil pipeline with a capacity of 250,000 barrels a day. The possibilities of developing petroleum gas in the Gulf of Guayaquil area will be discussed during the course of this year. The copper deposits discovered so far are also sizable. Development programs underway will permit greater utilization of

the country's extensive fishery resources. The forestry resources soon to be exploited will also provide a significant source of exportable production. The industrial sector, stimulated especially by the preferential treatment accorded by Ecuador to the Andean Subregional Pact, will be another factor in the generation of foreign exchange.

All of the foregoing will provide an opportunity for making fundamental changes in the economic and social structure of Ecuador. This promising future is in contrast to the present status of finances, a situation made even more acute by the urgent need to create the infrastructure essential for utilization of our natural resources and for adequate competition in the subregional market and within the inter-American and world community. This calls for the indispensable implementation of an extensive investment program whose financing is far beyond the possibilities of national savings.

During the past decade, Ecuador received from the IDB credits equivalent to approximately \$80 million. With this financial support it has been possible to undertake the execution of fundamental projects in various productive and social sectors. During the next three years, the country will require a very much higher volume of external resources to finance a select group of basic works. To facilitate their execution without resorting to inflationary measures or affecting our traditional monetary stability, my government has launched a program of financial reorganization and secured congressional approval of the decree establishing the national counterpart fund, a unique financing mechanism that will effectively assist in the utilization of external credits to be contracted during 1970-73 for an estimated amount of \$300 million.

Ecuador is at present confronting a serious shortage in the electric power sector and an all-out effort is required to increase installed capacity during 1970-75. To cover part of the increased power demand deriving from the industrialization process induced by subregional integration, its vast potential hydroelectric resources must be exploited without delay.

Special mention should be made of the following projects:

- Pisayambo, for which engineering and design studies are nearing completion, will have a generating capacity of 150,000 kilowatts and irrigate approximately 52,000 acres. Construction is expected to start early in 1971.

- The Paute-Cola de San Pablo project, with a total capacity of 1,050,000 kilowatts is the most important undertaking in this sector, since it will feed the central interconnection system and meet power

demands in six Ecuadoran provinces. Work is scheduled to begin in 1973.

- Deserving special mention is the two-nation integration project of Pindo-Puyangó, which will have a generating capacity of 50,000 kilowatts and an irrigation capacity of some 50,000 acres on the Ecuadoran side and another 50,000 on the Peruvian side.

Under the road program, the Ambato-Puyo-Macas road opening up the eastern part of Ecuador and the first stage of the multinational Bolivarian Highway project are of particular importance.

In this brief and incomplete listing I have purposely left for last the Guayas River Basin project, because of its tremendous significance. Its execution will serve to integrate a region approximately 12,000 square miles, an area covering nine provinces. This is a combined irrigation, drainage, power generation and industrial and agricultural development project capable of absorbing most of the surplus population in the Ecuadoran sierra.

The sole purpose of this brief reference to some of the projects of the Ecuadoran Development Plan requiring external financing is to show the pressing need for a sizable increase in IDB funds to satisfy the new demand that will be generated by the great Latin American development effort that must be made in this decade.

We are not here to negotiate specific credits for the benefit of our individual countries; we are here to discuss and determine the policy that will guide the course of the IDB over the next ten years, bearing in mind, we repeat, the growing international financial requirements of the region.

This means that in the Decade of the 70s the IDB must not only increase its ordinary capital and the Fund for Special Operations to meet a major share of the regional funding requirements, but also reactivate its role as a financial catalyst and promoter of external support in order to channel additional international resources toward Latin America and stimulate greater mobilization of domestic resources in our countries.

At the same time the IDB must also develop more effective policies in dealing with the relatively less developed countries and furnish them with technical assistance and financing on preferential terms in their efforts to participate in the economic integration process.

While the major problems of the region are common to all countries, economic, social, political and cultural conditions occur within varying geographic and institutional environments that require first of all individual evaluation of such conditions and formulation of specific economic policies for each case, especially if the desired goal is balanced national development throughout the region.

Steps taken to date in the Andean Subregional market should serve as an example for the IDB in determining preferential conditions for the relatively less developed countries, based on their natural resources; their economic and social status and the effects of their small size on planning for accelerated and integrated development.

Accordingly, the policy of special treatment for less developed countries widely publicized by the IDB and set forth in Resolution AG-7/68 of the Ninth Meeting of the Board of Governors, should be specifically defined and implemented as a guide to the Bank's operating policy, since it is essential to improve the terms, interest rates and grace periods on loans to those countries in order to ease the burden of external debts they are obliged to contract to finance their development programs. Technical assistance must also be expanded, with emphasis on nonreimbursable or contingent recovery credits for preinvestment purposes to facilitate better utilization of available domestic and external resources. If these reasons are generally valid for developing countries, they are still more valid for the relatively less developed ones, which must make comparatively greater efforts in order to close the gap separating them from the more advanced countries of the region.

In addition, persisting restrictions on the use of concessional loans with respect to the supply of goods and services must be gradually eliminated.

With particular reference to consulting firms, we believe it is essential to develop a preferential policy for Latin American enterprises, especially those formed by experts from the borrower countries. This would contribute significantly to stemming the emigration of specialists whose knowledge and experience is urgently needed in our countries.

International lending agencies frequently impose a series of *requisites on beneficiary countries relating to the adoption of certain fiscal and monetary measures*, in order to ensure project success and optimum loan utilization. While these demands might be understandable from the banking viewpoint, in some cases they constitute intervention in affairs that are the exclusive province of the countries and their governments, creating opposition to international lending agencies that often leads to the contracting of loans from other sources on conditions that are unfavorable or prejudicial to the very purposes of national development. Some requirements by certain international credit agencies have even caused a *breakdown in national institutional and legal structures*. For example, such conditions may call for the formation of specific agencies to execute and administer projects financed by such international institutions. In Ecuador this has been one more reason for the proliferation of decentralized and autonomous agencies.

I cannot fail to recommend a drastic revision of the loan contract-

ing procedure, since the prolonged period of negotiations sometimes makes a project "obsolete," raises the costs of the investment programmed, or the project may be postponed indefinitely, with the consequent detriment to the prospective beneficiary sectors and to the development process as a whole.

With regard to the increase in IDB resources through the participation of extracontinental countries, I should like to state the Ecuadoran position. It would unquestionably be desirable for other developed nations, specifically those of Western Europe and Japan, to channel substantial volumes of financial resources into the development of Latin America through the IDB. But this contribution should conform with the policy of the Institution, the resolutions in the Consensus of Viña del Mar and the decisions of the IA-ECOSOC if it is not to impair the regional nature of the IDB.

These considerations, together with the recommendations made by the governors who have spoken before me, should be consistent with the major lines of the new policy that will define the Bank's activities during the present decade.

If we are to break the sequence of harmful events which has shaped our fortune for many years, and which sprang in turn from national and international deficiencies of which we are all aware, we must now embark on a course of timely action based on a decision to use our human and natural resources in a planned and intelligent manner. The best assurance that democratic conditions and international harmony will be preserved lies in our decision to banish, slowly but surely, the inequitable distribution of wealth and income that benefits certain groups in each country at the expense of the large majority, and in our determination to achieve a wide distribution of trade, scientific and technological progress, income levels and well-being in the world community.

In conclusion I am glad to announce that my Government is prepared to support the proposals to increase the capital of the Bank and establish a regional finance corporation.

President José María Velasco Ibarra has asked me to convey the greetings of his government and the people of Ecuador to this meeting so fittingly held in the city of Punta del Este, which has been the setting of uniquely important events setting the course of economic and political relations in the hemisphere.

President Velasco Ibarra has also asked me to express his particular admiration and affection for the homeland of Artigas. Speaking for him, and for myself as well, I wish to thank the government and the people of Uruguay for their many kindnesses exemplifying the traditional courtesy of this hospitable land.

Address by Mr. Luis Enrique Oberto, Governor for Venezuela and Director of the Central Coordination and Planning Office of the Presidency of the Republic, at the Closing Session

This meeting of the Board of Governors of the Inter-American Development Bank, the first I have had the privilege to attend on behalf of my country, is of special significance in that it is held at the start of one of mankind's most promising decades, the 70s, a circumstance that places us in a challenging position, faced as we are with a bright future, of bringing about conditions to enable the people we represent to share in the promised well being. At the same time we are given the opportunity of reviewing the work of the Bank in these first ten years of intensive service to Latin America and evaluate it in the light of these bright new prospects.

These accomplishments of the Bank have been made possible mainly by the unceasing and tenacious efforts of its President, Board of Executive Directors and technical and administrative staff. We offer our special congratulations to all of them.

Since its very establishment the Bank has been under the upright and capable guidance of Felipe Herrera, who has preserved its regional character and has kept action in line with the principles and purposes for which it was created. We are pleased to record our satisfaction that he will continue to guide the Bank in the years immediately ahead.

The First Meeting of the Board of Governors, held in February 1960, marked the beginning of a new stage in hemisphere cooperation, one in which multilateralism became a prominent feature. The aim was then, as now, to transform the productive structures in a manner conducive to a more equitable distribution of income, and to make each of our countries less dependent. In pursuing this purpose throughout the decade, the Bank embarked on a number of new fields of activity. Indeed, the key to its successful performance was precisely this operational flexibility, which we expect will be maintained in the future.

Venezuela has, from the start, extended all the cooperation requested by the Bank, especially in the financial and political field, and has demonstrated its complete solidarity with the other member countries. Our presence here in this democratic and hospitable Republic of Uruguay, whose institutions have been an example for all Latin America, is further evidence of our confidence in the ability of the people of the hemisphere to overcome, by their own efforts and perseverance, the obstacles to the solution of their economic and social problems. With this common joint endeavor, Venezuela is following with interest the

amendments to be made in the policy of the Fund for Special Operations to allow repayment in the currencies lent and to improve the terms and interest rates for each member country according to its development level. Such a measure would free hard currency holdings of the Bank for new operations and would relieve the pressure exerted by debt service payments on the budgets of the less developed member countries.

As in other Latin American countries, our resources are insufficient to meet our economic and social requirements and to bring all our people into the general development process.

The pressing need to incorporate broad sectors of rural society into the economy has led us to draw up an integrated agricultural development project, for part of which Venezuela has requested financing from the Bank with the certainty that given its special features and its purpose, our requirement will be not only understood but satisfied as well. This project consists of a group of coordinated activities such as farm settlement, land preparation, farm loans, irrigation systems, construction of silos, rural housing, and education, and it exactly fits the definition of what the Bank calls a direct loan for sectoral development, being therefore consistent with the operating policy laid down by the Board of Executive Directors.

The results of the housing programs and rural water supply projects which the Bank is helping to finance, as well as the agrarian reform program being carried out with domestic and external resources, are effective proof of true achievements and of the value of the programs undertaken and proposed, and of the country's ability to meet its commitments.

Venezuela is giving special attention to the development of the industrial sector, in response to increasing concentration of its inhabitants in the cities and the need to diversify the economy. Although the Bank's industrial loans cover only a small proportion of our investment needs, we are pleased to confirm that they have made an appropriate contribution to activities furthering our development goals. The Venezuelan Government's manufacturing industry plan, including the programs and projects directed to export trade demands, will surely receive the full support of the international agencies, and of the Inter-American Bank in particular.

I should like to refer very briefly to the group of initiatives aimed at improving the Bank's operations. We have been pleased to see a new procedure used at this meeting, namely the establishment of committees of Governors to deal with specific problems. Considering the results, we suggest that this procedure become a permanent feature and be used between annual meetings, in order to give the Governors a continuing

and effective role in developing a body of policies reflecting regional priorities and the needs of each of our countries.

In an effort to project its action into areas where it can make the best contribution, the Bank has consistently endeavored to pioneer in new fields of investment, and to adapt the latest innovations to this end. Venezuela recognizes this positive attitude of the Bank and wishes to suggest two fields of activity receiving increasingly higher priority in the investment plans of member countries: urban rapid transport systems and tourism development.

Rapid transport systems not only move great numbers of people in other cities but are also a substantial factor in linking together the various elements of the urban economy and thereby helping them operate more efficiently. The size of the problems involved, and the urgent need to solve them, has prompted a number of member countries to develop plans in this field, carefully taking into account a suitable investment return. These facts, including the priority assigned to such projects in the national development plans of various countries, are ample justification for the Bank to study the possibility of deviating some of its resources to financing the construction of urban rapid transport systems.

Tourism is another field that is been given more and more importance. On a broad regional scope we have a firm pronouncement to this effect in the recent Caracas Meeting of IA-ECOSOC at the Ministerial Level. The Bank should increase its contribution in this field by substantially increasing its financial and technical assistance. I should also like to make a suggestion that the Round Table at the Twelfth Meeting of the Board of Governors next year have as its topic tourism and all its aspects.

With the aim of stimulating our efforts toward industrialization, and toward expansion of non-traditional exports, the creation of a Latin American finance corporation has been suggested. Such an agency, designed to develop all types of business ventures, national and multinational alike, constitutes a significant step toward the common goal of diversifying our foreign trade and placing it on a broader geographic base within the shortest possible time. To accomplish this it will be necessary to develop new mechanisms and organizational schemes such as funds and schemes for export promotion.

Since such an agency should be organized fairly soon, given the pressing nature of the problems it is to solve, we believe it appropriate to take this opportunity to offer Venezuela as the site for its headquarters. We would of course be prepared to provide the full range of facilities needed for an effective performance of its mission.

Fellow Governors: I wish now to refer to the proposed increase

in the Bank's resources. An additional Latin American contribution to the Fund for Special Operations would meet the need to substantially increase the region's own development effort. But let us not forget that what the region needs and seeks from an institution like the IDB is greater availability of foreign exchange, especially at a time when the Bank is beginning to accumulate local currencies from payments of principal and interest on loans made from the Fund.

As a related matter I would like to suggest that a study be made with a view to solving the problem posed by the local currencies within the Bank's program for the promotion of Latin American exports. It would be useful to evaluate the efforts made to date and to examine appropriate arrangements to allow such local currency resources to be used in financing the sale of our products abroad, either through the present mechanism of the Bank or by creating or strengthening funds in the member countries. The effect of such schemes on the interest rates for loans for this purpose would obviously have to be taken into consideration.

With regard to the proposals for admission of non-member countries of the inter-American system to membership in the Bank in order to institutionalize the cooperation that some industrial nations might be prepared to extend to the Bank, Venezuela believes that all proposals to this effect should be properly substantiated and carefully examined, before we arrive at a final decision, which should ensure the preservation of the Bank's regional character. In any case, we look with favor on any measures to bring about the admission of Canada, a country which has been actively cooperating with development efforts in Latin America.

All the views I have expressed are consistent with the principles of international social justice to which the President of Venezuela, Dr. Rafael Caldera has subscribed at different times. In fact, in his first address to the National Congress he said: "We have persisted in our support of the principle of international social justice that holds that the more developed, powerful and wealthy nations have no greater rights but do have greater responsibilities, and that they are duty bound to aid the development of other nations to the extent required to ensure universal well-being."

Resources furnished through a cooperation founded on principles of social justice ought to flow through multilateral channels on the basis of only one consideration, the merits of the project. And since the funds managed by the Bank are the product of a concerted effort by its members, it is clear that the Bank cannot abandon the multilateral principles

that inspired its creation, at the risk of losing its own identity and becoming simply an instrument of bilateral policy.

Upon the completion of the Bank's tenth year of intense and fruitful life, we should like to remind our fellow governors that when the Bank was established, Venezuela expressed a desire to place at the Bank's disposal all the facilities needed to enable it to perform its mission in the most effective and best possible manner.

I would also like to express our great pleasure in welcoming our new member, Jamaica, which brings an added source of strength to the Bank and opens up new possibilities for closer ties between our countries.

I cannot end my remarks without referring to the report prepared by Dr. Raul Prebisch, "Change and Development: The Great Task of Latin America," and to the brilliant presentation we were privileged to hear yesterday. In both he emphasizes the non-economic aspects conditioning our development and offers an optimistic view of what we can or must achieve through our own efforts.

And both provide valuable material for study and guides for future action by our countries.

We resolve that the IDB maintain and intensify its concern with the fields cited in the Prebisch report, especially with respect to problems of employment, urban growth and improvement of institutions to make more responsive the current development needs.

Finally, may I express my most sincere hopes that the IDB will continue and expand its highly successful endeavors and continue to be a driving force for cooperation among our peoples and quicker progress toward integrated development.

Address by Mr. José Carlos Pena, Chairman of the Board of Governors, Governor for Uruguay and President of the Bank of the Republic of Uruguay, at the Closing Session

Yesterday we were saying that development is the result of an act of will, and that it presupposes a determination and a wish on the part of both the public and the private sectors, since without a dynamic outlook it is impossible to induce dynamic changes in economic structures; that this emphasizes the individual and collective responsibility of our communities; that we must come to see it not as a gift but as the result of an effort, something we cannot expect to receive until we have given of ourselves. And our country is giving, since it is aware that inflation impedes development by reducing the demand for money, by lowering the investment rate, by adversely affecting the product and employment, by causing readjustments in the exchange rate, which, in default of complementary measures, are, rather than readjustments, factors causing and accelerating the inflationary process; aware of all this, Uruguay adopted 21 months ago a wage policy which has been a fundamental factor in our economic recovery. The rapid recovery of the Uruguayan economy, even though there was a short downturn that lasted two months, is already being studied in academic circles abroad. I do not wish to enlarge on this point here, and I have only mentioned it to show that if my government calls for determination and demands results, it previously offers results and shows a firm and resolute will.

We are pleased to find that our opinions coincide with those of other Governors. Thus the Governor for the United States said that "we perceive now more clearly than ever that external assistance can only be efficiently utilized where there is an intense domestic will to develop." In the same way the Governor for Peru repeatedly spoke of the responsibility of the countries themselves for the lack of dynamism in development or, to quote his own words, "domestic effort is the decisive factor in development."

We are also pleased and honored that this is one of the central points of the Prebisch report as well. A reading of his report, the speech he made here, and what he told me personally shows that our act of the will is identical with his discipline of development. Prebisch says: "We need a true discipline of development in competition, in reciprocal trade, in the production of exports, in the accumulation of capital and in action by the state to decisively accelerate the necessary changes. The state itself cannot escape this discipline in its policy, its expenditures, and its investments."

Furthermore, in his statement at the Fourth Plenary Session, he

clearly emphasised the dual contribution of the public and of the private sector when he said, referring to the private sector, that the investment rate—and we all know the importance and the impact of investment on the product and on employment, that is to say, on the development of a country and on an economy—is a matter of determination and of internal structure, and when he emphasised, referring to the public sector, the importance of the discipline or will of development on politics.

My first conclusion then is that at this Eleventh Meeting of the Board of Governors of the IDB our responsibility in generating development has been clearly stated by various governors and in technical reports. We must create development, not receive it; the task while not easy is one we all have in common.

We are pleased with the decision taken on the increase in the ordinary capital resources of the Bank and in the Fund for Special Operations. My second conclusion is, that with these new resources the work of the Bank will be accelerated as will development itself.

Another important point, directly connected to the first, is the emphasis placed by several governors, including the Governor for Chile, and also by Dr. Prebisch, on integration as a powerful tool of development. Although it would have been advisable to clearly define what type of integration they had in mind, I assume that they were referring implicitly to the optimum forms of integration, namely, the common market of the economic union.

If national development is based on determination and the collective will of a nation, multinational development, as a result of integration and also by Dr. Prebisch, on integration as a powerful tool of development as a goal and pursue integration as a policy.

I doubt that this united desire, in time and in space, has been produced. My country has not obtained from integration the benefits it expected and to which it was and is entitled. We have been faced with all kinds of difficulties and although we do not ignore possible domestic shortcomings and responsibilities—rather, we claim the honor and the privilege of having been the first to point them out on the first day of the Meeting of this Board—we must not and cannot remain silent about the fact that we have confronted completely external difficulties. Although my country complains about trade restrictions imposed by highly developed countries, it does not wish to impose them on countries at the same or lower level of development.

My third conclusion is, that at this Eleventh Meeting, the Board of Governors, or at least the majority of them, have expressed the desire to find solutions to the problems of development through genuine and effective integration. If this is so, we must be willing to make conces-

sions in order to receive benefits; in this respect, each government must act resolutely and forthrightly.

A third fact which we are pleased to mention is the emphasis placed on industry in the most economically adequate sense. This point was made by the Governors for Paraguay, Bolivia and Chile and also by Dr. Prebisch, but the essence has been to point to an association which, while obvious, is often forgotten, between competition and industrialization. My fourth conclusion is, that this Meeting has expressed its desire to do away with the tariff industry and tariff managers. It is about time.

Several governors, including the Governor for Argentina, gave voice to what is undoubtedly a common wish: to transfer the IDB to the capital city of a Latin American country. My fifth conclusion is, that this wish, so emphatically and clearly expressed at this Meeting, should be realized as quickly as possible and we hope that it will be at a very early date. In this connection I repeat, in my capacity as the Governor for Uruguay, the words spoken here by the President of the Republic, Mr. Jorge Pacheco Areco: "We also view with satisfaction the efforts directed toward the geographic relocation of both the Bank and its related organs. Uruguay, which has been the site of the most important international events in the inter-American system, offers its hospitality as of now should such efforts materialize."

My sixth conclusion concerns the shortening of the time taken up in loan transactions. We are well aware that projects must be examined with proper care and consideration. This is implicit in our argument, but it must also be understood that, since economic and social projects are being considered, such negotiations must be reduced to the necessary minimum. Sometimes, negotiations give rise to further negotiations, and this is an indulgence in detail at the expense of the urgent needs of the requesting countries. Let greater authority be given to the local offices, as has been advocated here, or let some other alternative solution be found: that is my conclusion; it is the desire of my Government that preferential attention be given to this problem and that the Board of Executive Directors devise appropriate solutions.

Dr. Prebisch mentioned with good reason that the emigration of professors, teachers and professional personnel costs Latin America more than the outflow of capital. And he also quite rightly said that it cannot be prevented by decree but only by creating incentives that bind men to their work. Therefore, and this is my seventh conclusion: "Uruguay regards with satisfaction the measures the Bank has been taking since its establishment to recruit for its technical assistance programs qualified experts and technicians from the country receiving that assistance." In this respect, it is the hope of my government that the IDB will soon be

known as the Bank of Technology because of the attention it devotes to these problems.

At the Eighth Extraordinary Meeting of IA-ECOSOC, held in Caracas February 3 to 6 this year, it was resolved: "To request the early completion of the study being made by the IDB of the possibility of establishing a regional organization for the promotion of enterprises of all kinds, both national and multinational, in Latin American countries."

The establishment of the Regional Finance Corporation has been long delayed; the studies entrusted to the experts are already completed; and, in view of the desire of many Governors to realize this aspiration, it is my wish, as the Governor for Uruguay, and my hope, as the Chairman of the Board of Governors, that, within the next six months, after the technical reports presenting alternative financial and organizational plans have been distributed, a special meeting of the Governors will be held in Washington to establish the Regional Finance Corporation.

And now a few comments about Jamaica; first, a word of welcome to this country which, while new to the IDB, is old in the development field, since one of the outstanding authorities on the theory of development, Professor Arthur Lewis, has the honor to be a Jamaican. Second, a word of thanks for the generous remarks of its Governor about my country, my President, and our speeches.

Fellow Governors, this is the time for action and we must gear our efforts to it; when our peoples are clamoring for development, it is our duty to produce it. While to work with you has been a source of satisfaction, it is even greater satisfaction to know that we shall continue to work together. Soon we shall make the Regional Finance Corporation a reality. I shall see you in Washington and I shall wait upon you there.

Remarks of Mr. Felipe Herrera, President of the Bank, at the Closing Session

On earlier occasions, we have attempted to categorize each meeting of the Board of Governors in terms of the principal ideas and guidelines which prevailed at the meeting. We have classified previous gatherings as the Meeting of Integration or of Agriculture or, as was the case last year in Guatemala City, as the Meeting of the Reaffirmation of the Principle of Multilateralism. After having listened to the statements of the Governors closely and having analyzed the documents presented by the Bank as it completed the first decade of its activities, I believe that this meeting might be properly termed the *Meeting of the Bank's Historic Mission in the Hemisphere*. At this meeting the Bank's role in the dynamic process of Latin American evolution has been placed in perspective.

This historic approach has enabled us objectively to evaluate the Bank's past and project guidelines for the future. The Governor for Brazil has aptly referred to the valuable store of information, consultation and orientation which will stem from this meeting, such as your statements, the outstanding report of Dr. Prebisch, the papers presented to the round table and other publications and reports by our Board of Directors.

The Bank and the Past Decade

During the past few days we have evaluated the record of the Bank; in this connection, I should like, on behalf of the Directors, my staff and myself, to give particular thanks to the Governors for their comments commending the performance capacity, dedication and mystique which has characterized the Bank in the performance of its duties over the last ten years. We accept with the greatest humility the vote of confidence approved at this meeting on the recommendation of the Governor for Paraguay. We regard this vote as a powerful incentive for us in the performance of the tasks that lie ahead.

We have noted, gentlemen, that in giving us this vote of confidence, the history of our Bank has been recalled. These historical references are particularly significant today, since the last time we conjured up the past in search of guidelines for the future was at our first meeting in San Salvador, perhaps because at that time the member countries were able to look only to the background that led to the establishment of the Bank and still had serious questions regarding its future. Reviewing the proceedings of earlier meetings we see that since that time we have scarcely

mentioned the Bank's past, since we were always more concerned with its day-to-day problems.

Those who have followed our previous meetings are well aware that we have always devoted special attention to the technical, functional and organic analysis of the Bank's operating mechanisms. At this time, there is a consensus that our operating mechanisms, that is our lending and technical assistance activities, are functioning well but that they should be revised and consolidated to increase their effectiveness on behalf of Latin America within the context of inter-American cooperation and the framework of international economic relations. In this connection, I should like to mention certain statements that have very clearly stressed this basic aspect of our activities, including those of the Governors for Argentina, Brazil, Chile, Mexico and the United States. The Governor for Brazil, referring to the historical motivation inherent in our organization, defined the Bank as an organization guided by a working philosophy in which technical competence is united with the enthusiasm and idealism of its leaders and staff.

The Bank of New Ideas

In this retrospective approach, virtually all the Governors, and particularly the Governors for the United States and Argentina, have emphasized the value of the Bank as innovator, as the Bank of new ideas. Such a definition naturally entails challenging responsibilities for the future, for in addition to developing new ideas we must have the capacity to update them in effective and practical terms in order to convert them into completed missions, subject to our general mandates. It is a recognized fact, gentlemen, that this continuing innovative effort of the Bank over the past decade has exerted a profound influence on other international financing organizations. We have just heard the statements of the Governors for Ecuador and Venezuela referring particularly to our influence on international financing in general and more specifically to our impact on the various member countries.

IDB Presence in Member Countries and in the Region

We have heard with great satisfaction the account given by several Governors of the Bank's activities in their countries. The Governors for Argentina, Brazil, Colombia, Ecuador, Paraguay and Peru, among others, have evaluated this decade of the Bank's life in terms of the work accomplished within their respective national boundaries. In this evaluation of our past record, we have also heard tributes to the Bank's

action in fostering regional interests. The Bank has been cited for its pioneering effort, through its financial and technical cooperation, on behalf of Latin American economic integration. Some of you have aptly noted a parallelism between the activities of the Bank and the institutionalization of inter-American and inter-Latin American cooperation. The Governors for Guatemala and Peru, in particular, have referred to the re-emergence in this decade of renewed zeal for regional self-affirmation, of an action designed to strengthen the ties among the countries of Latin America, in terms not only of the perspective benefits of integration but also of the development of a common position *vis-à-vis* the rest of the world on matters of trade and financial policy. It has been acknowledged that these efforts have been supported by the Inter-American Bank through its continuing example and encouragement. In this connection, we should fully realize that while our Bank is an inter-American organization open to the world, it is also an agency with a single mission: to serve Latin America. This is the only context within which the work of the Bank can be evaluated, the only model against which the success or failure of our institution can be measured.

I have been particularly pleased that during this meeting great importance has been assigned to what we might call the extra-financial aspects of our work, within the function of the regional agencies. I recall that nine years ago in this very hall, when I was asked for my opinion, as president of a newly formed multinational agency, on the new Alliance for Progress policy, I made the following statement within the same context that you have been defining:

"In this age of popular and national revolutions, the Alliance for Progress will be significant to Latin America only if it receives the direct support of great masses of workers and farmers, the faith of the middle class and businessmen, and the endorsement of intellectuals and technicians. The Alliance for Progress will be valid in Latin America only as we realize that the Hemisphere is experiencing a genuine revolution—one of continental nationalism. Nationalism in Latin America has historical meaning only as associated with a rapid and vigorous economic and political integration. While in other areas nationalism is a process of separation, differentiation and independence, in our Hemisphere national revolution is significant only as it reunites countries linked in the past by geography and historical ties. At present, the deterring elements in Latin America are the groups that safeguard their personal economic and political interests. They are aware that integration will destroy their privileges."

I believe, gentlemen, that the Inter-American Bank has been true to and consistent with this philosophy and I also believe that these ideas,

which nine years ago may have surprised more than a few of my good friends here today, coming as they did from the president of a financial institution, are wholly relevant today. Today, having focused fully on Latin America's political problems, since we realize that economic and social development is basically a political problem, these concepts are valid and current, not as an expression of creed or ideology but as requisites for achieving our complete political and economic freedom.

The IDB and the Future

Increase in Resources

We have looked to the past, but we have also looked forward into the future. During these few days we have endeavored to peer into the future to see what the prospects of the Bank are in relation to the evolution of Latin America. Regarding the Bank's future, you will agree with me, that the most outstanding decision has been the Board of Governors' vote approving a substantial increase—\$3.5 billion—in the Bank's resources. Not only is it the most important resolution of the meeting, but I dare say it is the most important in the Bank's history.

In effect, member countries have expressed the desire that the Bank expand its volume of lending by more than 50 per cent. Closely related to this aim is their further desire that the resources accumulated by the Bank over a decade, amounting to \$6 billion, be expanded to approximately \$10 billion within three years. Obviously, a great task lies ahead of us, since we have the grave responsibility of implementing this increase in funds and, then, of utilizing these additional resources as efficiently as possible in terms of their prospective multiplier effect within the framework of the collective effort being made by the Latin American countries.

We should, therefore, be in a position to comply with the mandate expressed here, particularly by the Governors for Argentina, Mexico and the United States, who pointed out that the Bank should attain annual lending rates of around \$1 billion. I do not believe it necessary to consider at this point the detailed contents of the approved resolutions, but I would like to stress the philosophy underlying the agreement reached by the member countries. We must, of course, thank the working group which effectively and smoothly harmonized the various points of view. But above all, I would like to emphasize that this increase in resources strengthens the multilateral nature of the Bank.

Such strengthening is not only financial but spiritual as well, for of this additional amount of \$3.5 billion, part in cash contributions and part in subscriptions, we should not forget that the United States commitment

amounts to \$1.8 billion, while that of Latin America totals \$1.7 billion. Never before this meeting have our countries so decisively sought to provide such a significant financial role to the Bank.

In my opinion, gentlemen, you have assumed this responsibility fully aware that the economic growth of Latin America, particularly that of the larger countries, enables the region to accept these new commitments without their entailing an excessive burden on their respective economies. Furthermore, I am sure that consideration has also been given to the fact that the additional subscriptions to our callable capital will enable us to attract new resources in the capital markets, and, of course, that the resulting greater operating capacity of the Bank can only lead to stronger financial support for the economic growth of its member countries.

Among these lines, I should like to emphasize particularly the position adopted by the comparatively more developed countries. In effect, without forgetting the special attention we have given and will continue to give to our less developed member countries, we should also acknowledge the broad, coordinated and generous approach of those countries that conventionally are classified as the most developed in Latin America. In this context, it is of interest to note that Chile and Colombia have agreed during this meeting that their contributions in local currency to the Fund for Special Operations may be utilized in loans granted to sister countries, particularly the less developed ones, as Argentina, Brazil, Mexico and Venezuela had earlier agreed to do. I repeat my conviction that these characteristics accentuate the Bank's multilateral philosophy and are an expression of Latin America's self-confidence as a region and of its prospects for achieving an excellent mechanism of understanding and endeavor in common with the United States and with the industrialized countries in general.

Future Admission of Non-Member Countries

Another aspect relevant to the future of the Bank discussed in this meeting is the formation of a committee of Governors to study alternative formulas for the future association of non-member countries with the Bank. I agree entirely with the Governor for Venezuela, when he indicated the great usefulness of these mechanisms to which the Board of Governors delegates certain basic tasks. We are confident that, despite the heavy demand on your time by official responsibilities in your own countries, you will be able to give careful study to formulas directed toward a more permanent association of non-member countries with the Bank. I believe that the proposed resolution which has been read is

broad enough to permit the exploration and analysis of various possibilities. The first meeting, under the direction of the Governor for Mexico, who has been appointed chairman of the committee, will undoubtedly be held in the next few months, and it will also be possible to set up the initial work program. To this end I consider it fundamental that steps be taken to approach non-member countries interested in developing a means of closer association with the Inter-American Bank. This should be done in the form in which you yourselves decide with the advisory services of the Board of Directors and the Bank's Administration.

Mention should be made of the unanimous emphasis apparent at this meeting with regard to prospects for including Canada within the structure of the Bank, either as a member country or through a special mechanism of association, within the general lines of the formula suggested by the President of the Bank, that is, through the establishment of a parallel fund by non-member countries.

Operating Policies

Another aspect of this meeting's look to the future has been the wish of the Governors to retain certain guidelines of our operating policy and to improve others. There has been much insistence on the need for greater flexibility in Bank operations. The Chairman of the Meeting referred to the subject, while the Governor for Chile indicated in his statement that the Bank, with great flexibility, should seek to study means of protecting member countries against the high cost of borrowing funds. The Chilean Governor urged that we continue to work through the mechanism of combining "hard" with "soft" resources and implied that the new resources derived from the increase in the Bank's ordinary capital would make it possible to set up some sort of internal subsidy for interest rates applied to loans granted with ordinary resources.

Another general operational aspect which has been emphasized is continued preferential treatment for the less developed countries. In this connection, I should particularly like to recall the speech delivered by the Governor for Bolivia and the statement made by the Governor for Nicaragua on behalf of the Central American group. Obviously, the Bank has made this emphasis part of its philosophy, and, consequently, you can be sure that we will continue to seek the best possible means of accentuating such preferential treatment.

Another aspect of our philosophy has been the activity undertaken in our capacity as the Bank for Integration. We have been requested to continue this significant line of action.

An additional facet of our approach to loan applications is the eventual assistance that the Bank can provide for the establishment and strengthening of institutions beyond the mere transfer of financial resources. The Governors for Paraguay and Venezuela have this morning made very particular reference to the great receptiveness of the governments of the Latin American countries to the Bank's action in institutional fields, pointing out the encouragement given to our studies and achievements in that field.

Sectoral Activities of the Bank

In this projection of the future, you have also referred to the sectors in which the Bank operates, applauding the work of the Board of Directors and the Management in a number of areas. We consider this recognition to be a mandate for consolidating the attention given to these sectors. Such is the case, for example, with agricultural financing. The Governor for Mexico made an outstanding statement concerning the Bank's role in agriculture in his country. Other Governors, including the Governor for Brazil, have categorically referred to our efforts in regard to infrastructure and the importance attached to it on both the national and regional levels.

The Governors have also evidenced interest in the future exploration of new fields of action. Specifically, the Governors for Mexico, Paraguay and Peru have reiterated the suggestion made in Guatemala City that the Bank should participate more actively in the field of tourism and fishery development. These are areas in which the Bank has already undertaken preliminary activity, authorizing in the first instance the use of overall lines of credit directed toward hotel activities and certain industrial activities relating to tourism. With regard to fisheries, definite progress has been made in defining operating criteria for action in the immediate future. We expect that by the time of our next meeting of the Board of Governors we can report to you the approval of several fishery development loans. In my bilateral conversations with various Governors, I have heard emphasis placed on fishery development as a solution to nutritional problems, as well as an economic instrument for improving balance of payment positions, by fostering exports or replacing imports.

Speaking of sectors, I should like to mention one on which there was a consensus that the Bank should support more, to which I referred with particular emphasis in my initial statement. I refer to the industrial development of Latin America. I believe it has been a fortunate coincidence that this concern for stressing industrial financing has coincided

with the proposals contained in the analysis made by Dr. Raul Prebisch. As he stated very graphically yesterday, with regard to economic policy priorities, "the law of the pendulum" has actually prevailed: following a somewhat disorganized process of support to industrialization and in the face of a serious lag in agriculture, an era ensued in which scant mention of industrialization policies was made either nationally or regionally. I believe that the current situation in Latin America, and especially the demand for employment, the need for diversifying exports and the realization that a solid economic base inevitably requires an industrial foundation is persuading us to strengthen steadily our policy of support to industrialization. In this connection, two proposals have been made, one of them mentioned by virtually all the Governors, which has received considerable backing. One calls for the establishment of a subsidiary or of some mechanism that can, either parallel to the Bank or within its structure, cooperate with Latin American private and industrial enterprise. The other seeks to expand and improve our system of financing exports of capital goods, a matter that has already been given special attention by the Board of Directors and the Management of the Bank.

In this respect, I should like to recall that the conclusions of the Pearson Report indicate that one of the major fields for international financial cooperation, particularly through regional banks, is the strengthening of export promotion mechanisms for the less developed countries. Specifically, emphasis is placed on exports of manufactures requiring financing of more than 180 days.

The Bank is preparing separate reports on the two proposals and I am sure that the Board of Directors will be able to make the necessary recommendations shortly, at any rate before the end of the year, without prejudice to having the Board adopt such internal decisions as it deems pertinent within this line of action. I understand that the conclusions of both reports may be submitted to the Governors for consideration at the next meeting. Alternatively, a vote by correspondence could be taken during the present year.

Institutional Aspects of the Bank

Also in regard to the future, references have been made to institutional or organic aspects of the Bank. These include the proposal of several Governors that the Bank's headquarters be moved to Latin America. In particular, we might note the offer made by the Governor for Argentina to establish Bank headquarters in Buenos Aires.

References were also made to the need for strengthening our Board

of Directors because of the fact that new subregional groups are joining our institution. Along these lines, it is also becoming necessary to adapt the Bank's internal administrative structure to its new responsibilities.

Mention should also be made of the proposal by several Governors that more intensive use be made of Latin American consulting firms and of personnel employed in development agencies of the region, who might from time to time be assigned to our institution for brief periods. These suggestions, as usual, will be studied by the Directors, who provide you with permanent access to the executive mechanisms of our organization.

These are, in my opinion, the basic ideas and guidelines concerning the future of the Bank as expressed at this meeting. But another and perhaps one of the most significant aspects of the meeting now ending has been a very thorough discussion of the future of Latin America, to which we shall refer briefly.

Latin America and the Next Decade

Rescheduling of Tasks

I believe that the crucial aspect in our discussions was the presentation made by Dr. Prebisch. The statements of certain Governors, including those for Argentina, Bolivia, Ecuador, Paraguay and Peru, agreed with him that the first task to be accomplished in coming years in Latin America is what has been called the rescheduling of economic growth rates based on the adoption of a "discipline of development," especially in terms of greater internal efforts designed to increase domestic savings, expand the basis of exports, eliminate structural obstacles in the economy and achieve broader political participation by all social sectors.

At the inaugural session, the Governor for Uruguay and Chairman of the Meeting, in citing the need for our countries to adopt their economic policy to the actual resources on hand, prefigured certain central ideas that should prevail in a true discipline for development, referring particularly to the erosion of the economic growth process produced by inflation.

In concise but no less profound words the Governor for the United States mentioned the need for a large group of Latin American countries to reach, as soon as possible, the stage of "self-sustained development" on the basis of pragmatic economic criteria.

The adoption of such a discipline for development naturally requires the financial agencies to adapt their action to the essential concerns of the recipient countries themselves. I appreciate the acknowledgements here of the Bank's policy of respect for priorities set by the member countries.

In this connection, we have at times taken our own stand precisely because of our concern for the absolute respect for what the countries consider to be their priorities, on the one hand, and what they consider their inalienable right to control and ownership of the means of production, on the other.

In this regard, the Governors for Bolivia and Peru expressed views which, though they obviously represent the positions of their governments exclusively, are at the same time philosophic approaches insofar as they maintain that each government and each people is responsible for the final decision on a system of economic organization, whether it be based on public, private or joint ownership.

These general concepts, broadly recognized in our organization, have enabled the Inter-American Bank, after a period of ten years, to remain closely identified to actual economic conditions in the hemisphere. These very concepts have made possible the outstanding success of this meeting and the vote of confidence we have received. For in those ten years the Bank has never adopted the advocacy of any particular philosophy. The only philosophy we have advocated is that of our mystique and our conviction that a process of maturation is under way in Latin America; although we do not yet know its final form or outcome, we do know that it reflects the aspirations and the wisdom of the people and their leaders, who are providing the necessary formulas. In view of the solutions adopted, our sole duty is to place ourselves at their service.

Regionalism as an Instrument of Combating Underdevelopment

The concern for a second great concept regarding the future of Latin America has been restated at this forum, the affirmation of what we might call the principles of regionalism. In effect, we are beginning to see the emergence of a nationalism of a regional nature or, as some political scientists in other areas call it, a pan-nationalism or supra-nationalism. I believe, gentlemen, that this Bank has provided an example of what is meant by a dynamic and pluralistic, and consequently nonexclusive, regionalism. The fact that Caribbean countries are participating in the inter-American system and in the Bank itself is clear proof of this statement. Further proof has been our promotion of the establishment of subregional formulas. Moreover, the willingness of the more developed countries to make cooperative efforts, with their own resources, on behalf of the less developed countries shows that regional-

ization is in no way rigid but, to the contrary, appears to provide an additional factor of dynamism for economic growth of the countries that have joined together under the present plan of regionalization. In this regard, I should also like to recall certain ideas contained in my statement on behalf of the Bank in August 1961 in this very hall, sketching the future of our institution within the framework of the policy laid down in the Charter of Punta del Este:

"We should establish the principle that the Latin American countries themselves, in accordance with their respective economic growth, must carry out the work of assistance and contribution to the less developed countries. We should attach great importance to the possibility of rapid and even spectacular development of the largest nations in the community, since this would make an effective, cooperative and considered action possible. In Europe, for example, two-thirds of present placements of the European Investment Bank have been oriented toward the economic and social development of Southern Italy."

We referred to the European Economic Community, taking into account its prevailing approach that the problem of the backwardness of southern Italy was a source of concern not only for that country but for Europe as a whole. I believe that this philosophy has gradually taken root in our own Bank during these years. For example, the problems of northeastern Brazil have in many aspects ceased to be a source of concern for that member country alone and have become a preoccupation of the Latin American community as a whole. The solution to the imbalances posed in certain advanced countries containing less developed regions, as well as the encouragement and priority support we have been giving to the comparatively less developed countries, are, I believe, proof of this fact. We also said at that time:

"We should give special attention to the association of countries and regions that for geographic and historical reasons have not participated in the common efforts of the Western Hemisphere in the same measure as member countries of the Organization of American States. Provided these countries comply with the stipulation in our Agreement that they form part of the political organization in our system, the greatest incentive for the Inter-American Development Bank would be to reap mutual benefits from this association."

As you know, the Bank is now involved in a phase of active collaboration with Trinidad and Tobago, a country for which we have already authorized several loans, and is in a very advanced stage of negotiating loans with Barbados and Jamaica.

Importance of the International Economy

These general observations on the future of Latin America have applied not only to national and regional development plans but have also dealt with international matters related to economic and social development. I have not had time to enter into thorough discussion of the urgent problems of international trade as I have on other occasions. However, it goes without saying that what has been termed the erosion or strangulation effect of the international economy on our development has consistently been a matter of concern to us in our endeavors.

I should like to recall, in this connection, the words of the Governor for Colombia when he urged that a suitable percentage of drawing rights should be employed for development purposes. In this regard, I should like to mention once more the thesis that the financial resources of the contemporary world tend to become more limited and scarcer, particularly as the industrialized world confronts greater domestic pressures. I believe that, along with the just mentioned readjustment in international liquidity, part of the expenditures devoted to world armaments should be channeled into development. Figures cited previously, particularly by the United Nations Secretary General, indicate that between \$130 and \$140 billion have been spent annually for this purpose in recent years throughout the world. These figures have not been refuted, nor has there been any denial of the obvious conclusion that if only 10 per cent, that is, between \$13 and \$14 billion, of these amounts were devoted to the less developed countries in the form of aid, it would represent double the current volume of gross aid being transferred from the industrialized world to the developing countries.

The problem of transferring resources to the underdeveloped countries has been discussed by Dr. Prebisch. Undoubtedly you have also read in yesterday's newspapers a statement of Lester Pearson at a United States university, stating his opinion that the crisis and tensions of the developing world derive basically from the problem of underemployment and have reached such a level that, unless these transfers of resources take place, he foresees for the world as a whole a period of revolution and unrest similar to that of Europe in the middle of the last century during the revolutions of 1848.

My own opinion is that if the final result of this situation should be at least as positive as that of the 1848 revolution, it would not be so very serious, but obviously this alarm sounded by as eminent a man of the industrialized world as Mr. Pearson is particularly significant and coincides with the warning already given by Dr. Prebisch concerning the high rate of unemployment observed in the developing countries,

a problem whose final solution obviously entails an increase in investment.

With regard to these proposals concerning the international economy, I should like to mention the words of the Governor for Mexico on general trade preferences and how Latin America could make better use of them, based on more vigorous promotion of its exports. I should also like to recall the concern expressed by several Governors over the growing external indebtedness of Latin America and their hope that the Bank might associate itself more closely with a solution to this problem. The Governors for Bolivia and Peru, in particular, focused on this subject. I considered this topic earlier in my first statement, but I should perhaps add that at present the Inter-American Bank is analyzing the problem in conjunction with the Inter-American Committee on the Alliance for Progress and other international financing agencies. Initial conclusions indicate that, though the problem exists, it is not widespread in Latin America but involves a particular group of countries in the region.

These are, in my opinion, the most outstanding views, ideas and guidelines covered by the discussion held this week. Several of these concepts were expressed not only in the statements by the Governors but also at the round table, in bilateral conversations with the Governors and the statements made at the first protocolary session, as well as in the documents cited.

Significance of the Next Meeting in Lima

I should like to repeat, gentlemen, my conviction that this meeting has not only produced an extraordinarily complete and constructive view of the past, but has also provided us with general orientation for the future. You may recall that our Board Room contains two, and only two, paintings, one of Bolivar and the other of San Martin—both donated to the Bank by the central banks of the respective countries. Their presence not only strengthens our own image but serves as a source of encouragement and pride to all of us who work there. Consequently, I am extremely pleased that our next meeting will take place in the city of Lima, where we will be able to reinforce once more the mystique of the Bank, at the geographic place where in the past the finest forces of the Atlantic and the Pacific converged in search of our independence. Let us not forget that Peru was the scene of the meeting of two Latin American political liberation currents in the past century. It was there that the political freedom of the Latin American countries

was consolidated and where these two great men forged the future panorama of our hemisphere. The spirit of Bolivar and San Martin, which served to establish the bases for our independence, will be present at our meeting next year and we hope, for this reason, to bring to it once more, the contribution of our agency in specific reply to the extraordinary vote of confidence we received this week. In "Ariel," José Enrique Rodó refers especially to those whom he terms the pioneers of Ibero-American integration and unity, and I believe that his ideas may be applicable to our generation, inasmuch as it now finds itself in a transitional stage with respect to that goal. I feel, gentlemen, that as bankers and as men responsible for defining development policy, we must be very realistic and realize that the final process of economic and political integration in Latin America depends on the resolution of its peoples and its leaders. In concluding my remarks, in honor of Uruguay and in tribute to your role of pioneers in this great struggle for the dignity and the well-being of Latin America, I should like to read the following quotation from Rodó: "The honor of your future history depends on maintaining steadfastly before your mind's eye the vision of that America reborn, soaring above present realities as, in a gothic nave, the great rose window blazes out above the austerity of somber walls. You may be its first pioneers rather than its actual creators, but the glorifying praise of future generations will pay equal tribute to the memory of the pioneers."

**Address by Mr. César Barrientos, Governor for Paraguay
and Minister of Finance, on Behalf of the Delegations,
at the Closing Session**

On behalf of my country and myself, I should like to express my very great satisfaction for the high honor conferred by the distinguished Governors of our Bank in asking me to speak on behalf of the delegations regarding the Eleventh Meeting of the Board of Governors of the Inter-American Development Bank, at this traditional closing session.

In the first place, I wish to convey our sincere appreciation to the government and to the esteemed people of Uruguay for the generous hospitality and cordial demonstrations of friendship extended to us in this beautiful city of Punta del Este. This hospitality has made a lasting impression on those of us attending this important gathering.

May I also expressly state for the record our warmest congratulations to Dr. José Carlos Pena, Chairman of the Meeting, for his brilliant conduct of our deliberations. We also extend our congratulations to the officers of the IDB Secretariat for their efficient organization and excellent preparation of our meeting as well as for the cordial reception they gave to the participating delegations.

In passing these unforgettable days in the fascinating land of José Gervasio Artigas—the epic Uruguayan who conceived his heroic visions in Paraguay—we, of the Americas, evoke with patriotic fervor the early days of our independence when our peoples united in the fight to defend common banners and ideals of progress and freedom and to proclaim the Confederation as the first and prophetic response to the challenge posed by the common undertaking of development of our countries directed toward transforming the Americas into a hemisphere of peace, of progress and of justice as an example of brotherhood and cooperation for the world.

A rapid survey of the principal achievements of the Bank during the decade now ending shows that its action has been effective in the various fields in which it has taken part during its productive existence, not only to serve Latin American development and integration, but also to make it possible for national agencies to familiarize themselves with the techniques of international financing.

In its first ten years the Bank has loaned nearly \$3.6 billion. This means that for each day of existence it has channeled \$1 million in loans. This has served to mobilize local resources bringing the total cost of the projects to \$10 billion, representing an extraordinary effort on the part of the Latin American countries.

In agriculture the Bank has extended credits for a value of \$834

million, equivalent to 24.3 per cent of all loans granted during 1961-69, to benefit more than 5 million farmers, and has helped to irrigate 2,855,320 acres of land during that period.

In industry and mining it authorized \$577 million over the decade, or 16.8 per cent of the Bank's portfolio; 3,600 loans were financed with funds from its overall loan system.

In the field of transportation and communications loans totaled \$522 million, or 15.2 per cent of the portfolio, through which the Bank has helped to finance the construction of approximately 10,400 kilometers of roads.

Electric power credits amounted to \$473 million, or 14.9 per cent of the portfolio, contributing to an installed capacity of 800,000 kilowatts.

A total of \$457 million was authorized for water supply and sewage, accounting for 13.3 per cent of the loan portfolio. This sum has been used to build 2,200 water systems, with another 3,600 under construction. Through its sanitation activities, the Bank is benefiting approximately 50 million Latin Americans.

Credits allocated to urban development and housing amounted to \$323 million, or 9.4 per cent of the portfolio, with 230,000 housing units constructed during the period.

In the field of education authorizations of \$137 million, or 4 per cent of the total, provided assistance to higher education and vocational technical training, directly benefiting 500,000 students.

Preinvestment operations amounted to \$66 million, representing 1.9 per cent of the total, and export financing loans came to \$41 million, or 1.2 per cent.

The procurement of resources in non-member countries has been a major concern of the Bank and, while it is performing effectively in this field, further efforts will be required in view of the rising and urgent demand for industrial financing.

My fellow Governors have stressed the role to be played by the Bank and future prospects in terms of fuller satisfaction of regional requirements and entry into new fields of financing not currently covered by IDB activities.

The Board of Governors has just adopted an important resolution to increase the ordinary capital and the Fund for Special Operations. This increase will enable the Bank to expand long-term development financing for Latin America. The important work of the Bank would unquestionably suffer from failure to receive new resources. Consequently, all member countries should make an effort to cooperate in

expanding these funds in accordance with the program under study and others recommended by this meeting.

IDB participation in the joint undertaking of development and integration during the 60s was undoubtedly of decisive importance, as pointed out by international agencies and by the Governors. Accordingly, following a decade of Bank activity in all the Latin American countries, it can be said that the guidelines of both its policy and procedure were far sighted and soundly designed for the effective performance of its major role as the economic development agency of the member countries.

The Governors made particular mention of the Bank's image as a pioneering institution throughout the world. Its regional experience has been drawn upon by other organizations established subsequently.

Pursuant to the recommendations of the IA-ECOSOC, the member countries should present loan applications to finance overall or sectoral development plans, and the Bank should also devote special attention to the need for allocating a larger volume of funds to the financing of exports of manufactures or semi-manufactures. For these reasons, the Bank must continue to study conditions for utilization of its funds under the export financing program.

The need to adopt political decisions aimed at strengthening the multilateral nature of the institution was also discussed at this meeting.

There was a consensus regarding the establishment of a finance corporation as part of the Bank to channel financial support directly to private enterprises, which must participate responsibly in our regional development.

The round table discussions dealt with topics of great interest for Latin American development and analyzed the Bank's achievements and its prospects for the new decade. We are certain that their conclusions and recommendations will be of considerable assistance in the future efforts of our institution to adapt its policy to the expectations of all our countries, particularly the economically less developed ones.

We must also express our appreciation for the important report presented by Dr. Raúl Prebisch to this meeting, in which he stresses the significance of the economic aspects of development for our countries in the next decade. It is obvious that regional economic development will increasingly depend on national capacity for absorbing more dynamically the idle labor force and for adapting institutional structures to the development demands.

At the last meeting, some of the Governors suggested the desirability of greater Bank concern for the social problems of Latin America. On this occasion we confirmed the recommendation that the IDB inten-

sify its efforts to study and solve the problems posed by marginality and unemployment, rapid urban growth and the need for modernizing our legal and institutional mechanisms.

We should like to stress our confidence and faith in the conduct of the Bank by our great President, Dr. Felipe Herrera, a just tribute paid by all of my fellow Governors. We also wish to express our satisfaction with the work of the Board of Executive Directors and the administrative personnel of the institution during its first decade of its productive activities and to convey our best wishes for its continuing success in the future.

In concluding our deliberations at this Eleventh Meeting of the Board of Governors, we state for the record our appreciation and gratitude to the government and the people of Uruguay for their generous hospitality on this momentous occasion that has served to strengthen the permanent ties of inter-American economic cooperation.

RESOLUTIONS

**Resolutions Approved
by the Board of Governors
between its Tenth and Eleventh
Meetings**

Resolution AG-8/69

Admission of Jamaica to Membership in the Bank

WHEREAS Jamaica is a member of the Organization of American States and membership in the Inter-American Development Bank (hereinafter referred to as the "Bank") is thereby open to said country in accordance with Article II, Section 1(b) of the Agreement Establishing the Bank (hereinafter referred to as the "Agreement");

WHEREAS Jamaica 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 Jamaica, has made recommendations to the Board of Governors with regard to the application of Jamaica for admission to membership in the Bank,

The Board of Governors

RESOLVES:

1. That Jamaica shall become a member of the Bank when the President shall have declared that Jamaica has fulfilled all of the following requirements:

- (a) It shall have subscribed to 1,852 shares of the capital stock of the Bank having a par value of \$10,000 per share, divided into 276 paid-in shares and 1,576 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 installments, the first of which shall be 20 per cent and the second and third each 40 per cent of such amount. The first installment shall be paid on the date the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution. The remaining two installments shall be paid one year and two years, respectively, after such date. Of each installment, 50 per cent shall be paid in gold and/or U.S. dollars and 50 per cent in the currency of Jamaica in accordance with Article II, Section 4(b) of the Agreement.

- (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 \$6,159,000, payment of which shall be made as follows:
 - (i) \$414,000 shall be paid in gold and/or U.S. dollars and the equivalent of \$5,745,000 in the currency of Jamaica in accordance with Article IV, Section 3(e) of the Agreement.
 - (ii) The quota shall be contributed in five equal installments, of which the first shall be paid at the time the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution and the remainder annually thereafter. Each installment shall consist of \$82,800 in gold and/or U.S. dollars and the equivalent of \$1,149,000 in the currency of Jamaica.
- (c) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the Organization of American States.
- (d) 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 law, the Agreement and all the terms and conditions prescribed in this resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement and this resolution.
- (e) 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(c) and (d) 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: Jamaica may accept membership in the Bank pursuant to this resolution until January 31, 1970 provided, however, that if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

(Approved on October 16, 1969).

Resolution AG-9/69

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 1970, 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 15, 1969)

**Resolutions Approved by the Board of Governors at its
Eleventh Annual Meeting**

Resolution AG-1/70

Financial Statement of the Ordinary Capital Resources (1969)

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, 1969, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 21, 1970)

Resolution AG-2/70

Financial Statement of the Fund for Special Operations (1969)

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, 1969, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 21, 1970)

Resolution AG-3/70*

Membership of the Board of Executive Directors

The Board of Governors

RESOLVES:

To instruct the Board of Executive Directors that it study the amendment of Article VIII, Section 3, and Annex C of the Agreement Establishing the Inter-American Development Bank, for the purpose of permitting the number of Executive Directors elected pursuant to paragraph (d) of said Annex to be increased by one whenever three or more countries belonging to the same geographical area are admitted to membership in the Bank.

(Approved April 22, 1970)

* The working group appointed in the Preliminary Session, composed of the Governors for Argentina, Brazil, Chile, Costa Rica, Mexico, Paraguay and the United States, examined at its meeting of April 20 the proposal presented by the Governor for Bolivia, on behalf of Bolivia, Paraguay and Uruguay, regarding the membership of the Board of Executive Directors and submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-3/70. The report of the working group appears on page 239.

Resolution AG-4/70*

Increase in the Resources of the Bank

The Board of Governors,

Having considered the report approved by the Board of Executive Directors on April 23, 1970, proposing increases in the authorized resources of the Bank,

Approves the report and recommends that members take such action as may be necessary and appropriate to give effect to the resolutions proposed in said report.

(Approved April 24, 1970)

* The working group appointed in the Preliminary Session, composed of the Governors for Argentina, Brazil, Chile, Costa Rica, Mexico, Paraguay and the United States, examined during its meetings of April 20, 21 and 23 the bases proposed by the Board of Executive Directors for the increase in the ordinary capital resources and the Fund for Special Operations. As a result of its deliberations the working group reached an agreement as to the amount of the increases and the conditions for their subscription and payment by the member countries. This agreement was included by the Board of Executive Directors in Annexes A and B to Document GN-626-1. The group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-4/70. The report of the working group appears on page 239.

Resolution AG-5/70*

Measures to Assure an Increased Flow of Resources to the Bank from Non-Member 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)

* The working group appointed in the Preliminary Session, composed of the Governors for Argentina, Brazil, Chile, Costa Rica, Mexico, Paraguay and the United States, examined at meetings April 20, 21 and 23 the matter of improving the conditions and increasing the flow of resources for economic and social development of the member countries. As a result of its deliberations the working group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-5/70. The report of the working group appears on page 240. The members and deputies of the Committee of the Board of Governors are: Argentina and Peru; Brazil and Ecuador; the United States; Mexico and Jamaica; Venezuela and Chile, and Uruguay and Paraguay.

Resolution AG-6/70*

**Place and Date of the Twelfth Meeting of the Board of
Governors**

The Board of Governors

RESOLVES:

That the Twelfth Annual Meeting of the Board of Governors, which the President shall convene at the appropriate time, shall be held in Peru at such date in 1971 as the Board of Executive Directors shall determine.

(Approved April 24, 1970)

* Following consultations with the Peruvian authorities, the Board of Executive Directors, determined that the meeting shall be held in Lima May 10 to 14, 1971.

Expression of Appreciation*

First Decade of the Bank

WHEREAS:

The Eleventh Meeting of the Board of Governors has made it possible not only to verify the satisfactory results achieved by the Bank in the past year, which exceed those obtained in any previous period, but also to highlight the important role played by the Bank in financing the development of Latin America in the first ten years of its activity;

These results confirm that the Bank is the principal multinational agency for financing the development of the countries of the region;

This Meeting has reaffirmed the need for the Bank to continue to play that role in the decade ahead, on the basis of the increased resources that the member countries will make available to it, the guidelines deriving from this Meeting, and the several reports recently issued on the prospects for international cooperation;

These successes would not have been possible without the efficient work of the administration and the staff of the Bank and their continuing spirit of innovation and improvement and in particular that of its President, whose devotion to the ideas and interests of the Bank is evident to all the member countries,

The Board of Governors

RESOLVES:

To express its satisfaction with the work of the President, the Board of Executive Directors, and the Management of the Bank during the first decade of its activity.

(Approved April 24, 1970)

* This expression of appreciation was presented to the Board of Governors by the Governor for Paraguay in the Closing Session and was unanimously approved.

**REPORTS OF THE
WORKING GROUP**

Membership of the Board of Executive Directors

The working group appointed at the Preliminary Session of the Eleventh Meeting of the Board of Governors, composed of the Governors for Argentina, Brazil, Chile, Costa Rica, Mexico, Paraguay and the United States, at its session held on April 20 considered the proposal presented by the Governor for Bolivia on behalf of Bolivia, Paraguay and Uruguay regarding the membership of the Board of Executive Directors, and has the pleasure of submitting the attached proposed resolution¹ for consideration by the Board of Governors.

Increase in the Resources of the Bank

The working group appointed at the Preliminary Session of the Eleventh Meeting of the Board of Governors, composed of the Governors for Argentina, Brazil, Chile, Costa Rica, Mexico, Paraguay and the United States met on April 20, 21 and 23 to discuss the bases proposed by the Board of Executive Directors for an increase in the ordinary capital resources and the Fund for Special Operations (Document GN-626).

As a result of its discussions the working group reached an agreement on the amount of the increases and on the conditions for the subscription and payment of them by the member countries, which the Board of Executive Directors has included in Annexes A and B of Document GN-626-1.

The working group unanimously proposes that the Board of Governors approve the attached proposed resolution,² which recommends that the member countries take such steps as are necessary and appropriate to implement the resolutions on the increase in resources.

In expressing his support for the increase in resources, the Governor for Peru stated that he would have liked to have seen at the same time a decision to amend Article IV, Section 9, of the Agreement Establishing the Bank so as to obviate the need for a two-thirds majority for the adoption of decisions concerning the operations of the Fund for Special Operations.

¹ See page 232.

² See page 233.

Measures to Assure an Increased Flow of Resources to the Bank from Non-Member Countries

The working group appointed at the Preliminary Session of the Eleventh Meeting of the Board of Governors, composed of the Governors for Argentina, Brazil, Chile, Costa Rica, Mexico, Paraguay and the United States, at its meetings April 20, 21 and 23 considered the question of improving the terms and the flow of resources available for economic and social development of the member countries. As a result of its discussions the attached resolution * was drafted and the working group unanimously recommends its adoption by the Board of Governors.

In studying this resolution, the working group noted that recent comprehensive reports on the future of development assistance have encouraged developed countries to channel their financial assistance increasingly through multilateral development finance institutions. The group welcomed the support for the work of the Bank which these reports imply but it emphasized that any measures adopted for improving the flow of resources to the Bank must be consistent with the maintenance of its basic regional character.

In the light of these considerations the working group concluded that a Committee of Governors (or their deputies) should be appointed to study means of obtaining additional resources for the Bank, including the matter of admission of developed non-member countries to the Bank, preserving in every case its regional character. It was specifically suggested that study should be given to the possibility of issuing a separate class of capital stock to prospective developed country members.

It was agreed that membership of Western Hemisphere developed countries would be consistent with the regional character of the Bank and it was recalled that Resolution AG-3/64 authorized \$300 million in additional capital stock of the Bank for this purpose. Should the Committee agree on a course of action, an appropriate proposal should be communicated to the Chairman of the Board of Governors for consideration by that body.

The importance which the working group attached to the subject matter covered by the proposed resolution has led it to recommend that the Committee give urgent and thorough consideration to the study of these problems and report to the Board of Governors not later than December 31, 1970.

* See page 234.

Round Table

During the Eleventh Meeting of the Board of Governors, two round table sessions were held in the *Casino del Estado* on the subject *The First Decade of the IDB: Prospects for the Future*. Mr. Cecilio J. Morales, Technical Manager of the Bank, served as moderator, and Mr. Raúl Rey Alvarez, Deputy Integration Advisor, as rapporteur.

The round table presented a description of the Bank's activities during its first decade and on the outlook for the next ten years and the views of outside commentators on those activities. Officials of the Bank were asked to describe the activities and policy guidelines of the Bank in their respective fields and the philosophy underlying the Bank's efforts to further economic and social development in Latin America.

Statements were made by the following staff members:

- a. James A. Lynn, Deputy Manager for Project Analysis, who discussed *Economic Investment and Development*, including the financing of projects in agriculture, industry, and infrastructure.
- b. Ferruccio Accame, Director, Division of Social Projects, who spoke on *Social Investment and Development*, including the financing of social projects.
- c. Ismael Escobar, Chief, Education Section, Division of Social Projects, who discussed *Innovation and Development*, describing, from the standpoint of progress, the Bank's activities in the fields of human resources, education, scientific development, and technological change.
- d. José Epstein, Treasurer of the Bank, who spoke on the *Mobilization of Financial Resources for Development*.
- e. Luciano Tomassini, Chief, Social Evaluation Section, Special Studies Division, who spoke on the *Institutional Aspects of Development and the Action of the IDB*.

The first three orators spoke in the first session and the last two in the second. The latter session was also devoted to the more general discussion. The commentators were: for topic a, Mr. Albert Hirschman, Professor of Political Economy, Department of Economics, Harvard University; topic b, Monsignor Luigi Ligutti, Permanent Holy See observer to the FAO; topic c, Mr. Jorge Sábato, Technological Manager, National Atomic Energy Commission of Argentina; topic d, Mr. Eckard von Hayden, Deputy Manager of the Deutsche Bank, A.G.; and topic e, Mr. Cleantho de Paiva Leite, Member of the Administrative Council and International Program Advisor, Brazilian Public Administration Insti-

tute. A division by topics was not strictly adhered to, particularly in the discussion of agriculture, education and technology, which were examined from different angles. Moreover, the discussion of institutional aspects provided a basis for an overall analysis from which there emerged a number of prospective lines of activity in which the Bank could usefully engage in the light of evolving concepts, agencies and instruments for the development of Latin America.

A book on the first ten years of the Bank, entitled *Una década de lucha por América Latina*, distributed to the speakers and commentators, served as a basic document and frame of reference for their statements and comments.

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SPECIAL GUESTS

A total of 660 special guests from 34 countries also attended the Eleventh Meeting of the Board of Governors.

INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Twelfth Meeting
of the
Board of Governors

Lima, May 1971



INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

**Twelfth Meeting
of the
Board of Governors**

Lima, Peru, May 1971

PREFACE

The Twelfth Meeting of the Board of Governors of the Inter-American Development Bank was held in Lima, Peru, May 10-14, 1971. All sessions were held in the International Congress Building in the Civic Commercial Center.

Major General Juan Velasco Alvarado, President of the Republic of Peru, attended the inaugural session and formally opened the Meeting. Brigadier General Francisco Morales Bermúdez, Governor for Peru and Minister of Economy and 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 Eleventh and Twelfth Meetings. It also includes the reports of the Committee of the Board of Governors established by Resolution AG-5/70 and of the working groups set up during the Meeting, a roster of the delegates of the member countries, and the observers from international agencies who attended the Meeting, as well as information concerning the round table discussion on *The Mobilization of Domestic Resources in Latin America*.

Jorge Hazera
Secretary

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AGENDA

1. Election of the Chairman of the Board of Governors.
2. Eleventh Annual Report of the Bank, 1970:
 - a. Financial Report. Ordinary Capital Resources.
 - b. Financial Report. Fund for Special Operations.
3. Program for the Financing of Exports.
4. Establishment of a Regional Mechanism for Expansion of Latin American Industrial Enterprises.
5. Measures to Assure an Increased Flow of Resources to the Bank from Countries Which are not now Members.
6. Membership of the Board of Executive Directors.
7. Place and Date of the Thirteenth Annual Meeting of the Board of Governors.

Schedule of Sessions

Sunday, May 9, 1971

10:30 a.m. Fourth Meeting of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70.

Monday, May 10, 1971

9:00 a.m. Preliminary Session (Heads of Delegations)

5:00 p.m. Inaugural Session (First Plenary Session)

1. Address by Mr. José Carlos Pena, Governor for Uruguay.
2. Approval of the Agenda of the Meeting.
3. Election of the Chairman of the Board of Governors.
4. Address by Brigadier General Francisco Morales Bermúdez, Chairman of the Board of Governors and Governor for Peru.
5. Address by Mr. P. M. Greaves, Governor for Barbados, on behalf of the visiting delegations.
6. Address by Major General Juan Velasco Alvarado, President of the Republic of Peru.

Tuesday, May 11, 1971

10:00 a.m. Second Plenary Session

1. Eleventh Annual Report of the Bank, 1970:
 - 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. Report of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70.
4. Address by Mr. Alfonso Patiño Roselli, Governor for Colombia.
5. Address by Mr. Flavio Machicado, Governor for Bolivia.
6. Address by Mr. Aldo Ferrer, Governor for Argentina.
7. Address by Mr. Charles E. Walker, Temporary Alternate Governor for the United States.

3:00 p.m. Round Table: The Mobilization of Domestic Resources in Latin America (Part I).

Wednesday, May 12, 1971

10:00 a.m. Third Plenary Session

1. Continuity of the Operations of the Institute for Latin American Integration.
2. Address by Mr. César Barrientos, Governor for Paraguay.
3. Address by Mr. Alonso Salgado Guevara, Governor for Ecuador.
4. Address by Mr. Luis Enrique Oberto, Governor for Venezuela.
5. Address by Mr. Ernane Galvêas, Alternate Governor for Brazil.
6. Address by Brigadier General Francisco Morales Bermúdez, Chairman of the Board of Governors and Governor for Peru.
7. Address by Mr. Américo Zorrilla, Governor for Chile.
8. Address by Mr. Jorge Lamport Rodil, Governor for Guatemala on behalf of the Central American Countries.

3:00 p.m. Round Table: The Mobilization of Domestic Resources in Latin America (Part II).

Thursday, May 13, 1971

10:00 a.m. Fourth Plenary Session

1. Establishment of a Regional Mechanism for Expansion of Latin American Industrial Enterprises.
2. Address by Mr. José Guillermo Aizpú, Governor for Panama.
3. Address by Mr. Diógenes H. Fernández, Governor for the Dominican Republic.
4. Address by Mr. Hugo B. Margáin, Governor for Mexico.
5. Address by Mr. Francis C. Prevatt, Governor for Trinidad and Tobago.
6. Address by Mr. G. Arthur Brown, Alternate Governor for Jamaica.
7. Address by Mr. José Carlos Pena, Governor for Uruguay.

Friday, May 14, 1971

10:00 a.m. Closing Session (Fifth Plenary Session)

1. Program for the Financing of Exports.
2. Membership of the Board of Executive Directors.
3. Preferential Treatment for the Economically Less Developed Countries and those with Insufficient Markets.
4. Place and Date of the Thirteenth Meeting of the Board of Governors.
5. Address by Mr. Antonio Ortiz Mena, President of the Bank.
6. Address by Mr. Luis Enrique Oberto, Governor for Venezuela, on behalf of the Delegations.
7. Address by Brigadier General Francisco Morales Bermúdez, Chairman of the Board of Governors and Governor for Peru.

ADDRESSES

**OPENING SESSION
(FIRST PLENARY SESSION)**

MAY 10, 1971

**Address by the Chairman of the Board of Governors,
Mr. José Carlos Pena, Governor for Uruguay and President
of the Bank of the Republic of Uruguay**

Now that the time has come to relinquish the chairmanship of this Board of Governors, which was conferred on me at the last Meeting in Punta del Este, I should like to mention certain matters which I believe to be of general interest, and to make a few suggestions for increasing the effectiveness of the work of the Organization which has brought us here today. That is what my country did at the last meeting of the Organization of American States, and I consider it my duty to do the same here.

This is in no way intended to detract from the value of the work done during the previous stage of the Bank's activities under Felipe Herrera—to whom I reiterate the tribute of admiration and appreciation that is his due—the value and scope of which was carefully analyzed at the previous meeting. I would like the record to show that, in the course of a decade in which Latin America succeeded in achieving the basic objectives of the Charter of Punta del Este, the Bank measured up to its responsibilities and participated increasingly in an intensely active and complex international financing mechanism.

But complacency is sterile; only dissatisfaction is creative. We must, therefore, re-examine our plans, focusing on the phase now beginning, and seeking to remove certain obstacles which restrict Bank activity and, consequently, its contribution to the development of the region.

Relative Growth

That in the last decade Latin America has achieved the annual over-all per capita growth target of 2.5 per cent set in 1961, should not obscure two significant shortcomings in the process through which that goal was attained.

In the first place, as is usually the case with regional averages of both static and dynamic indicators, the overall average fails to reveal the great differences in development between the various countries. We must not forget that the priority aim of the system of international aid is not limited to stepping up over-all growth, but includes also narrowing the gap in income and consumer levels between the less favored and the more advanced nations. It is necessary, therefore, in my view, to pay particular attention to the component items of these aggregate figures

and to make the necessary corrections when it becomes apparent that the harmony and balance also established as priority goals are lacking.

Latin American Exports

Secondly, while production has risen, exports have not expanded at the rate required to keep the service on external debt proportionate to income in the regional balance of payments current account. It is a well-known fact—but it bears emphasizing once more—that Latin America has experienced a declining share in the volume of world trade, the growth of which, as a whole, has surpassed the forecasts made at the end of the 50s. We have often been told by representatives of the industrialized countries of the Northern Hemisphere that this deplorable trend is the result of mistaken and restrictive policies that reduced incentives to competitive exports and diverted excessive resources to import replacement, with little regard for efficiency. We must acknowledge that this reproach was justified and that this conduct was largely responsible for the sluggish growth of Latin America's exports during the immediate postwar years. An objective analysis of the facts, however, also reveals that in recent years—particularly from 1965 to date—many Latin American countries have made significant efforts to correct this trend and to liberalize their foreign trade in a drive to make their economic systems more competitive and to increase the management efficiency of their producers. We have not, however, always been able to see this development accompanied by similar measures by those who so generously preached them, and this has necessarily seriously undermined the rationality of the new policy adopted and the prospects for its continuity.

Interest Rates

The negative effects of this situation on the equilibrium of the balance of payments have been aggravated by the trend to harden the conditions on which international financial assistance is furnished. As the Pearson report stresses, if the annual increase in the flow of new capital is less than the interest rate on the respective loans, the net flow of funds soon becomes negative and the service on the external debt assumes intolerable proportions in relation to the export earnings of the country or region concerned. This has been happening to some degree and explains, in part, the growing difficulties confronting some of our countries in their international payments schedules, despite their pru-

dence regarding volumes of indebtedness and the favorable growth of their internal production and savings rates.

We cannot ignore, from this standpoint, the significant impact of the rise in interest rates on the international market during the 1967-70 period. This increase—which included the not inconsiderable inflationary component of the United States dollar at a relatively constant real rate to produce an “inflated” nominal rate—was incorporated in the long-term credit conditions applied by international finance agencies, which means that for many years we will be paying a disproportionate real service as a result of an essentially transitory trend, as already demonstrated by the downward movement noted in the concluding months of 1970 and the beginning of 1971.

We believe that this offers a fertile field for the study of solutions that can attenuate the abruptness of such fluctuations and reduce the duration of their effects, and we suggest that the experts and senior staff of the Bank undertake such studies in consultation with the Government of the United States.

International Financial Cooperation

As regards the over-all volume of resources to be mobilized by international financial cooperation, allow me to state our satisfaction with three significant factors which, in our opinion, will greatly contribute to increase that volume or the efficiency of its transfer. These are:

- a. The plan recommended by the United States Government to channel into the multilateral aid system a substantial part of the funds now allocated through bilateral agreements. It is unnecessary to mention here the many problems created by bilateral agreements for both those granting and those receiving such contributions. Since there is fortunately unanimity of opinion on this point, we need only express our satisfaction that the necessary steps are being taken to implement this change in the *modus operandi* of aid derived from government contributions of the major industrialized countries. And we voice our hope that other governments will follow this example.
- b. The incorporation into the Inter-American Bank—under a status to be negotiated during the coming months—of the European countries, Canada and Japan. This will not only ensure a larger supply of resources assigned directly to the Bank, as a result of the trend mentioned in the previous point, but will also greatly facilitate access by the Bank to the supply

of savings in the capital markets of those countries, which to date has failed to reach the desired levels.

- c. The increased use of the joint financing mechanism—along the pattern agreed to by the World Bank in the case of the Tarbela Dam in Pakistan and the El Chocón project in Argentina—which combines the efforts of the international credit agency with those of the export-promotion agencies of the equipment-manufacturing countries. This method relieves the strain on the resources of the former, while protecting the capital-importing country through the use of suppliers' credits within the framework of international competitive bidding.

Distribution of Resources

As regards the distribution of available resources by the Bank, I should like to make the following comments:

The establishment of the Bank and its supply of resources responded to the need to bridge—albeit partially—the gap between available resources (the sum of internally generated savings plus individual access to international capital markets) and the volume of investments required to achieve a satisfactory rate of growth.

If this basic proposition is accepted, then it does not appear reasonable to assign much importance to the per capita allocation of resources as a fundamental factor of their distribution, as the Bank seems to have done. First of all, this method ignores the real difference between the case of countries which, as a whole, face serious problems of capital formation—or access to outside capital—and that of under-capitalized regions (underdeveloped areas of developed countries) in countries which, over-all, are not confronted by problems of similar magnitude. For this latter group of countries, the problem, while not an easy one, is not as difficult, and can be solved either by mobilizing manpower or through the internal transfer of savings generated in the more advanced areas to assist the more backward sectors. Accepting the idea of the “divisibility” of a country in order to determine its right of access to international financial aid, there would be no reason to deny Inter-American Bank monies to certain states in the United States or certain provinces in Canada.

It must not be forgotten, then, that imbalances in the economic dimensions of a country create in themselves, completely independently of its per capita income, a marked difference as regards its capacity to transfer internal resources and its access to funds normally available in international capital markets.

This argument is valid even in cases in which the Bank acts as an agent in obtaining private savings on the international market—through bond issues in the financial centers of Europe and the United States—since its services do in fact guarantee this channeling of credits and cover risks which the original investor would consider unacceptable (or for which he would charge a very high price) in direct negotiation with the ultimate recipient of those resources.

Secondly, this reasoning is especially valid in the case of the special resources contributed directly by the Government of the United States, since the intention of the contribution is to compensate for existing inequalities among the countries as regards the possibility of attaining a growth rate consistent with the expectations of their citizens. Naturally, we understand that the criterion of compensation of national insufficiency as a factor in allocating the resources of international financial agencies—in our own case, the Inter-American Development Bank—should be carefully regulated, inasmuch as its unrestricted use would lead to abuses and inequities. Simply to lend more money to those who save less would subsidize indolence and create heavy indebtedness for those with limited payment capacity. We believe that an effective means of avoiding the dilemma to which the previous line of argument appears to lead would be to establish a dynamic criterion based on the assignment of high priority to such insufficiency in terms of the rate of domestic savings and the economic dimensions of the country, as well as improvement of the savings rate, with a view to rewarding the country that improves its rate and penalizing the one whose rate decreases which, in general, is eloquent evidence of poor government policy resulting in a loss of savers' confidence.

We believe this criterion of synthesis of an initially negative static position and a positive dynamic improvement would serve to reconcile the objective of a more equitable distribution of resources and a more efficient use of such funds, which is a legitimate requirement in safeguarding the financial integrity of the Bank and of the benefits to be received by the borrower.

In concluding, I might mention two points which, though they may appear minor, exert an effect and, in our opinion, an excessively negative one, on the obligations assumed by countries in their operations with the Bank: the commitment fee and the services of foreign consultants.

Commitment Fee

With regard to this fee, we suggest a lower rate and a revised application system. I mentioned earlier certain reasons why we believe the

real burden of future service on the debt contracted during these years may be excessive in relation to the productivity of the borrowed capital invested. It would, therefore, be equitable to correct this distortion to some extent by reducing the commitment fee on future loans. As regards application of the fee, we propose that it be broken down in such a way that it can be applied to the corresponding part of the total loan as of the date set for its disbursement in the schedule initially agreed upon between lender and borrower. In this context it should be noted that the "disbursement interval" is not always an exclusive function of the borrower's difficulties or inefficient implementation, but depends also on the technological nature of the investment involved and the conditions stipulated by the lender.

Technical Consulting Services

With regard to consulting services, our experience has shown—and we believe this is true also of many other countries represented at this meeting—that the need for such services and their caliber are not always consistent with their cost. Often the role of consultants is confined to compiling information and opinions available in the borrower agency or country and then issuing a report over their signature that could have been prepared more rapidly and at much lower cost by national experts, had the Bank so requested at the time.

We believe that when there is a real need for outside consulting services, which is much more seldom than supposed, a greater effort should be made to engage the services of Latin American professionals, who have attained an international standard of excellence in many sectors and are familiar with local conditions at the project site. A lack of such familiarity is frequently a cause of error. Among those errors I would like to emphasize the tendency of consultants from industrialized countries to overemphasize capital-intensive techniques which are uneconomical when applied to other economic systems having different productive resources. This leads to a less efficient allocation of such resources and, in general, to a lower employment level, with negative results in both the social and political fields.

Development must be achieved; it is not given. The task is not easy, but it is a common effort. If this is a time for action, then we must suit our decisions and our actions to the times; if our peoples demand development, then we must give them development, not merely promises.

We expect community action from the Bank; in this we place our hope and our trust.

**Address by the Chairman of the Board of Governors,
Brigadier General Francisco Morales Bermúdez,
Governor for Peru and Minister of Economy and Finance**

It is a great honor for me, as Governor of the Inter-American Development Bank for Peru, to take office as Chairman of this meeting which begins in the city of Lima today.

In the institutional life of the Inter-American Development Bank, the meetings of the Board of Governors, like annual stockholders' meetings, have been an occasion for representatives of the member countries to outline, comment on, and discuss the annual progress of the Bank.

The presence of distinguished observers and special guests provides a suitable framework for evaluating previous results frankly and for charting new directions for our Institution. Consequently, the meetings of the Board of Governors have become an authoritative and much anticipated forum regarding the financial and economic movement of the Inter-American system.

The agenda for this Twelfth Meeting in Lima is significant because of the scope of the concepts and the decisive nature of the ultimate conclusions involved. The peoples of Latin America hope for a precise definition of goals and prompt implementation of the final resolutions.

For this reason, the admission of new member countries, the establishment of auxiliary financial mechanisms, the revision of operating policies, and the promotion of nontraditional exports are items of great historical moment, as they relate to problems for which we must soon find solutions.

It is only proper to state for the record the satisfaction derived by us all from the orderly and well-regulated procedure followed, despite the brief time available, in electing the new President of the Inter-American Development Bank after the unexpected resignation of Mr. Felipe Herrera. The tributes paid to the outgoing President and the pledges of firm support made to the new President, Mr. Antonio Ortiz Mena, exemplify a maturity worthy of special mention. Our warm applause today for Antonio Ortiz Mena, at his first meeting as President of the Inter-American Development Bank, conveys our devout hope that his term of office will be marked by the resounding success which our Institution, the President himself, and his own country so well deserve.

In this same connection, I should like to express special congratulations to the Chairman of the Eleventh Meeting of the Board of Governors, Mr. José Carlos Pena of Uruguay. During his term of office, many important meetings were held which meant a heavy work-load for

him and in which he displayed personal qualities of judgment and perseverance leading to a high level of achievement.

I am pleased to extend Lima's most wholehearted and cordial welcome to all attending the Meeting. We hope that this Twelfth Meeting of the Board of Governors will be remembered for the importance of the conclusions adopted, the competence of the participants in the round table on the mobilization of domestic resources in Latin America, and the strengthening of the human relations on which the sound success of the Inter-American Bank rests.

It is my hope that, with the usual valuable assistance of the Board of Executive Directors and the Bank Management, I will, in relinquishing the position of Chairman at the 1972 Meeting, have had the satisfaction of witnessing a year of significant achievement.

**Address by Mr. P. M. Greaves, Governor for Barbados
and Minister of Home Affairs, on behalf of
the Visiting Delegations**

It is a great honor and privilege for me—and for the Government and people of Barbados—to have been chosen by my colleagues to reply on behalf of the Governors of the Inter-American Development Bank at this, the Twelfth Meeting of its Board of Governors. I am conscious that I follow in the footsteps of Mr. Antonio Ortiz Mena, the new President of the Bank, who was himself selected for this honor by the Board at its Eleventh Meeting in Punta del Este. With this development as a precedent, I am sure that my fellow Governors and the President of the Bank himself will excuse me for speculating on my future with the Bank.

I would also like to take this opportunity to congratulate you, Mr. Chairman, on your appointment to guide our deliberations, with the confidence that your experience and tact will ensure a successful conclusion to our discussions.

I am sure that I speak for my fellow Governors when I say that it is altogether fitting that this first meeting of the Board of Governors since the election of the new President of the Bank, and the first meeting during the second decade of the history of the Bank, should take place here in Lima, Peru—a country which was the cradle of one of the most celebrated civilizations of the early Americas and which, as it is preparing to celebrate the 150th anniversary of its Independence, is also tackling the task of improving the economic and political standard of its people vigorously and courageously. It is fitting, too, that this meeting should mark the inauguration of the new International Congress Building, probably one of the finest of its kind in South America. On behalf of my fellow Governors, I would like to express our deep appreciation and thanks for your unstinting efforts to make us feel welcome in your illustrious country.

Last year in Punta del Este when we celebrated the 10th anniversary of the founding of the Bank, we paid appropriate tribute to Felipe Herrera, who had been President since its inception, for having nurtured the institution through its fledgling years. We recognized then that the challenges confronting us in the second decade would be even more demanding on our resources of leadership, but we faced the future with optimism. And then, in October 1970, Felipe Herrera announced his decision to resign as President and there was the usual speculation as to the future. But the Latin American family of nations was fortunate that

in that testing time they could turn to Antonio Ortiz Mena to fill the vacancy. His impressive record in the service of his country, Mexico, and his long and respected association with the Bank, ensure that the Bank can continue under his leadership to win the support and respect of the world of international finance.

In reviewing the achievements of the Bank, there is the understandable temptation to be self-congratulatory, for the record is impressive enough. The past year was one of new records in lending, in disbursements, in repayments of loans and earnings, and also in action initiated to increase resources. Some 59 loans totaling \$644 million were made; total disbursements were well above those of any previous year and stood at some \$428 million; the Bank itself borrowed some \$187 million and achieved a total net income for the year 1970 of some \$54 million (this brought total reserves to their highest mark ever: \$150 million). Of this record, the staff and administration of the Bank can be justly proud.

And yet a review, to be meaningful, cannot be regarded as an end in itself, but rather as a means of giving a sense of balance and proportion in the task of charting new courses. Achievements must be set against goals. In addition, the latter must constantly be redefined, for progress and change is our object. In short, side by side with the review of our achievements, we must undertake a review of the scope and nature of our problems in their most recent manifestations. In this exercise, we are immediately confronted by the persistence and growing complexity of the development problem. We are confronted by the need, more urgently felt than ever, to attract an ever-increasing flow of multilateral financing because of phasing out in some significant cases of bilateral assistance and because of the increasing unattractiveness of private capital flows. We are reminded that the other great cornerstone of development strategy, trade, is for Latin America, on balance, unsatisfactory, and suffers from a growing unfavorableness in its terms. There is, too, the related problem of the phenomenal increase in Latin America's external indebtedness. These are only a few of the problems confronting us.

In view of these circumstances, it would seem proper that we should pay proportionately greater attention to the challenges of the future than to the achievements of the past; that we should continue the review and evaluation of our policies and methods of implementing them that was so wisely and courageously started at the end of the first decade of the Bank's history.

First, there is the challenge of attracting increased resources on a scale and on terms more nearly adequate and appropriate to our needs

at a time when there is a world-wide scarcity of capital. This, I am sure we will all agree, is the crucial first step in our efforts for the future. The dangers and difficulties here can all too easily be minimized, or overlooked completely, in our enthusiasm for success in quantitative terms and by a failure to appreciate that there is no inherent magic in multi-lateral assistance should there be failure to collectively avoid the pitfalls that have befallen us singly in the field of bilateral assistance. Since we cannot deny that the volume of resources attracted by the Bank will depend on the continued confidence in and approval of its procedures and effectiveness by those willing to make resources available to it, there seems little point in ignoring the need to reassure and convince would-be critics that the call for flexibility and adaptiveness in its procedures and lending criteria does not imply abandonment of sound and respectable banking practices, nor even indifference to the possible development of an inefficient and ineffective financial institution.

Still less can we abide a situation in which creativity and flexibility in response are stifled by those who would have us pursue orthodoxy for its own sake, and who would seek through this institution to perpetuate those same terms, conditions and constraints that have bedeviled the field of international capital flows up to the present. For example, we must press ahead with our commitment to explore the feasibility of directing resources to new and hitherto neglected sectors such as fisheries, urban development and tourism. No less urgently, a way must be found to reconcile the integrity of the Bank with responsiveness to a changing political climate in our various efforts to tackle the many-faceted aspects of the development problem. These are difficult and delicate issues whose difficulty and dangers will not be diminished by the temptation to ignore them.

Perhaps next in importance to the related problems of adequate resources and operational criteria is the problem of the tendency to institutional weakness in the developing member countries of the Bank. While there is need to face this problem squarely, we must of course place it in perspective. Institutional shortcomings are as much a consequence as a cause of an unsatisfactory rate of development. In this field, more than in any other, there are no magic formulae. It is gratifying to note that an in-depth and detailed study of some of the more urgent aspects of this problem has been already undertaken, as a glance at the agenda of this Twelfth Meeting will testify. The courage and persistence with which the Bank and its staff tackle this problem in the execution of their tasks will depend on the priority that we, the Governors of the Bank, assign to the matter, and on our willingness to provide guidance and support as required.

Another challenge deserving of specific mention is the future of the integration movements in Latin America. The history of integration movements in our countries is a checkered one. In this complex and important field, we have our successes and our reversals. If we demonstrate a willingness to extract useful lessons from our setbacks rather than to be discouraged by them, then the future of integration might well be brighter than its past.

These, then, are some of the challenges that confront us. Some are likely to grow in complexity and difficulty. None will vanish merely by our wishing it so. This institution, the Inter-American Development Bank, has been at once a challenge and a hope for the peoples of the hemisphere. It can and it must succeed. To our new President we pledge our support in pursuing our goals and in traveling the difficult road ahead. We might say in the words of the poet Tennyson, attributed to that great warrior of Greek mythology Ulysses: "Though much is done, yet much abides."

Address by Major General Juan Velasco Alvarado, President of the Republic of Peru

This Meeting of the Board of Governors of the Inter-American Development Bank, attended by observers from the international financial community, may one day, in historical perspective, take on decisive significance. For it may well mark the beginning of a crucial task of enlightenment that is of vital importance to the underdeveloped countries of the world: of learning once and for all whether or not we may expect anything from the developed countries or whether we can expect nothing from them in this unequal struggle for final independence, authentic justice, and true freedom.

You are today on an historic stage where a singular and, for many, an astonishing revolution is taking place. We are quite aware that many may find it difficult to understand it. We fully realize that, precisely because of its uniqueness, our revolution can be truly understood only by those who fully accept the significance of its great and complex historical motivations but also, and perhaps most of all, the decisive import of knowing that we live in an era when the great truths of the past are in crisis, and in a world that witnesses the irremediable collapse of almost everything that served as a basis for its concept of the universe and for regulating the lives of men and peoples in the economic and political sphere.

Hence, this revolution is taking place under the dual sign of a profound epochal change unavoidably universal in scope. On the one hand, it is nourished from the source of a new revolutionary thought for which there are no eternal verities or unquestionable dogmas. This attitude confers on our revolution a free creative capacity in all fields of theory and action. There is only one principle to which we remain firm: tenacious and unswerving loyalty to the great ideal of forging freedom and justice for the men and women of this land; that is to say, a society free from economic exploitation, political oppression, cultural estrangement, and foreign domination.

On the other hand, the Peruvian Revolution is part of the uprising of the poor nations of the earth, of this great historic process which so clearly marks the character of our time. Our destiny is forever bound up with that of other peoples who are struggling to free themselves from foreign domination. That is why the very essence of this revolution is anti-imperialist. And that is why it expresses the deepest meaning of that great and fertile Latin American revolutionary nationalism which gains more strength and vigor day by day.

Within this broad perspective, the Peruvian Revolution takes a stand entirely in accordance with the nature of our situation and its problems. This is the position we wish you to understand, starting with the certainty that there is no looking back. We began this revolution to liberate Peru from all kinds of foreign domination and to give our people a system of social justice without economic exploitation and with freedom. No obstacle, no pressure, no threat, no danger, no vicissitude, no uncertainty will ever divert us from the struggle we have chosen to attain those great ideals which reflect the deepest aspirations of the Peruvian nation. The revolutionary ideals of our people and our movement are not subject to negotiation. For us, they are inviolable. The Peruvian revolution will not be held back, nor will it alter its course.

These statements in no way imply rejection of either the possibility or the desire to find ways of maintaining constructive relations with the highly developed countries. Their situation differs from ours. But we can understand each other. We seek a way to enable us to build a society based on principles and values having a fundamentally different orientation from those prescribed by the capitalist and communist models of socio-economic organization now prevailing in the world. Not that we seek a form of society that is equidistant from both models. What we seek is not a hybrid product of those systems. We wish to build—and are building—a qualitatively different model, a system of social, economic and political institutions on a different level, insofar as concept and aims are concerned, from that of both contemporary communism and capitalism.

For us, the fundamental question is how to solve for all time a problem whose central elements are an economy that is both in an early stage of development and disjointed, the polarization of power in all its forms, the extreme poverty of large sectors of the population, and dependence on foreign economic power. These factors define our condition as an underdeveloped country. Problems of this nature can be solved only through a revolutionary policy that envisages development as a process of structural changes in all the fundamental spheres of society. Structural change and economic growth sum up our essential concept of development for a country like ours. But within that concept, top priority should clearly be assigned to the necessity of making substantive changes in the traditional socio-economic order.

We are fully aware that our economic growth requires external financing. But we are certain that this requirement is entirely compatible with the fundamental necessity of making structural changes in the bases of economic, social and political power in our country. Should this compatibility prove unattainable, Peru will maintain its revolutionary

policy, even at the cost of sacrificing its economic growth temporarily. For if we were to do otherwise, we would never achieve the central goal of creating a qualitatively different and a better social order than that prevailing until the advent of our revolution. And this objective we cannot give up.

On other occasions we have stated that, for us, the ultimate source of wealth is man's effort and that, in point of fact, in real economic life both capital and labor are the chief factors of production. Consequently, profits—that is, the expression of the surplus generated by the productive process—must not be unilaterally appropriated by either one or the other alone. From this it follows, on the one hand, that labor should be compensated not only by wages, which are actually only remuneration for work done, but also by a fair share of the profits, which should be a permanent social patrimony for the worker and his family, to which labor and capital both contribute as factors of production. On the other hand, for the same reason, we believe capital has a legitimate right to a fair and guaranteed share of the profits it helps generate.

Far from being considered the sole or fundamental goal of the economic process, profits are simply the result of the joint effort of capital and labor as production factors and, consequently, cannot be conceived as compensation for either one of them exclusively. From this stems the social content of the revolutionary laws which regulate the industrial activities of Peru, as well as the unequivocal assurance that our Government guarantees the legitimate claims of capital for profits from national or foreign investments made in accordance with the general lines of a nationalist economic policy for which the goals of structural change are enduring and within which the legitimate rights of the investment required for our economic growth are recognized.

It will be clearly seen that our recognition of the right of capitalists to a fair return does not stem from opportunism. Quite the opposite; it stems from belief in an economic doctrine which is the central part of the theoretical basis of the revolution. It therefore constitutes full assurance of the fair treatment that Peruvian and foreign investors who understand and respect the position of the Revolutionary Government will always receive from us. Anyone who decides to invest in our country will have guaranteed profits. But their investment will have to be adjusted to the economic development needs of Peru and directed to purposes for which the earning of profits is not the only aim. In other words, while the right to earn legitimate profits is recognized, investments made in our country will have to contribute to the economic and social development of Peru and, consequently, will have to be consistent with the policy of fundamental change which we are carrying out. The

days of indiscriminate investments, of unlimited profits and use of Peruvian wealth for the exclusive benefit of foreign enterprises are definitely over and done with in Peru. Under these clearly established conditions, however, we believe there is no impediment to reaching operating agreements that will safeguard the fair interests of investors and of the State.

Much of the foregoing relates to the role which the revolution assigns the State in the development field. We consider that to solve our fundamental economic problems, the State has to assume a directing and guiding role in the productive process and in the orientation and supervision of the Peruvian economy as a whole.

It must be clearly understood, however, that we are not proposing a State-controlled economy or rigid planning by an all-powerful bureaucratic machine. Our aim is an economic order in which ownership and control over decisions are gradually transferred to all who play a part in the productive process, which we hope to achieve by increasing State support to the forms of social ownership of the means of production and the organization of institutions which impart to the traditionally marginal sectors a true economic autonomy that becomes steadily greater and able to ensure their fruitful and creative participation in national decision-making.

The guidance provided by the State in the economic field assumes the form of large-scale public enterprises which we envisage as highly efficient instruments of production capable of generating profits which will permit the financing of the implementation of a large part of the structural reforms which the revolution will continue to undertake. Far from any sterile concept of State enterprises as undertakings to subsidize consumption, we maintain that their primary role must be to serve as efficient instruments of domestic financing and revolutionary development in the economic and social fields.

If profit is the quantitative result of economic activity, the non-generation of profits in an efficiently operating enterprise is a form of market subsidy. Under conditions such as those obtaining in Peru, where inequality in the distribution of wealth still persists, the market is inevitably an elite, minority market inaccessible to large sectors of our society. Subsidizing a market of this type amounts, accordingly, for all practical purposes, to increasing the very gap that we are endeavoring to close. That is why State enterprises have to play a radically different role from those assigned to them under purportedly orthodox revolutionary planning systems which are, however, totally unsuited to conditions in Peru. In this way, moreover, we shall be better able to guarantee the necessary and possible compatibility between structural transforma-

tion and economic growth and, during a crucial period in our present stage of development, to supplement the contributions of other sources of finance, so that we may perhaps ultimately succeed in laying the main foundation of the permanent financing of our revolutionary development.

Within an economic policy thus conceived, private enterprise can and must play an important part. Of course, it cannot control the economy; neither can it be permitted to retain all the profits generated by the productive process. In a non-capitalist order, like that which the revolution supports, such a position of privilege and final power is no longer possible. Within the broad outline of a large-scale industrial expansion supported by the State, there is ample field of action for private enterprise to establish itself and flourish on the basis of a fair profit recognized and guaranteed by the State as an inviolable capital right, with the sole limitation that, within the economic areas assigned to it under national development policy, private ownership of the means of production contribute constructively and patriotically to solve, in conjunction with the State and the workers, the problems connected with the economic growth of the country.

For the success of its economic policy, Peru will rely in the first place on the use of domestic financing resources. In this connection we must point out that financial means are not purely a feature of the capitalist system. In themselves they are ideologically neutral and are, in fact, instruments whose nature and purpose are determined by the society using them and which serve, independently of the ideological context and policy concerned, to expedite the entire functioning of the productive process. It is, accordingly, altogether understandable that the Peruvian Government should encourage the expansion of capital markets and, in particular, the stock market, and should use all possible financial means for the purposes of its economic development policy. There is no inconsistency in this, nor any divergence from our revolutionary position. On the contrary, it is a realistic recognition of the requirements for the solution of Peru's economic problems.

The same economic policy orientation explains the decision that the State should become the country's chief financial agent, determine and supervise the management of financial means, and assume the responsibility of basic intermediary in the domestic capital market and, chiefly, in external financial transactions. The implementation of this policy has made it indispensable to initiate far-reaching, gradual and planned reform of the country's financial system, which has resulted to date in the strengthening of the State's banking system, the establishment of the National Securities Commission as a regulating agency which operates essentially through a reinvigorated stock exchange, and in the organiza-

tion of the Development Finance Corporation as an institution to promote investment and to invest risk-bearing capital, the extraordinary importance of which for the future economic development of Peru can hardly be overstressed.

Peru, however, also needs external financing for its economic development programs. And here the attitude adopted so far by the specialized international agencies is, from our point of view, frankly negative. It is difficult not to attribute political motivation to this strange attitude, particularly since it manifested itself clearly precisely when Peru, acting as a sovereign nation, decided to undertake a revolutionary policy which, as such, was and is bound to affect adversely the interests of the oligarchic groups in power in our country in overt connivance with imperialist interests in Peru.

What is sought by such a line of action? Do they hope to slow down the momentum of this nationalist revolution and weaken the Government that heads it? We can assure them that this aim, if such it is, will never materialize. Peru will not alter the course of its revolution; it will know how to overcome all difficulties. The economic obstacles we know can be raised up against us will toughen the nationalist spirit of our people, will make us stronger and make more fecund our unity in resisting all pressures and threats.

Peru neither seeks gifts nor rejects the aid of other peoples. It desires and insists only that its right as a sovereign nation to choose its own course be respected. We demand fair treatment by the international agencies, which have acted toward us in a clearly discriminatory manner which we are not prepared to continue to tolerate. We feel the legitimacy of this demand for fairness all the more intensely, for the burden of Peru's struggle against underdevelopment was aggravated by a major earthquake which last year devastated vast areas of our country.

We believe the time has come for a calm and complete appraisal of the real effectiveness of an Institution which, like the Inter-American Development Bank, shows signs of being used as a tool for political pressure against countries which, like Peru, are determined to break with the past and to embark on a policy of liberation and nationalism whose only acceptable norm and purpose is the interests of their peoples.

If the Inter-American Development Bank does not understand the deeper meaning of the contemporary Latin American situation, if it fails to perceive the truly irreversible nature of the nationalist and revolutionary trends in our continent, then its real significance, its actual worth, must be examined. Our countries should seriously consider the possibility of finding new formulas that will be combined to solve the problems

of financing and respond to our own needs in the field of economic development.

In the view of the Peruvian Government, however, there is still time to change direction so that this organization may come to deserve our complete and implicit trust. If this is to come about, the Bank, in the first place, will have to adopt a structure that will enable it to surmount the obstacles posed by a discriminatory policy imposed by one of its members against those nations that follow a path of revolutionary change and genuine salvation. We believe we are sufficiently entitled to present this demand, since Peru is a victim of these influences within our Organization, notwithstanding its having made all the contributions required by its membership in the Bank.

Secondly, the Bank must become an institution which truly provides financial backing for Latin American development as Latin Americans understand it, and not as powerful countries in other regions of the world might understand it. Otherwise, the Inter-American Development Bank will continue essentially to serve interests which are not particularly those of Latin America. From this point of view, it would be very important for the Bank to support the establishment of multinational enterprises, Andean or Latin American, which can grasp and enlarge the opportunities opened up by the new regional and subregional markets afforded by continental integration, understood as a mechanism for Latin American affirmation and development, and not as a means of providing a broader and more profitable field of activity for large multinational firms originating outside Latin America.

Because of the very nature of the integration process and the size of the markets it will bring about, the greatest opportunities for growth and expansion will be within the reach only of large national corporations like the recently established Development Finance Corporation in Peru. It is to such national enterprises that the Bank must mainly extend its support if it truly wishes to be regarded as an institution genuinely concerned with promoting the real economic interests of our peoples.

Pursuing the same line of thought, I believe that the Bank should firmly support agencies like the Andean Development Corporation, an institution which, as a subregional financial organization, is called upon to play an extremely important role in the integrated development of the economies of the countries linked by the Pact of Cartagena. It is actions like these which can convince us that the Inter-American Development Bank can still play a truly meaningful role in the solution of our fundamental problems. Failing such action, our countries—and Peru, at least—should give serious thought to whether it is worthwhile, in any real

sense, to continue their membership in an organization which is apparently unresponsive to their most deeply felt aspirations and needs.

I have spoken today with the same frankness with which we, the men of this Revolution, have always spoken to our own people. We have no desire to take anyone by surprise. We have nothing to hide. We speak clearly and with a single voice. We believe it better to speak this way than to turn to the facile but empty language of euphemisms that accomplishes nothing because it has nothing to contribute. It was not our intention to be rude in any way. It was simply that we have a truth to say and we had to say it. And this we have done. We believe that by so doing we have fulfilled an obligation and honored a moral and political responsibility to you, to Peru, and to the cause of our sister nations of Latin America.

I hereby declare the Twelfth Meeting of the Board of Governors of the Inter-American Development Bank officially inaugurated.

SECOND PLENARY SESSION

MAY 11, 1971

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

Pursuant to the exclusive authority conferred upon this Board of Governors by Article VIII, Section 2 of the Agreement Establishing the Inter-American Development Bank, we meet on this occasion to review the results of its activity during the past fiscal year and to evaluate the economic and social circumstances governing its evolution during the next few years when, by your mandate, I will preside over the Organization.

I should like to begin by expressing my appreciation to the Government and the people of Peru for the generous hospitality with which they have welcomed us. The dedicated efforts of the authorities in providing facilities, for which we are most grateful, will be an important factor in the success of this meeting, while the cordial friendship of the Peruvian people has created an atmosphere of brotherhood that will greatly enhance our stay in this city which combines an illustrious and aristocratic past with the dynamic drive of a young nation determined to shape its own destiny.

Peru's emergency

I should also like to mention, at the beginning of this address, the successful efforts made by the Peruvian Government to organize and reactivate the economic life of the country.

This highly significant effort, acknowledged by the Inter-American Committee on the Alliance for Progress (CIAP) at its last meeting, is still more impressive when one considers that the country has at the same time been obliged to undertake the reconstruction and rehabilitation of the area stricken by the earthquake of May 31, 1970. A source of great satisfaction for our Institution was the opportunity to extend immediate assistance on that occasion and to collaborate with the Peruvian people and Government in a highly significant economic action of hemispheric solidarity.

The expression of our interest in serving Peru has by no means been confined to our response to that natural disaster. Proof of this is the fact that in 1970 the Bank channeled to Peru the largest annual volume of resources in the history of our Organization. I am confident that, before the end of this Meeting, I will have the satisfaction of signing with the national authorities the loan contract for the Jaén-San Ignacio highway, which was approved by the Board of Executive Directors on the

5th of this month, and which was financed by the Fund for Special Operations.

I. The Bank's Activities in 1970

The Bank's activities during 1970 are fully described in its Annual Report, as well as in the Report of the Social Progress Trust Fund. Consequently, I need only mention at this point certain outstanding achievements which give some indication of the significance of the Bank's role in the Latin American development process.

Expansion of credit activity

In 1970, the IDB authorized 59 loans totaling \$644 million. This is the largest amount authorized to date and in itself indicates the capacity of our Institution to channel a growing volume of resources into the region. The sources of funds used to finance these operations can be broken down as follows: 18 loans totaling \$194 million from the ordinary capital resources; 37 loans aggregating \$443 million from the Fund for Special Operations, and 4 loans for a total of \$7 million from the resources made available to the Bank by several countries. I shall mention five cases which serve to illustrate the scope and diversity of the Bank's work.

- a. The largest financing authorized to date by the IDB, in the amount of \$75 million, was extended to Venezuela to implement a comprehensive agricultural development program to support and expand already adopted agrarian reform measures through the execution of eight subprograms providing credit and technical assistance for the consolidation of rural settlements, agricultural research, establishment of extension agencies, irrigation, access roads, grain storage facilities, farm credit, and training technical and administrative personnel.
- b. The loan made to *Aluminio del Caroní, S.A. (ALCASA)*, also in Venezuela, for the equivalent of \$12 million, to help double the firm's annual output of primary aluminum and increase aluminum foil production by more than 50 per cent. It should be noted that in 1970, *ALCASA* supplied 90 per cent of the total domestic demand for aluminum and sold half of its production to the countries of the Andean Subregional Group.
- c. The \$35 million loan granted to Peru for the reconstruction and rehabilitation of the area affected by the earthquake. This was

the first reconstruction operation carried out by the Bank and was approved by the Board of Executive Directors more rapidly than any other loan.

- d. Four loans for more than \$32 million were granted to Ecuador to finance three specific projects and a preinvestment study, representing one of the largest amounts granted in a single year to a relatively less developed country.
- e. A loan in the amount of \$20 million was made to the Central American Bank for Economic Integration to advance execution of a program designed to improve highway integration of the Central American countries and to interconnect major production and consumer centers.

I should like to emphasize the fact that the loans extended to Venezuela show a considerable increase in the use of IDB financing by that country, which has in the past requested a comparatively small volume of loans.

These five operations illustrate the fact that the Bank is initiating its second decade with imagination and drive and with a special awareness of changing needs in the hemisphere, which it is endeavoring to satisfy by emphasizing equally its economic and social development investments.

Furthermore, in the first four months of this year, the Board of Executive Directors approved 15 loans totaling \$134.6 million, a figure that compares favorably with the level reported for the same period in earlier years and which warrants the expectation of a satisfactory volume of lending in 1971. With the loans approved this year to April 30, the Bank has since 1961 authorized a total of 637 loans aggregating \$4,203.6 million, which helped to finance projects with a total cost of more than \$11.7 billion. These figures reflect the important contribution made by the Bank to economic and social development in Latin America, not only through the external resources it has channeled into the region, but especially because its contribution has served to mobilize twice that amount in local resources for priority projects. Of these loans, 35.8 per cent were financed with the ordinary capital resources, 50.9 per cent by the Fund for Special Operations, 11.7 per cent by the Social Progress Trust Fund and 1.6 per cent with other resources.

Sectoral distribution of loans

The sectoral composition of Bank loans in 1970 and the total cumulative portfolio from 1961 to 1970 is as follows:

| | 1970 | 1961-70 |
|-------------------------|------------|---------|
| | Percentage | |
| Productive sectors | 45.9 | 42.8 |
| Social sectors | 11.1 | 24.2 |
| Physical infrastructure | 41.2 | 31.0 |
| Preinvestment studies | 1.8 | 2.0 |
| | 100.0 | 100.0 |

During the past fiscal year, *agriculture* was the sector that benefited most. Fifteen loans totaling \$236.2 million accounted for 36.6 per cent of all loan approvals. In addition to the previously mentioned Venezuelan loan, an operation with Peru for \$23.3 million will, through the construction and expansion of small and intermediate irrigation facilities and improvement of agricultural installations, help to increase the productivity of 74,100 acres, mainly in the Sierra. In this way the Bank is collaborating in the outstanding effort being made by the Government of this country to accelerate development of the farm sector. Other loans for this sector benefited Brazil, Colombia, Ecuador, Jamaica, Mexico, and Trinidad and Tobago. The IDB is still the major supplier of external capital for agriculture; its contribution over the last 11 years accounts for approximately one-half of all external financing received by the sector, including funds from international agencies and bilateral financial aid. Total resources lent by the Bank for agriculture from 1961 to 1970 amount to \$1.066 billion and represent 26 per cent of the total IDB portfolio.

In *industry and mining*, the situation is less favorable. In 1970, nine loans aggregating \$46.9 million, equivalent to 7.3 per cent of the annual total, were authorized. The industrial projects financed during the year were aimed primarily at expanding export capacity to destinations inside and outside the region. In Uruguay, a loan of \$13.7 million helped to modernize the country's cold-storage industry, strengthening its position as a meat exporter. Reference has already been made to the \$12 million loan to Venezuela to double the production of primary aluminum. The other loans went to development institutions, primarily to promote small and medium-sized industries, for which the Bank is the major source of external aid. These industries generate a significant volume of employment. The countries receiving these loans were Costa Rica, Mexico, and Uruguay.

Cumulative industrial loans up to 1970 totaled \$621 million and accounted for 15 per cent of the IDB portfolio. Since this sector must provide the basic momentum for the economic growth of the region, the

Bank should be more closely involved in its development. Fortunately, this problem is being solved, since we have recently received loan applications for more than \$300 million and we will continue to make every effort to identify a larger number of sound industrial projects.

In *transportation and communications*, 13 loans for a total of \$162.6 million were made in 1970, representing 25.2 per cent of the annual credit volume. These figures show that the Bank has substantially increased its activity in this sector, inasmuch as authorizations for the entire period since the start of operations amount to \$685 million or 16.8 per cent of the cumulative portfolio. The most important operation carried out during the past year was the authorization of several loans to Argentina (\$33.5 million) and one to Uruguay (\$4.8 million) to help improve the road system of the Argentine mesopotamian region and facilitate communications between this area and the rest of the country. Those loans will also partially finance construction of a bridge between Argentina and Uruguay. That is the first overland connection between the two countries, and it will serve to expedite commercial and tourist traffic between them and constitute one more step toward the physical integration of South America. Other loans for transportation and communications benefited Brazil, the Central American countries, Colombia, Ecuador, and Mexico.

Four loans were made in the field of *electric power* for an aggregate of \$103.6 million, or 16 per cent of total lending for the year. The Bank has consistently played a significant role in this sector, since up to the end of 1970 it had lent a total of \$577 million, representing 14 per cent of the IDB portfolio, to finance the generation and distribution of electric power, as exemplified by the following loans. The largest loan—for \$66.5 million—was granted to Brazil to help finance a power transmission system that will connect the Ilha Solteira-Jupiá hydroelectric complex to the city of São Paulo. The Ilha Solteira plant, designed with a capacity of 3.2 million kilowatts, and the Jupuí station, which are being built with IDB financial aid, will be one of the largest electrical complexes in the world. Another major operation in the sector was the authorization of two loans to Argentina for \$30 million to meet the demand for electricity in Córdoba and other provincial cities, through which the Bank is participating in a significant effort to achieve a more balanced development among the various regions of Argentina. For the same purpose, Costa Rica received a loan of \$3.8 million to benefit 30 communities, thereby doubling the number of inhabitants supplied with electric power.

With reference to *social projects*—urban development and housing, education and health—11 loans were granted for a total of \$71.1 million,

or 11 per cent of the total. For *urban development*, one loan was granted to Nicaragua for \$12.4 million to finance a comprehensive project of housing and urban services, including schools, markets, and water supply and sewage systems. Counting the urban development component of the emergency loan to Peru, \$28.7 million was lent for this field last year. In *education*, the Bank associated itself with an important initiative of the Pan American Health Organization aimed at providing a loan for publication and distribution of medical textbooks; operations were also carried out with El Salvador, Jamaica and Uruguay to meet the expanding requirements of technical and higher education.

I should like to call the attention of this meeting to the fact that, during the course of 1970, loans for \$53 million were granted to Argentina, Chile, and Panama, in contrast to the annual average of \$15 million in loans to the sector. Several loans were made for *water supply*: the city of Port-au-Prince received a second loan which will enable it to satisfy fully both present and immediate future needs, since the project has been designed to cover a population of half a million. Valparaíso and Viña del Mar, in Chile, will extend water supply and sewage services to new communities located in the hills surrounding those cities. Guayaquil in Ecuador and San José and other cities in Costa Rica, along with 180 rural communities in the Dominican Republic, will expand or initiate sanitation projects with resources granted during 1970.

Certain observations should be made with regard to the social sector. First, the efforts made by the Latin American countries in connection with the construction of water supply and sewage installations represent a total of approximately \$1.5 billion, with a contribution from the Bank in the amount of \$486 million. These efforts have made it possible to meet the demand generated by population growth and to satisfy more than 10 per cent of accumulated requirements, thus narrowing the gap between supply and demand.

A different situation prevails in the field of urban development. The Bank's action over the past three years compares unfavorably with its record during the seven preceding years. In 1970, IDB loans for urban development and housing and for education accounted for 4.5 per cent of total lending that year, while over the 10 years of operations such loans averaged 10.2 per cent of the entire portfolio. This decline is inconsistent with the purposes of the Bank and disproportionate to the growing needs of Latin America, which has the highest urban growth rate of any region in the world.

In view of this serious situation, we have begun to vigorously promote new urban development projects which we are certain will enable us to increase significantly the relative size of these operations. By way

of example, in the case of the *Recôncavo da Bahia*, in Brazil, the Bank has set up a technical assistance program to help prepare urban infrastructure projects in support of the rapid industrial development under way in that area.

Yet it should be noted that our institution has undertaken a pioneering effort of considerable scope in extending its action to social sectors previously unaided by international financing. It will continue to give special attention to these sectors in the future and, in the light of its 10 years of experience, will review its operating criteria whenever necessary in order to render its support for efforts by member countries in the field of social development still more effective.

Under the *export financing* program, three operations were processed for a total of \$12.5 million, exceeding the amount mobilized in any preceding year. The cumulative total of \$53 million helped to finance exports of capital goods within the region in an amount of \$75.1 million to promote the flow of trade within the context of Latin American integration.

Finally, four *preinvestment* loans amounting to \$11.8 million were made to establish or expand national preinvestment funds enabling the member countries to conduct regional and sectoral studies and to identify and prepare specific projects. I shall return to this subject further on, particularly with regard to the need for stepping up Bank support for the less developed countries in the region.

Special mention should be made of *tourism*, a new field being opened up by the Bank which, because of its impact on the balance of payments and its capacity for generating employment, will be highly significant for the immediate future.

In 1970, two loans were approved for the Bank of the Oriental Republic of Uruguay, authorizing the use of \$1.5 million to finance construction and improvement of small- and medium-sized hotels. In February 1971, under the same plan, it was resolved that \$2.4 million contained in two loans to the Jamaica Development Bank could be earmarked to promote tourism. In addition, an earlier loan to Paraguay was increased to \$1.6 million. It should also be noted that the countries of the Central American Common Market, Colombia, Panama, Paraguay and Peru have used resources derived from the preinvestment loans to finance tourism studies. Furthermore, an analysis is being made of the first comprehensive tourism development project—on the Yucatán Peninsula, in Mexico—to help build all of the infrastructure required to create a new pole of tourist development that will in turn attract private capital investment to construct hotels and other facilities. Various proj-

ects are also being identified in other countries, including some multinational initiatives that might eventually be financed by the Bank.

Distribution of loans by country

The Annual Report itemizes the loans granted to the member countries by sector and source of funds. At this time I should like merely to point out the Bank's continuing policy of extending special treatment to the less economically developed countries in order to narrow the serious gaps in development between the several countries, which, if they persist, could undermine the dynamic nature of the process throughout the region. Balanced development is not only an expression of equitable distribution practiced on the hemispheric level, but a condition essential to the common welfare of the region. History shows that islands of prosperity surrounded by poverty do not long survive unless the effects of the well-being concentrated in limited areas are extended progressively to the complex as a whole. This concept of development explains why the less developed countries are the ones most favored in comparative terms in the allocation of Bank resources. The per capita regional average for loans approved between 1961 and March 1971 is \$15.7. While countries like Brazil and Mexico fall far below that average, receiving only \$9.5 and \$11 per capita, respectively, Paraguay records a level of \$41.3; Nicaragua \$37.2; Uruguay \$34.5; Panama \$34.3; Honduras \$21.3; Bolivia \$20.7; and Ecuador \$18. In the special case of Haiti, the Bank hopes to be able in the near future to step up its technical assistance and project financing activity.

The preferential treatment accorded by our institution to the less developed countries is not confined solely to a larger allotment of resources per capita. Also important are the more advantageous conditions of their loans, mainly with regard to interest rates and volume of counterpart resources. Consequently, while the average interest rate on all loans granted between 1961 and December 1970 was 4.6 per cent and the average rate applicable to Argentina, Brazil and Mexico was 5.2 per cent, the rate for the less developed countries averaged only 3.5 per cent, since the less developed countries received 84.6 per cent of their loans in soft funds, while the larger countries secured only 57.7 per cent of their financing in these resources. With regard to counterpart funds, financing supplied by the less developed countries themselves amounted to 48.3 per cent, while the average for the most highly developed countries was 62.5 per cent. It is our intention to reinforce this trend, as illustrated by the loan I signed a few days ago for the construction of farm-to-market roads in Panama.

It is my feeling, however, that 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 rational 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.

Progress of projects

The Bank's participation in the process of Latin American development can be more graphically illustrated by describing the results of its loans. It is, accordingly, useful to mention certain advances made in the execution of projects up to the end of 1970. In the field of *agriculture*, loans are contributing to the new or improved cultivation of some 9 million acres, of which 5.6 million acres were under production in December 1970. In addition, 815,000 subloans had been made to small and intermediate producers, benefiting more than 4 million farmers. In the *industry and mining* sector, 50 large industrial plants have been financed, of which 42 are now in operation. A total of 4,400 small and intermediate enterprises have received financial aid from the IDB. With regard to

electric power, Bank assistance helped to expand generating capacity by nearly 7 million kilowatts and to construct 43,000 miles of transmission and distribution lines benefiting more than 600 communities in Latin America. *Transportation and communications* loans are contributing to the improvement of almost 6,000 miles of main highways forming part of national networks and 18,748 miles of access roads. Moreover, the Bank is partially financing the construction or modernization of 9 large ports and the installation of grain elevators in 6 secondary ports. The IDB is also helping to build a regional telecommunications system which will for the first time interconnect all of the countries with each other and with the rest of the world. The feasibility studies for this system, conducted by the Bank, have now been completed. With regard to *water supply and sewage*, 3,800 water systems benefiting more than 40 million persons have been financed; by the end of 1970, 3,000 of these systems had been completed. In addition, 370 sewage systems have been financed, and 290 of these have been completed. In the field of *urban development and housing*, by the end of the year, 280,000 of the 413,000 housing units scheduled for financing through Bank-supported programs had been built. In connection with *education*, 560 centers of technical training and higher education, with a total enrollment of 680,000, have been benefited. Under the *export financing* program, the invoice value of exports financed amounted to \$75.1 million. A total of nearly 400 studies have been concluded in the preinvestment sector.

Technical assistance activities

In 1970, the Bank authorized 107 technical assistance operations for the equivalent of \$20.8 million to promote economic and social development of the member countries. Since the beginning of its operations, our institution has authorized technical assistance projects amounting to the equivalent of \$150.8 million, of which \$106.6 million or 70.7 per cent was reimbursable and \$44.2 million or 29.3 per cent was non-reimbursable.

Much of the technical assistance furnished consists of activities relating to specific projects which serve to finance project prefeasibility and feasibility studies and, in some cases, assistance for project execution. In 1970, a total of \$16.8 million was authorized in direct technical assistance and \$4 million was allocated to other activities, such as general studies and training.

It should be noted that in 1970 the less developed countries received the equivalent of \$12.2 million in technical assistance for specific projects, representing 72.6 per cent of the total approved, while out of the

non-reimbursable operations, they received \$4.4 million or 89.3 per cent of the total.

The IDB and economic integration

The year 1970 was one of heightened integration activity, with authorized operations aggregating \$103.2 million, which increased by 26 per cent the cumulative total as of the end of 1969. This figure breaks down into \$100 million in loans for investment projects promoting integration and preinvestment activities for approximately \$2.6 million, in addition to training furnished by the Institute for Latin American Integration.

The resources committed for integration purposes in the 1961-70 period total \$494 million, accounting for about 12 per cent of the entire portfolio. It is estimated that this financing supplemented investments adding up to more than \$1 billion.

Among the principal operations in the integration field in 1970, special mention should be made of nine loans equivalent to nearly \$72 million for physical infrastructure projects which promote integration, including the Fray Bentos-Puerto Unzué bridge between Argentina and Uruguay; the expansion of Puerto Acajutla in El Salvador; the Ambato-Puyo Mocas highway in Ecuador, part of which forms an important section of the Bolivarian Highway; construction of the industrial park of Aratú in Brazil; and the regional highway program in Central America, which is being implemented through the Central American Bank for Economic Integration.

Only three member countries had joined the campaign against foot-and-mouth disease up to 1969: Argentina, Chile and Paraguay. Last year a loan of \$13 million was authorized to cooperate with Brazil in financing the campaign against this disease. However, other countries already have studies in an advanced stage, or are on the point of initiating them, to organize their efforts in this important field. They include Bolivia, Colombia, Ecuador, Peru, Uruguay and Venezuela. In the case of Venezuela and Colombia, the studies cover both foot-and-mouth disease and brucellosis. The participation of all the countries of the region is indispensable for permanent eradication of these diseases that constitute such a serious obstacle to the development of stock raising and its exports.

As regards preinvestment and technical assistance, it should be noted that in 1970 operations were approved, chargeable to the Pre-investment Fund for Latin American Integration, amounting to \$2.6 million, of which \$600,000 was non-reimbursable and \$2 million was

charged to national preinvestment lines of credit. The major non-reimbursable operations included two to the Latin American Free Trade Association (LAFTA) for its program of commercial and industrial policy research; two others to the Andean Subregional Group for sectoral programming studies; one for project identification by the recently established Andean Development Corporation and four to Central American organizations for research on regional infrastructure and agricultural policies, the establishment of capital markets in the region and standards to be used for censuses in the countries of the area.

Also worthy of note are three initiatives undertaken in 1970 which are important to the regional integration process, namely: the Fourth Meeting of Integration Institutions, sponsored by the Bank in September 1970; preparation of the Inventory of Multinational Physical Infrastructure Projects, on which substantial progress was made in the past year and, finally, execution of the feasibility studies needed for the interconnection of national telecommunications systems in the regional countries to form the Inter-American Telecommunications Network (ITN). The ITN feasibility study was financed by the Bank, which has been acting since 1968 as executing agent of the United Nations Development Programme, with reference to this project.

Disbursements

The year 1970 recorded not only the largest volume of loans but also the highest level of disbursements, consolidating a trend toward better utilization of the Bank's resources. Between January 1970 and March 1971, disbursements for the equivalent of \$471.3 million were authorized, making a cumulative total of \$2,228.2 million or 53.6 per cent of all amounts authorized. Bearing in mind that most of the projects generally require a period of from two to seven years between approval of the loan and completion of the work, this disbursement percentage may be considered as reasonable and in line with that of other international finance institutions. Nevertheless, the Bank will continue seeking new procedures to speed up the rate of disbursements.

It is interesting to note that disbursements in the past year included for the first time Argentine, Brazilian, Mexican and Venezuelan currency for the financing of exports by these countries to others in the region. The sum disbursed is modest—approximately \$3 million—but is of great significance in terms of collaboration between the Latin American countries.

Increase in resources

During 1970, \$204 million was mobilized by means of loans and other financial arrangements. Of that amount, \$187 million was incorporated into the ordinary capital from the following sources: a) \$52.7 million from non-member countries, obtained by means of long-term bond issues in Germany and Norway, a direct long-term borrowing in Japan and a short-term borrowing in Switzerland; b) \$100 million from a bond issue sold in the United States and c) \$34.3 million from an issue of short-term bonds placed mainly with the Latin American central banks. The other resources raised in non-member countries—\$17 million—which have not been incorporated into the Bank's own resources, comprise a \$2 million trust fund established by Norway and increases of 10 million Canadian dollars in the Canadian trust fund and of 18 million guilders in the funds for parallel or independent financing contributed by the Netherlands.

In the first few months of the present year, three long-term bond issues were placed in Switzerland, France and the Netherlands aggregating \$41.7 million, and the Bank has negotiated an issue of long-term bonds to be placed shortly in Austria for a total of \$5.8 million. The inclusion of France brings the number of non-member countries contributing resources to the Bank to 17. In addition, the sixth issue of short-term bonds, totaling \$47.3 million, has been sold to financial institutions in 15 Latin American countries. Finally, we have conducted negotiations with Japan that will shortly culminate in various financial arrangements enabling that country to make new and substantial contributions which will probably include access to the Japanese capital market. At the end of 1970, cumulative gross resources mobilized in non-member countries amounted to \$550 million; the addition of operations completed since that date brings the total to nearly \$600 million.

Funds available

By virtue of the resolution of December 31, 1970 of the Board of Governors, approving increases in Bank resources in the amount of \$3.5 billion, the ordinary capital will be raised to \$5.15 billion (including \$448.02 million for new members) and the Fund for Special Operations to \$3,828,009,000. These resolutions require the member countries to agree to subscribe these funds by June 30 of this year.

The funds available as of December 31, 1970, were the following: a) \$67.5 million in ordinary capital; b) \$467.7 million in the Fund for Special Operations, and c) \$29.2 million in other funds. That the sup-

ply of ordinary capital actually available stands at such a low figure makes it imperative for countries to take rapid action to meet the commitments assumed under the resolution cited. Delay in implementing this increase would create serious problems in programming the Bank's activities and in maintaining its image as a solid financial institution, the importance of which is obvious.

Financial results

The financial results are further proof that our Institution's efforts in behalf of the member countries have been effective, achieving a profit margin that has enabled it to consolidate its financial position and provide resources for non-reimbursable technical assistance programs. The financial statements for the ordinary capital show a net income of \$33,049,645, raising the general reserve of \$65,484,354 at the close of the previous year to \$98,533,999 as of December 31, 1970. This reserve has been built up with the Bank's net income. However, the year just concluded was an exceptional one for the yield from short-term investment of funds pending disbursement, a situation which is not likely to recur in the near future. Moreover, the special reserve formed by the proceeds of a commission on loans from the ordinary capital rose from \$19,677,362 to \$25,647,450. Equally encouraging are the financial results of the Fund for Special Operations, which had a net income of \$11,164,092. After deducting technical assistance costs of \$1,423,599, the general reserve of the Fund was up to \$9,740,493, reaching \$25,115,551. As for the Social Progress Trust Fund, a surplus of \$8,033,774 was recorded after deducting technical assistance costs of \$2,559,718.

In concluding this account, I consider it appropriate to mention the need of having the Bank keep its indebtedness policy under constant review so that it may, at any given moment, take advantage of changing conditions in long- and medium-term capital markets. This may at certain times call for financing part of the Bank's long-term obligations by shorter-term indebtedness, as other institutions have already done.

To provide more comprehensive information, we have for the first time drawn up a statement of all IDB accounts, which provides an overall view of the resources as a whole.

II. The Bank in the Decade of the 70s

When I assumed the presidency of the Bank, I stated that the 70s, in which my term of office was beginning, would bring us problems very

different from those confronting us in earlier years. Economic and social development in Latin America is governed by a process of change that profoundly affects our own region, as well as the rest of the world.

It is obvious that winds of change are blowing, stirred up by the widespread search for greater economic and social justice. It is equally obvious that these winds know no boundaries.

To speak today of economic progress, technological advances and social change is necessarily to refer to a worldwide process that demonstrates the need for a redistribution of power and opportunities at the national and international levels.

This world spectrum requires adjustments between institutions, on the one hand, and science and technology, on the other, the latter constituting a measure of the successful struggle to master the natural elements and disease. Expressed in another way, the problem at hand is to guide the process of science and technology and place it at the service of human well-being.

This is not the place to analyze contemporary technology's conquest of frontiers often beyond our wildest imagination. Yet these exploits should not make us forget that we have only touched upon the possibilities of technological development and, of more serious concern, that there are human frontiers still unconquered. The misapplication of science and technology can lead to certain undesirable consequences to the extent that the majority of the benefits of progress are assimilated by a small number of nations and social sectors, while the greater part of mankind continues to exist in ignorance and poverty.

A shortsighted view of economic development aims has at times led the industrialized countries to such extremes of destruction of their natural environment that in certain cases the very survival of the species is threatened. We do not want this to happen in Latin America. Therefore, we must intensify our efforts to guide and plan development in such a way as to prevent dire consequences for the environment. The Bank will support initiatives of the countries to ensure that the projects will meet this requirement.

The formless growth of cities has led to mass agglomerations clearly exhibiting signs of a deterioration in the quality of human life. Consequently, the new social aspirations seek ways of humanizing technology. We must realize that these aspirations often question the validity of certain institutions, systems and ways of life.

The Process of change in the industrialized world

The recent evolution of the industrialized countries has brought

about significant changes in the system of international relations, producing a more pluralistic distribution of economic, technological and political power throughout the world. Thus, for example, today the countries of the European Economic Community supply 32 per cent of all world exports—the United States, 15 per cent; the European Free Trade Association, 14 per cent; Japan, 7 per cent, and Canada, 6 per cent. International liquidity is going through a similar process of diversification, for as of December 31, 1970, 16 industrialized countries were sharing 71 per cent of the world's liquidity.

This realignment of economic power justifies the expectation that, in addition to the United States, this entire group of nations will contribute substantially to the development of the Latin American countries, since they are placing in our markets a very significant part of the manufactures and capital goods needed for that development.

A considerable change has also occurred in the relations of the socialist world with Latin America, mainly through the intensification of trade with such countries as Czechoslovakia and East Germany, which should also provide similar cooperation.

The process of change in Latin America

I should like to refer now to certain significant trends that have marked the recent evolution of the Latin American countries. First of all, the present situation in the region has been determined by the progress achieved, which is immense in retrospect, yet insufficient in the light of current problems.

Never has the statement been truer that we have progressed on the road to development only to discover that the gap existing between the legitimate aspirations of our societies and the real possibilities of satisfying them is still too great, for tensions result not from backwardness, but from insufficient development.

The past decade of Latin American history began and ended with political changes of more than ordinary significance. These reflect the dialectic of hopes and frustrations accompanying every process of change and seeking to interpret politically the imperatives of current circumstances.

In the first place, there has been an upsurge of nationalism. It is apparent that as the region has become urbanized, the impact of city growth and economic progress has drastically altered social systems and relations between their component groups.

The idea of an independent national community, with its own aims and values, capable of self-determination, has gradually become the

frame of reference within which the will of the people is mobilized and new social sectors are formed.

The functional capacity of our traditional political institutions to administer the process of development efficiently has been placed in question. During this decade, new approaches have been explored in the organization of political relations and administrative authority designed to bring about greater cohesion and social discipline and to make the public sector a more functional instrument of development. This redefinition of purposes of the State has in general served to expand its sphere of competence, an experience shared by most countries in the western world.

The aims and methods of our development process have been questioned. On the one hand, it is obvious that in the course of a scant three decades, Latin America has acquired a very definite profile, which is characteristic of urban and industrial life; the universities have opened their classrooms to the teaching of sciences; equality and a higher standard of living are the cornerstones of political dialogue. This cultural progress has in turn made necessary a critical examination of the life styles implicit in such development.

In short, nationalism, the redefinition of State goals and the search for an appropriate cultural response undoubtedly influence relations between the regional countries and the industrial nations, especially in the fields of international trade, transfer of technology, foreign investment and external aid.

These processes of change pose problems for both the member countries and the Bank. In Buenos Aires, on the occasion of my installation as President of this institution, I made specific proposals, following which I decided to establish working groups composed of Bank officers of the highest technical level to make special suggestions regarding the future activities of our agency in the light of changes taking place in the region and on the international scene. The principal areas of concern assigned to the groups may be outlined as follows:

1. Bank activities relating to the development of manpower skills will be evaluated to redefine our objectives in education and help to identify projects for training intermediate technical personnel and skilled workers, without overlooking Latin America's need for high-level humanists and scientists. On this point, I can report to you that studies have been initiated to promote collaboration with the labor movements of the industrialized countries and others whose technology is more

readily adaptable to regional conditions, with a view to their cooperating with Latin American worker groups.

2. In a recent conversation with Spanish, French and Dutch authorities, we proposed plans for collaboration with the Bank and with Latin American industry which combine an interest in exporting capital goods with the need of our countries for soft funds to finance local expenses. In this connection, we should continue studying prospects for the complementation of Latin American industries among themselves and with the industry of other countries willing to offer resources and technology to this end. The agenda of this Meeting includes a recommendation by the Board of Executive Directors concerning the establishment of an agency designed to foster the development of Latin American industrial enterprises. In addition, the Bank will expand its support for small and intermediate industry, including the strengthening of mechanisms to channel resources into this area.
3. In rural areas, projects providing greater support to craft industries should be identified to organize this industry for large-scale production and providing it with an adequate distribution mechanism. This effort will help to prevent the relocation of *campesinos* and provide them with a dignified standard of living and will serve to increase foreign-exchange earnings from craft exports. For similar purposes we will attempt to encourage establishment of agroindustries using the manpower and raw materials available in rural areas.
4. In urban development we must intensify our collaboration with member countries in their efforts to improve municipal and metropolitan institutions and strengthen our ties with social security agencies to promote housing, education, health, sanitation, transportation, and food programs.
5. We should not forget that during the next decade it will be essential for our countries to reconcile increased productivity with higher levels of employment. For this reason, Bank-supported urban and rural projects should identify, to the extent advisable, procedures that can expand job opportunities. Likewise, where the opportunity exists, we must promote industries that can compete through the use of labor-intensive techniques, not only to supply the domestic market, but also for export.
6. We should seek more flexible mechanisms designed to expand the volume and improve the conditions of resources required

for the development of Latin America. To this end, we are studying, for example, the advisability of issuing bonds denominated in several Latin American currencies from which the bond holder can choose upon maturity. Through this technique we hope to attract capital that has fled Latin America.

7. We will continue to place great emphasis on expanding exports, particularly of manufactured products. It must be recognized that every contribution to export expansion is a contribution to independent economic development. In addition to the present Bank program, we will endeavor to evolve more flexible instruments to promote exports, including the mobilization of the Latin American currencies available to us.
8. We need to reconsider our participation in fiscal affairs, seeking not only to coordinate our action with that of other institutions in the tax field, but also to have the countries improve their budget and fiscal administration mechanisms, which can lead to sizable savings in current expenses to support investment. In this regard, a mission requested by Paraguay will shortly be sent to assist that country in examining its public finances.
9. As regards physical integration, we will coordinate our activities with those of other agencies that have offered their help in order to intensify studies aimed at identifying a larger number of projects. This will enable the governments to select those initiatives contributing most of the strengthening of Latin American integration.
10. Tourism must receive our careful attention in order to propose to countries, both individually and collectively, a series of measures which will support this activity of such significance to development because of the high level of employment, generation of foreign exchange and strengthening of personal contacts it produces.
11. We will increase our support for the countries, especially those relatively less developed, to ensure them of a sufficient number of projects. To this end, we are exploring the advisability of strengthening the Bank offices in each country and of allocating a higher proportion of technical assistance resources to the identification and preparation of projects suitable for international financing.
12. We have said that development in the 70s will be characterized by reciprocal action between the supply of information and the processes of economic and social development. This points up

the urgent need to reorient the Bank's publication activities in order to serve member countries more effectively in formulating their development policies, primarily through an information bulletin. A study will also be made of the advisability and feasibility of setting up information and data processing systems enabling our countries to keep up to date on various aspects essential to development activities. Of particular importance within this plan is the formation of a Latin American information and computer center now under study. The Bank management will receive the results of these studies at the end of July. I am sure that these specific recommendations will contribute to a more dynamic and effective approach by the Bank to the new requirements of economic and social development in Latin America.

Also available will be the recommendations of a high-level consulting firm which, by decision of the Board of Executive Directors, is examining the organization and operations of the Bank with a view to strengthening the institution in this new period.

It has been said that we Latin Americans have too much imagination to make it physically possible for us to fulfill the goals which we set ourselves.

It has also been said that the time has come for the IDB to consolidate the progress made during the period of growth and diversification of its operations.

Although there may be some truth to both statements, we hope the mandate given us to direct the future activities of the Inter-American Development Bank will be accompanied by the desire of our countries that we use all our imagination. For only in this way can we obtain the maximum return on available resources, adapting our action to the demands of the circumstances in each of our countries.

Address by Mr. Alfonso Patiño Roselli, Governor for Colombia and Minister of Finance and Public Credit

The meetings of the Board of Governors of the Inter-American Development Bank are appropriate occasions for drawing up a balance-sheet of the achievements of the Institution and of inter-American cooperation in general. Interest in the analysis required for this balance increases as the experience of our countries as members of the Bank and as partners in hemispheric collaboration accumulates. This is one reason why the deliberations of this meeting are of such great significance in themselves. However, there is another more important reason: the tensions created by problems inherent in Latin American development are mounting steadily, and, consequently, demand increasing attention. The growing dissatisfaction and unemployment, inequalities and frustration, poverty, hopelessness, and anger in Latin America are apparent to all.

Our review of the situation entails, on the one hand, an evaluation of the Bank's progress and, on the other, a consideration of its next moves in the light of the requirements of inter-American financial cooperation.

A retrospective view of the considerable progress attained since the founding of the Bank in 1959, or since it was first proposed in 1889, is highly gratifying. There is no doubt that the achievements of the agency have far surpassed the most optimistic hopes voiced in its early days, or that it is one of the most important cornerstones of Latin American development.

The constant cooperation of the Bank's assistance for the social and economic advancement programs of Colombia has been decisive for the programs and for national development. As spokesmen for our country, we are always pleased to proclaim this fact.

Yet if we consider available data on the growth of unemployment, the housing shortage, the concentration of agrarian property, the number of children without schooling and other indicators of the socio-economic situation in the region, we must recognize that, despite its admirable accomplishments, the Inter-American Development Bank still confronts a task that calls for redoubled efforts. This could not be otherwise, of course, since the development of Latin America is not a task to be measured in years, but in decades.

These increased efforts by the Bank, for which the Eleventh Meeting laid the essential groundwork, should be considered as one aspect of the re-examination and consequent reorganization of the Alliance for Progress to be carried out in the near future on the basis of studies entrusted to CIAP and on proposals of the governments.

Such reorganization, designed to adapt the cooperative effort in accordance with experience and the particular circumstances of this new stage, naturally reflects a special urgency. Only simple souls—or deliberate obstructionists—could want to bring to an end a task which, despite the frustrations created and the evident limitations, is the most positive multilateral undertaking carried out by the members of the inter-American system. Only these groups could ignore the obvious benefits of continuing this work, pursuant to the decision of the Conference of Foreign Ministers held in Rio de Janeiro, in addition to reviewing its objectives and improving its mechanisms.

We hope that this upcoming review will avoid the alternatives of more trade or more aid so tediously restated in the past. It is time we understood that urgent and substantive advances are required in both areas. Inter-American trade requires primarily the measures now under consideration by the Special Consulting and Negotiating Commission of the Inter-American Economic and Social Council. In regard to the field of finance, it is self-evident that the flow of external resources to Latin America is still very limited in terms of the growing needs resulting from regional social and economic conditions.

Colombia, which has had the good fortune of receiving considerable financial aid which has been wisely coordinated through the operations of the Consultative Group in which the Bank has played an invaluable role, is nonetheless well aware that there are a number of shortcomings in the financial mechanisms requiring improvement. My country has long experience in trade relations which it will gladly contribute to the discussion of problems in that area. Consequently, Colombia will take an extremely active interest, at the appropriate forums, in joining in the search for formulas of hemispheric cooperation that meet the needs of the 70s.

In this new stage the IDB will be ably directed by Mr. Antonio Ortiz Mena, in whom all the members have placed their complete confidence and whose abilities ensure a very successful administration. We were very pleased to find ourselves in agreement with the proposals made by Mr. Ortiz Mena yesterday in his important speech.

My delegation concurs in the view repeatedly expressed by the President of the Bank assigning priority to urban development programs, since of the many problems confronting the Latin American countries, the most serious are unquestionably those relating to the sprawling growth of their large cities and the broadening gap between the living conditions of the masses and the middle and upper classes. Economic, social, and even political developments will depend basically on how Latin American society handles these problems.

With regard to assistance for such programs, it appears imperative for the IDB, without neglecting integral aid plans in this area or those aimed at the proper use of space and environmental protection, to renew its interest in low-cost housing. The drastic decline in financial and technical support for programs of this type is a source of concern.

In our opinion, the Inter-American Development Bank should increasingly justify its title as the Bank of Integration. The establishment of the Latin American Common Market, as provided for in the Declaration of the Presidents at Punta del Este, together with its implementation and scheduling, will profoundly influence the next stage of our regional history. The vigorous nationalism apparent today in the Latin American countries, which is promoting the decolonization of the economy and the government, of letters and the other arts, stems from the ideals of independence and is, consequently, a regionally oriented nationalism striving essentially for the elimination of all internal Latin American frontiers and the unification of the scattered components of our great common homeland. Integration, the new name of development, is accordingly the collective design *par excellence* of the nations lying south of the Rio Grande.

As we all know, one of the major aims of the Agreement of Cartagena, to which my country attaches particular importance, is the establishment of more equitable competitive conditions within the Latin American Free Trade Association. To this end, it seeks to strengthen ALALC as a means of contributing to developments leading to the ultimate goal: the Latin American Common Market.

IDB cooperation in regional integration, through support of multinational projects and various types of assistance to LAFTA, the Central American Common Market, the Agreement of Cartagena, the Central American Bank for Economic Integration, the Caribbean Free Trade Association and the Caribbean Development Bank, has our enthusiastic endorsement.

Consistent with the interest expressed by Colombia and other member countries at previous meetings, my delegation once again states its affirmative position with regard to expanding Bank activities aimed at the promotion and diversification of exports and announces its support for the proposed resolution on this matter presented by the Board of Executive Directors.

We also favor the proposal for the establishment of what the agenda so euphemistically terms a "regional mechanism for expansion of Latin American industrial enterprises," that is to say, a finance corporation. Among the different forms this might take, we would prefer that it be set up as an affiliate of the Bank. We hope the position of the United

States on this point will become increasingly more positive and that the new entity will soon take its place as one of the agencies responsible for promoting Latin American progress.

We also hope that, on the basis of the report by the pertinent committee, we will adopt at this meeting resolutions authorizing the association of other developed countries with the Bank consistent with its regional purposes, to the obvious benefit of all.

We are pleased to concur in the procedure for determining the membership of the Board of Executive Directors as proposed by that body in response to instructions by the Eleventh Meeting, to the apparent satisfaction of all the member countries.

Although we note with satisfaction the prospects for rapid advancement in the task of multilateralizing financial and technical cooperation in accordance with the aspirations outlined in the Consensus of Viña del Mar, we hope this transition from bilateralism to multilateralism through agencies such as the IDB will not be accompanied by any reduction in the net flow of capital or by a hardening of conditions for such funds. An effective means of preventing the erosion of such a worthwhile effort would seem to be the granting by international agencies of program loans, a procedure required by many countries and advocated by Colombia on many occasions in various forums. For this reason, we ask that the Bank study the advisability of authorizing this type of financing.

As we stated in Punta del Este, we believe that the Latin American countries and the IDB should step up their efforts to secure more equitable distribution of the special drawing rights of the International Monetary Fund. Current distribution, based exclusively on the respective wealth of countries, contravenes every article of international solidarity and justice.

We would appreciate a study by the United States Government of the possibility of easing conditions for using the Fund for Special Operations, particularly by permitting the acquisition of goods and services without restriction as to origin. This could be a new and effective step in that country's endeavor to untie its foreign aid. At the same time, we would like to restate the concept we presented at the last meeting regarding the desirability of allowing new loans financed by that Fund to be reimbursed in the same currency in which they were made, in order to prevent an excessive drain on hard currency availabilities.

I should like to express our special gratitude for the assistance we have received from the IDB and from the OAS for the implementation of a program of capital market studies in Colombia, which was launched with a symposium held in March of this year. This program has provided valuable support for the current review of finance institutions being

conducted, under instructions of the Government, by a national committee which will make recommendations designed to expand the utilization of such institutions for the benefit of the country's economy. The reform which could derive from these recommendations is one of the aims of the administration of President Pastrana Borrero, who, as is known, is a leader totally committed to social change.

There are many reasons for the undoubted optimism shared by all the Governors participating in this meeting, but the main one is that the site of their discussions is this most noble city of Lima, a model of continuing development. I am extremely pleased to express our appreciation for the generous welcome shown us and to convey to the Peruvian people, as well as to the participating delegations, the fraternal greetings of Colombia.

**Address by Mr. Flavio Machicado,
Governor for Bolivia and Minister of Finance**

The Revolutionary Government of Bolivia, in taking part in this Meeting of the Governors of the Inter-American Development Bank, wishes to emphasize, in the first place, the happy coincidence that these gatherings are being held in a sister country where a process of social change is under way. Secondly, it considers that this meeting could take on special importance, to the extent that the discussion of the topics proposed takes account of present conditions in our continent.

The Bolivian Government considers that it is no longer possible to define the role to be played by the Inter-American Development Bank in terms of the patterns which obtained in the past decade.

For if we analyze the development philosophy imposed in the past with which the Bank has been identified, it can be seen that the credits provided have been directed toward infrastructure and, to a certain degree, toward social works, leaving aside investment in basic industries, which are precisely those needed to transform our economic structures and generate the means to meet the obligations arising from the investments referred to.

This philosophy was conceived in such a way that the premise was laid that private investment should be charged with transforming our economic structures, a premise which—to the extent that it has not been adequately borne out—is demonstrating in practice that the task of transformation must necessarily be carried out by public enterprises. This is a fact which became abundantly clear in my country; thus, despite the advantages granted in the past decade, private investment has not only been concentrated in primary activities, but has not managed to set in motion a process of real industrialization.

In the same way, it is not possible to analyze the role of the Bank in the past decade with current elements of judgment. What is needed, therefore, is to establish whether the policy of the IDB is in line with present-day reality, in order to suggest such reorientation as may be required and take up the necessary attitudes. Recognition of this reality must not be confused simply with the desire for something new; on the contrary, we should be fully convinced, for otherwise the lack of confidence of our peoples in this type of meeting will increase, as Latin America is passing through intensive revolutionary processes and political, economic and social changes, in the search for alternatives that will effectively meet its legitimate aspirations to greatness and dignity.

Our peoples have now become really aware of their needs to such

an extent that their hopes for a better and more prosperous future are turning into peremptory demands and outbreaks of violence that logically make it urgent to speed up development. It is for these reasons, among others, that our countries openly favor and support integration as a means to make possible immediate expansion of production bases and markets and attainment of diversified economies.

In short, our nations demand a type of development of their own that will mean freedom from dependence and combine economic growth with a real distribution of national wealth.

If this fact is placed alongside the orientation of the loans granted by the Bank, particularly to the relatively less developed countries, one can conclude that, should that orientation persist, it will become increasingly incompatible and out of line with the trends just described.

One indicator, although a general one, of the truth of the foregoing statement is that the Fund for Special Operations, which was established precisely to stimulate relatively less developed economies, has allotted these only 33 per cent of the total loans granted. This situation is aggravated by the fact that in 1970, out of the total of \$443 million granted in loans, only 26 per cent went to the smaller countries.

It is usually argued, when this type of comment is made, that the per capita amount of the loans is distributed in a more or less balanced way among recipient countries. In our view, this is only relatively true since, in absolute terms, the amount of the resources is never sufficient to embark upon a significant industrialization program, taking into account the needs of the social and physical infrastructure, particularly if the program has to focus on strategic transformation activities in terms of expanded markets and really profitable and competitive scales of production. This is what we call true development with liberation as against the paternalistic and dependent development of the past decade.

In my country, a genuine revolutionary process has been set in motion that reflects the aforesaid trends and concerns.

We have chosen as a frame of reference the political option of revolutionary nationalism, which has as its most important goals the elimination of dependence, the participation of the people, economic and social growth and a better distribution of income. These goals constitute the basic equation of what we have termed "the new style of development and of society."

The real challenge of this revolution, however, lies in achieving it. The difficulty is in the way in which these goals must be attained since, on the one hand, the aims of liberation and participation are interlinked with the goals of growth and distribution and, on the other hand, there is always interaction between them. In other words, there can be no

liberation without participation, just as there can be no participation of the people without liberation. It is impossible to conceive growth without an equitable distribution of wealth, or distribution without growth.

Our revolutionary nationalism recognizes that state intervention in the economic life of the country through the control of natural resources and of the strategic sectors of the national economy, is essential. It is a political scheme of things designed to transform the primary production structures and to rectify the present economic and social imbalance resulting from the uneven development through which the different geographic and economic regions have passed.

We propose to achieve our liberation from external dependence, which not only entails taking steps to strengthen our freedom of decision in the face of measures introduced elsewhere, but also the difficult task of freeing ourselves from the effects of dependence resulting from ties with foreign interests, since the dominant groups, realizing that they are in danger of losing their privileges, will seek outside allies to counter the social forces now challenging their power.

Moreover, the exclusive nature of Bolivian society led my people and my Government, now definitely aware of the new process, to mobilize society through the participation of the people, and to orient it toward the adoption of new patterns of consumption, performance and distribution. Our proletariat, which until recently simply accepted decisions handed down from above, now participates actively and consciously in rational decision-making.

My Government has adopted a development strategy that is the frame of reference for undertaking economic, social and institutional change.

In the matter of integration, Bolivia participates actively and has pinned its hopes on the full attainment of the goals and intents of the Cartagena Agreement. In this respect, Bolivia trusts that the IDB will give real and effective support to the Andean Development Corporation, since this organization will be the fundamental instrument of the Andean Pact.

In foreign investment, institutions, countries, and investors must themselves understand the precise scope of the agreement adopted by the members of the Andean Group. It is not the intention to exclude foreign private investors; quite the contrary, the intention is for them to adapt their investments to the new economic and social structure that this part of the hemisphere wishes to give its people, for until now the process has been the reverse. Also, it is important to bear in mind the concern shown for the complex problem of the transfer of technology. Latin America, and the Andean Group in particular, do not reject foreign technological

advances, but neither are they prepared to accept just any type of transfer of technology under patently disadvantageous conditions.

If our countries really want their economic independence, they should endeavor to create their own technology and adapt their consumption patterns to their degree of development and pattern of growth.

Liberation does not amount only to opposing the negative aspects of foreign relations; basically, it is a matter of eliminating the internal manifestations of dependence, one of which is the adoption of consumption patterns from developed economies.

On behalf of my Government, and in view of the foregoing remarks, I should like to draw the attention of the Governors to the following points, which Bolivia considers should be assigned top priority in the reorientation of the Inter-American Development Bank.

Hitherto, the Bank has, to a large extent, been dependent on one of the major economic powers which exercises the greatest influence in Latin America. This has meant the adoption of positions that did not always coincide with the needs and urgent demands of the Latin American nations. The importance assigned by our countries to seeking new sources of financing is proof of this. While we believe that the way to neutralize this financial dominance is to find new sources of financing, the Government of Bolivia holds that negotiations should be purely financial in nature, without new partners, for that would internationalize the pattern of dependence.

Another way to neutralize this pattern, which my Government has proposed on former occasions, is for the Bank to create a second vice-presidency responsible, basically, for programming loans. Since the less developed countries assign a high priority to this activity, the person selected for that post should, of necessity, be a national of one of those countries.

One aspect to which we assign great importance is that relating to the mechanisms of communication and representation between the IDB and our countries. We believe that, in view of the historical and political background of the nations of the hemisphere, constant and more flexible attention is required on the part of the representatives of the IDB. We must modify excessive centralization, giving broader powers to the regional offices. We are certain that this Institution will then be in a better position to appreciate and weigh difficulties and pressing needs than from a distance. In this connection, my Government believes that our countries cannot continue to submit to the opinions of temporary technical missions. We demand that our problems be considered at the highest level, and that such missions be assigned an information and evaluation role at the appropriate level. We cannot accept having our

nations and their respective governments subjected to a new type of dependency—in this case, on international bureaucracy.

We believe that success in diversifying the sources of financing, strengthening the regional offices and attaining representation in the management by an officer from the less developed countries, will not only benefit our countries, but will also give the IDB a personality of its own, for to date it has been content merely to imitate the systems and procedures of other international organizations.

With regard to financing, the Bank knows that the requirement regarding local contributions is the major obstacle preventing the less developed countries from aspiring to larger and more significant investments.

My Government believes that it is necessary to correct this situation, for our domestic financing capacity will be increasingly reduced and limited, not only to meeting the debt service, but also, and more important, to implementing a real process of industrialization that will effectively change our present economic structures. Our countries will be in a position to make more significant contributions only when they have achieved this economic change. Otherwise, we insist once again, we shall never close the development gaps of our countries except at the cost of our economic independence.

Only by obtaining financing for basic manufacturing industries will we ensure a real process of development that will effectively benefit the Latin American peoples.

In conclusion, my country fails to understand why the export financing program has been limited to capital goods and, in general, to transactions for periods of over 180 days. Surely, the Bank knows that most of our countries basically export raw materials? Surely, it is also aware that at present such exports are our major source of foreign exchange? While my Government has established the monopoly for marketing minerals, because of its low financial capacity, a large part of its raw materials are being marketed by foreign enterprises; this not only neutralizes a government policy, but causes the country to lose resources that might serve to strengthen its development.

This is a crucial hour; either we turn the Inter-American Development Bank into an instrument of economic and social development that contributes to the liberation of our peoples from dependency and social backwardness, or we accept the failure of this Institution because it did not correctly interpret the categorical need of our time. At this crucial turning point, my country clearly and definitely declares itself in favor of the first option, which is the road to liberation and, in defense of its sovereignty, rejects any form of domination and dependence.

Address by Mr. Aldo Ferrer, Governor for Argentina and Minister of Economy and Labor

First of all, I should like to express my delegation's pleasure at being in Peru once again. The revolution against colonial domination united Peruvians and Argentines as one people in the struggle for independence. A century and a half later, the undertaking of development, of establishing national self-determination, and providing access for our peoples to the benefits of present-day progress provide new reasons for strengthening the historic ties between our countries. Allow me also, Mr. Chairman, to convey through you to the Peruvian people and Government a fraternal greeting from the people and Government of Argentina, together with our thanks for this fresh expression of traditional Peruvian hospitality.

Argentina and the Bank

This Twelfth Meeting of the Board of Governors of the Inter-American Development Bank is a suitable occasion for evaluating briefly the relations between my country and the Bank, as well as the place of this agency in the context of Latin America today.

Right from the establishment of the Bank, Argentina has strongly supported its activities. Its contribution to the Bank's ordinary capital is the second largest and accounts for almost one-fourth of all Latin American participation in these resources. Moreover, it has made additional resources available to the Bank for special financing operations in other countries of the region. This is the case of the Argentine Fund, designed to supplement local counterpart funds for financing specific projects in Bolivia, Paraguay and Uruguay.

Argentina has also made a considerable call on Bank resources to finance priority projects. As of December 31, 1970, total loans from the Bank amounted to \$550 million, covering such important areas as the development of power supplies, transportation, basic industry, housing, and education.

The substantial level of development which Argentina has already achieved influences the nature of its relations with the Bank. My country seeks to mobilize the Bank's support in securing additional external resources for its capital formation; at the same time, it furnishes its financial and technical support to the Bank and, through it, to other Latin American countries.

In practice, the resources contributed and obtained by Argentina

almost balance out. The ratio of disbursements net of amortizations to contributions to the Bank is 1.08. From our standpoint, this ratio is unsatisfactory and derives in part from the low percentage of disbursements on loans from the Fund for Special Operations. The Argentine authorities are working closely with the Bank's management to expedite the disbursement of loans authorized under the Fund, which aggregate \$223 million. We also hope that a larger volume of loans will lead to a more adequate ratio between Argentine contributions and credits from the Bank to my country.

Argentina seeks to continually strengthen its association with the Bank's activities. This is the reason for its positive response to the increases duly approved in the ordinary capital and the Fund for Special Operations. Moreover, my Government plans to support the participation of Argentine technology and engineering in projects carried out beyond our national boundaries and hopes that the Bank will fully use the potential of Argentine consulting services in this field.

We are currently negotiating for the Bank's financial participation in a number of high-priority projects whose execution has already been authorized by the Argentine Government. Examples of these are the Futaleufú hydroelectric project, which will supply power to the aluminum plant at Puerto Madryn, the Sierra Grande steel project, and others of comparable importance. Particular mention should be made of the decision of the Uruguayan and Argentine authorities to give the Bank the first option to contribute to the external financing of the Salto Grande hydroelectric project on the Uruguay River, which has been approved by both Governments and will be initiated during 1971. We believe this is an excellent opportunity to involve the Bank in a project of outstanding importance to two of its member countries and to the economic integration of the River Plate Basin.

Latin America and the IDB

Allow me now to make certain comments on the current Latin American scene and its effect on the Bank's future.

The aspirations of the Latin American peoples for well-being and national achievement call for drastic changes in the productive structures, a growing process of capitalization, the promotion of efficiency, and quick access to economic activities of up-to-date know-how for full-scale incorporation into today's technical and scientific revolution.

These aspirations also call for the swift elimination of dependence on major world economic centers which, over the course of time, has

taken various forms. These range from the old structures, concentrated on primary production for export to industrial centers, which retarded the development of manufacturing and excluded the region from the dynamic trends of world trade, to the new forms established in the often dominant role of subsidiaries of big international industrial corporations.

These structures hastened the rapid decline in Latin American participation in international trade and generated a chronic disequilibrium in the balance of payments which, as experience shows, cannot be overcome by external financing.

In turn, the participation of international industrial corporations in Latin American development, particularly in the most modern sectors, presents both promising prospects and serious risks. The prospects include the incorporation of new production and management techniques, the contribution of financial resources and the opening up of new foreign markets. The risks are that the feasibility of setting up independent national economic systems might be endangered. When the subsidiaries of international corporations operate within a poorly articulated economic system, they may develop into poles of attraction for domestic resources, discourage original domestic technological development, and structure consumer and investment patterns, the national market, and foreign trade. This weakens the national decision-making process.

The development and strengthening of our countries' capacity for self-determination imposes two fundamental conditions, among others. These are rapid expansion and diversification of exports and consolidation of the role of entrepreneurs, experts and workers in each of our countries as agents of the productive process, inasmuch as the responsibility for national development cannot be delegated. If these conditions are not met, then the prospects for development, well-being and equitable distribution of wealth and income cannot materialize.

In regard to these problems, the question often asked is whether the resources needed to strengthen the processes of independent national development are available. But the real question is who controls the national resources. Although about 95 per cent of capital formation in the Latin American countries is financed through their own resources, excessive outside control of the productive structure is frequently observed, particularly in the dynamic industrial sectors. This demonstrates the vital need for ensuring effective national control of national resources.

The Latin American experience shows that no model of dependent development can lead to prosperity and social welfare. Dependence entails underdevelopment, and for this reason, the struggle for national self-determination is an inevitable component of every authentic process of economic and social development.

It is not our intention to generalize here about proposals which are valid only within the framework of each national situation. In the case of Argentina, the Government, in response to a strong nationalist trend among the people, is endeavoring to encourage Argentine enterprise, capital, and technology to take a leading role in the development process by stipulating, within the traditional framework, the rules governing the opportunities offered foreign companies to benefit from constructive participation in the development of the country. The general criterion underlying this policy is to support what is Argentinian without discriminating against external enterprises, thus ensuring, on the basis of the national decision-making process, an effective bond of interdependence—not of dependence—with the developed world. In addition, Argentina plans to project abroad, and to reflect in the composition of its international trade, its current economic potential and industrial diversification to achieve export expansion rates that will consolidate a balance of the external sector within the context of a rapidly developing economy.

Only through rapid growth, structural reform, and national affirmation will it be possible to respond to the urgent demands of labor and of youth for a generous share of benefits under today's technical and scientific revolution, accompanied by a social tranquility designed to maintain the basic values of Latin American societies.

It is within this context that the Bank should test its validity as an effective and dynamic instrument of inter-American cooperation. That validity depends on the Bank's ability to mobilize resources, the flexibility of its operating policies and, fundamentally, the orientation of its operations, based exclusively on the feasibility of the projects in which it participates. For this reason, my delegation supports all initiatives that help to strengthen the Bank's role as an authentically multilateral instrument in which all member countries share responsibilities, regardless of their level of economic and financial potential and development, and strictly respecting each country's right to self-determination.

With regard to the specific topics on the Agenda, I should like to state that my delegation reiterates its support for the proposal to establish a regional mechanism for the expansion of Latin American industrial enterprise and that it is willing to develop, in collaboration with the other delegations, the ideas and resolutions required to implement that proposal.

With reference to Point 3 of the Agenda, concerning the financing of exports, we believe that the limitation on current Bank loans in this area, which are limited to financing capital goods, confines their benefits to the more developed countries of Latin America. The comparatively less developed countries of the region also require a strong incentive to

expand and diversify their exports and, in this regard, we are willing to support a broadening of the list of goods covered by those loans. Along the same lines, the Argentine delegation feels it is necessary to reserve a certain percentage of the Bank's export credits for the less developed countries. Moreover, we consider it advisable to expand the destination of exports eligible for IDB loans. Since export credits fundamentally benefit the exporting country, it would appear desirable to extend the coverage of Bank credits to include shipments to all destinations.

In stressing the need for the Bank to adapt its operations to the current requirements of Latin American development, it should be recalled that each of our countries presents a different situation which calls for a specific response. This has led to the recent proposal to provide access to export credits for the less developed countries and to the continuing urging of my delegation to expand the participation of local capital-goods producing industry, construction, and technology in the execution of projects financed by the Bank and other international agencies. Argentina recently adopted "Buy Argentine" legislation aimed at orienting purchases of capital goods and technology of the public sector toward the domestic market when technically and financially feasible. That legislation is based on the conviction that investment will play an important role in strengthening and improving the efficiency of local capital-goods producing industries and technologies. This is needed to lower the relative prices of domestically produced capital goods and expedite the access of local industrial output to international markets. It is important for international finance agencies to be fully aware of this fact and to invest their loans with the dual dynamic role of expanding available investment resources and promoting industrial change. Argentine legislation is flexible enough to negotiate with the Bank and other international finance agencies the basic agreements needed to expand loans on the basis of a project evaluation that includes the indirect benefits of domestic equipment.

My delegation has also submitted to the Governors for consideration a proposed resolution to ensure the continuity of operations of the Institute for Latin American Integration. The Institute is duly fulfilling the purposes for which it was established, and my country is willing to continue extending its full cooperation as an active participant and as the host country.

Argentina and Latin America

Argentina's position within the Bank reflects its traditional support for inter-American cooperation and the strengthening of ties between

the Latin American countries. The latter has just been ratified by the inclusion of closer ties of solidarity and mutual support with the sister nations of Latin America as one of the priority goals of the 1971-75 National Development and Security Plan.

Argentina views Latin American solidarity as the result of the integral national development of our countries and the continuing search for new and common achievements. Significant progress has been made recently in this area, as exemplified by the Uruguayan-Argentine agreement already noted for immediate initiation of the Salto Grande project and construction of the Fray Bentos-Puerto Unzué and Paysandú-Colón bridges between the two countries. The same purpose underlies the Paraguayan-Argentine decision to begin engineering studies on the Apípe-Yacireta hydroelectric project, with a view to initiating construction in the course of 1972. A further example is Bolivian-Argentine cooperation with regard to liquid and gaseous fuels and railroad transportation.

Argentina is collaborating with its neighbors in a spirit of dedicated solidarity on projects that will benefit both sides. These are not aid operations but common enterprises undertaken between sister countries for mutual benefit.

Argentina is fully aware of its economic potential and of the possibility of forging a great future for the country. As heir to the San Martín tradition, we see this future as part of a great Latin American undertaking of development, national self-determination, and well-being for our peoples. Consequently, this new visit by an Argentine delegation to the land of Peru has provided a suitable occasion for restating to the Governors of the Bank our dedication to solidarity and integration with the Latin American countries.

**Address by Mr. Charles E. Walker,
Temporary Alternate Governor for the United States
and Under Secretary of the Treasury**

On behalf of our delegation, I wish to express appreciation for the facilities extended by our host government of Peru. In this, the Twelfth Annual Meeting of the Inter-American Development Bank, we are gathered in a country where so much of the history of Latin America has been forged.

History and change—these words have been very much in our thoughts as we have contemplated this meeting of the Board of Governors. It comes at a time when the international relationships of the United States are undergoing an evolutionary but nonetheless conscious and determined transition. The role of my country in world affairs has been responding to the new world environment and to new developments in the United States itself.

I wish to speak frankly today about this evolution and some of its implications, particularly with respect to the Inter-American Development Bank in the 70s. Frank dialogue is essential in any meaningful discourse between partners. The United States continues to listen carefully to the voices of Latin America and we continue to work hard in trying to help meet her needs and concerns. In turn, we look to Latin America to be aware of, and understand, the changing role of the United States in the entire world community. Our domestic needs and priorities, as well as our world-wide responsibilities, of necessity, have a direct bearing on our relationship with Latin America. We must look at things as they are and will become—not as they are hoped to be.

The world of the 70s is far different from the world of the 40s. Western Europe and Japan have regained their economic vitality. New nations have emerged. Others have attained economic self-sufficiency. Rigid boundaries, geographic and otherwise, have given way to an interacting and interdependent world community of nations.

Domestically, the United States finds it necessary to do better in meeting urgent social, economic and environmental needs. These needs demand attention. In order to respond convincingly to the expectations of our people at home, the United States is carefully reordering its priorities, including those judgments relating to the level and nature of our international commitments.

Twenty-five years ago, the United States occupied a predominant position in world affairs. Over the years, that predominance has diminished—relatively speaking—as other nations have advanced. To-

day's world requires a partnership among nations. The responsibilities for building a better world society must be jointly shared. These new relationships will be accompanied by adjustments in United States attitudes and behavior, ranging across fields from international security to development assistance.

First and foremost, our capacity to maintain the new international posture that we seek will be importantly affected by our success or failure in restoring balance to the United States economy. Our strategy for success in this effort is correct and is working. We are well on the road toward meeting our domestic economic goals of increasing output, reducing unemployment, and—of crucial importance—achieving reasonable price stability. Surely, the actions we take to achieve our domestic objectives will have the sympathetic understanding of our trading and financial partners, for all nations stand to benefit from stability in the United States economy.

I do not wish to imply that the United States does not recognize its position of leadership in world affairs. Entering into partnerships is no subterfuge for disengagement, it is not a policy of neglect. It instead reflects a positive response to changing circumstances. The United States' relationship with Latin America cannot and should not be insulated from these changes.

One of the more heartening evolutionary developments is the growing ability to count on major Latin initiatives in formulating development plans and priorities. Some of the larger Latin nations have reached a level of development where concessional lending is no longer critical. This has freed some of these scarce funds for other countries. In this Bank, repayment in hard currencies in the approved replenishment of special funds reflects the real progress that has been made and the ability of regional countries to assume a greater responsibility.

The United States, for its part, will seek to provide the resources appropriate to the development of the area, and the capacity of the lending agencies, as well as to our own domestic programs. I would be remiss, however, if I did not mention the growing concern of our legislators and the Executive Branch about our balance of payments problems and the scarcity of public financial resources to support our internal programs. We must, therefore, prove even more convincingly that the funds which could be used at home in the United States, but which are instead used for international development, are indeed leading to the economic and social progress we all seek. This means a clear demonstration that nations have truly taken on the commitment to mobilize domestic resources and help themselves.

In the emerging international stance of the United States, the Bank

has a central role to play. Its demonstrated success in furthering sound development policies and practices gives us much confidence in the future. We intend to place increased reliance on it and on the other multilateral development finance institutions. Such institutions are effective vehicles for putting multilaterally-provided resources to work, and for leadership in promoting sound development policies among borrowing countries.

Let me add to my prepared remarks a further comment that seems appropriate at this time. The United States strongly supports the innovative and effective policies the IDB has followed. In our judgment, the Bank has played, and continues to play, a constructive and vitally important role in Latin American development—a role which has enjoyed the guidance and support of a strong majority of its members. The Bank is responsive to contemporary Latin American needs and realities, yet it does not ignore broader hemispheric considerations. While differences among national views inevitably occur in an international institution, the only purpose served in perpetuating or accentuating these differences is, it seems to us, to impair the effectiveness of the institution and even to threaten its very existence. I very much hope that our positive view of the Bank's achievement and its planned directions continues to be shared by a broad majority of members and that, by word and action, the confidence of the Latin American community in the Bank will be reaffirmed.

In his recent inaugural address, President Ortiz Mena charted ambitious but attainable goals for the Bank. We are glad to see an appropriate balance struck between innovative development programs and internal consolidation. Our distinguished new President has the full support of the United States in making any changes that will improve the Bank's performance and its contribution to progress.

We think the Bank will want to encourage its members to make optimum use of their own domestic resources, and to take maximum advantage of external resources available in the form of public and private investment. I need not dwell on the debate regarding the role of private savings, internal or external. I shall simply observe that there is not enough official development assistance available to do the job alone. And I should add that the human and technological improvements that result from an inflow of external private savings can never be adequately represented with charts and figures alone.

Because of our belief that the private sector is a major dynamic element in any economy, the United States has indicated its willingness to provide appropriate financial support to an independent mechanism whose principal job it would be to foster domestic private enterprises in

Latin America. It now remains for the Latin American members of the Bank to define with precision the objectives and structure of the new mechanism.

As I have already mentioned, the United States intends to give increasing emphasis to multilateral channels of finance. The benefits that accrue from them include: first, no one country's domination of the institution; second, a broader and more definite resources base; and, third, a pool of international economic expertise available for decision-making. In our judgment, these are important arguments in favor of the Bank providing now for a meaningful form of membership for non-regional developed countries—and, of course, for the membership of *Canada*.

An expansion of the Bank's membership could foster a more outward-looking stance in the Latin American community in the fields of finance and trade. It would also enhance in manifold ways Latin America's links with the world beyond the hemisphere. The successful conclusion of the present work on this subject is of the highest importance if the United States is to be able to continue to rely on the Bank as the principal vehicle for channeling funds to Latin America.

These annual meetings are valuable gatherings where we can exchange views frankly on a broad range of subjects, as well as compare appraisals of the Bank's activities. We always look forward to the contacts and discussions that these meetings make possible with our fellow financial officials of the nations of the hemisphere. We wish the management and staff of the Bank well, as, under new leadership, they address the problems of the coming year.

THIRD PLENARY SESSION

MAY 12, 1971

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

I am pleased to extend our greetings to the Chairman and the Governors in the spirit of friendship that has increasingly united us in the tasks which, under the aegis of the Inter-American Development Bank, we are carrying out to organize and accelerate the social and economic development of our countries.

On behalf of the delegation of Paraguay, I am pleased to reiterate our appreciation and congratulations to the authorities and the technical and administrative personnel who have efficiently implemented the policy outlined one year ago in Punta del Este and have executed the resolutions adopted at that time.

For the very positive results achieved in the 60s, a decade which ended with the meeting recently held in Buenos Aires, at which our Institution completed a full cycle, we consider it a duty to render a tribute of admiration to Dr. Felipe Herrera who, as a man of the Americas, met the challenge of responding to the most cherished hopes for progress and well-being of the Latin American peoples.

With the greatest sincerity, we proclaim our unbreakable faith in the intelligent leadership of Mr. Antonio Ortiz Mena, an old and dear friend of these Meetings, who as President of the Bank inspires optimism, as we may be certain that he will steadfastly continue along the course marked out by our peoples for their economic advancement.

We have observed, from the annual report of the Bank now under consideration, the valuable work performed by our Institution, but the most significant fact is undoubtedly the increase in resources contributed by our Governments, which will make it possible in the next five years to double the amount of lending achieved during the 1966-70 period. Briefly and to the point, disbursements by the Bank during the period now closing, and the material evidence of investments in recipient countries, bear witness to the fruitful achievements that have earned our appreciation and commendation.

We attend this Meeting with ever-increasing concern for the concept of development, recalling that Pope Paul VI, in his encyclical "On the Development of Peoples," maintained that the new name of peace is *development*.

Obviously, in the 60s much was said about the new image incorporated in economic doctrine and inaugurated as a target for action in our hemisphere with the adoption of the Charter of Punta del Este in 1961, a few months after our Bank's creation, with a view to coordinat-

ing our efforts and consolidating our resources to meet the socio-economic needs of the Latin American peoples.

In effect, starting from the past decade, our countries have been given the momentum required to find the means for implementing the immense task which today, as in the past, the supreme goals of development demand.

Thus, we believe that development, as the expression of a tangible reality, should logically be considered in terms of output, so that the gross domestic product of each country may increase according to the measure of the effort made. In this way, the per capita income will not merely be an arithmetical average, but the expression of the real benefits to be received by the producer. The social significance of production should in fact be based on the equitable distribution of personal income, in such a way that higher incomes will increase the consumption capacity of our peoples as a result of the steady and systematic increase of consumer purchasing power.

In response to the challenge posed by development, financial aid in the form of soft loans continues to be a constant concern of the countries that are relatively less developed, particularly the most suitable policy to be adopted regarding financial aid and trade. In defining this approach we should consider, on the one hand, the ever-growing requirements of those countries which, pressed by the urgent need to install and construct the infrastructure that some of them lacked almost entirely in the early stages of development, such as roads, electric power, water supply systems, schools and universities, feel obliged to resort to long-term loans or soft loans at a low rate of interest and a grace period consistent with their repayment capacity.

The international credit system should be based on sound financial compensation between the developed and developing countries. We wish to express our support for the efforts being made to establish an affiliate with the status of a Bank finance corporation, which would provide financial backing to private enterprises in our countries as a compensatory instrument for protecting the basic mechanisms of the Latin American economies.

In the field of trade, countries which, like ours, produce and export raw materials, continue to be seriously affected by price fluctuations that upset the balance of payments. At the same time, much is said about the vital need for industrialization as a means of guaranteeing a fair income to the basic producers in return for their efforts and investments, thus increasing national inputs.

We should also concern ourselves with the increase of population in Latin America. In effect, the needs of the population grow in keeping

with its expansion, although that growth absorbs a disproportionate share of the increase in gross national product of our countries. For this reason, the technical institutional structures themselves must be adapted to the goals of export expansion and industrialization, particularly of our raw materials.

Moreover, since dynamic marketing at both national and international levels governs the price structure, we must find the technical instruments needed to check inflation.

In this context, for over a decade the Government of Paraguay, presided over by General Alfredo Stroessner, has, through mechanisms of fiscal, credit, banking, and exchange policy, together with the favorable conditions created and maintained by political peace and social harmony resulting from the exercise of representative democracy, made it possible to enjoy monetary stability, without neglecting the dynamic flexibility required by a growing economy, as the basis of a financial policy consistent with the goals of balanced economic and social development.

During this time we have observed that the determining factors of monetary stability produced optimum results in the formation of capital, raising individual savings to an astonishingly high figure—from 464 million guaranies in 1961 to 6 billion in March 1971, enabling the stability of purchasing power to maintain a climate of confidence among the population, creating attractive conditions for investment by entrepreneurs, and at the same time, permitting a steady increase in tourism revenue.

As a favorable result of these factors, we are pleased to announce that the country's international monetary reserves have recorded a truly satisfactory increase—from \$9.8 million in 1969 to \$19.3 million in the first quarter of this year.

Much of this progress is due to redoubled efforts in regard to public investments and the use of fiscal and financial instruments with a view to expanding the capital of the public sector in support of the activities basic to continuing development.

The national Government considers that the outlook for the future enables it to set a goal for increasing the economic growth rate to an annual average of 6 per cent during the 1971-75 five-year period.

The recent reform of the tax system through enactment of a new income tax law is consistent with our country's commitment under the Charter of Punta del Este and is being carried out in accordance with plans for an adequate orientation of fiscal policy, as well as the adoption of parallel measures to increase receipts. These are essential conditions

for achieving a balanced budget without neglecting the goals of orderly development.

In order to attain the stated goals, the Government of Paraguay is assigning and will continue to assign maximum priority to the expansion of new and traditional national export lines through significant tax and administrative incentives to the industries processing products which require expansion, as well as increased production in the rural sector, especially agriculture and forestry.

In this connection, my country's Government is making every possible effort to facilitate exports, including the granting of financial incentives, aimed at orderly planning and a higher threshold for industry, thanks to the willingness of national and foreign capital to maintain and develop investments consistent with the progress of modern technology.

Paraguay's development unquestionably depends to a large extent on the expansion of its exports. Most of these, containing a high component of primary products, are permanently vulnerable to fluctuations in international prices.

Moreover, the competitive position of goods earmarked for extra-continental trade, in view of our landlocked position, is reduced by the burden of transportation costs for shipping abroad. In other words, these factors blunt the dynamic thrust needed to expand our exports.

With a view to promoting our agricultural development, a few days ago the Bank granted our country a sizable loan of \$14.8 million, for which we would like to express our sincere appreciation. This credit will be used to increase and improve rural production through agricultural credits to small- and medium-scale farmers, financing investments to capitalize stock raising, poultry raising, and silk cultivation, and farm credit allocated to cooperatives and the marketing of agricultural commodities. The project cost is estimated at \$21.7 million, of which the Bank loan will contribute 68 per cent and local sources the balance of 32 per cent.

At the same time, the administration of President Stroessner has channeled a large volume of domestic resources to the National Development Bank for formation of its capital and expansion of its loan operations to promote agricultural and industrial output and to foster exports.

In this development effort, our country has also enacted the Investment Incentive Law, an essential legal instrument to encourage national and foreign enterprises to make safe and profitable investments aimed at optimum use of the expanded Latin American Free Trade Association and overseas markets.

In addition, it should be noted that a dynamic element in the evolution of our foreign exchange earnings is the increase in tourism in recent

years, based on the natural attractions of Paraguay. The rise in hotel and motel construction throughout the country will provide the comforts required for international tourism. In this connection, the Government is improving road and airport connections with neighboring countries to facilitate tourist travel.

In the name of the Paraguayan delegation, we again congratulate the organizers of this great Meeting and thank the Government and the people of Peru for their hospitality and cordial welcome to this beautiful and dynamic land enriched by the civilization of the indomitable Inca race.

Under the protection of St. Rose of Lima, patron saint of this charming capital, we express our wishes for the success of the deliberations of this Twelfth Meeting and the positive implementation of its resolutions.

**Address by Mr. Alonso Salgado Guevara,
Governor for Ecuador and Minister of Finance**

The Meeting of the Board of Governors of the Inter-American Development Bank being held in this hospitable capital, happily, brings together the delegations of the Latin American countries whose fraternal ties are based on common historical and cultural roots. In the case of the sister republic of Peru, this identity of origins and aspirations is heightened by the memory of such illustrious names as Pascual de Andagoya, Francisco Pizarro, Almagro, Bolívar, Sucre and San Martín.

The advances of the Pan American ideal cannot but increasingly awaken the confidence of the different peoples and generations in the work performed by institutions such as the Inter-American Development Bank to foster the progress and socio-economic development of Latin America.

My country, like others in Latin America, now faces the challenge of development. We have a population of approximately 6 million, with a growth rate for the 1960-69 period of 3.4 per cent, and an over-all economic growth rate of 5.1 per cent. Exports have expanded by an average of 6.8 per cent, due especially to the commercialization of raw materials. The productive sectors of industry and agriculture have been growing, the first at an average annual rate of 7.5 per cent and the second, of 4 per cent.

The Government of Ecuador, headed by Dr. José María Velasco Ibarra, is trying to encourage the country's economic and social development by placing special emphasis on livestock and agricultural production, establishment of new basic industries and expansion of existing ones. For these purposes it is using in every way possible the advantages of the wider markets and the lists of exceptions and reserved products granted to it by the Andean Subregional Integration Agreement.

For the 1968-72 four-year period, plans for infrastructure works in communications, electric power, and irrigation were made and are being carried out. School-building programs, teacher-training courses, low-cost housing projects, and drinking water and sewer systems have also been planned and executed. All this has been done with a total investment that will amount to around \$340 million in that period. The country has sought to pay for this capitalization effort through internal savings and complementary external financing.

To improve the rural environment, sanitary engineering works are being undertaken which will help to raise the low percentage of the population having water and sewer services. Efforts are also being made to bring drinking water supply systems to an ever-larger population.

The people and Government of Ecuador are attempting to reach the goals programmed for the 70s—that is, an annual per capita growth rate of not less than 2.5 per cent. To achieve this, we shall have to accelerate plans for a basic infrastructure within a development strategy for the long, medium and short terms, including such items as highways, ports, airports, power, fuel and telecommunications. Also needed are the proper use of water resources to bring large areas under cultivation; efficient development of the tourist trade; comprehensive planning of urban development; and a drive to improve living conditions, particularly for the least privileged groups.

This economic and social growth effort urgently needs the support of external financing. Now being prepared, or already submitted to the Inter-American Development Bank, are credit applications for important investment projects relating to electrification, irrigation, export expansion, education, urban planning, drinking water and canal systems. The outlook for Ecuador's development and its economic policy for the near future are based on development of the oil industry. It is possible that this hydrocarbon wealth will account for one-third of our exports and that in 1973 it will produce gross foreign exchange earnings of about \$140 million. The State's share, through taxes and royalties, will be about \$65 million. The development of the Guayas River Basin, the mining of copper in the southern highlands, the increasing of the power potential—which in the case of the Pisayambo and Paute project entails an investment of \$41 million—fisheries and their industrialization, the rehabilitation of agricultural areas for the export of tea, rubber and oil-bearing products, and especially implementation of land reform, point to good prospects for economic development and social progress.

In the short term, my Government hopes to improve the socio-economic planning system; strengthen its fiscal position by completing tax and administrative reforms; seek a stabilization policy to avoid excessive pressures on the balance of payments; and formulate an official policy for the hydrocarbons sector.

We have prepared a government policy for internal affairs which, by encouraging private business activity, tends to control the dimensions and purpose of private sector investments within the framework of social productivity. Taxation is viewed not only as a means of financing expenditures and governmental investments, but also as a suitable way to redistribute income for social balance. Our international relations are based on an unshakable belief in inter-American solidarity, respect for the self-determination of peoples and non-intervention, the conservation of the resources of the continental shelf, and steady expansion of trade relations, especially in the Andean subregional market, as a means of

consolidating our foreign trade position *vis-à-vis* the highly developed countries.

The role that the Inter-American Development Bank is playing—and the increasingly important role it will have to play in the 70s—requires member countries to support its plans for expansion. It should accentuate the preferential treatment given the relatively less developed countries through loans whose interest rates, terms, requirements in terms of local contributions, grace periods and other conditions must become genuinely effective and able instruments for stimulating continental progress.

I should emphasize the obvious appreciation of the people of Ecuador for the credit policy of the Inter-American Development Bank, which in recent years, especially, has directed its cooperation not only toward physical infrastructure projects and economic development, but also to social progress and education programs.

For the multilateral action of external financing channeled through the Bank to be presented opportunely and efficiently, my Government considers it important to examine the desirability of reducing the amount and proportion of local contributions, and the possibility of delegating to national IDB offices some aspects of project administration to facilitate the disbursement process. This innovation, which would decentralize some administrative aspects by turning them over to the delegations of the member states, would be a structural change with obvious advantages for lowering operational costs, administering the Bank's credit policy, smoothing procedures, and providing first-hand knowledge of regional conditions.

Ecuador's policy on integration is open to cooperation in multinational plans and for the articulation of the physical infrastructure of Latin America, but we insist on calling in all cases for effective preferential treatment for the relatively less developed countries. Under these general terms, my country has adopted the Brussels Tariff Nomenclature, an important step for its internal organization and its ability to cooperate more fully in the programs of the Minimum Common External Tariff and in providing incentives for Andean subregional exports. In addition, my Government is taking interest in the efforts being made to strengthen the organization of the Latin American Free Trade Association.

The development of Latin American countries cannot be subjected to inflexible rules on the division of labor which deny the opportunity for industrialization to some countries under the guise of favoring specialization in agricultural and stock farming production, for we consider that the production of manufactured goods to replace imports, and improvement of the internal sector of the economy, are the most suitable

means for progressing within a system of relative self-sufficiency that does not, however, disregard the growing cooperation in zonal relations and the concept of complementary economies.

A sizable number of the member countries of the Inter-American Development Bank are concerned about the adoption of fair initiatives for the treatment of foreign capital that fit conditions in each country and in the region. My Government feels that economic and social changes should be made, for the present crucial stage of history requires it. However, those changes must come from the mature reflection of government leaders who have planned national progress with the sustained growth of the social product and the individual political, economic and social conditions of their peoples in mind.

To execute its development plans, Ecuador needs the support of auxiliary financing, external contributions, and foreign investment. The latter may be sure that its legitimate rights will be respected and the most favorable climate for the productivity of capital will be provided, but always on fair terms to improve the basic living conditions of our peoples.

There is complete awareness of the countless obstacles which the Inter-American Development Bank must overcome, and of the new conditions which, as they arise, will require adjustment and change.

For the present, it is noted that the relations of member states with the Bank are oriented toward eliminating the structural deficiencies of the economies by seeking sufficient financial help to try to balance, as far as possible, their trade accounts with markets outside the region. In this way, the Inter-American Development Bank, as long as it keeps to the essence of the Latin American system, could consider the possibility of accepting new members from other continents. At any rate, the important elements of the policy regulating decisions on this point will be the way in which the characteristics and purposes of credits fit into the conditions and needs of the Latin American peoples.

At the Special Meeting of the Board of Governors, when the new President of the Inter-American Development Bank, Mr. Antonio Ortiz Mena, took office, on the express instructions of my Government, I requested that the site of the Thirteenth Annual Meeting of the Board of Governors be Quito, the capital of Ecuador. The date of the next meeting falls on the 150th Anniversary of the Battle of Pichincha, in which the independence of Ecuador was sealed with the blood of its heroes. The rejoicing of Ecuadoreans on their national holiday will be a fitting scene to welcome in honor and dignity the delegations of the sister countries and the Governors of the Inter-American Development Bank.

In concluding, I should like to repeat the greetings of the people of Ecuador and of my Government to the Governors of this Meeting, the

delegations attending it, the special guests, and the men and women who make up the population of the region. I should also like to reiterate my appreciation of the cordiality and courtesy of the Peruvian people.

**Address by Mr. Luis Enrique Oberto,
Governor for Venezuela, and Director of the
Central Coordination and Planning Office
of the Presidency of the Republic**

For the second time in succession, I have the honor of heading the delegation of Venezuela to the Meeting of the Board of Governors of the Inter-American Development Bank. On this occasion I am particularly gratified because of the importance of this Twelfth Meeting for the life of the Institution. This is the first meeting under the presidency of Mr. Antonio Ortiz Mena, to whom I extend greetings on behalf of the Venezuelan people, the Government of my country, and myself, wishing him every success in the office he has recently assumed.

It is also a source of gratification that the meeting is being held in the city of Lima, whose people and Government are known for their proverbial hospitality. The battlefields of Junín and Ayacucho, in Peruvian territory, bear witness to the valor, effort and sacrifice of the man who fought memorable and decisive battles for the independence of our countries, uniting them with enduring ties of brotherhood.

The election of Mr. Antonio Ortiz Mena as President of the Bank is especially significant. In his address at the inaugural session of the Eleventh Meeting of the Board of Governors in Punta del Este, speaking on behalf of the visiting delegations, he remarked that he had had the exceptional honor of attending every one of the meetings of the Bank since its establishment. His widely known personal qualities and experience, coupled with the fact that he has come from the ranks of Bank Governors, with an extraordinary record of achievement in that capacity, inspires confidence in the prospects of the Institution, which will have to bear heavy responsibilities as a multilateral organization in the decade now commencing.

The variety and importance of the topics to be considered at this meeting, such as export financing, the establishment of a regional mechanism for expanding Latin American enterprise, and the amendment of the Agreement Establishing the Inter-American Development Bank to permit changing the composition of its Board of Executive Directors—proposals have been made in this connection which have our support—are evidence of the high degree of maturity the Bank has attained and take into account the concern of all the countries of this hemisphere.

The year just ended was marked by a number of important events, ranging from the Meetings held in different capitals by a Committee of

Governors, to the normal change-over in the top management of the Bank, which is a significant milestone in the life of our peoples and institutions. The Committee established pursuant to Resolution AG-5/70 of the Eleventh Meeting has maintained active contact with all the Governors and shown that it is possible to establish mechanisms that afford excellent possibilities for close cooperation between the countries, their representatives, and the Bank during the interval between two annual Meetings of the Board.

The Committee of the Board of Governors appointed to study various alternatives for increasing the flow of resources to the Bank from developed countries under improved terms has been an experiment whose positive results indicate the advisability of making frequent use of it. This mechanism has proved effective in examining matters of primary importance to the Bank.

Our countries are at present engaged in a common effort to speed up their development, placing at the service of this objective all their natural, human, and financial resources. This is one way—possibly the best—of guaranteeing that the goals set will be attained, but we must admit that it is not enough, for the amounts needed are considerably in excess of our total capabilities. It is fundamental for Latin American development to gain new markets by expanding and diversifying its exports. For this, apart from the just and reasonable demands of our countries for access to markets, and the elimination of discriminatory practices toward our products, it is necessary to establish an efficient system of international cooperation to build up a new overall structure of production.

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 regional needs into account. In this context, the round table on this important topic could not be more opportune.

Concurrently, Venezuela is concerned with encouraging and providing security for investors so that they may effectively participate in the task of national development. Accordingly, it has prepared legislation on capital markets which its Congress is considering. At the same time, and to form a supplementary basis, it has been deemed fitting to set up a high-level committee representing the most varied national sectors, so that through a fruitful dialogue it may prepare legislation on incentives for national and foreign development and investment. The opinion in my country is that the most immediate source of funds for overall devel-

opment, particularly for the encouragement of enterprises devoted to the promotion of non-traditional exports, is the capital market, through which domestic savings and foreign capital may be mobilized.

Furthermore, it should be borne in mind that, during the past few years, the problem posed by the gap in foreign financing in Latin America has been growing significantly. This deserves careful study for, if we consider all the factors that enter into the international economic picture—among which should be mentioned the balance-of-payments pressures in important capital-supplying countries and the protectionist trends evidenced in industrialized economies—it is easy to foresee that the gap between the needs and the possibilities of foreign financing will be widened. This prospect, as well as the urgent need to impart greater dynamism to Latin American economies, indicates the advisability of not slackening our efforts to reassess the basic elements of international cooperation and, specifically, the concepts underlying the establishment of a suitable order in the international organization of financial aid, which should be granted on soft terms and within the framework of multi-lateral arrangements. The Bank is the appropriate organization to consider these problems and adopt appropriate measures to increase the flow of financial resources to Latin America, taking into account the pressures faced by the relatively less developed countries.

At the previous Meeting of the Board of Governors, speaking on behalf of Venezuela, I referred to other matters that are also of primary importance for the development of our countries. One of them—industrial development and export promotion—concerns the establishment of an entity for the expansion of Latin American enterprises. There is certainly a void in terms of institutional organizations fostering industrial development in the region which should be urgently remedied to accelerate the growth of the manufacturing industry to improve the productivity of industrial enterprises as well as their competitive position in international markets, serve as an effective link in the process of integration and, in general, act as a suitable vehicle for the introduction of technological changes. In this respect, the pertinent report of the Board of Executive Directors has been submitted to the Board of Governors for consideration, and it is to be expected that, following due discussion, practical measures will be adopted that will make it possible to achieve the ends sought.

Another topic mentioned at the last Meeting was tourism. We note with satisfaction the statement made yesterday by President Ortiz Mena that the Bank is studying ways of participating more fully in the promotion of tourist programs which, apart from helping expand domestic employment and generating resources for development financing, will

extend knowledge about our countries. It is gratifying to note that a firm and decisive resolution was adopted on this subject at the meeting of the Inter-American Economic and Social Council held in Caracas last year.

In this context, mention should be made of the importance to our countries of multinational projects and the advisability that the Bank assign them higher priority within its credit policies. Implementation of this type of project, carefully selected, is the necessary link to supplement the joint efforts of the Latin American countries to achieve integration. The Bank, in deciding to make an inventory of the multinational infrastructure projects envisaged at the regional level, has taken a significant step in that direction. It would be advisable that any action taken by the Bank as a result of this study be tied in with that of other Latin American organizations, establishing suitable coordination for the best use of our resources. Among these organizations is the Andean Development Corporation which, to attain its objectives, requires technical and financial aid from multilateral organizations such as the Inter-American Development Bank. My country is fully convinced that the Corporation affords great possibilities for Bank action in support of integration, as President Caldera stated in his Second Message to the Congress of Venezuela when he said: "It is a source of gratification that the Andean Development Corporation began operations last year in Caracas, with our unreserved support; we expect from it, rather than declamatory statements, the programming and implementation of concrete joint development projects."

The above ideas are part of the convictions of the Venezuelan people, who consider integration an urgent need. It should be noted that, in considering Latin American integration as a matter of primary importance in line with the provisions of our Constitution, my country is examining all the circumstances pertinent to its particular economic structure. Accordingly, it has entrusted to my office the preparation of a national forum on the subject.

The ideas expressed, among others, imply a broad field of activity for the Bank, whose maturity, attained in 11 years of positive action for the benefit of the region, is a decisive factor in adapting to the new type of action demanded by our time. This complex task implies adopting new, practical, and efficient approaches. One such approach might consist in the preparation of a financial program for the future activities of the Institution, laying stress on both policies and action designed to obtain funds, as well as on the granting of credits, including appropriate priorities in the loan policies. A study of this important subject might be made by the Bank's Management for subsequent consideration and analysis by the Board of Executive Directors and the Board of Governors.

In view of the desirability of adapting the Bank's organization to the new reality—a matter in which the Bank's Management concurs—it is recommended that a complete evaluation be made of the procedures and policies now followed, so that the Organization may attain its goals during the decade now beginning, with efficiency and flexibility. Work of this nature could, furthermore, be a basic condition for vigorously undertaking new initiatives of great value to Latin America.

The action to maintain and expand the productive capacity of our region to improve its possibilities of growth obviously implies substantial requirements of capital goods imports. Owing to certain difficulties connected with the balance of payments situation, however, it is not always possible to effect the necessary imports; instead, in most cases it becomes unavoidable to check their increase, consequently retarding the pace of development. This problem should be studied in depth, giving priority to seeking formulas applicable to the region which will improve the systems of financing such imports. In this connection, it is felt that the Inter-American Development Bank should carry out the pertinent studies, for eventual consideration by the Board of Governors, with a view to finding a better system of financing imports to our countries, exploring, in particular, the possibility of establishing relations between the Bank and the institutions engaged in financing exports from industrialized countries. This would afford the possibility, in an attempt to apply better methods of financing Latin American imports, for the Bank to act as the guaranteeing agent for the payment of such imports, seeking the most favorable conditions when negotiating suppliers' credits.

The strengthening of Venezuela's relations with the Bank is for me a special source of gratification, not only because of the specific technical and financial aid received from the Institution, but also because of the cooperation extended to the Bank by my country wherever requested. In this context, we are making progress in the joint implementation of a pilot project designed to review the Venezuelan planning system and its effective linking with the formulation of economic and social development policies. The results of this project, in view of the nature of the subject involved, will be made available to the member countries of the Bank in due course.

In this connection, Venezuela views with particular satisfaction the announcement made by Mr. Ortiz Mena in his report to the meeting, regarding the establishment of a Latin American information and data processing center, which would be the keystone for incorporating Latin America into the era now beginning.

In view of the important tasks before us, Venezuela reaffirms its intention to continue placing at the service of the Inter-American Devel-

opment Bank its fullest cooperation and firm support for the attainment of the present objectives of the Institution. It is appropriate here to stress once again my country's firm and clear position: to do everything in its power to maintain the Bank's genuine regional and multilateral character in keeping with the criteria which determined its foundation. We are unalterably determined to strengthen the Bank so that it may become more vigorous, more efficient and more Latin American each day.

In closing, I would like to say that I am particularly gratified that the Meeting of the Board of Governors, far from being an exhausting review of past activities, is once again a landmark in the consolidation and strengthening of its work for the integration and development of the countries of Latin America.

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

It is an honor and a privilege to attend this Twelfth Meeting of the Board of Governors of the Inter-American Bank to acknowledge, after another year of worthwhile effort, the great number of tasks and accomplishments listed in the report for 1970, and to examine and debate, through the exchange of experiences, ideas and suggestions, the opportunities open to us in the coming years.

Every time we assemble at these meetings and look to the future, we feel ever more heavily the weight of our responsibilities in formulating the destiny of this continent. We also feel increasingly the importance and urgency of avidly searching for solutions that can lead us to the best answers to the unrest and anxiety of the peoples of Latin America.

The import of these meetings is evidenced by the enormous effort and great spirit of cooperation with which we all engage in the struggle for economic development. The determination, enthusiasm, hard work and, not infrequently, the sacrifices of our Governments and our peoples in their efforts to overcome the obstacles placed in the way of the economic and social development of this region, can find their parallels only in the historic movements of the glorious days which in the last century culminated in the political independence of our countries.

Our work is all the more harsh and exacting when we realize that Latin America began late in the race for economic development, and that other countries of America, Europe and other continents have already reached high levels of technical productivity and prosperity for their peoples. At this moment, Latin America faces the great challenge of avoiding being left on the fringe of progress and civilization. As a result, we—Governments and citizens—have the responsibility of combining our forces, of working together on the initiatives of continental cooperation and regional integration to provide the methods, with the speed made essential by this challenge, and find the formulas that will allow us to bridge the gap separating us from the industrialized countries.

In this context of objectives and needs, the Inter-American Development Bank plays a role of the utmost importance. The performance of the Bank in its first decade of activities is intimately linked with the fundamental transformation effected in Latin America in recent years not only in the areas of economic infrastructure and the production of basic goods, but with equal relevance, in social affairs. It is only right to note that, through Bank action, it has been possible to improve substantially the situation of large sections of our populations that previously

did not have access to education or were not even aware of the existence of health services, the advantages of owning their own homes, or of having water and sanitary services. In these past ten years, Bank action undeniably contributed to significantly reduce poverty, poor health conditions, and ignorance in Latin America.

Just as yesterday, under the leadership of Felipe Herrera, this course of action will continue uninterrupted today under the wise administration and creative intelligence of Antonio Ortiz Mena. On behalf of the Government of Brazil, I would like to state at this Board Meeting, Mr. President of the Inter-American Bank, our firm intention of giving you our full support at every opportunity to cooperate with your administration in the exercise of its important duties and high responsibilities, which are now even more important given the difficulties and complexities facing us at the beginning of this second decade of work. The Inter-American Bank can count on Brazil's full support; it can be certain that, under all circumstances, we will remain faithful to our tradition of continental cooperation and firm in our resolve to meet the financial obligations assumed at the Eleventh Meeting held in Punta del Este.

On this occasion I would like to place on record our acknowledgment of the Bank's contribution to the economic and social development of Brazil. As is widely known, the Government of Brazil has opted unequivocally for a development model based on the market economy. We affirm the principle that Brazil's economic development is basically the responsibility of private initiative. The private entrepreneur is, in our understanding, our most important production factor for promoting socio-economic development within the context of a free and open society. Consequently, we are willing to exert maximum internal effort by strengthening the private sector, including labor, in the management of enterprises, developing free trade, and opening capital markets without claiming, however, that the entire sacrifice of this effort should fall on present generations. Hence the importance we assign to external cooperation, which we regard as a valuable factor in the formulation of our daring national project; hence the importance we place on the financial and technical assistance we receive from the Inter-American Development Bank.

We hope the decisions taken at this Meeting will achieve the objectives we have proposed of enhancing the Bank and strengthening the system of continental cooperation.

Address by Brigadier General Francisco Morales Bermúdez, Governor for Peru and Minister of Economy and Finance

I have listened attentively to the interesting report submitted to this Twelfth Meeting of Governors by the President of the Bank, Mr. Ortiz Mena, to whom I reiterate my fraternal greetings and congratulations upon his recent election and, in the certainty that he will always be a faithful interpreter of Latin America's aspirations, my best wishes for a successful term of office.

At the completion of the first decade of its existence, and the end of the first year of the second, our Organization is an Institution of recognized prestige in Latin America and in the international financial community, having acquired extensive experience in the main fields of the economic and social development of its member countries, which enables it to make a contribution of the utmost importance to the task of freeing the masses of our peoples from backwardness and poverty.

Development is a concept of different nuances depending on the country in question, for it is closely linked to the social and economic structure, history, and traditions of each country. This concept, however, all too often conceals the enrichment of certain parts of the world at the expense of others, prosperity at the expense of exploitation, privilege at the expense of spoilation; in brief, the relation of domination and dependence which are major features of our time and sum up the problems of the so-called underdeveloped countries. Underdevelopment is not merely the backwardness of some in relation to the growth of others, but also the negative side of conditions under which the development of some receives support and which others must bear. In this sense, underdevelopment amounts essentially to social and economic imbalance at the national, regional, and international levels. Overcoming underdevelopment is based on both domestic effort and international assistance, and has to be carried out on both the domestic and the foreign fronts. In view of the nature of the problem, the solution can lie only in a break with the present economic patterns and the politico-social relations connected with them. That is revolution: the replacement of old bases, which lead to poverty and inequality, by new political relationships and new socio-economic structures which eliminate those evils at their very roots and so favor real and general development.

Changes will have to be made in international cooperation, changes which will consolidate and in no way weaken the international community. We cannot be idealists and believe that the negative factors that have been accumulating can be eliminated. The vital thing is to reduce these negative factors and to prevent the generation of new ones. Inter-

national cooperation should plan and implement a worldwide economic reform that will review and execute the fundamental changes required to close the gap that will soon separate the developed from the underdeveloped countries. International organizations such as the Bank, in the case of Latin America, should help to this end—which must prevent a crisis for mankind—giving due consideration to the special circumstances of each of our countries in terms of productive forces, institutions, and socio-economic structures.

Our Inter-American Development Bank has made a notable contribution toward the recognition of the common needs of the continent, all of which derive from this search for economic equilibrium and independence, mobilization of physical and human resources, and cultural decolonization, but it has not been able to prevent the widening economic gulf separating us from the developed countries. This being so, we are faced with the need for decisive action by our Institution, but without abandoning the serene optimism of those of us who know that human achievement, however limited, is built on unlimited aspirations, and that every aspiration based on a real need can be translated into reality.

Moreover, although the Latin American situation is far from having the homogeneity which would make possible the integrated, continent-wide development policy that is desirable, in practically all our countries new patterns in economic, social, and cultural relations are evincing similar trends throughout the continent. The fact is that we are living in a world dominated by the know-how and mass production of the industrialized countries, whose crises cross political boundaries and extend, with even greater force, to the less developed countries, which are doomed to be crushed by the abundance of manufactured goods produced with their raw materials in other countries. The repeated failure of inefficient and confused development theories and the course of action of the industrialized countries have led people to turn to current philosophies which inspire deep changes and sap confidence in conservative movements. The numerous and solemn declarations of international solidarity and the efforts of regional and subregional integration organizations are a tangible result of this.

Conditions in our countries are not like those in most developed countries, where the systems and means of production make it possible to satisfy the requirements for well-being and leave a considerable part for investment. In this manner, they are able to achieve economic growth and offer their people ever-improving standards of living.

That does not happen in our countries. We have a permanent imbalance, because low economic productivity is combined with growing

social needs. That is why, for us, the execution of economic plans requires not only know-how, but political leadership, and places a heavy responsibility on our Governments, which are obliged to stimulate production to the maximum and seek the tolerance of their peoples in their just aspirations, a tolerance needed despite far-reaching structural changes such as those occurring in Peru, where labor communities will be effective instruments for a fairer distribution of wealth. That is how we must respond to the "challenge of development"—by endeavoring to make economic growth compatible with social justice.

This, however, requires political stability, honesty, and firmness on the part of government, though without ignoring the limits of tolerance that may be expected from the people. From the people are required faith in their government and moderation in their aspirations, so that the investment-production cycle may result later in steadily improving standards of living. Outside aid then plays an important part as a supplement to the reciprocal efforts of the people and the government, firmly united, joined by a conscious and voluntary discipline for productive investment benefiting capital and labor equally.

Peru, for its part, has entered the decade of the 70s with the process of structural transformation fully under way, a process intended to furnish the country with the instruments necessary to undertake a decisive struggle for development. This is an effort which includes every national sector so that all available resources may be mobilized to the fullest extent possible. For us, it is a matter of having the domestic and external freedom of action permitting far-reaching, but orderly and planned structural change, a true economic, social, political, and cultural movement which places man at the center of social relations and guarantees full respect for the human aspect in political action. Thus, democracy, no longer static, will recover its dynamic power.

When the Revolutionary Government of the Armed Forces assumed power, it found two types of problems: those connected with the economic and financial situation produced by the crisis of 1967, acknowledged to be one of the worst in our history, and those specifically connected with underdevelopment—dependence on outside powers, coupled with exploitation and irrationality on the domestic front—which neutralized every effort to increase social productivity.

At the Meeting of Governors in Punta del Este, I had the honor of submitting to you the economic policy adopted by my Government to cope with the country's problems. In the year that has passed since then, we have continued, within the framework of that policy, to carry out structural reforms in the major sectors exercising a multiplier effect in

the socio-economic life of the country, to strengthen intersectoral interdependence and increase the social productivity of the system.

The agrarian reform was put into effect throughout the country, destroying the power concentrated in the *latifundia* and large agribusinesses, which have been replaced by cooperatives and enterprises having social value. The implementation of this reform was gradual, so that agricultural and livestock production was not set back by such a radical change; on the contrary, an increase of 4.5 per cent was achieved, quite a large figure for this relatively stagnant sector.

Half-way through the past year, the General Industry Law was promulgated, which placed enterprise in a new dimension in relation to industrial development, strengthening it through the redistribution of income and progressive access by labor to ownership and joint management, while maintaining the scale of values between labor and management that gives them similar opportunities as industrial workers. The General Industry Law, therefore, provided a fundamental premise for the erection of a genuine and democratic productive structure, in which basic industry will be assigned top priority under State supervision.

In the same way, the General Fisheries Law, promulgated subsequently, took the basic elements of the philosophy behind the General Industry Law, adapting them to the characteristics of the fisheries sector, as the General Mining Law, soon to be promulgated, will do in the mining sector.

Numerous financial measures have been taken which are designed to insure appropriate State control over savings and monetary flow so that it can direct the financial resources available toward the objectives of the national development plan.

Among these measures, I should mention the strengthening of the State banking system, which has progressed to a point where it is now attracting 65 per cent of all domestic savings; the introduction of exchange controls; the structuring of the Lima Stock Exchange; and the establishment of the Development Finance Corporation, a government agency charged with promoting and supporting private and public investment and directing it toward the goals of development policy.

Another source of great satisfaction to the Peruvian Government is the rapid progress made by the Andean Subregional Pact, a key factor in its development policy (although of a different nature from the measures mentioned above), which in its brief existence has achieved results without precedent in the history of Latin American integration movements. The mechanisms envisaged in the Pact are being promptly put into effect, speeding the process of integration and, by their patent reality, arousing a renewed awareness of integration in Latin America.

This development confirms our view that the process of integration is something more than a sum of economic parameters; that it is, in fact, the beginning of a higher order of reason that will permit each of our countries to progress economically and socially without adverse effects for others.

It is on the basis of these considerations that the Revolutionary Government of Peru resolutely supports the introduction of a set of rules for uniform treatment of foreign capital in the Andean Group, one that will regulate foreign investment in such a way that the benefits of integration will accrue to the countries themselves and not revert to the industrialized countries through the mechanics of domination. It is not a question of denying the role played by foreign investment in the process of integration. It is a matter of seeing to it that foreign investment, like domestic investment, serves as a factor for progress rather than for holding back the economy. That will be possible only to the extent that it does not deprive a country of its resources, as often happens, through unusually high profits and disproportionate charges for the transfer of technology, and does not erode the country's economic independence by prolonging its stay indefinitely through an equally indefinite control over a large part of the economy.

Other tools of decisive importance for the achievement of a pluralistic approach to development are the program for liberalizing intrazonal trade, establishing a common external tariff, and developing multinational firms organized and controlled by capital from the public and/or private sectors of two or more Latin American countries.

As the financial arm of the Andean Group and an important instrument of its implementation, the Andean Development Corporation has the complete support of my Government, which actively supports its full realization as a subregional financial and promotional agency, and believes that the Inter-American Development Bank should lend it institutional support.

Everything Peru has accomplished since the beginning of its revolution—from establishing order to the reactivation and growth of its economy through the initiative of the State and its decisive entry into the country's economic life as an agent of development—is but the beginning of an arduous struggle which it must win if it is ever to emerge from underdevelopment: on the domestic front, there is the struggle for democracy and against privilege and exploitation; on the external front, the struggle for independence and against domination. My Government, identifying with the people, is determined to wage its battle and to win at any cost, without regard to choices among blocs, fronts or ideologies, but never forgetting the human dimension of its revolution.

The essence of our policy lies in a new concept of the rights and responsibilities of a nationalist, but not chauvinist, government which thinks in terms of an economy on a national, a regional and a world scale, a national economy planned and directed by the State, one which seeks to eliminate bureaucratic flaws and excesses and carefully selects the means for proceeding by stages to socialization, but is not to be confused with a socialist economy.

Traditional capitalism, designed for the profit of the favored few, is no longer adequate for sparking a dynamic development in contemporary or future society. Neither is total rejection of capitalism the way to build a new economy. What is actually sought is the progressive liquidation of a capitalism which has lost its roots.

Man can no longer allow the free play of economic or social factors to determine his destiny: he must become the organizer. Consequently, planning is the result of socialization and technical progress which make it possible for man to foresee and direct his own development. So long as there is no real freedom, evolution will be a product of trial and error in different directions; but with the freedom for which we stand, the community becomes responsible for its own future, and this imposes voluntary planning, the need for which increases as technology and the economy develop and oblige society itself to engage in a never-ending search for new forms of socio-economic organization. Once the need for planning in the broadest sense of the term is accepted, it will be necessary to define its forms on the basis of the criterion that planning is not an end in itself, but a means to integrated development in which man will not be depersonalized. Far from overwhelming the individual, planning must exalt man and contribute to his development. Accordingly, we must reject any planning system in which organization is raised above humanist considerations. This leads us to condemn Marxist planning, which is imposed by authoritarian means and is utterly inadequate as a solution to the problem of underdevelopment.

We favor an economic policy conceived and implemented in a type of planning and socio-economic standards whose essential aim is the integrated and orderly development of human beings. Capitalist society is fading into history because it is no longer capable of achieving human gains and because its economic and imperialist gains run counter to the spirit of a true democracy that refuses to accept material poverty as a proper way of life for nations struggling to rid themselves of oppressive structures and to achieve living conditions which are more human and more compatible with their freedom and dignity. But this capitalist society cannot be replaced by a communist society, which is also imperialist, totalitarian, arbitrary, and destructive of freedom.

Here in Peru we are present at the birth of a new society, one which is connected neither with communism nor capitalism. This is a period of change in that all economic and social structures are either disappearing or being transformed. In this society, organization and productivity must not be allowed to throttle initiative and individual creative freedom. The rights of the individual will continue to be inalienable, above every principle of economic and technical organization. Our society of tomorrow demands a soul, an ideology based on the recognition of supreme values, a sane nationalism, a definite integrationist spirit that will unite national economies in aiming at well-being as an end in itself, and in the affirmation of humanism in the fullest meaning of the term.

The final outcome of our struggle will depend, we well know, on the activity of our own country; on its economic and technical sectors, which we are endeavoring to strengthen; on the support of the majority of the people in achieving the goals set; and on the ideologies which express the true needs, interest, and hopes of the masses. Under contemporary circumstances, social changes must come from society itself, which is consciously endeavoring to achieve the objectives set in its program of structural reforms.

Nevertheless, my Government fully understands that true international cooperation can smooth the path of development; it asks for such cooperation. We must stress here, however, that what has been termed "international cooperation" has been to date no more than a collection of palliatives designed to alleviate some of the worst consequences of dependency without any intention of breaking the *status quo* of domination and, on the contrary, seeking to perpetuate it by using the need for financial aid as an instrument for applying pressure on the government of the recipient country.

The financial cooperation needed by a country struggling for authentic development, that is, the raising of the masses of its people from backwardness and poverty, the deeply felt aspiration of all people acquainted with dependence, consists in the careful evaluation of its real financing needs, deriving from structural reforms and the speeding up of the transformation of its economy. This criterion should be the Bank's guiding principle as the leader of economic and financial cooperation in America; without it the work of our Institution would be reduced to the limited task of calculating the cost and benefits of each project, outside that context of transformation which provides its greatest significance, unmindful that often, under the so-called technical criterion, the acceptability of projects tends to be in inverse relation to its capacity to further that transformation, which is in contradiction to the development which we claim to promote.

Without fear of discarding outdated principles and standards of evaluation, our Bank can very well work through investment projects in close and reasoned cooperation with others, in such a way that together they represent a move toward development. What is more, it must seek the most suitable techniques for introducing program lending—overall or sectoral—into its credit policy, thus contributing to the financing of the implementation of a policy consistent with each country's requirements for development.

Also, while it is true that there is a distinct degree of understanding of the problems of underdeveloped countries when they lose purchasing power *vis-à-vis* the developed countries through the terms of trade under which they sell their products, international cooperation, and basically our Bank, must avoid tied loans, which only perpetuate that imbalance.

Our Institution has gradually acquired a prestige and a lending capacity that have made it the main source of public financing for the region. This is a positive fact, for it means that a greater flow of resources is received and channeled to developing countries by a multilateral institution whose structure enables it to diversify and adapt its action to the evolution of its member countries and the requirements of the economic and social progress of Latin America.

An analysis of the report submitted by the Bank to the Board of Governors reveals that in the year just closed, the volume of activities has been considerable, and that it was extended to sectors not formerly reached by international aid. We are sure that the Bank will multiply its activities as a result of the increase of \$2 billion in its ordinary capital resources approved by the member governments in 1970, which raised the total authorized capital to some \$5 billion, and of the further increase approved at the same time in the Fund for Special Operations, with contributions from the Latin American countries. We are gratified to see that the loans granted in 1970 reached the highest volume recorded to date.

On the subject of the increase in our Bank's financial resources, I take pleasure in placing on record the administrative decision adopted by Peru to fulfill its obligation to the increase fully and punctually. This implies increasing the Peruvian contribution to both the ordinary capital resources and the Fund for Special Operations.

The fact that it has become general practice in the member countries to formulate sound projects, in contrast to the difficulties in finding adequate financing in the industrialized countries, makes it essential for the Bank to expand its financial availabilities proportionately to meet the minimum requirements of those projects.

It was most gratifying for Peru to receive in 1970 a \$23.2 million

loan under the Fund for Special Operations for a comprehensive irrigation project that will have a favorable impact on our development program.

I wish to express the deep appreciation of my Government and my own personal gratitude to each of the member countries—as well as to Dr. Felipe Herrera, the well-remembered former President of our Institution, who played a timely and decisive part—for having granted our country a \$35 million loan on exceptionally short notice, which has permitted Peru to formulate part of a comprehensive plan for the rehabilitation and reconstruction of the areas affected by the disastrous earthquake of May 31, 1970.

We cannot voice the same gratification with regard to the loan for \$11.8 million just granted to Peru for construction of the Jaén-San Ignacio highway. The processing of this loan lasted five years, owing to reasons that had little to do with the evaluation of the project and its dynamic effects within the context of development aims. This type of disguised pressure must be definitely abandoned in the Bank's activities. We cannot overlook the inflexibility and bureaucratic delays that tend to creep into its activities for, even though domestic savings is the primary source of development financing, timely international financial aid granted without unjustified delays is also required. Therefore, dilatory administrative formalities should be avoided, for they reduce the productivity of the Bank's effort with useless and disproportionate demands for supplementary information.

We believe the Bank's effort to seek greater administrative efficiency, based on the idea of giving more autonomy to its offices in the member countries, is a positive move. This can result only in greater efficiency and speedier loan negotiations and the solution of problems that hamper the normal execution of the loans.

The sectorial and regional structure of our loans should be reconsidered with a view to maximizing their dynamic effect on the sectors and regions that have seriously undertaken the task of making structural changes and improving their finances, speeding up development and applying sound economic growth and stability policies. International financial aid, which is exceedingly low in proportion to the needs, as mentioned by the subcommittee of the Inter-American Committee on the Alliance for Progress in a recent country report on Peru, should tend to maximize its efficiency, as well as its total volume of aid. To help bridge the gap, it would be advisable to channel aid through national development agencies, to keep it in harmony with public investment projects established in national economic and social plans.

The contribution our Bank can make to overcoming balance-of-

payments difficulties arising from the need to finance investments required for development, is also significant.

Soft loans, which enable member countries to benefit from loan assistance without overburdening the foreign debt service but, rather, relieving it through their more lenient amortization and grace periods, are a specific example of this type of action.

There is no doubt that one of the sectors which have made the least progress during our Institution's active life span is intrazonal trade, as well as the relative weight of Latin America in world trade. The latter has shown a negative trend. This is due, primarily, apart from the weak production basis in our countries, to the lack of adequate financial support to Latin American exporters. Our Bank should contribute toward meeting this need, since trade and the consequent expansion of markets are the most suitable and direct means for encouraging production and economic growth. The Bank, rather than limiting its support to capital and other goods produced in small quantities in the subregion, should support all manufactured products, for only in that way will such support be significant. It should support intrazonal and extrazonal trade, for the barely complementary characteristics of Latin American economies prevent any significant trade growth within the region and are likely to continue to do so until adequate productive bases are attained in the member countries. Such support must not be circumscribed by formalities, for trade development is an instrument of development promotion, which is the Bank's goal, and because it closes a gap in the regional trade structure, which is our Institution's responsibility. Support should be given as soon as possible, as any delay implies widening the trade gap separating us from the developed countries. On the basis of these remarks, we urge the Bank to adopt timely measures to implement the studies already made. We favor establishment of a financial export mechanism to enable the Bank to cover this area of operations, and to serve all member countries without exception. We deem it pertinent to stress the efforts made by the Latin American Free Trade Association in the field of bank acceptances, which are undoubtedly important for expert development, and we propose that a working group be formed to study its applicability to our Bank.

We favor the free flow of capital to the region through the Bank, so that our Institution may accomplish its task, but we do not consider it advisable to change the strictly hemispheric nature of its management.

That Latin America will be one of the developing regions to benefit from the new system of generalized trade preferences recently adopted by the European Common Market is worthy of our special consideration.

It is essential that our Bank lay greater stress on the efforts being

made in Latin America to achieve integration, having now gone beyond the stage of accepting the need for it. The most direct way to do so is to participate in the promotion and financing of the most pressing multinational projects and in the technical assistance supplied and the carrying out of preinvestment studies. In this context, and specifically for the Andean subregional group, our institution should intensify its aid to the Andean Development Corporation to give greater momentum to integration, which is irreversible.

We note with gratification the successful efforts made by our Bank within the context of its technical assistance program, which contribute significantly to raising the standards of living in our countries. It is essential to encourage the change in attitude on refraining from imposing private consulting firms from outside the region to undertake studies and project evaluations required by the Bank for the extension of credit. We know that a firm's nationality is no assurance of competence and still less of knowledge of real conditions in each country.

Indeed, many of the ways for improvement open to the Bank may be summarized in one word: multilaterality. Many imbalances and difficulties can be corrected by abiding firmly by the principle that the Bank is not any one country's financial agency, but a promoter of development in all countries which, with due respect for all national philosophies and circumstances, impartially and loyal to the spirit of its mission, seeks the elements of progress to help them within its sphere of competence.

Unquestionably, our part of the world is particularly affected by the problems and contradictions of the times. The shortage of domestic savings—the theme of the round table held at this meeting—the difficulties of trade and industrialization, the technology gap, the growth of the population at a rate faster than the increase in production, and the helplessness of governments in reducing poverty, unemployment, and monetary inflation, are but a few of the stumbling blocks our countries encounter on the route to development. The 60s have been called the “Decade of Frustration” and the “Decade of Declarations;” we trust that they will become known as the “Decade of Achievement” and that they will be more fruitful, humane and just. We fervently hope that the first year, which has elapsed, will not be indicative of the new decade and that this will not be a decade of “world crisis and explosion.”

Faced with this situation, whatever our opinion about imperative economic needs, our Latin American countries must define their political position out of their experience, the results obtained, and those expected in the future.

Finally, we must bear in mind that underdevelopment is essentially a complex phenomenon born of foreign domination and domestic ex-

ploitation and that we need international cooperation based on a pluralist concept of development, not on gifts or the exchange of concessions.

Latin America faces the challenge of a difficult era which calls for creativity and the capacity to modify an entire set of common factors in accordance with the various ways of life that give meaning to our personality as a group of countries which must neither abandon themselves to dependency nor reject a leading role and, without ceasing to be spectators, maintain a rational and courageous position while avoiding resentment and new frustrations, and take the initiative to control our fate.

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

It is a great satisfaction to come to Lima to attend this new Meeting of the Board of Governors of the Bank. It has always been a pleasure for us to visit our cordial Peruvian neighbor and to observe with renewed admiration the development achieved by its people. Here the traditions and experience of the past combine harmoniously with the dynamic forward thrust of modern science and technology.

It is particularly significant that this Meeting should be held in the Peruvian revolutionary setting, which is, in its own way and in accordance with its own national needs, seeking a new future for Peru by breaking away from the old structures of injustice and dependence.

Chile attributes exceptional significance to this Meeting, for the importance of the topics we are discussing lend it special distinction. New directions for future Bank activities will emerge from our deliberations. But over and above these considerations, there is one characteristic that makes our gathering this year particularly outstanding. This is the first annual meeting of the Board of Governors held by the Bank since the election of its new President. Furthermore, it is 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.

It is, therefore, a favorable occasion for the new administration of the Bank and the Board of Governors to impart to the Institution, in the light of this Latin American situation, the guidelines necessary to enable it to discharge fully its mission of supporting the development of our countries in the course which each has chosen freely and of its own sovereign will.

This is a time when institutions—in this case, the Inter-American Development Bank—cannot stand aside from the march of history; they must adapt both their actions and their objectives to the demands posed by the development of our peoples. Chile, in calling for such adaptation, speaks authoritatively and knowledgeably. Our country, on its own sovereign decision, has launched a revolutionary process designed to create a socialist society.

As this is the first Meeting of the Board of Governors attended by representatives of the Popular Government of Chile, we feel that it is necessary to reiterate in clear and precise terms, because of the genuine interest in our experience, the nature of the challenge which our people have democratically chosen to set for themselves—a challenge to which

we are committed in the eyes of our homeland and of the nations of America.

As President Allende remarked at the recent meeting of the Economic Commission for Latin America, it is our intention "to make substantial changes in political power and in economic power, respecting the limitations established by the present legal system, while we establish, through existing institutional mechanisms, a new legal system and the initial core of future institutions."

The choice of this new path of change and the possibility of implementing the policies involved is not the result of an electoral accident, but the culmination of a long process of political maturity that has taken place in the minds of our people.

It is also the result of the failure of reform and development formulas tested in the past to retrieve Chile from its backwardness and overcome its dependent status. In effect, during the past decade, the over-all and per capita growth indices, the pace of industrial and agricultural development, the investment rate and the rest, fell below the Latin American average which, as we all know, was only slightly higher than the rate for the decade of the 50s. To this should be added a persistently regressive distribution of income and chronic inflation, which averaged 26.6 per cent for the past decade—the highest in Latin America.

The economic policy of the Popular Government has been geared from the outset to produce, simultaneously, a reactivation of the productive economic sectors and a redistribution of income, rapidly raising the purchasing power of most of the people and bringing a considerable drop in the rate of inflation, which reached 35 per cent in 1970. The interdependence of those objectives cannot be questioned. The increased purchasing power of the masses of people, which can be maintained only by firm price controls, stimulates wider employment and greater use of idle installed capacity, correcting shortcomings which are characteristic of domestic industry. Higher sales volume enables entrepreneurs to absorb the cost of higher salaries without significantly reducing overall profits.

The unfortunate experiences of the past in anti-inflationary policies and their regressive effects on the distribution of income, have shown, in our opinion, that such policies, if they are to continue to be effective, must be incorporated within a framework of great changes in property and production structures. Regardless of the effectiveness of administrative price controls and of the high level of nominal wage increases, their results are doomed to failure within a generally brief span if the extraordinarily uneven structure of property and the monopolistic and private

nature of strategic sectors of production, distribution and foreign trade is maintained. Moreover, the problem of redistribution, taken in a dynamic context, requires a substantial rise in cumulative rates, which in turn permits a significant increase in the rate of growth. Between 1955 and 1969, however, the investment rate in Chile was not only lower than the Latin American average, but failed to show any improvement whatsoever.

Private investment and the attraction of resources through taxation are inadequate to generate the cumulative level needed to reach an acceptable rate of sustained growth. Structural change itself, together with new sources of capital formation, will be the decisive instruments.

Within the area of qualitative changes in the economic structure, the Popular Government is carrying out a policy designed to strengthen the areas of public property and development of state enterprises which, because of their nature and strategic location within the productive system, should become the basis of the new economic organization. It is likewise encouraging the formation of joint enterprises made up of companies combining State and private capital, both national and foreign, an area which provides a suitable framework for coordinating financial, technological and entrepreneurial contributions with the resources and interests of the State. Finally, in the broad field reserved to the area of private property, the Popular Government is following a policy of promoting and supporting entrepreneurs, who also participate actively and creatively in the design and implementation of Chilean economic policy through the National Development Council, presided over by the President of the Republic himself. Associations and entrepreneurs in industry, agriculture, mining and even trade—large, medium, and small—are broadly represented on the Council. The central labor organization—the *Unión Central de Trabajadores*, also participates in the Council.

It is too soon to evaluate the trend of the economy, but the scope of measures adopted shows a firm resolve to implement the program of the Popular Union. This was understood by the voters in the elections of last April, who gave majority support to the Government parties, and by labor, which participated in the enterprises already incorporated within the social effort, which has considerably increased production and productivity levels in such divergent sectors as mining, steel, textiles, the reformed sector of agriculture, etc.

The decisive factor in social, economic and political change is the breakthrough of organized workers as participants in the management and formulation of company economic and production plans. This factor has now been established in Chile.

Within the context of the Chilean revolutionary process, both ex-

ternal financing and foreign capital investment play a role oriented toward the priority goals determined by the needs of our economy and supplementing our own domestic effort, which will doubtless produce more dynamic effects than formerly.

The broad field of joint and private enterprise is open to these investments, following State approval to ensure both the legitimate interests of such investments and their proper orientation for the benefit of national development. The joint system for foreign investment, which we approved in the Committee of the Agreement of Cartagena, and is a guarantee for a fair balance of the interests of the investor, who can enjoy the advantages of the subregional market in harmony with national interests, taken individually, and those of the subregion as a whole.

As for the flow of external credits for our economic development, I should like to acknowledge the contribution made by the Bank in this respect during its brief existence and emphasize that we now hope the Bank, under the Presidency of Mr. Antonio Ortiz Mena, will understand our position and meet our requests, which will be oriented in terms of the new conditions prevailing in Chile.

We realize that certain aspects of our policy may run counter to other concepts of government. For this reason, we are determined to establish the necessary conditions for a comprehensive dialogue, and we have endeavored to ensure that our policy will be clearly understood. We wish to reduce areas of conflict to a minimum, and I can assure you that the Government of Chile will avoid, as far as it can, any question that might disturb our international relations. We believe that everyone understands our position and realizes that we want to carry forward the revolution entrusted to us by the people of Chile, respecting fully the rights of other States, but at the same time demanding the respect which is our due. The principles of self-determination and nonintervention are firmly implanted in the minds of our citizens. We want this to be understood. These are not mere words, but facts, and we demand the same treatment in return. We reject intervention even in its most subtle, indirect forms, including those practiced under the cover of formal multilateralism. With the straightforwardness that must prevail in our dialogue, I should like at this point to refer to a matter which is of concern to my Government.

We have observed that certain international financial circles and agencies are playing a waiting game with regard to the Government of Chile. We interpret this attitude as an attempt to question the legitimate right of our people to choose their own system of government.

We trust that our Inter-American Development Bank will show, in deeds, that it is not following such a course and that it will accord Chile

the treatment to which it is entitled. If any change should be made, it should be to provide greater support to the effort being made by our country.

The courageous words spoken by the President of Peru at our inaugural session still echo in this room. I feel that we should ponder deeply on the following thoughts voiced by General Juan Velasco Alvarado:

"We believe that the time has come for a calm and complete appraisal of the real effectiveness of an institution which, like the Inter-American Development Bank, shows signs of being used as a tool of political pressure against countries which, like Peru, are determined to break with the past and embark on a policy of liberation and nationalism whose only acceptable norm and design is the interests of their peoples.

"If the Inter-American Development Bank cannot understand the deeper significance of the contemporary Latin American situation, if it fails to perceive the truly irreversible nature of the nationalist and revolutionary trends in our continent, then its real significance, its actual worth, must be profoundly questioned."

Encouraged by these words, I should like to state that now and in the future, the attitude of the Inter-American Bank should be consistent with the historical imperative of meeting the growing demands that stem from the need to increase the pace of our development and, at the same time, orient its action toward political pluralism, respecting the various forms of government chosen by the countries of the hemisphere.

This meeting will prove a rich experience, and it is our belief that the Bank will emerge from it with greater strength and a rededication by its members to improve its role as the effective promoter of progress in the Americas.

**Address by Mr. Jorge Lamport Rodil, Governor
for Guatemala and Minister of Finance and Public Credit
on behalf of the Central American Countries**

It is a great honor for me to address this Twelfth Meeting of the Board of Governors of the Inter-American Development Bank on behalf of the Governments of Central America, thus complying with two practices: first, of expressing our view on the work done by the Bank during the past year, pointing out what we believe to be the major advances and obstacles in its work, and relating its activities to the problems of development in the immediate and not-too-distant future; and second, of addressing you on behalf of the five countries of Central America, whose joint stand on the subject of regional economic development continues unchanged, notwithstanding recent problems in the process of our economic integration.

The foregoing remarks serve to highlight an obvious fact: that, in spite of the problems mentioned, Central America is still united, and the move toward economic integration is still on the march. Proof of this is the fact that in 1970, free trade in the region amounted to almost \$300 million—the highest figure in our history—which compares favorably with a mere \$32 million in 1960 and \$250 million in 1968.

Even in 1971, although there have been some restrictions on regional trade, this continues at a rate comparable to last year's, with the exception of transactions with one of the member countries. Similarly, the credit operations of our financial institution—the Central American Bank for Economic Integration—are being carried out normally, and the implementation of projects of regional infrastructure, such as the Central American Telecommunications Network, is advancing according to schedule.

In stating that the Central American Common Market is still functioning despite the problems that have arisen, and of which you are all aware, I would not seek to gloss over the obstacles we face, basically because of the economic inequalities persisting in the region, not only between countries, but between different sectors and strata of the population. The important point, however, is that we reaffirm our faith in integration as a powerful instrument for overcoming such discrepancies, and we firmly believe that they will be gradually eliminated as we achieve new forms of economic union in the evolution of the regional economic system. We shall continue to seek new formulas for the reorganization of the Central American Common Market, comprising the five countries of the region, and which we consider the main challenge before us. In

this task, the Inter-American Development Bank can play an important role.

In fact, it is relevant to draw attention to the Bank's considerable share in our process of integration almost since its inception. On the one hand, up to December 1970, the Bank had granted loans of more than \$62 million to the Central American Bank for Economic Integration, thus contributing in large measure to the completion of the first stage of the physical infrastructure of the region. On the other hand, the technical cooperation supplied by the Bank to some of our regional organizations, such as the Secretariat of Central American Economic Integration, the Central American Industrial Research and Technology Institute and the Central American Public Administration Institute, has been of incalculable value. We recognize publicly this cooperation and trust not only that it will continue, but that it will be intensified during this period when it is more than ever necessary to seek formulas for the reorganization to which I referred earlier.

In a broader context, the Inter-American Development Bank has been an important factor in the progress made in the development of Central America during the past decade. Loans granted to the countries of the area amount to almost \$330 million, of which about 40 per cent is still to be disbursed, partly owing to slow-moving bureaucratic formalities. This aid has helped the gross national product for the region as a whole to reach an annual cumulative rate of growth at constant prices of 5.7 per cent, or 2.5 per cent per capita from 1960 to 1970.

We believe that this rate of growth—the minimum envisaged in the Charter of Punta del Este, which not all the member countries of the Common Market have attained—is not sufficient to afford opportunities for productive employment to our present and future population; therefore, we shall have to redouble our development efforts during the present decade, and we require the cooperation of the international financial community to do so. Within that community, the Inter-American Development Bank—our Bank—occupies a special place as the financial organization for Inter-American development. We expect much from the Bank in its participation in our development efforts during the present decade, and at the same time, we voice our most resolute support for the Institution, so that it may continue to occupy a prominent place in the international financial community connected with Latin America.

Insofar as the form in which the Bank might participate in these development efforts, permit me to reiterate our hope that it will effectively apply the special priority treatment accorded to the less developed countries of Latin America, which includes the Central American countries. This special treatment refers not only to the relative allocation of

the Bank's financial resources, but also to loan conditions. Thus, the counterpart contribution required from these countries should be lower than it is, and the Bank might consider furnishing greater assistance in the financing of local expenses. On the other hand, the Bank could consider a more favorable treatment as regards payment of the commitment fee. Indeed, it would be desirable for the regulations governing the application of the commitment fee to be reviewed, and that the fee should not be charged on the total loan, but according to the schedule of disbursements, since the system at present followed considerably raises the cost of loans because of the greater difficulty encountered by our countries in rapidly disbursing the resources contracted. Furthermore, our region is about to complete financing of its main highway system. This leads us to believe that it is necessary to facilitate financing of other fields of activity, such as agriculture and stockraising, transportation, tourist infrastructure and silo construction, and to provide financial cooperation for the region's census program. The Central American Bank for Economic Integration is cooperating with the Governments in the preparation of pertinent studies, and hopes to receive financial assistance from the Inter-American Bank to implement them.

We have observed with interest the modest progress achieved during the past two years in easing some of the loan conditions demanded by certain financial organizations. This progress should be reflected in the Bank's transactions, which in no case should tie the supply of goods and services financed with its resources to more rigid conditions than those of bilateral organizations. Moreover, in view of the larger variety of sources of financing available to the Bank, its loan conditions should be much more flexible. Hence our stressing once again the difficulties of various kinds posed by tied loans to our countries, particularly in financing some services such as sea transportation, a sector in which we also find ourselves subject to increases applied without warning by the Shipping Conferences.

Central America considers, furthermore, that the Bank's Preinvestment Fund was established to finance prefeasibility studies, which are generally subject to recovery, and desires that these resources be used to carry out important studies of high priority for the development of the region.

Insofar as the Bank's transactions are concerned, we recognize the valuable role it has played in financing social services and we welcome its intention to continue those activities and intensify them in some new fields, for instance, in the social security programs of the hemisphere.

I should now like to refer to certain concrete matters under examination at this meeting of the Board of Governors.

First, the Central American countries view with particular gratification the proposal made by the Board of Executive Directors on the possibility of expanding the export financing program of Latin America; in fact, we were—together with other countries of the region—the first to take the initiative that led the Bank to undertake the 1969 study of its program in this field and are endeavoring, at the national and Central American level, to diversify and expand our exports. We note with satisfaction that the Board of Executive Directors has already adopted a number of measures which effectively expand the Bank's activities in financing capital goods exports. However, no specific measures have been taken to make the resources available to the economically less developed countries, and we therefore consider it urgent that the program be changed further to extend its coverage. The changes include the eligibility of certain consultant services, which should be financed under the program, and the granting of aid to national and regional mechanisms for financing export credits. We also support initiatives designed to expand the program to cover all export goods financed in the international market for longer than 180 days, as well as those sent outside the Latin American region.

Permit me to make one final observation concerning the possible participation of the Bank in Latin American development during the next decade. One would have to say that if the atmosphere of our Meetings in 1971 differs in any way from that of 1961, it is because there is now an element of disillusionment and confusion. In 1961, with the signing of the Charter of Punta del Este, many thought that all conceptual and ideological problems of national development had been solved, as far as Latin America was concerned, and that the problem had been reduced to implementing the provisions broadly outlined in that document. Ten years later, notwithstanding the progress made, we are still weighed down by the same concerns and uncertainties, which neither development planning, economic integration, nor the frustrated restructuring of international trade have eliminated. Perhaps we were wrong in 1961, or perhaps we need to seek new formulas to overcome what the Economic Commission for Latin America describes as the dynamic insufficiency of our development. I believe that the Inter-American Bank can play an important role in attempting to clarify some of these fundamental aspects, presenting new initiatives and new formulas of financial cooperation within its sphere of competence in the inter-American system.

In this respect, I believe we should explore in much greater detail ways of making our peoples aware of our need for development. For my

own Government, at least, this has been a fundamental goal and, I am pleased to say, we are beginning to see results at the community level.

In closing, Mr. President, I should like to join my fellow-Governors in congratulating you most heartily on your election to preside over this Twelfth Meeting of the Board of Governors of the Inter-American Development Bank, and to express our gratitude and appreciation to the Government and the people of Peru for the warm welcome they have extended to us.

FOURTH PLENARY SESSION
MAY 13, 1971

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

We are gathered here in this beautiful and gracious city of Lima, thanks to the traditional Peruvian hospitality which the Government of this sister republic has extended to us today, to initiate the second decade in the growth of our Bank—the Inter-American Development Bank.

The achievements of the 60s should encourage us to undertake the tasks ahead with faith and enthusiasm. The Bank is today the largest supplier to the region of public financial resources. The volume of its loans has surged upward year by year to a point now exceeding \$600 million annually, with disbursements of more than \$400 million. Of even greater significance, however, is that we have shaped an Institution at the service of our countries' development, an Institution responsive to the special needs of the region. The Bank has shown adaptability and initiative by entering areas in which other international financial agencies had shown no interest. It has promoted integration and served as an instrument of regional solidarity.

In the present decade, the Bank will have the task of placing a steadily rising amount of resources at the disposal of the countries of the region. This is a difficult task that will challenge the imagination of its leaders.

It will be called upon to broaden its capacity to process projects and it will gradually have to become increasingly involved in sectoral programs rather than specific projects. Our peoples require rates of growth higher than those stipulated at Punta del Este; they also require sound and effective action on all social fronts. To assist in gaining these objectives, the Bank must seek new financing arrangements, interest itself in new fields and adapt its approach to the swiftly changing economic and socio-political course of events in the hemisphere.

Last week, we in Panama were honored to receive a visit from the President of the Bank, Mr. Antonio Ortiz Mena. We know that his highly valuable experience, initiative and imagination offer the best assurances that the Bank will continue to move forward with increasing speed, improving its effectiveness year by year as an instrument for integrated development of the region.

The Government of Panama truly appreciates the valuable cooperation which it has received from the Bank. The 18 loans the Bank has granted us to date have made a significant contribution to economic development and social change in Panama. We hope to receive similar cooperation from the Bank in financing our Public Investment Plan for 1971-75.

The encouraging economic and social picture presented today by Panama lends additional strength to the country's firm determination to continue its steady progress toward balanced, integral development.

Deeply significant social changes have taken place. The goal of equal opportunity for all Panamanians is pursued today with greater determination than ever. But social change has been accomplished within the context of vigorous economic growth, the essential requisite for assuring short- and long-range general well-being.

This process of integral development has been implemented in a climate of harmony and social balance—a dynamic balance of movement and progress that is achieved only through the hope and trust of the great masses of the population. Such hope is based on the faith of a people who day by day see the difficult and persistent efforts of a Government that is guiding the ship of state with honesty and dynamism.

The initial distrust, the cynicism, the negative attitudes, the helplessness of a forgotten and exploited rural sector and a working class that could no longer believe in anything or anybody, have been replaced by positive attitudes and by faith in individual action as a means to self-improvement. All of this is largely the result of the continuing and open dialogue between the people and the Government and of the many day-to-day opportunities available to many of our sectors to participate in the development process. These changes in attitude and approach are not readily apparent in a detached study of statistics. It is necessary to visit our countryside and cities and to talk to our country people and our workers to realize that Panama is a classic example of a nation in search of its own solutions.

The economic cycle of 1970 was a resounding success and marks the final stage in recovery of a satisfactory economic growth rate comparable to that recorded during the best years of the past decade. In real terms, the economy expanded by 8 per cent in 1970, comparing favorably with the 7.6 per cent and 7 per cent achieved in 1969 and 1968.

In the struggle for social development, education is our most powerful and far-reaching weapon. Significant progress was made in this sector in 1970, with an enrollment of 85 per cent of the school age population at the primary level and 45 per cent at the secondary.

In the field of health, the country showed an improvement in its general, infant and maternal mortality rates and in morbidity rates; these indices have been declining steadily and are now among the lowest in the region.

The compulsory social security system was extended to include new

areas, increasing the total population covered by 50 per cent, so that 23 per cent of the national population is now covered.

A tax reform implemented in 1970 to finance State activities raised Government revenues by 12 per cent, so that these now total 16 per cent of the gross domestic product.

Prospects for steady and dynamic economic growth over the next few years are promising, if we can initiate activities designed to generate foreign exchange, almost all of which relate in some way to our geographical location, such as the development of Panama as a regional banking and financial center.

Owing to our monetary, exchange, tax, and political characteristics, a growing number of Latin American, United States, and European banks, together with other financial agencies, have opened offices in Panama. The banking sector has expanded vigorously in recent years in terms of the number of banks and the total volume of deposits, which undoubtedly contributes to the expansion of money supply and to national development.

If our development plans materialize and the entire nation is dedicated to their implementation, we believe that this decade and the next will see a total social transformation of Panama that will provide more modern and equitable structural bases, far greater equality of opportunity and, in short, a more worthy and just society.

We are, however, well aware that man does not live by bread alone. Today we Latin Americans view with bewilderment the crisis of American and European youth, whose idealistic approach to political and spiritual renovation questions the basic values of their societies.

We are certain that socio-economic development will have to be supplemented by the organization of political systems that allow for mature and responsible participation by all citizens in steering the ship of State. We must evolve a system of justice providing equal protection for all. We must define spiritual and cultural goals and take upon ourselves the great and noble task of offering our citizens the possibility of broadening their horizons by drawing upon universal sources of art and intellectual achievement, while at the same time, a substantial number among them will contribute directly to the enrichment of those sources.

The complete overhauling of our relations with the United States regarding the Panama Canal will be of special importance to Panama. The existence of the Canal Zone in the very heart of our country has had deep and disturbing effects on Panamanian society. Integral development of our national image calls for a comprehensive revision of relations with the United States in reference to the Canal.

Finally, we are convinced that our countries should not develop

separately, but should gradually, realistically and resolutely achieve greater solidarity in economic, social, cultural and political matters. Europe sets us a silent example which we should strive to emulate by renewing our efforts to move ahead in our difficult progress toward Latin American solidarity and integration.

There is no single course of socio-economic development. Each government must evolve the policies and systems best suited to the particular conditions prevailing in its country. Our hemisphere is too broad and development too complex for us to hold that any one system is best for all. Yet this diversity should at no time cast doubt on the basic solidarity of a hemisphere that shares a common past and faces a future in which only in union can it ensure optimum domestic progress and a place of honor in the international community. Our regional systems are imperfect. We believe the time has come to review the purposes and goals of Punta del Este, for 10 years is a long time in this era of rapid change. We have faith in our peoples and we are sure that acting with maturity, intelligence and persistence, we will succeed in attaining new goals consistent with the realities of today.

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

Once again we meet to evaluate the activities of the Bank during the year just past, and to study new measures and policies aimed at further strengthening our Institution as the single most important source of international financing for Latin America, for it contributes about 30 per cent of all funds for development projects in the region.

In analyzing the Bank's activities over the last 10 years, we observe a record high in 1970 in terms of volume of loans granted and loan amounts disbursed, as well as in total amortizations received and levels of earnings and net profits. In addition, cumulative disbursements now account for a satisfactory 53 per cent of cumulative loans authorized, as compared to the 38.4 per cent recorded five years ago.

Furthermore, as in previous years, the counterpart funds contributed by the Latin American countries, plus the Latin American funds comprising the Bank's capital, have represented 70 per cent of the total value of projects financed.

It is interesting to compare the sectoral distribution of Bank loans during the first five years of its activity with the second period from 1965 to 1970. During the latter period, the sectors most strongly emphasized by the Bank were agriculture, transportation and communications, and power. The first of these sectors currently accounts for 26.2 per cent of all loans, while in 1965 it represented barely 21 per cent; transportation and communications now stands at 16.8 per cent, as compared to 7 per cent in 1965, and power totals 14.2 per cent, against 8 per cent five years ago. The industrial and mining sector is receiving less support, declining from 23 per cent in 1965 to 15.3 per cent at present. The water supply and sewage sectors, together with urban development and housing, have also received less attention over the past five-year period.

This significant shift in the concentration of Bank loans was justified. But looking ahead, we believe that the Bank should increasingly support the development of agriculture and education, for these are the strategic fields within the context of our social and economic problems.

The Management of our Bank is in new hands. Since assuming the office to which we elected him, Mr. Antonio Ortiz Mena has publicly voiced a number of valuable opinions on the policies and purposes of the Bank, and I should like to comment on some of them.

My Government fully shares our new President's emphasis on the need to have the Bank launch a full-scale effort for financing tourism,

especially in underwriting the physical infrastructure of areas with a promising tourist potential, generally located in isolated regions of our respective countries and handicapped by weak infrastructures. Experience has confirmed the high rate of recovery on investments of this type in terms of benefits received by the country as gauged by the inflow of tourists and direct earnings by the State through the increased value of land it owns in such developed zones. The Bank should reinforce its administration to deal with this new, but important branch and clearly define the operating policies that will be employed to promote this source of foreign exchange, which for some member countries of our Institution is, or could be, a major factor in stabilizing their balance of payments. In this connection, we should like to suggest that a round table at one of our next annual meetings be devoted to this topic, not only from the standpoint of its functions as a generator of foreign exchange earnings, but as a factor of rapprochement and interrelations between the sister nations of the hemisphere.

Related to the development of tourism is another new field which our President has mentioned as being of importance to the Bank. I refer to development of the craft industry, which has a particularly positive effect on unemployment.

Both in academic circles and within our own Governments, we have some doubt as to whether our public investments—our own and international resources—represent an optimum combination of the capital and labor factors. The tendency of modern technology to make intensive use of capital in public works when a different alternative is more desirable is a matter of common knowledge. Consequently, we urge the Bank to undertake studies in depth to determine ways in which we can increase the use of labor in projects financed by the Bank whenever possible, and to ensure high quality and prompt completion of work within comparable cost margins. Other parts of the underdeveloped world have emphasized these alternatives more strongly than Latin America. It is up to our Bank to retrieve this topic from the academic world, as our President has suggested, and to integrate it within our financing policy. This will, of course, affect imported and local components of investment and the tying of resources contributed to the Bank by member countries and third parties.

Mr. Ortiz Mena, in his speech in Buenos Aires, stressed the advisability for our countries of exporting agricultural commodities in seasons when weather curtails their supply in the major consumer centers of the industrialized world. For these reasons, we suggest close cooperation between the Bank and the Inter-American Center for Export Promotion (CIPE) to develop specific projects in our countries aimed at

promoting nontraditional exports with a view to furnishing such projects with prompt financial and technical support from the Bank.

Finally, our President emphasized investment in physical infrastructure as a mechanism designed to encourage the economic integration of the region. In the case of the island members of the Bank, we suggest that a study be made of how they can use these ideas—perhaps by promoting investment in maritime and air transport facilities, telecommunications, and common research and development of the fishing industry.

The problem of education in our hemisphere is so compelling that it can be solved adequately and rapidly only through the intensive use of mass communications media. We propose to the President and the Management of the Bank the possibility of undertaking studies on the use of the Bank's soft resources to finance projects that include radio and television to promote broad public literacy programs.

The Bank's policy in housing has been revised and is at present at a transitional stage. We favor prompt action in defining this policy more clearly, and share the President's view that the financial capacity of Latin American private enterprise should be harnessed to plans for financing low-cost housing for our workers.

Two days ago we listened with keen interest to Mr. Ortiz Mena's reference to the Bank's continuing policy of extending special treatment to the comparatively less developed countries by assigning them resources on a priority basis. Unfortunately, this policy has not been applied to the Dominican Republic as fully as to the other countries in this group, for the value of Bank loans to our country to date comes to \$14.7 per capita—that is, less than the average for all member countries and far below the average per capita value of loans to relatively less developed countries.

We are pleased to have heard the President of the Bank state his intention of strengthening the Bank's physical presence in our countries by reinforcing field offices so that they may be better able to help increase the number and improve the caliber of credit applications.

We have also evaluated the report of the Board of Executive Directors on the possibility of expanding the program for financing Latin American exports. Our delegation supports the recommendations made by the group of consultants on promoting exports from the relatively less developed and medium-sized countries. We specifically support the idea that, in determining the goods and services eligible for financing in the case of these countries, nontraditional exports of primary products be included and that the supplementary financing program refinance a sizable percentage of the portfolio of export credit documents held by

the national agencies, for up to 85 per cent of operations by the relatively less developed countries.

We cannot conclude these few words without a strong vote of congratulations to the Bank Management and to its officers and staff for a year of work with such positive achievements. In the short time that Mr. Ortiz Mena has headed the Organization, he has confirmed the wisdom of our decision to elect him as a worthy successor to Dr. Felipe Herrera.

Finally, we should like to express our appreciation for the many courtesies and the hospitality extended to us by the Government and people of Peru and especially by the authorities of this illustrious city of Lima, where all of us serving as delegates to this Meeting have truly been made to feel at home.

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

Allow me to begin by conveying to our sister nation of Peru and to its worthy Government the most cordial and friendly greetings from the President of my country, Mr. Luis Echeverría, on behalf of the people and Government of Mexico.

To visit Lima and Peru is to rediscover a common tradition and culture. Our two countries take pride in their pre-Columbian civilizations, which are admired by our countrymen and foreigners alike. They also had similar colonial institutions and their problems and ethnic composition are much alike. We cannot question the affinity of our race, which is the background for the concerns and hopes we share.

At this Twelfth Meeting, it is a source of satisfaction that the Bank, during the first decade of its existence, has approached its task with a strong regional commitment and laudable initiative. During these years, the Bank has furnished significant financial assistance to all the developing member countries, and, as of December 31, 1970, total loans granted amounted to \$4,068 million. The catalyzing function of the Bank, through its financial and technical assistance operations, has served to induce investments that now aggregate \$11.4 billion.

Our Bank is not the only finance institution operating in the region, but its dynamic approach has broken new ground in areas previously ineligible for external financing, such as tourism, education, preinvestment studies, and export financing. Its activity has not been confined to financing operations, but has included technical assistance services which have contributed considerably to the economic and social development of our countries. As for my own country, I am pleased to note that, at the close of 1970, it had been granted loans totaling \$530 million.

For its part, Mexico fully supports the Bank, and it is a pleasure to announce that we have now effected our new subscription to the ordinary capital and the additional contribution to the Fund for Special Operations.

At the start of this new decade of IDB operations, we see the Bank as the most important regional development agency in the world, as an agency with recognized standing in all international markets, with a solid financial position and the advantage of a young imagination. I know that it will continue to strike out in new directions and start operations in new areas where other agencies have been neither willing nor able to work.

It is satisfying to know that preliminary steps are being taken to

have our Institution participate in forestry and fisheries development projects, and we are certain that interest will be shown in future opportunities involving the economic and social development of arid and depressed areas.

On several occasions our statesmen, as well as students of Latin American economic conditions, have concurred in pointing to the external sector as the limiting factor of our countries' economic development. In this regard it should be noted that, although the many items of the capital account can be favorable and can improve the balance of payments position, only the steady and constant growth of the sale abroad of Latin American products can satisfactorily remove the external bottleneck caused by the necessary growth of imports. As a result, practically all of us are endeavoring to boost our exports significantly, and we are now considering with special interest the possibilities for this type of action which the Inter-American Development Bank offers.

True, no specific provision of the Agreement Establishing the Bank lists financing exports among its functions, but it is also true that, through a completely acceptable and justified interpretation, the Bank has been entrusted with this task, so far on a limited scale, but—and this is the great value of human institutions—there is nothing to prevent us from perfecting it in the light of new ideas and needs.

The study prepared by the ad hoc group of experts appointed by the Bank—all experts of well-deserved reputation—pointed up a series of new areas which, if supported by Bank financing, would bring unmistakable benefits to member countries.

The Board of Executive Directors, in addition to evaluating the conclusions of these experts, is presenting a draft resolution—which was unanimously approved—and which, if found suitable or if supplemented by this Meeting, would expand the present export financing program.

We concur with that resolution, and we feel the time has come to propose that Bank financing of Latin American exports not be limited to capital goods, but encompass all manufactured goods, even those intended for markets outside Latin America, because of the urgent need to diversify the area's exports.

I also make bold to suggest that the necessary studies be started to allow the Bank to participate more fully in this field, and in financing equipment for industries producing manufactured goods for export.

These new views concerning export expansion sometimes run counter to ideas rooted in the past, but there is no doubt about the important role of the Bank here. The regional character of its resources can combine well with the need to support our producers of industrial

goods. The real beneficiary of the operations is not just the final purchaser, but those who use their installed capacity and expand their markets, thereby ultimately bringing about greater development and lower domestic prices.

The material prepared by the consultants and Bank experts on the possible establishment of a regional mechanism for the expansion of Latin American industrial enterprises, and the summary turned over to us by the Board of Executive Directors, contain rich ideas that can be materialized in the future, taking care at all times that the Institution's powers and the solidity of its assets are not detracted from in any way. My country is most willing to hold discussions on the several possibilities considered at the Meeting.

An institution such as that could play an important role in the area's industrial development and in the establishment and promotion of the necessary money markets which foster increased local savings and their investment in securities offering varying returns. The foregoing could result in a healthier and more expanded capital structure for Latin American enterprises. The external financing that Latin American countries receive is made possible largely through indebtedness accompanied by heavy servicing obligations. The area's present external debt level is the object of concern both for the countries themselves and those that grant the resources. An increased volume of foreign resources channeled into our countries by stock purchases would not increase the already high service of the external debt and would even permit the reinvestment of the profits earned.

Our Bank has been growing through additional members and resources. Undoubtedly this gives rise to new questions we will have to resolve, but we will not be over-cautious in this if we bear in mind that any change of the Agreement Establishing the Bank must be studied thoroughly. The texts and language of the Agreement were arrived at only after prolonged negotiations in which the use and meaning of every word were carefully weighed. Subsequent amendments to it have created situations that now constitute legitimate rights for the member states.

I wish to congratulate the Directors and management of the Bank on the steady improvement in the process of considering and approving the projects submitted and on the faster rate of disbursement. The experience obtained during the first decade of the Institution can undoubtedly help us to maintain this trend and expedite the loan process even more. Moreover, we could look into establishing a system which would organize the project submission process and ease the work of the authorities of the member countries and of Bank officials.

We are convinced that to guide development along a sure path, it

is necessary to complement individual efforts with the technical and financial assistance that institutions such as the Bank provide. In Mexico, for example, important economic and financial measures have been adopted for this purpose in the last six months. The administration of President Echeverría, through changes in the fiscal system, is seeking to give the State an increased share in the growth of national income by obtaining additional resources. At the same time, by means of a policy designed to regulate public expenditures and improve the financial situation of public sector enterprises, it is hoped to obtain not only better distribution of national income, but also increased public saving, which will finance ambitious investment programs, especially investments to meet the people's needs in education, welfare and social security. This will mean resorting less to credit financing and, particularly, reducing the rate of external indebtedness.

Mexico believes in and supports international institutions like the Bank, for they allow us access to resources on terms more favorable than those of regular capital markets. Our economic situation requires this, despite the advances we have been making, at the cost of great sacrifice, and not in all areas. Above all, however, Mexico believes in the effort of its own people. Nothing will be given to us except what we achieve through daily, persistent struggle. As President Echeverría said recently: "Domestic peace will be the final product of the dynamism of the country's constructive forces. The State should encourage, by every means at its disposal, the work of Mexicans and organize it around the country's higher goals."

External aid is valuable and bears fruit only if it sustains that national will which makes us work tirelessly for the economic development, together with social justice, of our countries.

**Address by Mr. Francis C. Prevatt,
Governor for Trinidad and Tobago
and Minister of Finance, Planning and Development**

On behalf of the delegation of Trinidad and Tobago, I wish to express the great pleasure we feel in being here in this beautiful and hospitable city of Lima, the capital city of Peru, a country with one of the longest historical and cultural traditions in Latin America. I wish to congratulate you, sir, on your election as Chairman of the Board of Governors, and to assure you of our confidence that your knowledge and tact will ensure the success of our present meeting and of your tenure of office in the year ahead.

This is the first annual meeting of the Board of Governors since the assumption of office of our new President, Mr. Antonio Ortiz Mena, and I am happy to note the auspicious beginnings which have been made in the Bank under his consummate and adroit leadership during so short a period. Mr. Ortiz Mena has already justified the confidence and praise which we expressed at his inauguration in February of this year, and we can look forward with assurance to the further progress of the Inter-American Development Bank for the benefit of all its members and for the development and well-being of Latin America. We have every reason to be certain that the lofty traditions of the Bank established during its first decade under the brilliant leadership of Dr. Felipe Herrera will be maintained and developed.

As one of the relatively less developed countries of the hemisphere, I wish to take the opportunity of this Twelfth Meeting of the Board of Governors to highlight the major problem which faces my own country and, in fact, all of the countries of Latin America, in a great or greater degree—the problem of unemployment. Most of the countries of Latin America are being stalked by this spectre of unemployment which grows each day more menacing despite our most persistent efforts to banish it. Our populations continue to grow at too fast a rate and though in Trinidad and Tobago we have had some success in reducing the rate of growth, it is still too high and we continue to pursue our efforts to further reduce it.

At the CIAP review of Trinidad and Tobago in February of this year I made the following statement:

“In the middle of June 1970 the rate of unemployment in the country was 12 per cent of the labor force. While this was a reduction in the level of 14 per cent which prevailed in 1969, and of 15 per cent which prevailed in 1968, this level of unemployment is

still unacceptably high; but what is even more serious is that this unemployment is concentrated very largely among the young people in the country, who are highly articulated and as volatile as those in any other country having a similar level of literacy. In June 1970, 32 per cent of the labor force aged 15 to 19 were unemployed; 18 per cent of those aged 20 to 24 were unemployed; and 9 per cent of those aged 25 to 34 were unemployed.

"This level of unemployment is still not a complete indication of the under-utilization of our labor force. A large proportion of the people with jobs are under-employed. This under-employment takes the form, which is traditional in developing countries, of excess numbers in the service trades and in seasonal agriculture."

This problem, Mr. Chairman, of a high intractable level of unemployment is not peculiar to Trinidad and Tobago, but is common to all the countries of Latin America. It is a source of overriding concern for all our Governments, and demands the mobilization of the resources of the inter-American community to provide a solution. Mr. Chairman, time is of the essence.

The type of unemployment which plagues developing countries is different from that which occurs occasionally in developed countries where the problem is one of periodic deficiencies of demand or spending power. Our problem—structural unemployment—arises from an excessive supply of labor in relation to the amount of capital available, the type of technology used in production, the unavailability of the right kinds of skills, and other factors for the elimination of which we need more capital, a different type of technology and more training facilities.

At one time, Mr. Chairman, it was thought that we could get rid of structural unemployment simply by additional injections of capital. But this has proven to be a gross over-simplification. A high rate of capital investment is certainly of the greatest importance for reducing the extent of structural unemployment. But concurrently with a high rate of capital accumulation there often exist certain adverse factors limiting its capacity to absorb labor, the chief of which is inappropriate technology—inappropriate in the sense that it uses a large amount of capital equipment for each person employed. The technology used in most industries in the developed countries is inappropriate to the conditions of excess labor in the developing countries, because it has been designed for the conditions in the developed countries where there is generally a shortage of labor. Other factors making for heavy unemployment in developing countries are the deficiencies of our traditional educational systems which produced the wrong types of skills, our pecu-

liar economic structures, which attract people to the urban areas away from agriculture, and our demographic situation, which has led to a rapid rate of growth of the labor force. It follows, therefore, Mr. Chairman, that not only must we pursue the central task of accumulating more capital for use in productive activities, but we must also take additional measures to eliminate those other adverse factors which contribute to the unemployment problem.

I am therefore suggesting, Mr. Chairman, 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.

This change now, this commitment now is absolutely essential if the development potential of our countries is to be realized. We must banish the spectre of unemployment from our countries in this decade because I think we have reached the edge of catastrophe. The young people who constitute a large percentage of our populations and who themselves figure largely among the unemployed, are not prepared to wait much longer. I am requesting that the Bank directly involve itself in working out with member countries a long-term strategy, a short-term plan, and an immediate action program for meeting this imminent crisis before it erupts into a phase of destruction. I know that CIAP and some other international agencies have done some excellent work in this regard already, but my suggestion goes further than this, in that I am asking the Bank to commit its resources and financial support to the implementation of the programs that are devised.

Mr. Chairman, Fellow Governors, Mr. President: the Inter-American Development Bank came into being at the beginning of the First Development Decade declared by the United Nations. In this short space of time it has made its impact on the problems of the hemisphere. It must now proceed in the Second Development Decade to underscore its effectiveness and prestige by concentrating its efforts on this universal problem of unemployment.

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

I have been asked by the Governor for Jamaica, the Hon. Edward Seaga, who is unavoidably absent, 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 we are grateful for the warm hospitality which has been extended by the Government and people of Peru. We are honored by the historical link between Jamaica and Peru through contact in the Nineteenth Century with the Liberator Simón Bolívar, whose famous "Jamaica Letter" conceived a coming together of the states of the New World, a philosophy which led to the establishment of regional institutions such as the Inter-American Development Bank.

The Bank should be congratulated for its achievements during 1970, especially the new record total of lending and disbursements. We are grateful to Mr. Herrera for his contribution during the first decade of the Bank's life and we are happy at the smooth manner in which leadership was transferred to Mr. Ortiz Mena. It was a pleasure to hear that the new President will give support to efforts to further speed up disbursements.

Jamaica appreciates the contribution which the Inter-American Development Bank has been making to its development. In the past year, the first year of our membership, loans were received for the development of agriculture, education, industry and tourism.

On behalf of the Government of Jamaica I would again like to express confidence in the new President in his approach to the task of meeting the challenges of Latin America's development during the 70s. We would like to pay tribute to him for the work which he has initiated in preparing a blueprint for the next decade. Jamaica fully supports his decision to establish working groups of Bank officers of the highest technical level to make special suggestions regarding the future activities of the Bank in the twelve areas which he mentioned. Because of our local unemployment problem, we are especially interested in the study of measures to reconcile increased productivity with higher levels of employment. Dr. Raul Prebisch in his report to the Bank highlighted chronic unemployment and underemployment as one of the principal problems of Latin America. He saw the necessity for an acceleration of industrialization primarily through domestic savings. Jamaica gives its full support to any efforts which the Bank might make to alleviate unemployment in member countries.

Mr. Chairman, we are grateful to the participants in the Round

Table for all the ideas and information which they gave us. It was very timely to concentrate on the "Mobilization of Domestic Resources" and in this connection we would like to urge the President of the Bank to include "Financing for the Development of Local Capital Markets" in the list of subjects which will be studied by the high-level technical working groups.

As stated at the meeting of the Board last year in Punta del Este, Jamaica fully supports the enlargement of the Bank's membership. We therefore give enthusiastic support to the work of the ad-hoc committee, we welcome the extension of its operations and hope that its work will bear fruit at an early date. We realize that the considerations for extension of membership are complex, but we feel confident that a formula can be found to protect the essential Latin American character of the Bank. This attitude is consistent with the line which Jamaica has taken with the Caribbean Development Bank. We have stated publicly that we welcome the extension of membership of the Caribbean Development Bank to embrace countries in the Caribbean subregion. The Inter-American Development Bank covers the region as a whole, but there is room for subregional banks such as the Central American Bank for Economic Integration, the Andean Development Corporation and the Caribbean Development Bank. Jamaica's support of the enlargement of the membership of the Caribbean Development Bank is evidence that we wish to come closer together to the other members of the Latin American group.

The success of the development effort of member countries will depend largely on the growth of the productive sectors of their economies, and many have established national development institutions to channel capital funds into their industrial and manufacturing enterprises. Nevertheless, there is still a grave shortage of the necessary risk capital and the proposal before the Board of Governors for establishing the institution, Financial Corporation for Latin America (COFIAL), has been designed to remedy this deficiency. However, we believe that in recommending a new and autonomous institution, with its own Charter, Board of Management, etc., the consultants chose the most difficult route.

Clearly, further intensive study is required both at the level of member countries and the Board of Management of the Bank in order to determine what new mechanism, if any, may be appropriate, its role and relationship with the Bank and national financing mechanisms of member countries.

If further study and discussions during the course of the coming year clearly indicate that COFIAL is not a feasible instrument, my coun-

try would wish the Board of Executive Directors of the Bank to review the relationship of the Bank with the national development institutions of member countries in order to determine whether, as a suitable alternative, these could be used by the Bank as appropriate vehicles for providing increase flows of risk capital and adequate underwriting facilities to the industrial and manufacturing sectors of member countries. So grave is the need for risk capital that the Board should also review any required change in the Charter of the Bank in order to achieve these objectives. Such capital inputs are essential to productive enterprises irrespective of the form of organization and nature of ownership. The mechanism to be developed should therefore be able to accommodate the requirements of both privately and publicly owned industrial and manufacturing enterprises. We are convinced that, within the multilateral framework of the Bank, a non-discriminatory solution can be found to this pressing problem of the lack of risk capital.

Jamaica fully accepts the analysis of the group of consultants appointed to study the Bank's export financing programs. We are ourselves convinced of the crucial importance of developing our export trade if any progress is to be made in raising the standard of living of our people, and in quickening the pace of industrialization without undue strains on our balance of payments situation. We have recognized that the successful promotion of an industrialization program does not by itself open the door in the field of exports. Our manufacturers can only successfully penetrate the export markets when special arrangements can be made for the export financing of commodities on terms which are competitive with those being made available by manufacturers in industrialized countries.

We therefore commend to the approval of the Governors a resolution calling for further study of export financing arrangements, hopefully, with a view to working out concrete measures for broadening the area of eligible goods beyond the present horizons of capital goods and the geographical coverage outside of the region. We are very much convinced that the present restrictions of the program to capital goods is too limited in scope to be beneficial to most member countries. It is necessary for the program to start with exports of all manufactured goods and on this basis capital goods industries will be fostered from backward linkage.

We note the argument that the financing of non-capital goods is a more legitimate field for other institutions such as commercial banks. The hard facts are that these institutions have not in practice filled this gap in our countries and have proven most reluctant to assist manufacturers beyond normal working capital financing arrangements. Accord-

ingly, we very much welcome the initiatives being taken by the Bank to provide, not only finance, but technical assistance for member countries in the building of export financing mechanisms and institutions. Jamaica intends to take the fullest advantage of the availability of the technical facilities being offered by the Bank.

Jamaica fully supports the view that the Bank should pay particular attention to the relatively less developed countries in the region with a view to narrowing the disparities in wealth between member countries. However, while Jamaica is itself a country with enormous problems of unemployment and in need of special support from the Bank in our development effort, we would not wish to see the integrity of the institution as a "bank" affected in any way by modifications in policies which could impair the borrowing capability of the Bank from the world's capital markets. The real answer to the problem of the relatively less developed countries seems to be the building of the quality of human resources, particularly in the technical field, which would enable our countries to take the fullest advantage of the facilities of development finance being offered by the Bank. We are therefore pleased to note in President Ortiz Mena's address the importance attached to the development of manpower skills as part of the Bank's program in the coming decade.

In his address to this gathering, the distinguished Governor for Ecuador offered his country and its capital, Quito, as the site for the Thirteenth Annual Meeting of the Board of Governors of the Bank, to be held in 1972. Mr. Chairman, my country both welcomes and strongly supports this kind offer.

I would like to add that, at the Eleventh Annual Meeting held in Punta del Este last year, my country offered to be host for the Fourteenth Annual Meeting of the Bank in 1973. We believe that the member countries of this illustrious community would develop a deeper knowledge and understanding of the new Caribbean members by a short sojourn in one of our island homes, in the same way that we have benefited by our visits to Annual Meetings on the Latin American continent since joining the Bank. It is in this spirit of hemispheric solidarity that I reiterate the offer of the Government of Jamaica to be the host to the Fourteenth Annual Meeting in 1973.

Mr. Chairman, in closing I would once again like to express our thanks to you for the hospitality which you and the people and government of Peru have extended and I would like to wish our new President, Mr. Ortiz Mena, every success for his administration. I am sure that under his leadership the Bank will grow in strength and stature and be the foremost financial institution in Latin America.

**Address by Mr. José Carlos Pena,
Governor for Uruguay and President of the
Bank of the Republic of Uruguay**

As this Twelfth Meeting draws to a close, I believe it is appropriate to point out that one of its special features has been the new content of the addresses made by the Governors. Evaluations, statements of aspirations and even demands have replaced chronicles. But while we have talked a great deal about the Bank, we have said little, perhaps, about restrictive factors or the real possibilities of development to be found beyond the Bank. In this connection, President Jorge Pacheco Areco noted, in inaugurating the Eleventh Meeting: "We must, first of all, be particularly careful to prevent rhetorical enthusiasm from leading us to overestimate the role of our inter-American banking organization and thus create expectations beyond our possibilities."

If banks are financial intermediaries, their participation in and catalytic action for development is vital but by no means exclusive. Development is not foreign to us; it is not a mysterious force that adds itself to our lives to improve our existence regardless of attitudes; development is always the result of our own acts. Of the much that is good in the Pearson report, one sentence deserves mention in the present context. This states that development must come from within and that no amount of foreign aid is sufficient when there is no national desire to adopt the basic changes which are necessary.

Everyone may know this, but not everyone says it; much less do they preach and implement it. On the contrary, we have often observed the critical attitude of those impatient for development, the static individuals who urge dynamic changes in the economy, the partisans of "instant development," who act as if development depended on the decrees of governments instead of the will of the people. Governments, entrepreneurs and workers are the true basis for development; the Bank represents the financial aspect. To the extent that entrepreneurs take decisions which make of them dynamic protagonists or agents of change, they will create the required forces and environment for expanded research, strong technical innovation, and a rethinking of production and marketing methods. Investment will generate investment, and this multiplied, will bring accelerated development. Only through such men, voluntarily and optimistically motivated, aware of the risks, but willing to take them, can authentic development be achieved. We must not forget that it was the emergence of such a man, the modern capitalist entrepreneur, that led to modern capitalism. The system derived from the man, capitalism from the capitalist, and the industrial revolution was

possible only because there were men, magnificent men, who conceived and accomplished it.

But history is written not only by entrepreneurs. Labor must work along with government and business in the development process. Labor, too, must show decisiveness and determination. Labor, too, can and should seek significant increases in productivity, for if the proper goal of government is full employment and maximum economic growth with price stability, then, clearly, a high annual rate of productivity is the sound, essential, and, indeed, the only course ensuring increases in real wages. Thus, the economy is centered on man and the inherent collective responsibility for development is stressed. A government must first want development and then pursue it with determination and, to that end, as one of its greatest contributions, maintain stable prices that make it possible for economic forces to create, freely, without distortion or friction, the necessary conditions and incentives for growth. Entrepreneurs should play a leading role in this, for they are the most vital factor and the one in shortest supply. Ultimately, everything will depend on their creativity, their capacity for taking risks and their strength of character and purpose. Wage-earners must also be included in this common task. No imbalances or lapses can be permitted. If development begins with man, it also ends with man; if the future belongs to all of us, so does development.

In view of this, I would like to make two final remarks. The first concerns support for Bolivia's proposal to set up a second vice-presidency for the relatively less developed countries. This is certainly not because we are eager to establish another position, but because we are aware of our responsibility and wish to participate in every activity and in every decision that concerns our development plans. Only those who give are entitled to demand.

My second comment underlines the important participation of the United States in the IDB. As already brought out at this Meeting, the resources it has transferred to our countries through the Bank and their beneficial effects on our employment and income levels deserve special mention and recognition.

At our previous Meeting, the President of my country declared that "we must discharge our duty as leaders, with the intellectual humility of those who do not consider themselves the possessors of absolute truths, but with the firmness and decision that should mark leaders who are aware of their historical responsibilities."

With that humility, that firmness and that decisiveness, we are working in the Bank, in the belief that, strengthening it and making it greater will, as in the past, benefit our peoples.

CLOSING SESSION
(FIFTH PLENARY SESSION)
MAY 14, 1971

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

In my earlier statement to this meeting of the Board of Governors, I said that the rapid process of change in the member countries compels our Institution to conduct a continuing review of its operating instruments and policies. Because of its commitment to service, the Bank cannot accept static positions in a situation characterized by increasingly rapid and drastic change. From this standpoint, the frank and clear statements made at the Meeting have been most useful to us, inasmuch as they have helped us confront the needs and aspirations of Latin America. Consequently, I should like to express our appreciation to the Governors for their forceful proposals, which reflect the degree of maturity and the sense of responsibility with which the region faces the challenge of achieving independent development. I am wholly confident that the flexibility, the dedication to service, and the innovative capacity of the Bank will enable us to translate into specific action many of the proposals made here, although I am fully aware of the difficulties this entails for a development financing institution such as ours, where we must bring about the not always easy coordination of approaches and interests between the most powerful nation on earth and 22 countries with different patterns and levels of economic and social development.

I should like to comment on some of the most important proposals made during the course of our discussions.

External financing and the principle of non-intervention

The speech made by the President of the Republic of Peru and the addresses of several of the Governors have very strongly rejected possible forms of intervention in the internal affairs of borrower countries through conditions imposed by international financing. It has been pointed out that, in some cases, the Bank has been associated with these practices. As this is a most serious matter, I feel I must examine it with absolute frankness and objectivity.

In the first place, I should like to make it clear that the Bank decides its loan operations on the basis of two basic principles: first, the caliber of the projects it helps to finance, for which purpose it verifies their technical and economic feasibility, together with the requisites that ensure their efficient execution and administration and, second, respect for the sovereign right of the member countries to determine freely their own development models and for the priorities established by each in select-

ing the projects it considers most advisable. The Bank's ordinary capital resources are used by the member countries, pursuant to the standards of our Institution, in strict accordance with the two principles stated. Since these resources are obtained in the capital markets, their interest rates reflect the real cost of such monies.

With the same frankness I should state, however, that the situation is quite different when the Bank is entrusted with the administration of funds consisting of resources contributed in whole or in major part by capital-exporting countries. In these cases, resources must be used in accordance with the conditions established in the respective agreements governing the contributions approved in advance by the Latin American member countries of the Bank through resolutions by the Board of Executive Directors, the Board of Governors or the national congresses themselves, as applicable. It is a matter of common knowledge that these funds generally consist of "soft" resources that can be used to grant loans at much lower interest rates than those prevailing on the market and on amortization terms and grace periods significantly longer than is usual for development loans. Moreover, these resources can often be used more flexibly in the financing of local costs.

The agreements establishing the funds composed of soft resources generally include provisions establishing the right of the country furnishing them to determine, in the final analysis, the operations to be authorized. Such is the case of the Fund for Special Operations, established in accordance with the Bank's Charter, which was approved by the legislative bodies of the member countries. Article IV, Section 9(b), of the Charter stipulates that decisions regarding this Fund shall be adopted by a two-thirds majority, a majority that necessarily requires the favorable vote of the United States.

Although loan applicants are aware of these conditions in advance, the exercise of this right can mean the rejection of loans under circumstances or for reasons which the applicant country considers that they constitute intervention in its internal affairs.

A practical solution that would serve to attenuate the unfavorable effects of current financial mechanisms would be to diversify the sources of soft funds so that the borrower country can choose the type of credit that best suits it. This would create competition among the capital-exporting countries that would undoubtedly lead to a gradual liberalization of the conditions imposed on the granting of soft funds. In other words, a process could be produced similar to that of suppliers' credits, in which competition among the exporting countries has resulted in the authorization of such credits on increasingly favorable conditions. This observation emphasizes the importance of my earlier proposal to have

the Bank step up its efforts to secure an effective diversification of external financing sources that include the granting of soft credits. In this regard, I am pleased to inform the Governors that, as a result of the negotiations undertaken during my last visit to Europe, we received a proposal from the Spanish Government two days ago offering to establish a fund administered by the Bank, in the amount of \$50 million, at an interest rate of 6 per cent. Up to 20 per cent of the resources authorized could be used to finance local costs. This is a significant initial step toward the solution outlined.

Development planning, project preparation, and program financing

Several of the Governors have stressed the need for the Bank to avoid confining itself to the evaluation of projects presented to it by the member countries and to prepare to intensify its technical and financial cooperation in support of efforts being made by the countries both to improve the formulation of sectoral and regional development plans and investment programs and to strengthen the institutions responsible for identifying, preparing and executing the projects selected by each country in accordance with its own priority rating.

I wish to state my complete agreement with this position. I am in a position to inform the Governors that we have already started programs of this type in Costa Rica, Paraguay, and Venezuela and that similar initiatives are being taken in Ecuador, El Salvador, and Peru. Furthermore, as I pointed out in Buenos Aires, and in the address I gave at the beginning of this meeting, it is our desire to improve the offices of the Bank so as to permit closer and more effective collaboration with the national agencies responsible for planning, preparing and executing projects. In doing this, the Bank will give preferential attention to the relatively less developed countries.

This new form of collaboration will not only allow the countries to have a larger number of well-studied projects that will use available internal and external financial resources more efficiently, but will also facilitate, when possible, consideration of loans for programs that help to coordinate investment projects with the development policies prepared freely by each country. On this point, we should remember that the Agreement Establishing the Bank sets limits on this type of financing, and this situation will have to be considered first.

The strengthening of our local offices will also permit gradual decentralization, in areas where it is advisable and possible, of the Institution's activities, thus making relations between the Bank and the member countries more flexible.

The Governor for Peru, and other Governors, mentioned the need for the Bank to make its technical and administrative procedures more flexible so as to expedite loan operations. These proposals concur completely with one of my major concerns. Since I took office, I have given precise instructions on this subject. I have sound reason for my belief that we will move ahead in this area to the extent that the quality of operations allows.

As proof that this concern is shared by the Bank administration, I will mention a single fact: by the end of the first one hundred days of my term of office, I will have signed 17 loan and technical assistance operations aggregating more than \$200 million, mainly from the Fund for Special Operations, which will contribute to the financing of projects which, in some cases—for instance the Jaén-San Ignacio highway—had been subject to long and tedious processing.

The Bank and regional economic integration

I have listened with the greatest interest to the Governors' declarations supporting several initiatives on the economic integration of the region. With regard to this, I should like to state that the Bank will give increasingly strong support to studies that will aid the member countries in selecting, preparing and executing projects that contribute to the completion and improvement of the physical infrastructure of the region. This will be an effort to foster projects with an integrationist content; that is, studies that will help articulate national systems, mainly in the field of transportation, communications, and the generation and distribution of electric power.

It is also our intention to give preferential attention to studies facilitating identification of multinational industrial projects, negotiation of the agreements among the interested member countries, and when necessary, the organization of multinational firms. Special importance will be given to studies that make possible sectoral agreements for industrial development and the distribution among the participating countries of specific projects identified within the scope of such agreements.

Urbanization and industrialization

In the deliberations of this Board Meeting, special attention has been focused on several topics of fundamental importance in defining a strategy to promote a more dynamic development which will make it

possible to face with better chances of success the serious and urgent problems stemming from the rapid urbanization of Latin America.

Due to insufficient economic development, the rapid urbanization of Latin America is accompanied by a growing unemployment which affects between 10 and 20 per cent of the urban working force. In our region, unlike the industrialized countries, there is still no correlation between urban growth and development of the industry and services needed by well-organized cities. The migration of rural populations to the cities is more a measure of the rejection of living conditions and unemployment in the countryside than of the real capacity of the urban industrial economy to absorb the migrants and use them productively. Our countries are passing through a transitional stage in the history of their development; we are moving away from a rural economy, but we have not yet completely taken on the characteristics of an urban industrial society. It is urgent, then, to redefine the development strategy of the region so that in the decade we are now starting we can build the foundation for modern, efficient industrial development affording greater dynamism to our economies.

The problems of urban growth referred to by several Governors are closely linked to the topics that held the attention of the two working groups appointed by this Meeting. The first of these analyzed the possibility of establishing an agency for the promotion of Latin American industrial enterprise and the strengthening of the export financing mechanisms. The second group examined several matters relating to the provision of conventional and soft resources by non-member countries for channeling them through the Bank into financing Latin American development. Furthermore, the Round Table analyzed several points related to mobilizing local savings and their role in financing development.

The transformation of the production structure of the industrial sector needed to attain levels of efficiency that will permit industry to compete in the region and outside it, cannot be considered apart from the problems associated with the need to mobilize the additional domestic and external resources which this transformation requires, nor from the growth of the urban population, the first beneficiary of industrial production and its natural employment market.

The repeated mention, then, of these topics at this meeting is no accident. The consensus regarding their importance, despite differences of opinion about what operational mechanisms are required, shows that the opportunities of economic and social development depend largely on the ability of the Latin American countries and the Bank to respond to the problems of urbanization, industrialization, and the mobilization of

their own and external resources. I will now refer to these problems to point out a few possible approaches for the Bank in these three fields.

The problem of urban development

The pace of urbanization is perhaps faster in Latin America than in any other part of the world. During the first 50 years of this century, the population residing in cities with more than 20,000 inhabitants increased sixfold. This rapid expansion means that in the future a sizable percentage of Latin Americans will live in large cities. In 1960, there were nine urban centers with more than one million inhabitants; in 1970 there were 15 such cities, and by 1980 it is estimated that there will be 27. This means that urban services must be installed and furnished to 6 million additional persons who will be added each year to cities that already have serious shortages of services and administration, for while modern suburbs are evolving for the middle and upper classes, the old central city is deteriorating and a belt of marginal slums is springing up chaotically with scant participation in the economic and social life of the city. For every housing unit built with official authorization, at least four unauthorized and, of course, substandard, houses appear.

These trends very quickly increase the dimensions of certain urban problems. The need for transportation, communications, basic services and community facilities, water supply, environmental sanitation and power are increasing at a pace that often exceeds the public efforts designed to meet existing shortages. Generally speaking, the social and administrative structure does not have available the necessary means for satisfying population demands. Consequently, the quality of life is deteriorating day by day.

The current urban situation in Latin America is characterized by the variety and complexity of its problems and by the difficulty of mobilizing the amount of resources required just to keep the already critical situation from becoming even worse. Both circumstances call for the establishment or strengthening of mechanisms to achieve the coordination of aspects relating to urban infrastructure and urban services and the incorporation and more efficient use of new financial resources applicable to urban investments. In both cases, the institutional structures of the municipal government must be revamped and new sources and mechanisms of financing set up.

Responses to the urban development problem

Urban development is the responsibility of the countries. The Bank can only help them to develop efficient instruments for gradual solution

of the problems within each nation's possibilities and limitations. We must act promptly, for the substandard living conditions of great masses of our people can cause social disturbances requiring improvised emergency solutions. It is true that the solution of these problems is complex, particularly because urban growth cannot be approached separately for each city; instead, the development of all cities in a country and their relationship with the rural areas must be programmed. Much, however, can be done in the immediate future if we proceed with imagination and realism. To this end, the Bank will step up its support for a broad range of programs aimed at: 1) strengthening the relationship between economic development and urbanization by cooperating, for example, in the financing of projects designed to improve living and housing conditions in the industrial centers; 2) channeling underutilized resources into urban development, as for example, those deriving from the social security system; 3) increasing tax receipts by improving the system and collection of municipal taxes, and 4) strengthening technical and financial aid to the lowest-income urban groups, especially to urban squatter settlements, to improve their infrastructure and make them eligible for credit on the same terms as those available to other social groups.

In addition, the Bank will extend technical and financial aid for the drafting of national policies of urban development, improvement of municipal administration and formation of financial mechanisms directed toward a continuing increase in the capacity for local government action.

Aware of the urgency of urban problems, we shall initiate immediately a special plan of action in support of countries that wish to identify and promote specific projects in these areas.

Mobilization of internal resources and diversification of external financing sources

In the past decade, more than 90 per cent of Latin American development was financed with the area's own resources. The rates of savings and investment for the past 20 years, however, have not grown fast enough to accelerate the development process. This situation calls for an extraordinary capitalization effort directed to two mutually reinforcing purposes: vigorous mobilization and efficient use of internal resources and the raising of a larger volume of external resources on terms that contribute to achieving the independent development of Latin America.

In addition to the changes which the countries are making in their economic structures, mobilizing internal resources requires continuation

and intensification of the efforts made in the last decade to improve fiscal policy, plus more attention to the rationalization and control of expenditures and the improvement of fiscal administration. A valuable instrument in reaching this goal would be the consolidation of the governmental budget with the gradual inclusion of semi-public agencies. This would result in the formulation of a consolidated budget of the whole public sector in which savings in current expenses would be converted into increased resources for investment.

The Round Table held during this meeting examined various aspects of the mobilization of local resources, a matter of obvious importance, since the countries provide an average of two dollars for every one lent by the Bank in the projects we finance. I am sure that the views expressed in the Round Table will provide valuable suggestions for guiding Bank action to increase and improve the use of the region's resources.

A substantial improvement in the supply of long-term capital for the financing of fixed capital investments is an essential factor for stepping up the pace of development. Accordingly, the Bank will intensify its support to development institutions, public and private alike, which have made important contributions to meeting these requirements.

We are considering the possibility of using new mechanisms to help ensure that the financial resources generated in the region are used for its benefit. As I have pointed out, one of the mechanisms might be the issuance of securities backed by the joint guarantee of the Latin American countries and denominated in several of their currencies so that the holder could elect to receive payment in the one most advantageous to him at maturity, a feature that would surely enable him to obtain attractive returns. This, no doubt, would be a way of attracting part of the capital leaving Latin America.

Social security funds are another example of resources which in certain cases are not being adequately used. In my address in Buenos Aires, I referred to this and suggested the desirability of making better use of these funds for the benefit of the contributors. I should like to take this occasion to reaffirm the Bank's interest in establishing some relationship with the social security systems in order to design health, education, housing and urban renewal programs using a combination of public and private resources in which the savings of the social security systems can be used as a local counterpart to the financing which the Bank provides.

We shall also seek to establish similar relations with organized labor: employees', workers' and farmers' groups might well become recipients of substantial loans from the Bank for socially significant invest-

ments in which the counterpart expenditures could be financed with savings from those groups. With this in view, the Bank is of course prepared to offer technical assistance to labor unions for the organization of institutions to attract and administer the resources of their members.

The other dimension of the problem of resource mobilization refers to the strategic role that can be played by external financing in facilitating the efforts of the Latin American countries in the next stages of their development. Several recent studies emphasize the importance of increasing the volume and improving the quality of the external financial contribution granted to Latin America.

Our success in mobilizing conventional financial resources in non-member countries is attested to by the fact that the resources so raised now account for 45 per cent of the Bank's funded debt. We must acknowledge the favorable treatment which our bond issues have been accorded in the various capital markets. In contrast, the mobilization of soft funds in non-member countries has been small, although to be sure, funds of this kind have been obtained in Canada, Sweden, the United Kingdom, Norway and the Holy See. Using the experience acquired with the Fund for Special Operations and with the administration of the Social Progress Trust Fund placed at our disposal by the United States Government, I believe we could serve effectively as intermediaries for channeling soft funds from non-member countries to Latin America. We should, therefore, like to express once again our hope that as the capital-exporting countries of the Organization for Economic Cooperation and Development (OECD) fulfill their commitment to allocate 1 per cent of their gross product to foreign aid, the Bank may become the vehicle for transferring an increasingly larger share of these resources to the region. Our collaboration would make possible a multilateral administration of those funds, obviating the need for establishing costly bilateral aid mechanisms. The aspiration that the industrial countries which are not members of the Bank will substantially increase their contribution of soft funds has additional justification in the fact that Latin America's imports from those countries account for 37.5 per cent of the region's total imports, almost as much as the 42.6 per cent imported from the United States.

The advantages and disadvantages of foreign investments and the treatment they receive have been the subject of extensive discussion in and outside Latin America. At times, however, the discussion has lacked the objectivity and pragmatism called for by the importance of the topic, and this has fostered misunderstandings. I believe that the international investment community should take a realistic approach to its decisions and initiatives. A number of different agreements have been adopted in

Latin America for regulating direct foreign investment with the primary object of assuring adequate participation of local interests in the development of the region.

I believe that if foreign investors examine these systems carefully, they will find that the limitations they contain are offset by the advantages and guarantees they provide. It should be noted, moreover, that these policies are aimed at guiding foreign investment into those sectors to which the countries themselves attach priority, generally activities in which the investment goes hand in hand with effective transfer of technology, the strengthening of the managerial and organizational capacity of firms, and a contribution to the efforts to increase and diversify exports or replace imports on a competitive and efficient basis.

The Latin American nations, for their part, should also look into the incentives which other areas offer foreign investments, so that the decisions they adopt may take these into account and avoid, within reason, depriving themselves of this important factor for development.

Finally, the Bank believes it can perform a role of special importance as financial agent in negotiating credits in capital-supplying non-member countries. This function could be of particular interest to the comparatively less developed members and could result in the procurement of resources on conditions better suited to the requirements and payment capacity of such countries.

Latin American participation in international trade

I have already referred on earlier occasions to the steady deterioration in Latin America's share of international trade and to the major causes of this development. This process, together with a growing demand for imports, especially for intermediate products and capital goods, has triggered a spiral of external indebtedness exerting increasing pressure on the balance of payments and making the development process progressively more vulnerable. The percentage of the value of exports of goods and services used to service external debt averaged 14.5 per cent a year during the 1966-69 period, reaching more than 25 per cent in some countries. To break this vicious circle, we must not only continue our efforts to improve external credit conditions, but also undertake a broad program to promote Latin American exports. This should be one of the basic objectives of regional development strategy in the present decade. Such efforts were initiated to some extent during the past decade, as attested to by the fact that Latin American industrial exports, which accounted for less than 10 per cent of total exports in 1960-64,

now represent 17 per cent. Moreover, the growth rate of these exports rose from 9.4 per cent a year in 1960-64 to 16.6 per cent in 1965-68. Acceleration of this trend calls for the adoption of a series of convergent measures, among which I believe it is advisable to emphasize the need for strengthening mechanisms for the promotion of exports so that Latin American firms can compete in the international markets. In this connection, we have already noted the various measures that should be adopted in the field of tax incentives, for the support of export financing mechanisms and the coverage of risks inherent in these operations. Now I should like to stress the need for promoting within the region the organization and development of enterprises specialized in foreign trade activities, which have become so complex and specialized that, except for the large corporations, they exceed the scope of industrial companies.

In addition to these efforts which the Latin American countries are called upon to make, we must also underline the need for cooperation by the industrialized nations in order to revise their trade relations with the developing countries. In this regard, it is encouraging to note the decision of the countries of the European Common Market, Switzerland and Japan to set up preferential systems in favor of the developing countries and the commitment of the United States Government to propose to Congress the adoption of legislation for similar purposes.

Reform of productive structures in the industrial sector

The expansion and diversification of exports, especially manufactures, poses the need for rationalizing and modernizing the industrial development of Latin America. This process, aimed basically at the replacement of imports in generally narrow and highly protected national markets, has lost momentum and is in many cases perpetuating the existence of industries which, because of their high costs, cannot participate in international trade. It is therefore necessary to make every effort to enable Latin American industry to reach competitive levels through better utilization of economies of scale and the benefits of specialization. To this end, it is also necessary to establish competitive conditions that serve to motivate the Latin American entrepreneur and encourage him to use new technologies and modernize his processes of production.

Correction of these shortcomings calls for concerted action, primarily in the following three areas:

- 1) Latin American enterprise must be strengthened so that it can compete both inside and outside the region. To date, we have extended investment and technical assistance resources mainly to establish or

improve physical plants. I believe that we should place greater emphasis on the support of specific projects designed to improve firms as development institutions, so that they can more effectively perform functions which are an essential part of its reason for existence, such as the formulation and execution of development programs, more efficient organization of production and marketing within the country and in external markets, and the incorporation of the more adequate technologies. From this standpoint, the attainment of high levels of efficiency is as important as the improvement of physical plants, an aspect which the Bank will include within its industrial development policy.

The Presidents of America, in the Declaration of Punta del Este, called for the strengthening of Latin American enterprise. The Inter-American Bank is willing to contribute substantially to this through various procedures, among which I should like to mention, of course, maximum support for the establishment of Latin American multinational firms of regional or subregional scope. As the Governors know, the Bank has been giving special consideration to this matter, principally through its Institute for Latin American Integration, since public, private or mixed multinational enterprises will not only facilitate optimum attraction of financial and technical resources, but make it possible for regional entrepreneurs to take advantage of the opportunities offered by the expanded markets to concentrate the benefits of integration within our region. The ultimate success of integration as an instrument of independent national development will depend largely on the efficiency of these enterprises.

2) Another vital measure is revision of the import replacement policy, which should cover two fundamental aspects. Stricter conditions must be applied so that new industries may achieve minimum efficiency levels. To this end, the governments should adapt protection levels to serve simultaneously as an incentive to industrial production and an inducement to successful international competition. It will also be necessary to set up reconversion programs for existing firms to enable them to produce competitively for markets that will open up gradually as integration progresses. They should also make serious efforts to train the executives and intermediate experts required by industrialization and to retrain the workers who must change jobs as a result of the programs for systematic organization of industrial output. The Bank will study the most effective means of supporting implementation of these programs.

Furthermore, the Bank will increase its support to small- and medium-scale industries in an effort to upgrade their effectiveness as necessary components in the industrial production process and as possible sources of exports.

3) In addition to adopting policies and mechanisms to promote nontraditional exports to which I referred earlier, it is necessary to emphasize the strategic importance of Latin American economic integration in transforming the industrial structure. The opening of regional markets making economies of scale possible, allows reduction of the investment per unit of installed capacity, lowering production costs and, consequently, increasing productivity of available resources, which will not only benefit consumers, but will also help businessmen to compete in international markets.

In this context it is encouraging to see the results of research just concluded by the Institute for Latin American Integration, according to which, in 1969 there were 534 individual firms in the Latin American Free Trade Association countries, each of which exported to the region manufactured products worth at least \$100,000 annually. The individual exports of seven of these firms exceeded \$5 million that same year. These figures are sufficient evidence that the expansion of markets through integration has not only already permitted many Latin American producers to increase the use of their installed capacity, but has also stimulated an awareness of exports which up to a few years ago was virtually nonexistent.

The Bank will continue to support the efforts of LAFTA, the Andean Group, the Central American Common Market, and the Caribbean Free Trade Association to advance industrial integration. It will consider with special interest those preinvestment requests presented to it that look into the opportunities of integrated industrial development offered by some specific mechanisms such as the Agreements of Industrial Complementation, the Agreement on Central American Integration Industries and the Sectoral Programs of Industrial Development. The resources that all the member countries have put at the disposal of the Bank through the Preinvestment Fund for Latin American Integration are important in fostering the industrial integration of the region. For the same purpose, we will continue to maintain close relations with the Central American Bank for Economic Integration; we will also establish close relations with the two newly created subregional financial agencies, the Caribbean Development Bank and the Andean Development Corporation. These three subregional financial agencies are an element of great importance that will contribute to complement and multiply our activity in support of integration.

The transformation of the production structure of the industrial sector makes additional demands on the present infrastructure. Worthy of mention, in the first place, is the scientific and technological infrastructure that generates Latin America's own technologies and adapts

foreign technologies. In this area we have already begun activities through several operations to furnish technical assistance to technological and applied research institutes, and we hope these initiatives will quickly become the first projects in this important field. It will also be necessary to improve the communications systems of the Latin American countries as a prerequisite for efficient industrialization. In Europe, industrial integration was supported by an already existing infrastructure that was able to absorb the greater traffic stemming from the mobility imparted by the removal of tariff barriers. In Latin America, it has frequently been necessary to act simultaneously to integrate the productive sectors and create the infrastructure that such a process demands. The Bank allocated almost \$500 million in loans and \$10 million in technical assistance to improve the integration-related infrastructure. We are completing the Inventory of Physical Infrastructure Projects that will provide the information necessary to permit the Governments of the member countries to identify the projects that contribute most to improving coordination of the national physical infrastructure plans, bearing in mind the demands of an industrial development that is efficient and competitive in the regional area and in the rest of the world. In this sense, I can inform you that the Bank and the Institute for Latin American Integration will soon begin work on a cooperative agreement with the Organization of American States to combine efforts to accelerate to the maximum the studies in this field. In addition, the Bank will continue its efforts to improve the mechanisms for cooperation with other agencies whose contributions will multiply the results of our Institution's action in behalf of its members. I refer, in particular, to the Inter-American Committee on the Alliance for Progress, the United Nations Development Programme, the World Bank, and the International Monetary Fund.

Gentlemen:

We shall return to our daily work with renewed confidence and faith in the destiny of our region. We shall study with the greatest attention the points made in this meeting in order to extract from them new directions that will put us into closer contact with the aspirations and needs of each of the member countries. Latin America and its independent development is the principal motivation and reason for the existence of this Bank, which is your Bank.

**Address by Mr. Luis Enrique Oberto,
Governor for Venezuela, and Director of the
Central Planning and Coordination Office
of the Presidency of the Republic**

I should like to begin by thanking all the delegations attending the Twelfth Meeting of the Board of Governors of the Inter-American Development Bank for their gesture to my country in assigning me the honor of speaking these few words on behalf of us all at the closing session.

It is cause for satisfaction that the visiting delegations have been able to complete their work successfully, thanks to the effort of the Peruvian authorities in providing for this meeting a center equipped with all the services, installations and conveniences needed for fruitful discussions.

The cordiality and consideration displayed by the people of Lima have made all the more agreeable the environment in which our work has been conducted and has once again brought out most eloquently the hospitality of the people of Peru.

I speak for all my colleagues when I make a particular point of noting the thoroughness, concern and seriousness with which the Chairman of this Twelfth Meeting, the Governor for Peru, has presided over our gatherings.

The Management of the Bank has also contributed to our work. Its support—organized and efficient—quietly and unostentatiously given, has made our tasks easier and more positive. On behalf of all the Governors, I congratulate this loyal staff and ask the President of the Bank to convey this message to them.

The delicate matters discussed during the Meeting have been considered fully, imaginatively, in a spirit of service. Accordingly, it is possible after five days of hard work and careful study, to submit a satisfactory balance sheet of the Meeting, regarding the agreements reached and the possibilities and prospects opening up for the Bank as a result of the implementation of the resolutions adopted, the policy lines and suggestions put forward by the Governors, and the recommendations deriving from the studies completed.

Bearing in mind the aspirations of Latin America, as well as the urgent changes needed for the rapid promotion of development, we have listened with great interest to the addresses of the Governors. All were lucid expressions of individual points of view on the different routes considered valid at the national level to meet, in accordance with the

conditions in each country, the complex task of development. The diversity of routes traced enables us to identify the alternatives being followed, which are of inestimable value to our countries, coexisting without confrontation or friction, in the pursuit of a common objective—the betterment of the lot of their peoples and the development of their nations.

I believe that it would be opportune to mention the outstanding aspects of the matters dealt with at the Twelfth Meeting of the Governors of the Inter-American Development Bank.

The mandate given the Committee of Governors set up under a resolution of the Eleventh Meeting was extended so that, with the President of the Bank, it might continue its work of determining the attitude of non-member developed countries regarding the channeling of their funds to the Bank, and the conditions or arrangements under which they would be prepared to associate themselves with the Bank. That decision highlights the readiness of the Meeting to make a definite contribution to the consolidation of committees of Governors as a mechanism for studying matters fundamental to the Bank.

The first report to the Meeting by the new President of the Bank, Mr. Antonio Ortiz Mena, to whom we wish the greatest success and for whom we have expressed enthusiastic support, has received much attention and most favorable comments. The announcement about the establishment of working groups to study topics which the delegations deem important, has been well received and is considered a valuable initiative in the general context of the adjustments which the Bank proposes to make. We have shared President Ortiz Mena's concern to move forward in fields such as the assessment of the Bank's work in the development of human working skills; the study of financing schemes which meet the needs of our countries for importing capital goods and receiving soft funds to cover local costs; the development of agribusinesses designed primarily to use rural labor and raw materials; urban development through the strengthening of municipal and metropolitan institutions, together with closer links with the agencies responsible for executing programs of social interest; promotion of industries which can function competitively through intensive use of labor, not only to supply local markets, but also for export—a matter which Trinidad and Tobago and Jamaica emphasized; mechanisms to promote Latin American exports, especially of manufactured goods; promotion of tourism; means for attracting new resources to the Bank; and the study of the feasibility of setting up information and data processing systems enabling the countries to update and exchange available information.

The importance assigned by the President of the Bank to the study

of such matters by its technical staff has given us a glimpse of the new orientation which he envisages for technical and financial assistance programs; this reflects the feelings of our countries, which want a Bank that is better adapted to the development imperatives of the region.

Colombia has eloquently stated that integration is the collective purpose, above all others, of the nations south of the Río Grande. This important statement has met with the enthusiastic support of this meeting, as stressed by most of the Governors, and by President Ortiz Mena, in their addresses. All of this leads us to believe with optimism that, within the Bank's new lines of action, integration will certainly be one of its central concerns in the present decade. Support for multinational infrastructure projects; for subregional financial organizations such as the Andean Development Corporation, the Central American Bank for Economic Integration and the Caribbean Development Bank; for the establishment of a Latin American information and data-processing center, and, in general, for the different forms of cooperation furthering integration, shows that experience is a basic factor in formulating the new approach which the Bank should adopt, in the present circumstances, to encourage the common effort that is to lead to the development of our countries. In this context, as proposed by Argentina and pursuant to the express mandate of this meeting, the Board of Executive Directors will study and evaluate the activities of the Institute for Latin American Integration with a view to adopting the appropriate measures for its future.

Starting with the proposal made by Bolivia, there has been general concern about providing the regional offices of the Bank with an organization capable of permanent and more flexible service to countries during the formulation and evaluation of their projects and the negotiation and administration of loans. The announcement made by the President of the Bank regarding the establishment of a working group to study this matter is promising, and it is to be expected that the Management of the Bank will make every effort to implement the pertinent conclusions.

The proposal made initially by Uruguay about the need for the Bank to intensify its action on behalf of the relatively less developed countries and, as appropriate, of insufficient markets, was examined with attention and interest. This provided that any measures adopted in the future will include preferential access to financing for these countries by means of soft funds, offering them more favorable loan conditions and greater flexibility in negotiations.

In view of the growing importance of this matter, mention must be made of the repeated statements regarding hemisphere-wide coopera-

tion. In stressing once again the importance of such cooperation, Brazil, as well as other countries, offered its wholehearted support.

The Round Table on "Mobilization of Domestic Resources in Latin America" under the direction of the Technical Department of the Bank and with the cooperation of well-known experts, once again showed the importance for our countries of mobilizing domestic resources and the development, in general, of capital markets, with special emphasis on the encouragement of savings.

Finally, I wish to draw attention to the constructive spirit that has prevailed during the discussions of the working group appointed to study the composition of the Board of Executive Directors of the Bank, which is one more proof of the maturity of our Institution.

We are gratified that the city of Quito has been chosen as the site for the next meeting of the Board of Governors of our Bank. In the capital of Ecuador, with its inspiring geographic setting, our forefathers struggled with valor and a spirit of sacrifice for the imperishable cause of freedom.

We are reaching the end of this Meeting. It shows an unquestionably favorable balance. The Bank's responsibilities have been increased. We have given it our full support. We return to our daily duties convinced that the time here has been usefully spent in work that will be productive in initiatives that will contribute to closer rapprochement of our peoples and greater cooperation between their governments.

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

To have been Chairman of this Board of Governors has been for me a great honor and responsibility which binds me to participate very actively in the work of our Bank, in close cooperation with its distinguished President, to help it contribute ever more to the development of Latin America.

The technical and administrative staff of the Bank will, I am sure, continue its devoted efforts to bring this about, and I wish to thank them for their selfless and sometimes misunderstood endeavors. As Governor for Peru, I should like to convey my country's gratitude for the expressions of regard and solidarity of the distinguished representatives, and also my own deep satisfaction as a Peruvian for the opportunity offered to my country to have among us such illustrious guests as those representing the sister nations of Latin America, the continent, and the world financial community.

We close this Twelfth Annual Meeting of our Board of Governors with the satisfaction of having performed to the best of our ability the duties set forth in the Agreement Establishing the Bank. During the past few days, the countries of the American community have raised weighty issues concerning the destiny and efforts of our institution. We have discussed and compared opinions and policies which, while in many cases diverse, are all aimed at the same objective: the socio-economic development of our peoples.

It is obvious that the present decade is characterized by radical economic and financial changes of the utmost importance. Under these circumstances, our Bank's survival depends on the improvement and proper use of the operating instruments aiding the efforts of our countries to solve the problems of underdevelopment. The results of this Twelfth Meeting should be considered positive in that, among other topics mentioned, the structure and terms of loans and the introduction of global program loans for development were examined. Suggestions were put forward concerning systems and procedures for expediting the presentation and approval of projects. Support was given to the multi-lateral character of our Institution, and emphasis was placed on regional and subregional integration at all levels and through all its instruments. Greater technical assistance is expected as a means of improving projects concerned with raising production and providing productive employment for the labor force of the region. We have heard our President speak

of different aspects of the policy he proposes to follow in the Bank and the goals he has set. Of these, I attach special importance to establishment by the Inter-American Development Bank of ties with the social security systems and the labor organizations of my country and to offer them technical and social support. I would also emphasize support to local or city governments and strengthening Latin American enterprises—whether public, private or mixed—as a vital element of our development, as well as strengthening multinational firms and small and medium-scale businesses. The eleven years of existence of the IDB bear witness to the profound changes taking place in Latin America. The socioeconomic situation existing when the Bank was founded has changed radically; this requires revision of the Charter Agreement, so that the Bank may continue to respond effectively and flexibly to the demands of our peoples for solutions to our basic problems. As it is the responsibility of all the member governments to see that the resolutions approved by this Meeting are put into effect rapidly and effectively, we hope that at our next regular Meeting in Quito, to which we look forward eagerly, we can present a positive report on the accomplishments during the period now beginning.

In concluding, I would like to express my appreciation to those who, through their dedicated efforts, have contributed to the success of this Twelfth Meeting of the Board of Governors and, in a very special way, to the Secretariat of the Bank. Mr. President of the Inter-American Development Bank, as Chairman of this Meeting and as Governor for Peru, I pledge to devote my greatest efforts and my dedicated collaboration so that the Bank's work and our joint task as members of a great Latin American team, may make the desires of our peoples and the true objectives of our institution materialize.

I hereby declare this Twelfth Meeting of the Board of Governors of the Inter-American Development Bank adjourned.

RESOLUTIONS

**Resolutions Adopted
by the Board of Governors
between its Eleventh and Twelfth
Meetings**

Resolution AG-7/70

Resignation of the President of the Bank

WHEREAS:

Mr. Felipe Herrera has submitted to the Board of Governors, under date of October 11, 1970, his resignation from the office of President of the Inter-American Development Bank, and

This resignation was submitted irrevocably,

The Board of Governors

RESOLVES:

1. To accept the resignation of Mr. Felipe Herrera from the office of President of the Bank and express its profound appreciation to him for his valuable services rendered through the Bank to the cause of Latin American development.

2. To establish March 1, 1971, as the effective date of the resignation.

(Approved November 27, 1970)

Resolution AG-8/70

Appreciation for the Work of the President of the Bank

WHEREAS:

An irrevocable resignation was submitted by Mr. Felipe Herrera from the position of President of the Inter-American Development Bank, in a note addressed to the Governors dated October 11, 1970, and the Board of Governors, meeting in the City of Washington on November 27, 1970, has accepted that resignation by means of Resolution AG-7/70;

The foresighted participation of Mr. Herrera in the founding of the Bank, as well as his brilliant and outstanding subsequent leadership, which led to his unanimous re-election to two consecutive terms, has transformed the Inter-American Development Bank into the major multi-lateral technical and financial instrument for the promotion of the individual and collective development of the member countries;

In addition to its effective financial and technical assistance for the promotion of development, the Bank has generated and implemented ideas and programs aimed at the integration of Latin America, thus directing its vital activity toward a promising future for our common aspirations, and

Inasmuch as the conviction, the ability and the resolve of one man made it possible to coordinate the common effort of many Americans, channeling it through a bank of ideas so as to project the notable image now proudly presented by the Bank, it is the duty of the members of the institution to specially honor Mr. Herrera by formal recognition of his excellent work as President of the Bank during more than ten years of continuous service,

The Board of Governors

RESOLVES:

To record expressly its recognition of and gratitude to Mr. Felipe Herrera for his brilliant and outstanding role in the conception and conduct of the Inter-American Development Bank, whose image is today projected throughout the hemisphere as the most effective and positive financial agency for attainment of the collective aspirations for the development and integration of Latin America.

(Approved November 27, 1970)

Resolution AG-9/70

Election of the President of the Bank

WHEREAS:

Pursuant to Resolution AG-7/70, the Board of Governors has accepted the resignation of Mr. Felipe Herrera as President of the Inter-American Development Bank,

The Board of Governors

RESOLVES:

1. That in accordance with the provisions of Article VIII, Section 2(b) (iii) and Section 5(a), of the Agreement Establishing the Bank, Mr. Antonio Ortiz Mena is elected President of the Inter-American Development Bank for a 5-year term, beginning March 1, 1971.

2. That the Chairman of the Board of Governors is authorized to execute a contract of employment between the Inter-American Development Bank and Mr. Ortiz Mena in accordance with the provisions approved by the Board of Governors.

(Approved November 27, 1970)

Resolution AG-10/70

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 1971, 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 15, 1970)

Resolution AG-11/70

Increase of US\$2,000,000,000 in the Authorized Capital Stock and Subscriptions Thereto

WHEREAS:

The Board of Executive Directors has studied the possibility of enlarging the resources of the Bank by means of an increase in its authorized capital stock and an increase in the resources of the Fund for Special Operations and has presented a report and recommendations to the Board of Governors;

The Board of Governors of the Bank has concluded that action to increase the authorized callable capital stock of the Bank would be desirable;

Article II, Section 2 (e), of the Agreement Establishing the Bank, provides for increases in the capital stock of the Bank;

The Board of Governors

RESOLVES THAT:

SECTION 1. *Increase in the Authorized Capital*

- (a) Subject to the provisions of paragraph (b) hereof, the authorized capital stock of the Bank shall be increased by US\$2,000,000,000, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 200,000 shares having a par value of US\$10,000 each.
- (b) Such increase shall become effective only if, on or before such date in the calendar year 1971, not later than June 30, as the Board of Executive Directors shall determine, at least 16 members shall have agreed, through the deposit of an appropriate instrument with the Bank, to subscribe at least US\$1,500,000,000 in accordance with Section 2 of this resolution.

SECTION 2. *Subscriptions*

- (a) In accordance with Article II, Section 3 (b), of the Agreement Establishing the Bank, each member may subscribe to the respective number of shares as follows:

| <i>Country</i> | <i>Paid-in Capital Shares</i> | <i>Callable Shares</i> | <i>Total Additional Subscription</i> |
|---------------------|---------------------------------------|----------------------------|--|
| Argentina | 5,157 | 19,111 | 24,268 |
| Barbados | — | 290 | 290 |
| Bolivia | 414 | 1,534 | 1,948 |
| Brazil | 5,157 | 19,111 | 24,268 |
| Chile | 1,416 | 5,248 | 6,664 |
| Colombia | 1,415 | 5,243 | 6,658 |
| Costa Rica | 207 | 767 | 974 |
| Dominican Republic | 276 | 1,024 | 1,300 |
| Ecuador | 276 | 1,024 | 1,300 |
| El Salvador | 207 | 767 | 974 |
| Guatemala | 276 | 1,024 | 1,300 |
| Haiti | 207 | 767 | 974 |
| Honduras | 207 | 767 | 974 |
| Jamaica | 276 | 1,024 | 1,300 |
| Mexico | 3,315 | 12,285 | 15,600 |
| Nicaragua | 207 | 767 | 974 |
| Panama | 207 | 767 | 974 |
| Paraguay | 207 | 767 | 974 |
| Peru | 691 | 2,561 | 3,252 |
| Trinidad and Tobago | 207 | 767 | 974 |
| United States | 15,000 | 67,352 | 82,352 |
| Uruguay | 553 | 2,049 | 2,602 |
| Venezuela | 2,763 | 10,239 | 13,002 |
| Unassigned | 1,359 | 4,745 | 6,104 |
| | <u>40,000</u> | <u>160,000</u> | <u>200,000</u> |

- (b) Each subscription shall include the full amount of both paid-in capital shares and callable shares assigned to the respective country in paragraph (a) hereof, and each subscribing member shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.
- (c) The subscription of each member to the additional paid-in capital stock shall be on the following terms and conditions:
- (i) The subscription price per share shall be US\$10,000 in terms of United States dollars of the weight and fineness specified above.

- (ii) Payment of the amount of paid-in capital stock subscribed by each member whose subscription is more than US\$10,000,000 shall be made in three equal installments, the first of which shall be paid on or before such date in the calendar year 1971, not later than June 30, as the Board of Executive Directors shall determine and the remaining two installments shall be paid on such dates during 1972 and 1973 as the Board of Executive Directors shall determine, but not later than June 30, 1972 and June 30, 1973, respectively. The other members may subscribe in five equal installments, the first three of which shall be paid on the dates determined by the Board of Executive Directors as aforesaid and the last two shall be paid no later than one and two years, respectively, after the third of such dates.
- (iii) Of each installment, 50 per cent shall be paid in gold and/or dollars and 50 per cent in the currency of the member.
- (iv) The Bank may accept non-negotiable, non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock, provided that the Board of Executive Directors, taking into account the purposes of the increase of capital and the disbursement requirements of the loans to which the funds are committed, shall establish a schedule pursuant to which such promissory notes or securities shall be paid to the Bank.
- (v) The liability of members for payment of the second and third installments of the paid-in portion of their subscription shall be conditioned upon payment of not less than 75 per cent of the total obligation of the members due for the first and second installment, respectively, of the paid-in portion of the subscription.
- (d) The subscription of each member to the additional callable capital stock shall be on the following terms and conditions:
 - (i) The subscription price per share shall be US\$10,000 in terms of United States dollars of the weight and fineness specified above.
 - (ii) One half of the increase with respect to each member

shall be subscribed on or before such date in the calendar year 1971, not later than June 30, as the Board of Executive Directors shall determine, and the other half shall be subscribed on such date in 1973, not later than June 30, as that Board shall establish.

- (iii) The subscription of each member shall become effective with respect to each installment thereof as of the date when all the terms and conditions specified in the preceding paragraph of this section have been fulfilled with regard to at least 75 per cent of the total of the respective installments of all the members.

(Approved December 31, 1970)

Resolution AG-12/70

Increase of US\$1,500,000,000 in the Resources of the Fund for Special Operations and Contributions Thereto

WHEREAS:

The Board of Executive Directors has studied the possibility of enlarging the resources of the Bank by means of an increase in the authorized capital stock and an increase in the resources of the Fund for Special Operations and presented a report and recommendation to the Board of Governors;

The Board of Governors of the Bank has concluded that action to increase the resources of the Fund for Special Operations would be desirable;

Article IV, Section 3 (g), of the Agreement Establishing the Bank provides for increases in the resources of the Fund through additional contributions by the members,

The Board of Governors

RESOLVES THAT:

- (a) Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased in the equivalent of US\$1,500,000,000 through additional contributions by the members as follows:

| <i>Country</i> | <i>Contributions</i> (Expressed in U.S. dollars) |
|---------------------|---|
| Argentina | 108,981,000 |
| Barbados | 392,000 |
| Bolivia | 8,750,000 |
| Brazil | 108,981,000 |
| Chile | 29,923,000 |
| Colombia | 29,903,000 |
| Costa Rica | 4,374,000 |
| Dominican Republic | 5,834,000 |
| Ecuador | 5,834,000 |
| El Salvador | 4,374,000 |
| Guatemala | 5,834,000 |
| Haiti | 4,374,000 |
| Honduras | 4,374,000 |
| Jamaica | 5,834,000 |
| Mexico | 70,064,000 |
| Nicaragua | 4,374,000 |
| Panama | 4,374,000 |
| Paraguay | 4,374,000 |
| Peru | 14,596,000 |
| Trinidad and Tobago | 4,374,000 |
| United States | 1,000,000,000 |
| Uruguay | 11,687,000 |
| Venezuela | 58,395,000 |
| TOTAL | <u><u>1,500,000,000</u></u> |

- (b) Each member shall make its additional contribution in its own currency, and the entire amount of each contribution shall constitute national currency to which the provisions of Article V, Sections 1 (c) and 4, of the Agreement Establishing the Bank, shall be applicable.
- (c) The additional contributions shall be made in three installments, the first of which shall be one tenth of the total and shall be paid on a date in 1971 to be determined by the Board of Executive Directors, but not later than June 30, and the balance shall be paid in two equal installments on such dates in 1972 and 1973, respectively, as are determined by the Board of Executive Directors, but not later than June 30 of each year.

- (d) None of the additional contributions shall become payable unless at least 16 members whose increased contributions total not less than the equivalent of US\$1,350,000,000 shall each have deposited with the Bank, on or before June 30, 1971, or such earlier date as the Board of Executive Directors may determine, an appropriate instrument setting forth their agreement to their making the contributions to the increase in the Fund for Special Operations in accordance with the terms of this resolution.

(Approved December 31, 1970)

**Resolutions Approved at the Twelfth Annual Meeting
of the Board of Governors**

Resolution AG-1/71

Financial Statement of the Ordinary Capital Resources (1970)

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, 1970, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 11, 1971)

Resolution AG-2/71

Financial Statement of the Fund for Special Operations (1970)

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, 1970, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 11, 1971)

Resolution AG-3/71 ¹

Continuity in the Operations of the Institute for Latin American Integration

WHEREAS:

By Resolution AG-8/68, approved April 26, 1968, during its Ninth Meeting, held in Bogotá, the Board of Governors expressed its support for the continuation and expansion of the operations of the Institute for Latin American Integration;

The Institute has performed its mission in a satisfactory manner up to now, providing services of recognized usefulness to the member countries;

The plan of operations governing the present period of activity of the Institute, approved by the Board of Executive Directors June 13, 1968, expires December 31, 1971; and

The host country of the Institute has expressed its willingness to continue contributing to its support through the *Banco Central de la República Argentina*,

The Board of Governors

RESOLVES:

1. To express its satisfaction with the activities carried out by the Institute for Latin American Integration during its second period of operation.

2. To recommend that the Board of Executive Directors study and evaluate the activities of the Institute and adopt appropriate measures with respect to its future.

(Approved May 12, 1971)

¹ The Governor for Argentina referred in the Preliminary Session to the activities of the Institute for Latin American Integration and the desirability of continued contributions by the member countries for its support. With this object in view, he presented a draft resolution which was later amended and adopted as Resolution AG-3/71.

Resolution AG-4/71¹

Possible Constitution of a Regional Mechanism for the Expansion of Latin American Industrial Enterprise

The Board of Governors,

Considering that the Board of Executive Directors has presented a report on the constitution of a regional mechanism to foster Latin American industrial enterprise based on the technical study with respect to the feasibility of such an organism prepared by a firm of consultants at the request of the Bank, the evaluation of this study made by a group of high level experts, and the report of a working group constituted by Bank specialists,

RESOLVES:

1. To request that the Administration of the Bank transmit the studies and other antecedents on the possible constitution of a regional mechanism to foster the expansion of Latin American industrial enterprise to the respective governments of the member countries of the Bank.

2. To request that the Board of Executive Directors and the Administration of the Bank continue keeping in contact with the member countries on this matter and serving as an informational clearing house, and in case that the Latin American countries should decide to establish this organism, to make available to them the services of the Bank as a technical secretariat and forum for negotiation, as well as any other type of technical support that might be necessary for the creation and initiation of activities of such organism.

(Approved May 13, 1971)

¹ Working Group I, appointed in the Preliminary Session and composed of the Governors for Argentina, Brazil, Chile, El Salvador, Panama, Paraguay and the United States, studied the report of the Board of Executive Directors on expansion of the Latin American industrial enterprise during its meetings of May 10, 11 and 12. As a result of its deliberations the group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-4/71. The report of the Chairman of the Working Group on this matter appears on page 189.

Resolution AG-5/71¹

Export Financing

WHEREAS:

The Board of Executive Directors, taking into account the study entitled "Latin America and the Financing of its Exports," has presented a report recommending certain amplifications of the export financing program of the Bank, and

The Governors recognize the importance that exports of manufactured products of every kind, as well as nontraditional exports, to an area extending beyond Latin America have for the developing countries which are members of the Bank,

The Board of Governors

RESOLVES:

1. To request the Board of Executive Directors to amend the regulations on the financing of exports of capital goods approved by Resolution DE-59/63 in order to:

- a) include within the regional program the export of services normally financed at medium term in international trade; and
- b) permit the refinancing of up to 100 per cent of the export credits financed by the national agency when the exporting country has assumed the political risks of export credits and, as a consequence of paying claims for this type of risk, is not able to continue financing exports eligible under the regional program at a normal rate.

2. To request the Board of Executive Directors that it study the aspects of the export financing program relating to eligible goods and to geographic destination, as well as alternative possibilities, and that it present to the next annual meeting of the Board of Governors any recommendations on specific measures relating to exports of all categories of manufactures and nontraditional products to an area wider than Latin America. In formulating its proposal the Board of Executive Directors shall bear in mind the situation of the relatively less developed countries.

(Approved May 14, 1971)

¹ Working Group I, appointed in the Preliminary Session and composed of the Governors for Argentina, Brazil, Chile, El Salvador, Panama, Paraguay and the United States, studied the report of the Board of Executive Directors on the program for medium-term financing of intraregional exports of capital goods during its meetings of May 11, 12 and 13. As a result of its deliberations, the group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-5/71. The report of the Chairman of the Working Group on this matter appears on page 189.

Resolution AG-6/71¹

Recommendation for Amendment of the Provisions of the Agreement Establishing the Bank with Respect to the Election of Executive Directors

The Board of Governors,

Taking into account the fact that the Board of Executive Directors has recommended consideration of amendments of the provisions of the Agreement Establishing the Bank with respect to the election of Executive Directors,

RECOMMENDS:

That the member countries take such action as may be necessary to give effect to the following resolution:

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

¹ Working Group II, appointed in the Preliminary Session and composed of the Governors for Argentina, Barbados, Bolivia, Costa Rica, Trinidad and Tobago, and the United States, studied the report of the Board of Executive Directors on the composition of the Board of Executive Directors, presented in compliance with Resolution AG-3/70, during its meetings of May 11, 12 and 13. As a result of its deliberations, the group presented to the Board of Governors the proposed resolution that was approved as Resolution AG-6/71. In approving this resolution, the Board of Governors also approved the report of the Working Group which appears on page 192, with the understanding that the proposed regulations appended to that report would be formally adopted by the Board of Governors, through the procedure for voting without calling a meeting provided for in Section 5 of the By-Laws of the Bank, once the amendments to the Agreement Establishing the Bank were approved. The Governor for Barbados reserved the right of his country to express its views in due course on the proposed regulations.

competence and wide experience in economic and financial matters but 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 May 14, 1971)

Resolution AG-7/71¹

Preferential Treatment of Economically Less Developed Countries and Those of Insufficient Market

In view of the fact that a group of Governors have expressed their interest in having the Inter-American Development Bank intensify the action it has been taking in relation to Resolution AG-7/68, approved by the Board of Governors on April 26, 1968,

The Board of Governors

RESOLVES:

1. To request the Board of Executive Directors to present to the Governors, not later than July 31, 1971, a report on the measures which have been adopted in relation to Resolution AG-7/68 in favor of the economically less developed countries and, to the extent appropriate, in favor of those of insufficient market.

2. To also request the Board of Executive Directors to inform the Governors of the new measures that are to be taken to improve and perfect the action of the Bank in favor of those countries, for application within the shortest possible time.

(Approved May 14, 1971)

¹ Working Group I, appointed in the Preliminary Session and composed of the Governors for Argentina, Brazil, Chile, El Salvador, Panama, Paraguay and the United States, took cognizance of the proposed resolution, presented by the Governors for Barbados, Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Trinidad and Tobago, and the United States, requesting that the Bank intensify the action it had been taking in compliance with Resolution AG-7/68 for accord- ing preferential treatment to economically less developed countries and those of insufficient market. The group studied this proposal during its meetings of May 11, 12 and 13 and agreed to present the proposed resolution to the Board of Governors, which approved it as Resolution AG-7/71. The report of the Chair- man of the Working Group on this matter appears on page 190.

Resolution AG-8/71

**Place and Date of the Thirteenth Annual
Meeting of the Board of Governors**

The Board of Governors

RESOLVES:

That the Thirteenth Annual Meeting of the Board of Governors, which the President shall convene at the appropriate time, shall be held in the city of Quito during the month of May 1972.

(Approved May 14, 1971)

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-5/70¹

At the Eleventh Annual Meeting, held in Punta del Este in April 1970, the Board of Governors of the Inter-American Development Bank considered the report of the Board of Executive Directors on the measures recommended for increasing the Bank's resources. On that occasion the desirability of seeking a closer relationship with developed non-member countries was noted. As a result, the Board of Governors adopted Resolution AG-5/70 providing for the establishment of a Committee to examine the various alternatives to assure an increased flow of resources to the Bank from developed non-member countries, including particularly the matter of such countries within the Hemisphere. Under the terms of the resolution, the Committee was composed of the Governors for Argentina, Brazil, Mexico, Nicaragua, the United States, Uruguay and Venezuela. The Committee later decided that the Governor for Mexico should be its Chairman.

The first meeting of the Committee was held in Mexico City on August 3, 4 and 5, 1970. At that time, a study was made of the documents submitted by the Management giving an account of the efforts made by the Bank since it began its operations, to foster increased financial cooperation from non-member countries. In addition, the Committee took cognizance of the positions of the participating Governors on possible measures for performing its assignment and noted that conditions in world capital markets and those which might be prevalent in the coming decade were justification for seeking new arrangements to facilitate the task of securing the resources which Latin America would need to maintain a satisfactory rate of growth. At the same time, the Committee expressed appreciation for the results which the Bank had obtained in raising resources in non-member countries through various methods, including bond issues, borrowings, sale of participations, administration of trust funds, parallel loans and similar arrangements.

The Committee went on record as believing that any new formulas decided upon should be additional to those which the Bank had been taking into account and successfully applying in setting in motion various financial mechanisms. It was also the consensus that it was essential that the regional character of the Bank be respected in the preparation or adoption of any formula.

¹ This report was presented at the Second Plenary Session by the Governor for Mexico, Chairman of the Committee. The Board of Governors agreed to extend the mandate of the Committee, which is to report periodically to the Governors on its activities.

The Board of Executive Directors was then asked to instruct the Management of the Bank to make a comparative study of the following points:

1. The establishment of a multinational investment fund to be administered by the Bank.
2. The admission of developed countries into the Bank as members, including associate members.
3. The provision for the participation of developed countries in a subsidiary entity of the Bank for financing Latin American industrial enterprise and regional exports.

The management of the Bank prepared the study requested, and the Board of Executive Directors transmitted it to the members of the Committee on September 10, 1970, prior to the Annual Meeting of the International Monetary Fund and the World Bank held in Copenhagen.

At the end of 1970, the Committee decided to hold its second meeting in Caracas, where it was held on February 4 and 5, 1971. On that occasion, the comparative study entitled "Alternative Means of Assuring an Increased Flow of Resources to the Bank from Developed Countries which are not Presently its Members" was examined, and it was agreed that the study afforded a useful analysis of the various alternatives formulated in Mexico City by the members of the Committee in accordance with the basic consideration that any decision adopted should preserve the regional character of the Bank and provide for an additional and substantial increase in the resources of the Bank, of which a good proportion should be lendable on soft terms.

In its meeting in Caracas, the Committee, after examining the various alternatives submitted by its members, requested the Secretariat to prepare a document that would include the basic ideas put forward by different Governors during the meeting. As decided by the Committee, the document was prepared by the Secretariat and forwarded to the members of the Committee on February 8, 1971.

At the same meeting in Caracas, after examining all the documentation presented, "the Governors expressly agreed that until a consensus was reached they reserved their position regarding the various proposals and the procedure to be followed." Finally, the Committee asked its Chairman to inform the Chairman of the Board of Governors and all the Governors of the Bank of its intention to submit, during the Special Meeting of the Board of Governors to be held in Buenos Aires on March 1, a progress report on the task assigned to it.

When it assembled in Buenos Aires on February 28 to continue its study of the subject, the Committee concluded, after discussing the various proposals made, that the time was propitious for beginning in-

formal, preliminary and exploratory discussions with non-member countries concerning means of increasing their contributions and renewing them periodically. To this end, the Committee appointed a working group, composed of the President of the Bank and the Governors for Argentina, Brazil, Nicaragua, the United States, Uruguay and Venezuela, to establish contact with those countries and explore the possibility of their entering into closer relationship with the Bank. The terms of reference for the work of the group were established by the Committee (see Annex).

At its fourth meeting, held in Lima on May 9, 1971, the Committee examined all the available documentation and the results of the work done to date. The President of the Bank reported that, during his recent visit to Europe to sign the contracts for a bond issue in the Netherlands, he had exchanged views with the authorities of certain countries about the possibility of a visit in the near future by the working group. He also reported on the visit he had recently received at the Bank's headquarters from representatives of another developed country.

The Committee took note that, for various reasons, the working group had not been able to initiate its contacts with non-members before the Twelfth Annual Meeting of the Board of Governors. It was also informed that the group proposed to begin these discussions in the near future and that it would avail itself of the opportunity offered by the Lima meeting to establish its schedule of visits.

Owing to the nature of the assignment and the fact that its fulfillment depends in part on countries that are not members of the Bank, the Committee feels that it would be difficult to set a deadline for completion of its work. It therefore recommends that its existence be extended, with the understanding that it will report periodically to the Governors on its activities.

Annex

Terms of Reference of the Working Group of the Committee of the Board of Governors

1. The working group of the Committee of the Board of Governors composed of the President of the Bank and the Governors for Argentina, Brazil, Nicaragua, United States, Uruguay and Venezuela shall establish contact with developed countries that are not members of the Bank, to explore the possibility of their becoming more closely allied with the work of the Bank, with a view to increasing the flow

of resources channeled through the Bank for the economic and social development of the Latin American countries.

2. The primary function of the group is to identify the attitude of the countries consulted regarding their future contributions, including soft funds. To this end, the group is authorized to hold informal preliminary and exploratory conversations that will make it possible to form a judgment about the means of increasing contributions and reviewing them periodically.
3. The presentation made by the group to the various countries shall follow the general outline indicated below:
 - The basic structure of the Bank, its purposes and historical origins.
 - The Bank's operations and future prospects for growth.
 - Evolution of the Bank's relations with non-member countries, including recent consideration within the European community to the proposal of the President of the Bank for the establishment of a multinational fund, a proposal to be presented again within the framework of paragraph 4.
 - General economic relations of Latin America with non-member countries, including trends of trade, investment and finance.
4. Within this general framework, the group shall explore the various ideas contemplating the closer association of the countries consulted with the activities of the Bank.
5. The group shall be free to decide with which countries it will establish contact. In any case, the schedule of consultations shall be such as to enable the Committee to submit a report to the Twelfth Annual Meeting of the Board of Governors, to be held in Lima on May 10-14, 1971.
6. In addition to the President or his designated representative, the representatives of at least three of the countries composing the group shall participate in any visits made by the group to the countries. If a Governor cannot participate in a visit, he may delegate his representation to the Alternate Governor, to a deputy especially appointed for the purpose, or to the Executive Director for his country.

Reports of the Chairman of Working Group I

1. Establishment of a Regional Mechanism for the Expansion of Latin American Industrial Enterprise

Working Group I, appointed at the preliminary session of the Twelfth Meeting of the Board of Governors and composed of the Governors for Argentina, Brazil, Chile, El Salvador, Panama, Paraguay and the United States, studied the report of the Board of Executive Directors concerning the establishment of a regional mechanism for the expansion of Latin American industrial enterprise (Document GN-740-2) at its meetings held on May 10, 11 and 12.

As a result of its deliberations, the Working Group concludes that it would be advisable for the Bank to transmit to the governments of the member countries the documentation presented by the Board of Executive Directors on this matter and, if the Latin American countries should decide to establish an agency of this type, to make its services available to the governments for this purpose. To this end, it submits the appended proposed resolution to the Board of Governors for consideration.
May 12, 1971

2. Financing of Exports

Working Group I, appointed at the preliminary session of the Twelfth Meeting of the Board of Governors and composed of the Governors for Argentina, Brazil, Chile, El Salvador, Panama, Paraguay and the United States, studied the report of the Board of Executive Directors concerning the program for medium-term financing of intraregional exports of capital goods (Document GN-739-1) at its meetings held on May 11, 12 and 13.

After examining the results of the program, the Working Group observes that only a small number of countries were able to avail themselves of its benefits and deems it advisable to revise the program in order to expand participation by the economically less developed countries and to offer the same credit conditions as those granted to countries outside the region and even to countries in the region that have established their own systems.

The Group agrees that the amendments recommended by the Board of Executive Directors to the regulations on financing exports of capital goods, approved by Resolution DE-59/63, would contribute in part to the attainment of these purposes. The amendments would include within the program the financing of exports of services usually financed at medium term in international trade and permit the refinancing of up to 100 per cent of the export credits financed by the national agency when the exporting country has assumed the political risks of export credits and, as a consequence of paying claims for this type of risk, is unable to continue financing exports eligible under the program at a normal rate. The Working Group also acknowledges the desirability of requesting the Board of Executive Directors to study the aspects of the program relating to types of eligible goods and the geographic destination of exports eligible for financing and to present specific recommendations on this matter to the next Annual Meeting of the Board of Governors, taking into account the situation of the relatively less developed countries.

To this end, the Working Group recommends that the Board of Governors approve the proposed resolution appended to this report.
May 13, 1971

3. Preferential Treatment for Economically Less Developed Countries and Those with Insufficient Market¹

Working Group I, appointed at the preliminary session of the Twelfth Meeting of the Board of Governors and composed of the Governors for Argentina, Brazil, Chile, El Salvador, Panama, Paraguay and the United States, took note of the proposed resolution presented by the Governors for Barbados, Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Trinidad and Tobago, and Uruguay requesting the Bank to intensify its activities in fulfillment of Resolution AG-7/68, approved by the Board of Governors on April 26, 1968, for the purpose of granting preferential treatment to the economically less developed countries and those with insufficient market.

The Working Group acknowledges that the Bank has adopted certain measures under its operating policy designed to offer a special sys-

¹ This report was submitted to the Board of Governors by the Governor for Uruguay.

tem of credit and technical assistance for the economically less developed countries and deems it advisable to study the situation thoroughly, to which end a report should be requested from the Board of Executive Directors on the steps taken to achieve the purposes set forth in Resolution AG-7/68. The Working Group also considers that the Board should study such new measures as might be adopted and implemented on the short range in order to improve and expedite the Bank's action in favor of the economically less developed countries and those with insufficient market.

To this end, the Working Group recommends that the Board of Governors approve the proposed resolution appended to this report.

May 13, 1971

REPORT OF WORKING GROUP II

Composition of the Board of Executive Directors

Working Group II, appointed at the Preliminary Session of the Twelfth Meeting of the Board of Governors, consisting of the Governors for Argentina, Barbados, Bolivia, Costa Rica, Trinidad and Tobago, and the United States, studied in its sessions of May 11, 12 and 13 the Report of the Board of Executive Directors on the composition of the Board of Executive Directors (Document GN-665-4). The report was submitted in compliance with Resolution AG-3/70, approved by the Board of Governors in Punta del Este during the Eleventh Annual Meeting.

The working group noted that, in studying the distribution of the representation of the *Latin American countries in the Board of Executive Directors*, it was advisable to examine the situation in all its scope, instead of restricting the study to the point raised in the above-mentioned resolution, to provide greater flexibility to meet the different situations which could arise in the electoral process and which affect the decisions of the countries about their participation in the governing bodies of the Bank. The working group agrees that in order to achieve this purpose, it would be necessary to eliminate from the Agreement Establishing the Bank the provisions governing the election of Executive Directors and include them in special regulations that would be adopted and could be amended by the Board of Governors by the same majority required to amend the Agreement. The greater flexibility for adjusting these provisions would lie in the fact that in the future it would not be necessary to obtain the authorization of the legislative branch now required in the majority of countries for amending the Agreement.

The proposed resolution presented with this Report recommends that member countries adopt the measures required to put into effect the amendments proposed by the Board of Executive Directors.

The working group also considered the proposed regulations for the election of Executive Directors which the Board of Executive Directors presents in its report. The working group expresses its agreement with the proposal, the text of which is appended to this report, and recommends that the regulations be formally adopted by the Board of Governors by the procedure for voting without calling a meeting, as provided for in Section 5 of the By-Laws of the Bank, after the amendments to the Agreement have been approved.

The Governors for Bolivia and Costa Rica expressed their concern in the working group that the representation of Central American countries or the members of the URUPABOL group on the Board of Executive Directors might be affected by the admission of new members to the Bank. The position of these Governors was noted with sympathy. There was a consensus to the effect that the proposals of the working group for the amendment of the Agreement and the adoption of the regulations for the election of Executive Directors are intended to assure appropriate representation on the Board of Executive Directors of the member countries of the Bank.

May 13, 1971

Proposed Regulations for the Election of Executive Directors

1. The governors eligible to vote in accordance with Article VIII, Section 3(b) (ii), of the Agreement Establishing the Bank shall elect seven executive directors.
2. Each governor shall 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, the total voting power of the countries entitled to participate in the voting provided for under these Regulations shall be counted as 100 per cent.
3. In the first place, as many ballots as are necessary shall be taken until five persons have been elected executive directors in the following manner:
 - (a) Each of two candidates has received a number of votes constituting not less than the sum of the votes appertaining to the country with the greatest voting power and to the country with the least voting power.
 - (b) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the third greatest voting power and to the two countries with the least voting power.
 - (c) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fourth greatest voting power and to the two countries with the least voting power.

- (d) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fifth greatest voting power and to the three countries with the least voting power.
4. In the second place, governors whose votes have not been cast in in favor of any of the directors elected under paragraph 3 of these Regulations shall elect two executive directors on the basis that only countries individually having not more than two and one-half per cent ($2\frac{1}{2}\%$) of the total voting power shall be eligible to present candidates and to vote. The two candidates who receive the greatest number of votes shall be deemed elected, provided in each case these votes have been cast by three or more countries, and as many ballots shall be taken as are necessary to reach this result.
 5. After the balloting has been completed, each Governor who did not vote for any of the candidates elected shall assign his votes to one of them. The number of votes appertaining under Article VIII, Section 4(a) of the Agreement to each Governor who has voted for or assigned his vote to a candidate elected under these Regulations, shall be deemed for the purposes of Article VIII, Section 4(c) (ii), to have counted toward the election of such candidate.
 6. The Board of Governors may amend these regulations at any of its meetings, or by vote without calling a meeting, 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.

Round Table

During the Twelfth Meeting of the Board of Governors, two round table sessions were held at the *Centro Cívico* on the subject *The Mobilization of Domestic Resources in Latin America*. Mr. Cecilio J. Morales, Technical Manager of the Bank, served as moderator, and Mr. Milic Kybal, Advisor of the Technical Department, as rapporteur.

During the round table an examination was made of the savings process in Latin America and its adequacy for the region's economic growth. A review was undertaken also of the various financial institutions which participate in the capital market, as well as of the stock exchanges, in order to assess their effectiveness as channels of savings for long-term investment. The round table also delved into various other factors which affect the savings and investment process, such as inflation. The linking of capital markets within the region was also considered.

In the first session, papers were submitted and oral summaries made by the following panelists:

a. Raymond W. Goldsmith, Professor of Economics, Yale University, who discussed *The Mobilization of Domestic Resources for Economic Growth through the Financial System*.

b. Herculano Borges da Fonseca, Economic Advisor to the President of the Central Bank of Brazil, who examined *The Financial Institutions of Brazil and of Latin America*, especially from the standpoint of their policies designed to attract savings for development, as well as national and institutional policy measures to increase the efficiency of the financial systems.

c. Claudio Segré, of the firm Lazard Frères (Paris), who analyzed *Capital Markets in Developing Countries: Institutional Problems and Growth Prospects*.

The second session was devoted mainly to a discussion of the three papers. The commentators, in addition to the panelists of the previous session, were: Javier Márquez, Director, Center for Latin American Monetary Studies (Mexico); Nicolás Ardito Barletta, Director, Department of Economic Affairs, Organization of American States; William Joyce, Jr., of Hill, Betts and Nash, Attorneys at Law (New York); Raúl Hess, Coordinator, Central American Capital Markets Program (San José, Costa Rica), and Francisco Gil Díaz, General Office of Economic Studies, Secretariat of the Presidency of the Republic (Mexico). Also, numerous questions addressed to the participants from the audience were answered during the second session.

A number of general recommendations made in the papers submitted and during the round table discussion, are expected to be of

interest to Latin American governments and policy makers in the financial field.

A book published under the auspices of the Bank entitled *Capital Markets in Latin America*, by Antonín Basch and Milic Kybal, served as background information for the round table.

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Bank of the Oriental Republic
of Uruguay

Alternate Governors

Felisberto V. Carámbula
Vice President
Bank of the Oriental Republic
of Uruguay

Oscar Goldie Arenas ¹
Secretary General
Bank of the Oriental Republic
of Uruguay

Carlos E. Ricci ¹
General Manager
Bank of the Oriental Republic
of Uruguay

Venezuela

Governor

Luis Enrique Oberto
Director
Central Office of Coordination
and Planning

Alternate Governor

Carlos Emmanuelli Llamozas
Director General
Ministry of Finance

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Executive Director
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Rafael Pérez Marcano
Director
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Central Office of Coordination
and Planning

José Miguel Uzcátegui
Director of Economic Research
Ministry of Finance

Hugo Romero
Director
Department of Economic Research
Central Bank of Venezuela

¹ Temporary.

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Coordinator
Department of Financial
Programming
Central Office of Coordination
and Planning

Delfín Ponce Lugo
Deputy Director of Public Credit
Ministry of Finance

Ignacio Andrade Arcaya
Executive Secretary
Committee on Capital Markets
Ministry of Finance
Eduardo Núñez O.
Chief Economist
Venezuelan Petroleum Corporation

Rebeca Sánchez
Central Office of Coordination
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OBSERVERS

Latin American Free

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Henri Guisan
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African Development Bank (ADB)

M. K. Abdul Gadir
Director

Asian Development Bank (ADB)

Douglas C. Gunsekera
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Central American Bank for Economic Integration (CABEI)

Enrique Ortez Colindres
President

Raúl Sierra Franco
Vice President

Caribbean Development Bank (CDB)

Mervyn McConnie
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World Bank Group:

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Central American
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International Development
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Luis Escobar

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International Bank for
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Fernando Rivera
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Intergovernmental Committee for European Migration (ICEM)

Albert Corcos
Area Coordinator

Peter Cannock
Representative in Peru

Inter-American Council of Commerce and Production (IACCP)

Marcel Curiel
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Venezuelan Foundation for
the Development
of Socio-Economic
Activities
(FUNDASE)

**Central American Monetary
Council**

Jorge González del Valle
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**Andean Development
Corporation**

Adolfo Linares
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Edgar Camacho Omiste
Coordinator

International Monetary Fund

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Department

Luis Rubén Azócar
Office of the Managing
Director

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**Latin American Institute for
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William Lowenthal

**Board of the Cartagena
Agreement**

Germánico Salgado
Coordinator

Salvador Lluch Soler
Member of the Board

Felipe Salazar Santos
Member of the Board

Javier Silva Ruete
Director-Secretary

Alfredo Giménez Carrazana
Economics Department

United Nations

Carlos Quintana
Executive Secretary
Economic Commission for
Latin America (ECLA)

Gabriel Valdés S.
Assistant Administrator and
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Office
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Caribbean
United Nations Development
Programme (UNDP)

Anthony E. Balinski
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United Nations Development
Programme (UNDP)

Karl Skjerdal
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United Nations Development
Programme (UNDP)

Pedro Abelardo Delgado
United Nations Conference
on Trade and Development

David P. Haxton
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United Nations Children's
Fund (UNICEF)

Food and Agriculture
Organization of the United
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FAO-IDB Cooperative
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United Nations Educational,
Scientific and Cultural
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New York Office

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**Organization for Economic
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(OECD)**

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**Organization of American
States (OAS)**

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Director
Department of Economic
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Oswaldo Bedini
Field Director
Inter-American Program for

Regional and Urban
Planning

**Organization of Central
American States**

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Peru

**International Coffee
Organization**

Alexandre F. Beltrão
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**International Labor
Organization (ILO)**

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Regional Office

Carlos D'Ugard
Regional Counselor

**Pan American Health
Organization (PAHO)**

Héctor A. Coll
Director
Office of Coordination with
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**Regional Inter-American
Workers' Organization (ORIT)**

Julio Cruzado Zavala
Member of the Executive
Council
Secretary General, Workers'
Confederation of Peru

**Permanent Secretariat of the
General Treaty of Central
American Economic Integration
(SIECA)**

Raúl Sierra Franco
Associate Secretary General

SPECIAL GUESTS

The Twelfth Meeting of the Board of Governors was attended by 599 special guests from 37 countries.