

INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Fifteenth Meeting of the Board of Governors

Santiago, Chile, April 1974

PREFACE

The Fifteenth Meeting of the Board of Governors of the Inter-American Development Bank was held in Santiago, Chile, April 1-3, 1974. The inaugural session was held in the Diego Portales Building. All other plenary sessions, as well as meetings of the Committee of the Board of Governors established pursuant to Resolution AG-5/70 and meetings of working groups established during the meeting, were held in the Carrera Sheraton Hotel.

The inaugural session was attended by the members of the Junta of Government of Chile, composed of General of the Army Augusto Pinochet Ugarte, President; Admiral José Toribio Merino; General of the Air Force Gustavo Leigh, and Director General of Police César Medina. Rear Admiral Lorenzo Gotuzzo Borlando, Governor for Chile and Minister of Finance, was elected Chairman of the Board of Governors at the same session.

This publication contains the addresses delivered at the Meeting and the resolutions adopted by the Board of Governors during the Meeting and in the interval between the Fourteenth and Fifteenth Meetings. It also includes the report of the Committee of the Board of Governors and the reports of the working groups set up during the Meeting, as well as a roster of the delegates of the member countries and observers from international agencies who attended the Meeting.

Jorge Hazera
Secretary

CONTENTS

Agenda	1
Schedule of Sessions	2
Addresses	
<i>Inaugural Session (First Plenary Session)</i>	
Mr. David H. Coore, Outgoing Chairman of the Board of Governors and Governor for Jamaica	7
General of the Army Augusto Pinochet Ugarte, President of the Junta de Gobierno of Chile	9
Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank	15
<i>Second Plenary Session</i>	
Mr. David H. Coore, Governor for Jamaica	35
Mr. Guillermo Marcó del Pont Santistevan, Governor for Peru	39
Mr. Paul Gérin-Lajoie, Alternate Governor for Canada	44
Mr. George P. Shultz, Governor for the United States	48
Mr. Luis Fernando Echavarría, Governor for Colombia	63

Mr. Jaime Moncayo García, Governor for Ecuador	69
Mr. George M. Chambers, Governor for Trinidad and Tobago	72
Mr. Diógenes H. Fernández, Governor for the Dominican Republic	75
Mr. Héctor Hurtado, Governor for Venezuela	79

Third Plenary Session

Mr. Carlos Chaves Bareiro, Temporary Alternate Governor for Paraguay	89
Mr. José López Portillo, Governor for Mexico	96
Mr. Eduardo Cano Quijada, Alternate Governor for Chile ..	101
Mr. Manuel Mercado Montero, Alternate Governor for Bolivia ..	106
Mr. P. M. Greaves, Governor for Barbados ¹	111

Fourth Plenary Session (Closing session)

Mr. José Ber Gelbard, Governor for Argentina	117
Mr. Paulo H. Pereira Lira, Alternate Governor for Brazil ..	123
Mr. Claudio A. Volio, Alternate Governor for Costa Rica, on behalf of the Central American countries ²	127
Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank	132
Mr. Lorenzo Gotuzzo Borlando, Chairman of the Board of Governors	136

Resolutions approved by the Board of Governors between its Fourteenth and Fifteenth Meetings	139
Resolutions approved at the Fifteenth Meeting	143
Report of the Committee of the Board of Governors and reports of the Working Groups	153
Participants	175

¹ Read by Mr. Valerie T. McComie, Alternate Governor for Barbados.

² Read by Mr. Augusto Contreras Godoy, Alternate Governor for Guatemala.

AGENDA

1. Election of the Chairman of the Board of Governors
2. Fourteenth Annual Report of the Bank, 1973
 - a. Financial Report. Ordinary Capital Resources
 - b. Financial Report. Fund for Special Operations
3. Measures to assure an increased flow of resources to the Bank from countries which are not now its members
4. Measures to provide for the admission of new independent countries of the region as members of the Bank
5. Adaptation of the Agreement Establishing the Bank to prevailing conditions and the immediate outlook
6. New policy guidelines of the Fund for Special Operations: Provisions on terms and interest rates
7. Export financing
8. Venezuela. Measures for cooperation in the development of Latin America and other financial relationships through the Bank
9. Status of Bank resources
10. Place and date of the Sixteenth Meeting of the Board of Governors

SCHEDULE OF SESSIONS

Saturday, March 30, 1974

- 3 p.m. Eleventh Meeting of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70 (First Session)

Sunday, March 31, 1974

- 4 p.m. Eleventh Meeting of the Committee of the Board of Governors (Second Session)

Monday, April 1, 1974

- 8:30 a.m. Preliminary Session (Chiefs of Delegations)
- 11:30 a.m. Inaugural Session (First Plenary Session)
1. Address by Mr. David H. Coore, Outgoing Chairman of the Board of Governors and Governor for Jamaica
 2. Approval of the Agenda of the Meeting
 3. Election of the Chairman of the Board of Governors
 4. Address by General of the Army Augusto Pinochet Ugarte, President of the Junta de Gobierno of Chile
 5. Address by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
- 5:15 p.m. Eleventh Meeting of the Committee of the Board of Governors (Third Session)

Tuesday, April 2, 1974

- 9 a.m. Second Plenary Session
1. Fourteenth Annual Report of the Bank, 1973
 - a. Financial Report, Ordinary Capital Resources
 - b. Financial Report, Fund for Special Operations
 2. Report of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70
 - a. Negotiations with Potential Nonregional Members
 - b. Admission of New Independent Countries of the Region as Members of the Bank

- c. Adaptation of the Agreement Establishing the Bank to Prevailing General Conditions and the Immediate Outlook
- d. Mandate of the Committee
- 3. Address by Mr. David H. Coore, Governor for Jamaica
- 4. Address by Mr. Guillermo Marcó del Pont Santistevan, Governor for Peru
- 5. Address by Mr. Paul Gérin-Lajoie, Alternate Governor for Canada
- 6. Address by Mr. George P. Shultz, Governor for the United States
- 7. Address by Mr. Luis Fernando Echavarría, Governor for Colombia
- 8. Address by Mr. Jaime Moncayo García, Governor for Ecuador
- 9. Address by Mr. George M. Chambers, Governor for Trinidad and Tobago
- 10. Address by Mr. Diógenes H. Fernández, Governor for the Dominican Republic
- 11. Address by Mr. Héctor Hurtado, Governor for Venezuela

3 p.m. Eleventh Meeting of the Committee of the Board of Governors (Fourth Session)

Wednesday, April 3, 1974

11 a.m. Third Plenary Session

- 1. Report of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70
 - a. Export Financing
 - b. Cooperation Measures Proposed by Venezuela for Latin America's Development
 - c. Status of Bank resources. Study of a Possible Increase in Resources
 - d. Mandate of the Committee

2. Address by Mr. Carlos Chaves Bareiro, Temporary Alternate Governor for Paraguay
3. Address by Mr. José López Portillo, Governor for Mexico
4. Address by Mr. Eduardo Cano, Alternate Governor for Chile
5. Address by Mr. Manuel Mercado Montero, Alternate Governor for Bolivia
6. Address by Mr. P. M. Greaves, Governor for Barbados¹

5 p.m.

Closing Session (Fourth Plenary Session)

1. Address by Mr. José Ber Gelbard, Governor for Argentina
2. Address by Mr. Paulo H. Pereira Lira, Alternate Governor for Brazil
3. Address by Mr. Claudio A. Volio, Alternate Governor for Costa Rica, on behalf of the Central American countries.²
4. Place and Date of the Sixteenth Meeting of the Board of Governors
5. Address by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
6. Address by Mr. Lorenzo Gotuzzo Borlando, Chairman of the Board of Governors and Governor for Chile

¹ Read by Mr. Valerie T. McComie, Alternate Governor for Barbados.

² Read by Mr. Augusto Contreras Godoy, Alternate Governor for Guatemala.

ADDRESSES

FIRST PLENARY SESSION

April 1, 1974

OPENING SESSION

**Address by David H. Coore,
Outgoing Chairman of the Board of Governors,
Governor for Jamaica, Deputy Prime Minister
and Minister of Finance**

Nearly a year ago, I had the honor and privilege to preside over the Fourteenth Meeting of the Board of Governors of the Inter-American Development Bank in my native city—Kingston. As we meet today for our Fifteenth Meeting in the beautiful and hospitable city of Santiago, I have the honor to bring the warmest fraternal greetings to the people of Chile from the people of Jamaica. As an islander from the Caribbean there is perhaps a special feeling of kinship with the Chilean people whose country I am told has often been described as “an island within a continent.”

As I hand over the Chairmanship to my successor for the ensuing year I am pleased to be able to report that the Bank has made notable progress in all spheres of its activities in 1973. In quantitative terms, total loans approved and total disbursements exceeded previous records. We should continue to strive for further improvement in the level of disbursements and this is an area in which the Bank might intensify its efforts in 1974 as this would indirectly alleviate the adverse effects of the present world economic situation on member countries.

In qualitative terms, the Bank in 1973 acting on a mandate received from the Governors in Lima in 1971, achieved last year the highest level of support for the region's economically less developed member countries. Jamaica's Prime Minister, Michael Manley, at last year's Meeting of the Governors, emphasized that the Inter-American Development Bank should recognize the pre-eminence of people over other resources in development. He urged the Bank to modify policies to increase investment in education and the development of skills. I am therefore pleased that loans for education during 1973 amounted to a record figure of \$91 million and I look forward to a continuation of this trend in 1974. Our Prime Minister also urged the Bank to consider seriously the provision of loans to expand the stock of “near capital” goods which render immediate and direct benefits in raising the level of family and community life. He made specific reference to physical urban community development including housing. I urge the Bank to explore new techniques for a more satisfactory approach to allocating funds for urban development and housing and to find a means of approaching this problem possibly on a selective basis. It is not neces-

sary for me to convince this assembly that there is urgent need in member countries for expanded sources of finance to improve the quality of housing for the lowest income groups in their communities.

I am pleased that the economic integration of Latin America received a strong stimulus from the Bank in 1973 with the approval of a number of loans aimed at increasing the welfare of the entire hemisphere.

Our distinguished President, Antonio Ortiz Mena, in his address later today will be delineating details of the Bank's activities, trends and progress in the region. The President and his staff deserve our heartiest congratulations on achieving such an outstanding year's operation.

These achievements are all the more valuable for having occurred in a year in which the world has been beset with economic problems that not only remain unsolved but give every sign of increasing in magnitude and intensity during this current year. The large increases in oil prices which occurred at the end of the year would have presented grave problems for oil importing countries even in normal times. Coming at the end of a year of mounting world inflation that had already seen large increases in other commodities particularly food and fertilizers, the effect has been so traumatic as to constitute a serious threat to the stability of the whole world economic order. During the past year, the international monetary system, the international system of trade and payments, capital movements, the world food and raw material balance have all functioned so inadequately and inefficiently that even the richest developed countries face an uncertain economic future. The prospect for most of the developing countries of the world is grim unless rapid measures are taken to give them at least temporary shelter from these economic storms.

While recognizing that no one institution can be expected to provide complete remedies even on a regional basis there is no doubt that this Bank now faces the tremendous challenge of making a significant contribution to the maintenance of reasonable levels of economic growth in the new situation which faces a number of its member countries. Imaginative responses and flexible approaches will be required if this challenge is to be met. I trust that the discussions which begin today will be of service in this regard and that the year ahead will enhance the lustre of this great hemispheric institution.

**Address by His Excellency, General of the Army
Augusto Pinochet Ugarte,
President of the Government Junta of Chile**

It gives me great pleasure, on behalf of the Government over which I preside and of the people of Chile, to extend a most cordial welcome to the delegates of all the member countries of the Inter-American Development Bank, as well as to the many observers, representatives of prestigious public and private international financial institutions, attending this historic meeting. Along with this sincere expression of fraternal greetings the President of the Government Junta and its members voice their best wishes to the high officials gathered today in our country for every success in the highly important discussions being carried out by this great socio-economic instrument which is so vital to our countries, today rising to claim a greater future.

This Fifteenth Meeting of the Board of Governors of the Inter-American Development Bank is an important event in the financial world which is taking place at a time of vital importance in the history of our country, when the Government of Chile is facing the difficult task of leading its people through this new stage, which we have termed "of National Reconstruction."

Indeed, the central objective of our action is to restore true freedom and sovereignty to Chile, giving all its people the opportunity to achieve a better future, to fulfill themselves. We see society as a human conglomeration whose cornerstone is respect for human dignity in its most essential material and spiritual attributes.

This means, first of all, that we must establish a new institutional framework that effectively ensures full respect for human rights, in recognition of the fact that man possesses natural rights that are prior to and transcend the Nation and in which the State will in fact play its proper role as the guardian of the welfare of society.

This conception of society, which has an authentically libertarian character, as has been explicitly recognized in the Declaration of Principles of the Government Junta, not only encompasses the foregoing but also the effective performance of each person's obligations toward his fellow men and this in turn calls for the existence of a depoliticized, independent, strong, impersonal, and, consequently, just authority.

Only a government having all the above characteristics can facilitate the establishment in Chile of conditions that will make full economic and social development possible.

Our Government is also fully aware of the fact that a country's development process cannot be conceived piecemeal but must comprise a harmonious set of policies covering both economic and social aspects, for experience has shown that concentration of effort on one aspect with neglect of the other leads to serious distortions that are very costly to the whole community.

That is why our Government, in the six months it has been in power, has adopted, and has planned for the future, measures in both the economic and social fields, in order to give these factors equal weight and thereby overcome the crisis in order to build a new society from which poverty has been eradicated.

It is not our intention, on this occasion, to make an exhaustive analysis of what our Government has done in the economic and social sphere. Nevertheless, we would like to emphasize the adoption of a policy of free prices, of liberalization of foreign trade, of the establishment of a realistic rate of exchange, of adequate monetary and credit controls, of fair wages, of recognition of the rights of workers and of redistribution of the tax burden, all applied within a framework of discipline and order.

At the same time, we wish to emphasize that Chile fully accepts the right of free initiative in the economic field and, consequently, recognizes the right of private ownership—as a guarantee of freedom itself—which does not exclude the State's role of supervision and of correction of any distortions that might arise.

In addition to its role of guardian of the public welfare, the State must undertake certain economic activities either because private investors are not able to do so or because national security or the national interest so requires. Another series of activities exist in our country which were inherited as a result of a statist conception. These will be transferred to the private sector, once proper safeguards are taken to maintain social gains and avoid monopolistic concentrations, in order to achieve an effective decentralization of economic power.

This policy, which has made it possible to restore in Chile an atmosphere of confidence in private investment, will be supplemented by other measures, designed to establish an effective capital market, which will increase and adequately distribute internal savings and also make it possible to create new financial instruments and institutions, and to establish private development banks, in which foreign participation will not be excluded.

In this connection, the Government will enact new laws concerning foreign investment during the next few days which will assure this foreign capital coming to our country of the right of repatriation and of remittance of profits earned, subject to general conditions that will be

spelled out and made known to the investor in advance. Chile accepts foreign capital provided that it is intended for legitimate activities that will increase production and create new sources of employment and that it is willing to abide by the general laws of the country that apply to all its inhabitants. There will be no discrimination either for or against, and all we require is respect for our sovereignty.

At the same time, it might be stressed that the Government regards foreign capital, necessary as it is, as only a supplement to the domestic effort. This point has been understood by all sectors of the nation, which through their efforts and sacrifice are speeding up the process of recovery.

An international meeting of the kind that is beginning in this hall today also provides an opportunity to reiterate Chile's firm intention to honor all international commitments legally undertaken, to respect all international treaties it has signed, to comply with all its international financial obligations and to maintain normal relations with all countries of the world, whatever their ideology or political system, provided they are based on mutual respect and non-intervention in internal or external affairs.

The Government over which I preside also wishes to take this opportunity to reaffirm its identity and its destiny as a member of the American family of nations and its intention to continue to participate in the regional integration bodies and inter-American organizations, including the Inter-American Development Bank.

Because we share a common concern with all the nations of the hemisphere, our Government will follow with close interest the deliberations of this meeting, which will undoubtedly deal with the major problems today confronting our peoples.

We attach particular importance to the possible expansion of the activities of the Inter-American Development Bank, particularly with regard to the mobilization of funds in nonregional financial markets.

The severe international economic and financial crisis, aggravated by the rise in the prices of raw materials, and particularly of fuels, which to some degree has affected also the developed countries, has meant that the developing countries, including most of the members of the Inter-American Development Bank, have had to face increasing difficulties in mobilizing external resources.

Therefore, through the discussions that take place at this Meeting, and with the help of the many specialists gathered here, a bold and resolute search must be undertaken for specific measures and suggestions to enable the Bank to contribute effectively as the financial agent of its member countries, channeling to them resources available in other regions.

Our Government also attaches special importance to the role of the Inter-American Development Bank in support of efforts of regional economic integration. We are confident that effective machinery will be established for permanent cooperation with the financial agencies of regional integration that have been created with the object of combining instead of wastefully dissipating our efforts.

Our Government will also be most interested in the resolutions adopted at this Meeting in connection with possible action by the Inter-American Development Bank to provide technical and financial support for the exports of our countries, especially for the export diversification and the freeing of our foreign exchange earnings from dependence on one or two commodities, as a means of substantially reducing external dependence.

Lastly, I wish to point out that the Government over which I preside is greatly interested in improving the conditions of technology transfer and the fostering of scientific and technological development in the Americas, as I recently made known in Mexico City, a statement that was most favorably received by Henry Kissinger, United States Secretary of State. The Bank will undoubtedly also be able to assist the efforts made in this direction.

Before closing I should like to thank the Inter-American Development Bank for the real assistance it has provided to my country. I particularly wish to call your attention to the very effective work done by its President, Mr. Antonio Ortiz Mena. To him and to all the executives and officials of the Bank I wish to express sincere appreciation, on behalf of the Government of Chile, for the work they have done and to voice our hope that we will continue to receive the support of the Bank in order to speed up our development.

I hope also that the distinguished persons who honor us with their presence here today will return to their countries and tell of what they have seen here, in this Chile now being born again. None are better able than you, gentlemen, to destroy the slanderous chronicle being daily invented throughout the world by international marxism. None are better placed than you to explain the facts of the situation here to the ill-informed.

In our country, men, women, young people and children, from all walks of life, are engaged in a crusade, calling for many sacrifices, to achieve National Reconstruction, leading to a greater economic and social development for our people and the establishment of a more just society.

We trust also that the inter-American community, putting past problems behind it and seeking new methods and frameworks will come out of this Meeting with increased unity and strength. With these aims in

mind, we are confident that the community's principal financial organization will obtain all the support it needs so that it can carry on and enlarge its activities and that the Board of Governors, acting with complete independence and guided only by technical considerations, can continue to promote the economic and social development of our America.

The world is passing through a time of socio-economic upheaval caused by many different factors of which advantage has been taken by international communism—either by aggravating or at times artificially creating them—with the object of sowing hatred for and distrust of democratic institutions. It is therefore a fundamentally important task of those who govern to improve the living conditions of their peoples, eradicating poverty, creating jobs and providing incentives to achieve a better life and developing the untold potential riches of their countries. The Inter-American Development Bank consequently has a most vital role to play in support of the urgent task of raising the level of living of our peoples.

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

First of all I should like to express my feeling of deep satisfaction that the Fifteenth Meeting of the Board of Governors of the Inter-American Development Bank is being held in the capital of Chile. For this unique country, though located in the southernmost part of our hemisphere, is nevertheless the center for important forums of thought that are helping to guide the progress of development in our region. It was therefore not by chance that a select group of Chileans, together with other prominent Latin Americans, played an active part in the initiative that led to the formation of this Bank. Nor can we be surprised that once the decision to establish our institution had been reached, an illustrious Chilean should have been accorded the honor of directing its organization and later of leading it through the first eleven years of its activities. Because of Felipe Herrera's position as President of the Bank, 14 years elapsed before the Board of Governors had occasion to meet in the city of Santiago. Now this expectation is fulfilled in response to an invitation extended by the Government of Chile at Quito in 1972 and repeated and accepted in Kingston last May.

I should like to take this opportunity to thank the Government and the people of Chile for their generous hospitality and to congratulate the organizers of this meeting for their fine work.

The Bank in 1973

As provided in the Agreement, I shall now report to this Board on the Bank's activities in 1973.

Loans and Disbursements

During 1973, the Bank's loan volume reached the highest level in its history, with a total of \$884 million in authorized loans, exceeding the previous record of \$807 million achieved in 1972. Counting 1973 results, total lending since the Bank initiated activities amounts to \$6.309 billion, which, together with an investment of \$13.349 billion contributed primarily by the beneficiary countries, is helping to finance projects with a total cost of nearly \$20 billion.

Of the \$884 million lent in 1973, \$453 million was provided from

the ordinary capital resources and \$427 million from the Fund for Special Operations. As a result of this portfolio composition, loans extended in 1973 had an average interest rate of 5.1 per cent, a grace period of 6.9 years and an amortization term of 28.9 years.

Disbursements in 1973 totaled \$582 million compared with \$479 million in 1972. Cumulative disbursements at the end of the year came to \$3.668 billion, a figure which represents 58 per cent of the value of loans authorized by the Bank.

Distribution of Loans

It should be noted that in 1973 the nine less developed countries received loans of a concessionary nature amounting to \$198.9 million, that is, 46.6 per cent of the total and the highest ratio to date. The average conditions on the Bank's lending to this group of countries in 1973 were an interest rate of 2.7 per cent, grace period of 9.6 years and amortization term of 38.3 years. For their part, the four most developed countries obtained loans totaling \$443.2 million, which had an average interest rate of 6.4 per cent, grace period of 4.7 years and an amortization term of 21.6 years.

It might be noted that six of the less developed countries in the region received the highest annual volume of loans in the history of the Bank during 1973. These were Bolivia, \$47 million; the Dominican Republic, \$39 million; Ecuador, \$56 million; Guatemala, \$37 million; Haiti, \$22 million and Nicaragua, \$29 million. The total volume of loans received during the year by the less developed countries of the region and those with limited markets accounted for about 62 per cent of the Bank's total concessional lending.

Finally, I should like to call the Governors' attention to the Bank's efforts over the course of the year to play an increasingly greater role as a catalyst in the financing of large-scale projects and to join with other international agencies, bilateral organizations and private financing sources in pooling the resources required for implementation of such projects.

As examples of this catalytic action by the Bank, I will cite two loans made in 1973. One which amounted to \$84.8 million is helping to expand the Paulo Afonso hydroelectric complex in Brazil's Northeast and the other for \$54 million is helping to build a steel complex in Las Truchas, Mexico. In the first case, the Bank's loan accounted for 11.7 per cent of the total project cost, estimated at \$725 million, while in the second it represented 8.3 per cent of the estimated cost of \$648 million. In both cases the remainder is being financed by the borrowing agencies, the World Bank and bilateral credit sources.

Sectors Benefited

The \$884 million in loans authorized in 1973 helped to primarily benefit the directly productive sectors which received \$352 million and the economic infrastructure sectors which accounted for \$351 million. The social infrastructure sector accounted for \$153 million, and the remaining \$28 million went to preinvestment, export financing, tourism and fisheries.

Bank financing in the agricultural sector amounted to \$107 million and primarily benefited irrigation projects. The latter included loans amounting to \$11.5 million for Argentina; \$18.5 million for the Dominican Republic, \$20.8 million for Ecuador and two loans for Mexico totaling \$48 million.

Other loans amounting to more than \$50 million are contributing to the promotion of agricultural development in Colombia, Ecuador, Guatemala, Jamaica, Nicaragua and Uruguay.

The Bank also extended additional financial cooperation to countries in South America for the control and eradication of foot-and-mouth disease and brucellosis, authorizing three loans for a total of \$22.2 million to Ecuador, Peru and Venezuela. These loans brought to nearly \$60 million the total provided by the Bank for foot-and-mouth disease control programs in seven South American nations.

The \$165 million authorized in the industry and mining sector included \$46.5 million to Bolivia to expand a petroleum refinery in Cochabamba and build another in Santa Cruz; \$40 million to Brazil for the construction and expansion of petrochemical and chemical plants, and \$54 million to Mexico to help finance a steel plant with an annual production capacity of a million tons. The Bank gave support during the year to the development of small and medium industry and small-scale mining in the region through loans extended to Jamaica, Panama and Peru for \$12.2 million.

The \$216 million in loans in the electric power sector approved during the year went entirely to finance large power generation or transmission projects in Brazil and Colombia.

Of the two loans approved for Brazil, one for \$84.8 million (the largest in the history of the Bank) was for expansion of the Paulo Afonso hydroelectric complex in the Northeast. The other, for \$52.2 million, is helping to finance the construction of the power transmission and distribution system linking the Jupia-Ilha Solteira hydroelectric complex with the city of São Paulo.

In Colombia, a \$48.5 million loan is helping to finance the expansion of the Chivor hydroelectric plant up to an annual capacity of a million kilowatts; another for \$21.2 million is being used to extend trans-

mission and distribution networks in Bogota and the surrounding area. Finally, two loans totaling \$6.9 million are helping to extend electric generation and transmission systems in three departments of the country.

The \$135 million lent by the Bank for the transportation and communication sectors included a total of \$75.6 million distributed among four loans for the construction of main highways in Brazil, Haiti, Panama and Tobago; \$46.4 million in another four loans are helping to expand or build secondary and access roads in Costa Rica, Guatemala and Jamaica, and finally, a loan of \$11 million is helping to expand and modernize the ports of Buenaventura, Cartagena, Baranquilla and Santa Marta in Colombia.

The Bank's loans in the social sectors amounted to \$153 million. In the sanitation field, a total of \$48 million went to expand water supply systems in Medellin, Colombia; Santo Domingo, the Dominican Republic, and San Pedro Sula, in Honduras, as well as to improve the sewer system in Guatemala and strengthen five health agencies in Peru. In urban development, a loan for \$14.3 million is helping to finance a comprehensive program in Quito, Ecuador. Finally, for education, the Bank approved \$91 million, its highest annual volume of lending for this sector. These loans are benefiting centers of scientific, technological and vocational education in Brazil and universities in Guatemala and Venezuela.

Slightly more than \$14 million was approved during the year for the preinvestment sector. This sum included a loan to Mexico to help finance a program for the preparation of technical and economic studies of specific projects, and a loan to Brazil for a mineral resources survey.

To finance exports of capital goods intraregionally, the Bank authorized \$10 million, including a line of credit to Peru and recoveries under lines of credit authorized earlier for Argentina, Bolivia, Brazil and Mexico. Finally, in the tourism sector, the Bank allocated \$4 million as part of two loans to Jamaica for the improvement of tourist facilities in that country. And in the fisheries area, it approved \$1.6 million for the Dominican Republic for the establishment of fishery cooperatives and marketing facilities.

Progress Achieved

During 1973, a total of 42 Bank-financed projects were completed at a total cost of \$1 billion, of which the Bank financed \$263 million. The cumulative number of projects completed with Inter-American Bank loans had risen to 433 at year end.

The following data provides a summary of the physical progress

achieved or under way in the various sectors being financed with loans approved by the Bank through December 31, 1973.

Agriculture: Improving or bringing into production 10.3 million acres of land and extending more than 1 million farm credits for about \$1.2 billion to individual farmers and more than 100 rural cooperatives and 11 food markets.

Industry and mining: Building or improving 74 large industrial plants through direct loans and more than 6,000 small- and medium-scale plants indirectly through global credits to financial development institutions.

Electric power: Increasing generating capacity by 12.4 million kilowatts, adding 59,000 miles of primary transmission and distribution lines to the region's power network and improving distribution systems in 1,141 communities.

Transportation and communications: Building or improving 26,800 miles of roads, including 7,300 miles of main highways and 19,500 miles of access or farm-to-market roads, installing four major telecommunications systems, and improving 11 ports.

Sanitation: Building or improving 4,404 water supply systems and 389 sewage systems to serve 55 million persons.

Urban development: Building 361,128 housing units with their corresponding community services, as well as 10 municipal markets.

Education: Modernizing, expanding or improving 675 learning centers, including 146 universities, 489 technical and vocational schools, 19 research institutes and 21 experimental primary and secondary schools.

Preinvestment: Completing 895 preinvestment studies, of which 370 were carried out with direct financing from the Bank and 525 with credits extended from preinvestment funds.

Export financing: Authorizing lines of credit for \$98 million to finance intraregional exports of capital goods with an invoice value of \$134 million.

Tourism: Approval of loans amounting to \$42 million for partial financing of projects with a total cost of \$86 million in nine countries of the region.

During the first months of 1974, the Bank made five loans totaling nearly \$103 million. These include a loan of \$18.4 million to El Salvador to expand and improve the water system of the capital city, \$15 million, also to El Salvador, for improving its health services, \$43 million to develop fisheries in Mexico, \$4.7 million to Peru to help build rural water supply systems, and \$21.4 million to Uruguay to improve the country's highway system.

Technical cooperation: Parallel to its lending activity, the Bank is

performing a supplementary function of essential importance by extending technical cooperation to its member countries.

During 1973, the Bank authorized a record \$32 million in technical cooperation, including \$25.6 million in reimbursable financing and \$6.4 million in nonreimbursable or contingent recovery assistance. I might emphasize that 78.8 per cent, or \$5 million, of the nonreimbursable technical cooperation authorized by the Bank during the year was made available to nine of the less developed countries in the region for the execution of specific projects to promote their economic and social growth.

Economic integration: The economic integration process encountered difficulties in 1973. An additional effort will thus be required by the member countries to provide the necessary momentum to the movement in the future. The Bank's contribution to that process took the form of several loans granted to the agricultural and transportation sectors and the financing of exports, in addition to the activities undertaken by the Institute for Latin American Integration.

The cumulative total of resources committed by the Bank in support of the integration process rose to \$832.2 million by the close of the year. The total cost of these programs and projects represents an investment of about \$2.15 billion.

Mobilization of resources: With regard to the status of the increase in resources approved at Punta del Este in 1970, I should like to report that the \$2 billion expansion in the ordinary capital resources was completed at the beginning of this year. However, the increase of \$1.5 billion in the Fund for Special Operations has not yet been implemented in full, since a balance of \$500 million, pending congressional appropriation, has not yet been paid in by the United States.

In the financial and capital markets, the Bank raised a total of \$131 million on favorable terms. All these borrowings were conducted outside the United States market. The smaller volume raised in 1973, compared with other years, is explained by the fact that since 1971 the Bank has applied a policy of partial coverage to reduce liquid assets gradually to a level equivalent to 50 per cent of the undisbursed value of loans.

The following long-term borrowings were made during the year: \$28.6 million in Japan, \$24.6 million in Switzerland, \$13.9 million in Spain, and \$10.7 million in Austria. In addition, the Bank placed its eighth short-term bond issue in Latin America, for a value of \$53.4 million. These brought the cumulative total of Bank borrowings to \$1.26 billion at the end of the year. Of this amount, \$742 million was raised in nonmember countries, \$435 million in the United States and \$83 million in Latin America.

During 1973, the Swiss Government entrusted to the Bank the administration of a Swiss Development Fund for Latin America, with initial resources of 30 million Swiss francs, equivalent to about \$10 million. The terms and conditions for lending these resources are similar to those governing the Fund for Special Operations, except that procurement of goods and services will be unrestricted and based on international bidding. Including this Swiss Fund, the Bank is now administering a total of \$650 million in 10 separate funds contributed by member and nonmember countries and by an international agency.

Finances and Administrative Budget

Total receipts from the various sources of funds were the highest in the Bank's history, making it possible to increase general reserves from \$247 million in 1972 to \$336 million. The consolidated financial figures for the ordinary capital resources and the Fund for Special Operations showed a gross income of \$197 million, compared to \$148 million in 1972. The net income amounted to \$71 million compared with \$41 million in 1972. Within this context I should like to note that in 1973 administrative expenditures increased 6 per cent over the year before. However, 1.5 per cent of this represented the cost of consolidating scattered Bank activities within a single building, while another 1.2 per cent reflected higher inspection and supervision costs in the field for projects under way. Consequently, the real increase in operating costs amounts to only 3.3 per cent, a very satisfactory result considering the expansion in Bank operations.

Projection of Bank Activities for 1974-76

During 1974-76 the Bank proposes to lend more than \$3.3 billion, that is, an annual average of slightly more than \$1.1 billion, and a 42.5 per cent increase over the 1971-73 period. Some 55 per cent of that amount will be financed with soft funds and the balance with the ordinary capital resources. The implementation of this program will require a tremendous effort by the member countries to mobilize local counterpart resources. If funds from other sources are mobilized at the past rate of over two dollars for every dollar lent by the Bank, the Bank's financing will help carry out a program totaling more than \$10 billion over the next three years. Moreover, by 1975 it will be necessary to take steps to increase the Bank's resources as of 1976. Hence it is essential that at this meeting the Board of Governors instruct the Board of Executive Directors of the Bank to carry out the needed studies so that the appropriate resolutions can be approved sufficiently in advance.

Economic Development Trends of the Region

Economic growth in Latin America as a whole was close to 7 per cent in 1973, marking a continuation of the rapid growth that began in 1968. The average increase during the 1961–70 period was 5.5 per cent, rising to 6.7 per cent during the 1970–72 period. Nonetheless, in analyzing regional performance we should keep in mind the disparities in development among the various countries. For instance, in 1972, two of the 22 developing member countries of the Bank registered growth rates of more than 10 per cent, while 10 showed increases of 5 to 10 per cent and 10 others expanded by less than 5 per cent.

The agricultural sector continues to be an exception to this trend. In terms of value added, the growth of agriculture averaged only 3.7 per cent during 1961–65 and 3.4 per cent in 1969–72. Thus, the sector is still unable to meet the demand for food in several countries of the region. This situation coincides with an increasing scarcity of food affecting the entire world, which is reflected in a pronounced rise in world prices with serious consequences for a large proportion of mankind already living in very marginal conditions. Latin America cannot elude its responsibility in so important an area. We must ensure that our agricultural production not only supplies the daily needs of the region, but also contributes increasingly to overcoming the serious food shortages in other developing regions.

The dynamic performance of the Latin American economy has been accompanied by a strong growth of exports, which rose from \$14.7 billion in 1970 to \$18 billion in 1972, and an estimated \$25 billion in 1973.

These gains in the external sector, besides reflecting increases in the prices of certain basic export commodities, have been due to a significant expansion and diversification of nontraditional exports. The share of manufactured goods in total Latin American exports climbed from 9.6 per cent in 1960 to 20.8 per cent in 1970.

Investment rates and financing in the region deserve special mention. Latin America's gross domestic investment totaled about \$35 billion in 1972, more than doubling the 1960 figure. All indications are that 1973 investment was even higher. Despite this significant increase, gross investment in the region as a percentage of gross domestic product is slightly less than the average for the developing countries and considerably less than that of the industrial countries. We must continue to increase the investment rate in order to ensure ongoing dynamic growth of the regional economy.

The financing of investments, however, points up some negative trends that are a source of real concern. During the 1969–72 period the

rate of savings dropped in two-thirds of our countries, with the result that the proportion of investment financed with local resources declined from 91 per cent in 1969 to 87 per cent in 1972. The gap was covered by an appreciable increase in the net flow of external resources, whose share of total investment rose from 9 to 13 per cent during the same period.

The trends I have noted were partly the result of adverse performance of public finances. The information available indicates that during 1969-72 the fiscal position of most of the countries deteriorated with respect to the preceding three years. Taking Latin America as a whole, current expenditures increased more than receipts, generating a rapid increase in national government deficits. While receipts rose by an average of 7.7 per cent a year, expenditures rose by 9.1 per cent, so that the deficit, expressed as a proportion of the gross regional product, went from 1.4 per cent in 1969 to 2.2 per cent in 1972.

I am well aware how difficult it is to resist the relentless pressures for heavier current expenditures by our governments. Nevertheless, this is an inescapable responsibility and, on the other hand, public revenues must also be increased. This calls for an improvement in the structure and administration of the tax system and the application of rates for public utilities that will ensure effective self-financing of such enterprises.

Let us not forget that historically those countries that have attained a high level of internal savings are the ones that have also been able to attract high flows of external resources.

Outlook for External Financing in Regional Development

The function of external financing in the development of the regional economy requires continuing analysis, particularly at the present time, marked as it is by very rapid and drastic changes in Latin America and in the world at large.

Although Latin America is made up of countries with highly diverse economies, it holds a leading position within the developing world. The region already has a number of countries with the technical, financial and institutional infrastructure needed to carry out investment programs and large-scale projects in which the demand for external financing often far exceeds the individual lending capacities of the international agencies. It is no longer unusual for us to receive projects whose scale obliges us to coordinate Inter-American Bank financial assistance with that of other multilateral and bilateral agencies and private lenders.

It is useful at this point to differentiate the functions of public external financing from those of the wide variety of private external

sources also supplying funds. Although public external financing—multilateral and bilateral—has increased substantially in recent years, it still represents the lesser share of the total required for development of the region.

Recent experience gives us no reason to believe that this situation will improve significantly in the near future, especially as regards the supply of resources that can be lent on concessional terms. Consequently, the developing countries have tended to step up the search for private external financing. It is necessary to give closer attention to the utilization of such resources.

The private sources of external credit encompass a wide range of financial instruments, including suppliers' credits, loans from private banks and other nonbanking institutions, bond issues floated by our countries in world capital markets, the growing use of Euro-currencies for development financing and direct investment of private foreign capital. Excluding the latter because of its distinct and well-defined function, these sources of private external financing have certain common features that distinguish them from public external credit, especially in regard to the conditions on which the credits are granted and the allocation of resources.

Rather than examining this question in theoretical and general terms, I would prefer to take up the specific case of the financing obtained by our countries in the Euro-currency market. I choose this example not only because the Euro-currency market has provided a large volume of financing for the region in the last two years, but also because this financing is being obtained on conditions that, without careful planning, can frustrate orderly management of the external debt and even weaken the internal savings efforts of our countries.

As you know, the usual form of loans in the Euro-currency market is the revolving credit with a fluctuating interest rate. Although the credit is extended for periods that have been lengthening gradually to 10 and 12 years—and 14 and 15 years in some cases—in practice the credit is renewed every six months, each time at the interest rate prevailing in the London market (Interbank offer rate, IBOR). Since 1969 there have been sharp fluctuations from a low of slightly more than 5 per cent to a high of 11 per cent. The inflationary expectations that pervade the world economy present a very serious risk in terms of possible increases in the interest rates charged on these loans. It should be noted that the loans usually are amortized in full at the end of the agreed period and that the resources are completely untied.

These operations are transacted with scant knowledge of the feasibility of the projects, since brokers are commonly used to promote lending operations, especially in the developing countries. Obviously, such

practices can easily lead to the excessive use of credit and to an improper allocation of financial resources, unless the countries carefully program their external borrowing on the basis of well-defined projects consonant with investment priorities. This observation is even more to the point if it is kept in mind that the countries sometimes resort to the Euro-currency market to finance the total cost of an investment.

The picture is made even more serious by the fact that in 1972 and 1973 Latin America drastically increased its use of resources from the Euro-currency market. Although full information is not available, and the actual figures are believed to be much higher than those published, the data at hand indicate that the eight Latin American member countries of this Bank that operated most actively in the Euro-currency market obtained loans totaling about \$500 million in 1971, \$1.85 billion in 1972 and \$2.54 billion in 1973. The same countries received loans totaling \$1.37 billion in 1973 from the Inter-American and World Banks. In other words, in actual figures the Euro-currency market supplied resources to those countries which were more than double the financing authorized by the international agencies.

Finally, we note that the oil crisis is forcing the industrialized countries into the Euro-currency market in order to finance their balance-of-payments deficits, which could displace the developing countries, thereby raising serious problems in regard to the management of their external debt and consequently the financing of their economic growth.

The Bank's Role in Regional Development Financing

The foregoing considerations suggest the advisability of broadening the Bank's activities so as to increase its advisory services to member countries upon request in order to cooperate with them in obtaining external resources on more favorable terms and at the same time to permit a better allocation and utilization of those resources.

The performance of this function opens up a wide field of new activities for the Bank. Unquestionably, the experience gained by our institution in its nearly 15 years of close contact with the problems of regional development and with the international financial and capital markets qualifies us to provide the region with assistance that can be of great value at the present juncture. Placing this experience at the service of our countries entails simultaneous action on several fronts.

The Bank should step up and expand its activities in the area of technical cooperation so that the member countries will increase the flow of projects prepared on the basis of criteria that ensure maximum impact on regional development and facilitate the mobilization of external resources from public and private lenders.

Another key aspect is the catalyzing effect of the Bank's operations in tapping additional external resources. In recent years the Bank has significantly multiplied the effect of its resources on development financing for the region. For instance, in 1969 and 1970 the projects that the Bank helped to finance mobilized comparatively small amounts of additional external resources—less than \$20 million, or 3 to 4 per cent of the Bank's contribution. This situation changed radically beginning in 1971. Parallel financing from other external sources rose to \$265 million in 1971 (41 per cent of the amount lent by the Bank), \$468 million in 1972 (59 per cent) and \$567 million in 1973 (65 per cent).

We need to encourage this trend so that the Bank's loans will help to mobilize the largest possible volume of additional external financing. To this end it will be necessary to broaden the criteria employed by the Bank in evaluating projects so that these criteria will not only serve the purpose of determining Inter-American Bank participation in financing the investment but will also serve to attract funds from other external sources.

The role of financial advisor will also require the Bank to broaden its contacts with international financial and capital centers. In addition to the traditional activities involved in the placement of bonds issued by the Bank, we must be prepared to assist member countries that so request in identifying the most suitable potential sources of external financing, as well as in the necessary negotiations. The fact that the Bank has evaluated the project and is taking part in its financing—though only on a minority basis—will be of great value in enabling the member country to obtain the additional resources on more favorable terms than those it would have received in direct negotiations without Inter-American Bank participation.

Implications of the World Petroleum Crisis for Regional Development

The need for having our institution accommodate itself at every stage to the demands of the moment has suddenly become crucial as a result of the petroleum crisis. The fuel-exporting countries have acquired formidable bargaining power. The consequences of this fact are highly significant in international relations and are therefore of concern to the entire world. This is not the proper occasion for a full analysis of the situation. Nonetheless, it is both timely and useful to assess the impact of this crisis on the world scene in order to evaluate its impact on Latin America. This will enable us to take the steps needed to eliminate or at least soften the harmful effects of the crisis on many countries of the region.

Preliminary studies prepared by international agencies and other sources indicate that the increase in prices for oil and oil by-products through last December will assure higher foreign exchange earnings amounting to about \$60 billion for the exporting countries in 1974. That figure has been calculated without regard to the possible impact of the price increase on other factors bearing upon production and international trade. This unprecedented transfer will produce a deficit of about \$50 billion in the industrialized countries and \$10 billion in the developing world.

The economic capacity of the petroleum oil-exporting countries will enable them to absorb only a small part of these resources; the balance must be invested or lent to other nations. It is most likely that the funds will return to the industrialized countries whose financial and economic infrastructure can absorb them more rapidly. If this happens, a major economic crisis could result, especially for the developing countries that are heavy fuel importers. Solutions must be sought that will reconcile the interests of all parties. This calls for the active cooperation of all countries involved. Action must be taken to increase as promptly as possible the share of surplus resources of the petroleum-exporting countries channeled to the developing nations in order to avoid a slowdown in their economic activity and, insofar as possible, to raise investment levels. To the extent that this goal is attained, the developing countries will be able to maintain and even increase their imports from the industrialized countries, a critical requirement for reducing the deficit generated by higher fuel prices in these countries. Such a situation would benefit all—the oil-exporting countries, which would build up a large capital investment abroad assuring them of additional income when they are able to use it to promote their own economic and social development; the developing countries, which could maintain and possibly accelerate their economic growth rate; the industrialized countries, which would reduce their external deficits and in sum, all nations, insofar as conditions would be created to prevent a contraction of the world economy and possibly a crisis as bad or worse than that of the 1930s.

Another matter of deep concern to us is the inflationary process affecting the industrialized countries, which could be aggravated by the increase in oil prices. According to a recent OECD report, from 1972 to 1973 consumer prices in its member countries rose by an average 10 per cent, but despite a product rise of 7 per cent, unemployment remained at higher levels than under similar conditions in the past. The correction of these trends entails the threat of restrictive policies that can adversely affect external financing and world trade flows, especially in respect to the raw materials and basic commodities that are the

principal source of foreign exchange earnings for many developing nations.

The oil crisis is also having a profound impact on Latin America. The four petroleum-exporting countries of the region saw their earnings rise, in round figures, by \$1.1 billion in 1973 and \$10 billion in 1974, of which \$1 billion and \$9.2 billion, respectively, went to Venezuela. The other net oil exporters whose foreign exchange earnings showed a significant increase are Bolivia, Ecuador and Trinidad and Tobago. The remaining countries of the region are oil importers, with the exception of Colombia, which is practically self-sufficient. The increase in the cost of fuel imports for all these countries amounts in round figures to \$800 million for 1973 and \$2.75 billion for 1974. The latter figure is equal to 27 per cent of their international monetary reserves as of the end of 1973. It should be noted, however, that the situation varies greatly from one country to another. Some nations enjoy a relatively more favorable position because they are oil producers. Others are able to cover the higher cost of their oil imports by reason of their strong international reserves and dynamic export position. However, this still leaves a number of countries in the region that will face very serious balance-of-payments deficits and will require prompt assistance if they are to keep their imports at the level needed for sustained development. This is a serious and urgent problem that is being carefully considered by the International Monetary Fund, to which we offer our most wholehearted cooperation.

An exceptional effort will also be needed to prevent the region from losing the momentum toward development which it has worked so hard to maintain over the past seven years. On the one hand, our countries will have to apply all the measures necessary, however difficult they may be, to contain inflationary pressures, increase domestic savings and investment and strengthen the external sector of their economies. On the other hand, external financial cooperation must continue to provide the support which our development normally requires, together with additional assistance certain countries may need in order to cope with unexpected problems.

The capital-exporting countries must carry on the policy of external cooperation. For while the oil crisis has weakened the balance-of-trade position of many of them, this should not serve as justification for cutting back the flow of external long-term development financing that is essential for maintaining a reasonable rate of economic growth in the developing world.

Against this background of events, we found not only realism but also a sense of justice in the remarks of the Secretary of State of the United States at the Meeting of American Foreign Ministers in Mexico

City. Dr. Henry Kissinger expressed the following thoughts, among others of great importance for Latin America:

(a) "During the period of great economic uncertainty arising from the energy situation, it is essential that nations behave cooperatively and not take protective or restrictive action."

(b) "The United States Government in its Executive Branch is committed to maintain our aid levels, despite rising energy costs."

(c) "This hemisphere, linking oil-producing and oil-consuming countries, is uniquely situated for cooperative solutions of this problem. The United States is prepared to share research for the development of energy sources. We will encourage the Inter-American Development Bank to adapt its lending and fund-raising activities to cushion the current strains. We are also prepared to explore ways of financing oil deficits, including the removal of remaining institutional impediments to your access to United States capital markets."

Under the present circumstances, the oil-exporting countries should assume part of the responsibility, along with the industrial nations, for providing external financial cooperation. Accordingly, the Bank has given immediate attention to this matter.

On March 12 a meeting was held in our Washington headquarters which, in addition to our own representatives, was attended by the Presidents of the World Bank, the African Development Bank and the Asian Development Bank and the Managing Director of the International Monetary Fund. At this meeting the groundwork was laid for establishing forms of coordination between world and regional organizations for the channeling of resources from the petroleum-exporting countries. I trust that this initiative will make possible structured and systematic action for the benefit of the developing nations.

It is particularly gratifying for me to draw special attention here to the generous and constructive attitude of the Latin American oil-exporting countries. Each of them has, within the bounds of its possibilities, expressed its resolve to cooperate in the development of the region by utilizing a part of the additional resources it obtains from the higher fuel prices. Talks with Ecuador, Trinidad and Tobago and Bolivia confirm this resolve.

Venezuela's relations with the Bank warrant special mention. A few weeks ago, I had the pleasure of visiting Caracas to exchange ideas with top leaders of the past and present administrations. I was able to note the unanimity of opinions regarding the responsibility that Venezuela should assume in financial cooperation with Latin America. I do not wish to anticipate any statement of the Governor for that country, but I do want to place on the record my admiration for the solidarity with the region displayed by Venezuela and for its decision to grant

maximum possible financial assistance, mainly through the multilateral organizations participating in the development of Latin America. We have already concluded arrangements for a bond issue of 100 million bolivars, repayable in 10 years with a three-year grace period and an interest rate of 7.5 per cent. This operation marks the start of a very close relationship that will extend over a wide range of cooperation mechanisms in both the financial and the investment fields. Thus, the President of Venezuela announced in his inaugural address that his Government proposes to conclude an agreement with the Inter-American Bank for the establishment of a trust fund. And to ensure early consideration of this matter it has been placed on this meeting's agenda.

Priorities in the Development of the Region

The current crisis confronts us with serious problems, but at the same time it generates new opportunities for furthering regional development. We must seek to utilize these opportunities and to act without delay on all fronts where circumstances are favorable.

The scarcity of certain agricultural commodities sold on the world market has brought about highly advantageous price levels. This is the case, for example, with wheat, corn, sugar, cotton, rice, soybeans, cacao and hemp. The same holds true for forestry and fishery products and for livestock commodities, mainly meat, dairy products, hides and wool.

The outlook is also highly promising for mineral resources, and we must therefore make a great effort to take advantage of the high prices for gold, silver, copper, lead, tin, zinc and other metals.

It is up to the countries themselves to make the most effective and prompt use of these opportunities, but the execution of so vast and complex a task requires solid external technical and financial support. It is accordingly necessary to maximize traditional forms of cooperation and to extend the action of international agencies into new fields by adopting, when appropriate, new cooperation policies and instruments which will ensure greater flexibility in operations and at the same time multiply their impact on development of the region.

Agriculture will continue to receive preferential attention from the Bank. We have already begun to modify certain traditional policies by dropping the restriction on financing sugar mills which was imposed when sugar was overproduced. In addition, we are seeking to promote regional production of fertilizers, insecticides and pesticides in order to reduce the harmful effect of the oil crisis which has resulted in a shortage of and higher prices for these inputs so vital to increased farm productivity.

We plan to intensify our support for programs to irrigate and drain

farm land and will coordinate such programs with the development of the region's hydroelectric potential. In view of the energy crisis, we must improve our utilization of water resources by means of projects which can simultaneously regulate water flow and prevent flooding, maximize electric power production and farm irrigation, and, when appropriate, provide river transportation facilities.

It is appropriate at this point to reiterate the Bank's policy of assigning high priority to development of the region's hydroelectric resources. Latin America is one of the regions of the world best endowed with water resources, and their utilization involves the execution of large-scale projects. Because of technical and financial cooperation from the Bank, the less developed countries have been able to carry out or now have under execution projects of enormous significance. This is the case in Costa Rica, the Dominican Republic, Ecuador, El Salvador, Haiti and Paraguay. Other large projects are in various stages of preparation—some of them among the largest in the world—in which both large and small countries are cooperating, among them Salto Grande (Uruguay and Argentina), Itaipú (Paraguay and Brazil) and Yaciretá-Apipé (Paraguay and Argentina) projects.

The utilization of nonrenewable sources of energy should also receive our countries' attention. This entails the mobilization of large volumes of technical and financial resources for the exploration, evaluation and working of oil, natural gas and coal deposits. This is a difficult task for, in addition to its need for massive resources and high technical complexity, it also involves a very considerable element of risk. In this field, perhaps more than any others, international cooperation is needed to provide the most suitable technology and the skills required for organizing and directing the enterprises responsible for implementation.

An inventory of natural resources in the region is urgently needed. We shall do our utmost so that this work can be done as quickly as possible, drawing on a vast pool of information available through various sources which have not so far been utilized. We shall organize study programs designed to utilize the most advanced techniques available in this field, availing ourselves of assistance offered by specialized agencies of the United States Government.

A listing of the Bank's priority fields would be incomplete were it not to include manpower development—a matter of continuing concern to us. We shall continue giving preferential attention to programs for increasing and improving the leadership cadres in management, the professions and technology and the training of skilled workers. With this in view we shall redouble our efforts to cooperate with the member countries in strengthening education at every level.

Concluding Words

Mr. Chairman, Distinguished Governors. We are living in a period of transition characterized by profound and rapid changes in the monetary, financial and trade relations which until recently formed the framework of international cooperation. It is a period of which also, as I have already noted, offers us highly promising opportunities. Now more than ever before we must be ready to act swiftly and decisively, both in removing the obstacles to our progress and in taking advantage of circumstances which are favorable for speeding up the economic development of the region.

The general trends of today and the recent events connected with the oil crisis to which I have referred serve to increase still further the degree of interdependence of the world economy. No region can avoid the adverse impact of a possible stagnation of activity in the industrial countries. Nor can any of the latter countries—however great their economic power—resolve these problems by their efforts alone.

The facts which have accentuated the interdependence of the world economy have given rise to a variety of proposals for improving international economic cooperation. For some time now, efforts have been continuing to remove this from the direct pressure of international forces or of conscience pure and simple. Today it can be observed that there is a pronounced tendency to lay down the basic aspects of economic cooperation between States in international legal instruments.

The Inter-American Development Bank, being one of Latin America's financial and legal solutions, has acquired the ability to contribute, where required, to the refining of international law in economic matters. Thus the Asian Development Bank was able to utilize our experience in its legal and technical constitution, for, as is well known, law cannot be improvised. More than in ideas alone, the Bank is active in the observation and continuous management of social facts.

Latin America will have to find its right place in the new international equilibrium now sought, emphasizing unifying factors and promptly eliminating unreal or anachronistic motives for discord. It cannot be allowed to happen, that while in the political sphere understandings, experimental new trading arrangements and coexistence are being brought into being, our countries should be caught up in contrived confrontations.

In concluding my address in Kingston last year, I informed the Governors that I would seek the assistance of regional leaders in evaluating the circumstances in which we must act, considering the changes that affect both access to the technical and financial resources on which we rely and the allocation of those resources.

I am very pleased to announce that this task has been launched with the participation of Dr. Carlos Lleras Restrepo and of Ambassador Lincoln Gordon. Other outstanding names will be added as the scope and development of the studies require. The group will be able to draw on the advice of international experts for specific problems.

We shall see to it that these studies are accomplished in such a way as to provide timely responses to the changing conditions in which the region's development unfolds. We shall also institute procedures enabling us to act with the requisite speed. In many instances, the Board of Executive Directors and the Management of the Bank will be able to make the decisions. In certain cases, however, it may be necessary to set up working groups including Governors of the Bank that can meet on very short notice to deal with urgent problems of fundamental importance to the Bank's operation. These working groups can also be very valuable for handling matters which by their nature require decisions at the Board of Governors level.

Along these lines I suggest that the Committee of Governors created at the Punta del Este meeting in 1970 be made a permanent body in view of the positive results of the work it has done.

In performing its functions, the Bank is fortunate in being able to rely on the expertise of a permanent high-level forum for examining and discussing matters of Latin America's development. I refer to the Board of Executive Directors. Discussion in the Board goes beyond the simple presentation of views; it is marked by an effort to draw the line between the possible and the merely desirable. Opinion is at times divided and resolutions are adopted by majority vote. These instances, when they occur, are positive experiences in that they show the ability of the Latin American Community to accommodate to its higher collective interests.

I say this because in the last analysis, after every question has been raised, the ideas that always prevail are that the Inter-American Development Bank is an institution created to provide unceasing service to the nations of Latin America, that it must not interfere in matters within their sole jurisdiction, but that neither can it shirk the responsibilities they have given the Bank.

Much of what I have said shows how urgent it is that we undertake an intensive and concerted regional effort to promote organized and effective participation by Latin America in world economic affairs. The Bank is called upon to play a vitally important role in this undertaking, and to do this effectively it requires the fullest support of its member countries. That is what lends such great importance to the discussions of this meeting. I am confident that the decisions adopted here will be fully responsive to the historic challenges of the moment.

ADDRESSES

SECOND PLENARY SESSION

April 2, 1974

**Address by David H. Coore,
Governor for Jamaica, Deputy Prime Minister
and Minister of Finance**

May I first congratulate you Mr. Chairman on your election to preside over the proceedings of the Fifteenth Annual Meeting of the Inter-American Development Bank, and express my appreciation for the excellent arrangements made for our personal comfort and the efficient despatch of our business.

In my remarks yesterday, as outgoing Chairman, I drew attention to the challenge which the Bank faces this year in its effort to sustain adequate levels of economic growth, among member countries, in a world characterized by a degree of economic disorder unequalled since the 1930's.

In those remarks, I took the liberty of suggesting that our discussions might most usefully concentrate on suggesting what new responses by the Bank might be helpful and appropriate at this time. Let me now, therefore, indicate in a very brief way some thoughts in this regard.

Although the escalation in oil prices is, by no means, the only serious problem which developing countries face it is, for some of us, at any rate, the most urgent and immediate. As an oil producing region in which the impact of the oil crisis varies from country to country, Latin America is in a unique position to deal with the problems of individual member countries on a selective basis and within the hemispheric framework. This Bank itself is very strategically placed, therefore, in that it can be the vehicle for recycling surpluses within the region so as to help the hardest hit countries, that is to say, those who lack any cushion of substantial foreign exchange reserves, or any means of rapidly escalating their own foreign exchange earnings. It is extremely gratifying to see the initiatives that have already been taken by the Venezuelan Government, first in opening its capital market for a significant bond issue by the Bank and second, and most important, by the proposal they have put forward for consideration at this meeting and which is in fact currently being studied. It should certainly be possible to create a Trust Fund of the type proposed under the aegis of the Bank which could perform a signal service for the oil importing countries of the region, bearing in mind the urgent need for funds that are extended on a concessional basis.

It would not be realistic to assume, however, that any one country,

however generous and well intentioned it may be, could be expected to bear the whole burden of the foreign exchange problems within this region. We believe, therefore, that the Bank should seek to marshal some additional resources from the Organization of Petroleum Exporting Countries (OPEC) generally. In this connection, I was pleased to note a meeting of the heads of five major financial institutions in Washington last month which included this Bank, for the purpose of assessing the impact of the energy situation on the developing world. I do hope that this will urgently be followed up by an approach for significant financial assistance from those countries in the Middle East who have surplus resources that are currently seeking investment outlets. We do hope that the Inter-American Development Bank will be pressing hard for some share of these resources.

The steps, now being taken to promote the admission of new non-regional countries as members of the Bank, must also be looked at in the context of the urgent need for a buildup of resources. It is disappointing, of course, that despite the energetic negotiations in which the President and his staff have been so heavily engaged, it has not yet been possible to reach the \$500 million cash target set at last year's meeting. The resources so far mobilized, however, are by no means insignificant and there is every reason to believe that if the same energetic pressure is maintained we will reach the target.

We would support also the proposal for immediate study of the amounts and types of resources needed for increasing the Bank's ordinary capital resources, as well as the Fund for Special Operations after 1976.

Looking inwards, we suggest that the Bank re-examine its operating policies and procedures critically so as to ensure that they meet the needs of the current situation.

We take particular note of the proposal presented by the Governor of Argentina at the Committee of the Board of Governors in Port of Spain which relates to this particular question. Even if we solve, or at least alleviate, the short-term problem posed for the oil importing developing countries, the medium- and long-term problems remain. The fact is that most developing countries need to get loan funds into active projects, rather more quickly than is usually possible under current procedures.

We believe that it is quite practical, without sacrificing any fundamental principle, to channel funds into the developing countries without always being tied down by the requirements of special project loans. Naturally, this would have to be done on a selective basis and limited to cases where a genuine need was demonstrated.

Insofar as project loans themselves are concerned, the Bank should also consider financing a larger percentage of project costs than is now being done.

I would strongly support the strengthening of the Bank's facilities for export financing. The need of developing countries to increase export earnings is obvious. We, therefore, would support on principle any program designed to facilitate the expansion of exports of member countries both within and without the region, but we would add the qualification that such a program should be supported by specially funded resources rather than from the ordinary resources of the Bank.

There is also room for review of the Bank's lending program in other areas. We have recently seen a major advance in that there is greater concentration of lending to the economically less developed countries of the region, particularly in the new criteria for loans from the Fund for Special Operations. There needs to be a further refinement of this, however, in that specific emphasis should be placed on oil importing developing member countries. Sectoral priorities may also need review. Clearly projects for energy and energy substitutes should have high priority. In view of the world food production and fertilizer situation, agriculture must have great emphasis. I welcome the fact that the Bank is already moving in this direction but it should be noted that in 1973 Bank lending to the agricultural sector declined slightly percentage wise in comparison with the average of the previous decade. This should definitely be reversed from 1974 onwards.

In conclusion, Mr. Chairman, as the Bank adapts itself to cope with current pressing economic problems, it should always continue to be mindful of the need for Latin American and Caribbean unity and solidarity as a source of strength. It is particularly pleasing to note and to extend to you, Mr. President, our very special appreciation for the progress which has been made by the Committee of the Board of Governors in finding a formula for the admission of Guyana and the Bahamas to the Bank. We are convinced that the Caribbean can make a significant contribution to hemispheric solidarity and strength and that the steps recently taken to promote the integration of the Caribbean more firmly into the region will prove to have been fully justified and worthwhile.

We are also very pleased that the Committee of Governors has found a way to extend economic assistance through the Caribbean Development Bank to those territories in the Caribbean that are not members of the Inter-American Development Bank. It is a practical and progressive approach to use financial intermediaries of this kind, so as to enable major international institutions to make assistance available to very small countries.

Mr. Chairman, there is no doubt that the year 1974 will be a critical one for the developing world. We have seen in the past year many of the comfortable assumptions on which the prognosis of continuing and even development for poor countries has hitherto been based, either falsified or put in doubt.

Whether we, the developing countries, merely survive or whether we continue to make positive progress in the struggle against poverty and deprivation depends in large measure on the response which institutions such as this are able to make within this current year. I have every hope and confidence that our Bank will meet successfully this historic challenge.

**Address by Mr. Guillermo Marcó del Pont Santistevan,
Governor for Peru and Minister of Economy and Finance**

In my capacity as Governor for Peru of the Inter-American Development Bank, I am gratified to represent my country in the dialogue wherein the member countries of the Institution state their position each year.

The cordial hospitality extended to us in the land of O'Higgins makes our intense work at this inter-American meeting much easier. In thanking the host country for its welcome, I wish to express the special greetings of the Government and people of Peru to the Government and people of the sister Republic of Chile, expressing our very best desire for continual and fraternal relations between both countries, which become stronger with each passing day, particularly within the joint development effort carried out in the Andean Group.

In participating in this meeting we are bound to point out clearly the special responsibility of this meeting, which, in our view, should move beyond the regular periodic review of the performance of the Bank, that has been the normal and explainable procedure of previous meetings held under different circumstances, to examine frankly and in a constructive spirit, the fundamental problems of the Bank.

The brevity of this meeting and the urgent nature of the matters to be considered, justifies our not making at this time a detailed analysis of the Bank's achievements in the field of loans and other forms of cooperation. In this regard, we merely wish to stress the Bank's increased financial support to the less developed countries of the region and the setting up of a mechanism of annual programing which constitutes the first attempt to rationalize the percentage distribution of the loan portfolio. Above and beyond any discrepancies in regard to the amounts tentatively allocated to each country, it is important that we Governors should have some indication of the resources that the Bank can place at the disposal of our countries. It is to be hoped that in the implementation of such programs no member country will be excluded for a whole year from any loans, as we regrettably note happened again in 1973.

The reference made in the Annual Report to the fact that at the expiration of the term provided for increasing the resources of the Fund for Special Operations the major shareholder had not fulfilled its contribution is cause for concern.

I now wish to comment on two topics of the Agenda which I con-

sider of vital importance for the future of the Bank. In the first place, I wish to refer to the work carried out by the Special Committee in charge of the possible admission of nonregional countries as members of the Bank. This is a matter that arose in response to the need to obtain further financial resources, but which should now be dealt with in a manner consistent with the current revision of the inter-American system and take into account other factors connected with the world energy crisis. Under these circumstances, it seems neither opportune nor advisable to adopt a final decision on such an important matter at this meeting.

On the other hand, the topic "Adaptation of the Agreement Establishing the Bank to Prevailing General Conditions and the Immediate Outlook" has, as we will mention later, taken on substantially different dimensions from those it had in 1973, and consequently calls for a restudy that would be consistent with the new reality. In our view, to change only one section of the Agreement Establishing the Bank in order to admit nonregional countries to membership is to overlook or postpone substantive changes which can no longer be deferred.

Mr. Chairman, we are gathered here, within the framework of an unprecedented international economic and political situation, wherein the emergence of our peoples, to the extent that it is concerted and denotes solidarity can attain new significance in the world of financial relations. We observe today that the very factors that have brought about a "crisis"—to use the word with which such phenomena have traditionally been described—have also facilitated the generation of large financial surpluses, the disposition of which should be the subject of careful study.

This situation calls for imagination on the part of the financial community and an effort to seek a way to channel such surpluses in the service of the developing countries in their balance of payments problems, which have become more acute precisely because of higher prices and, fundamentally, in accelerating the pace of their national development.

This surprising but evident reality should therefore be the object of special attention on the part of the Latin American countries, not only in the political framework of inter-American relations, but also in organizations such as ours, which is called upon most particularly to take cognizance of the new situation and to adopt new measures to meet that situation.

We are all aware that the Latin American development process is increasingly requiring new sources of financing. As a result, our countries are facing the challenge posed by their needs, trying out different alternatives and means of attracting resources, both in an isolated man-

ner and through subregional integration systems. At the same time, fresh contacts are being made and procedures adopted for bilateral credit arrangements, often under similar conditions and obtained much more rapidly than those offered by the Bank.

The simple truth of events leads us to envisage a new integrated and effective financial system for the region's development, which will constitute a major factor in the great task of achieving the balanced and autonomous development of our countries, and make it possible to attain the goals that led to the creation of the Bank.

In effect, the Bank was established at the end of the 1950s as a solution to the problem that Latin America had been experiencing for over thirty years. At that time there was a partner who accepted the major responsibility, in exchange for the contribution of the other members who consciously accepted statutory limitations, but within an equitable situation that excluded the possibility of abuse of power. Thus, an inter-American multilateral development scheme was agreed upon, which combined human and financial resources in the hope that it would soon attain a general progress that would bring just benefits to the entire region.

However, from the outset the need was felt for maximum flexibility in the interpretation of the Agreement Establishing the Bank. Social development thus appeared as being inherent to economic development; although in practice this meant that conceptual discrepancies, though steadfastly defended, had to be overcome. The Bank pioneered in financing education, which opened the road for financing of other activities formerly forbidden to international banks, such as housing, sanitation, and, more recently, urban development and tourism. Regional integration is another concept sponsored by the Bank when it was still a cause for doubt and suspicion both in and outside the region.

Furthermore, there were instances where honest attempts at flexibility in interpretation were defeated by the wording of the Establishing Agreement which sets limits to application that even now cannot be overcome. In financing foreign trade and in the marketing of bankers' acceptances, to cite only two outstanding examples, Latin America is aware that it has been unable to depend on support from the Bank for reasons apparently grounded in legal statutes, even though the certainty exists that foreign trade is truly a fundamental instrument for the development of the region.

Even more serious has been the proliferation of various amendments adopted by the United States Congress, following in the wake of the influx of powerful lobbies representing transnational interests, which seek to restrict and set conditions upon the free use of the Bank's resources as economic sanctions in situations where the countries are at

odds with the majority shareholder. The multilateral character of the Bank has given way to a bilateral conception, in which only one of the parties in large measure sets the terms and dictates the rules of the game.

In other words, in spite of past and present efforts, as the original terms of reference have changed, the original bases upholding the Establishing Agreement have become untenable.

The fact is that through the quorum of members required to constitute its principal governing bodies, as well as through the method employed in computing the majority for decision-making, there yet prevails a system of institutionalized hegemony that exerts control over the Bank's most important decisions. This inevitably leads to submission of the conduct of the Bank's business to a single source of power.

Again, the proportionate share with which the member countries—be they borrowers or not—participate in making decisions through the amount of their contributions, still does not allow them suitably to participate in the Bank's decision-making system. This form of control has a twofold negative effect: on the one hand it creates an obvious concentration of decision-making power in the face of the expectations of borrowing members with similar problems; and on the other, it discourages interest by new contributors who cannot be offered suitable participation.

The recent prospect that some Latin American countries may place funds with the Bank in excess of their current contributions enhances the merit of our proposal. Thus the offer made some days ago by the President of Venezuela, Carlos Andrés Pérez, confirms once again the devotion to regional concerns and the solidarity of this sister nation. The Bank should gladly and with steadfast will take up this offer, proceeding with the task of changing its structure in light of new and positive realities.

To modify the statutes which refer to the decision-making system is not enough. It is equally important that Latin America obtain funds in increasing amounts and on suitable terms for financing its development. As development planning grows more advanced, the need grows for scheduling financing on increasingly meaningful terms. This means that the Bank must adopt effective criteria and institute vigorous mechanisms to expand its resources, which may be drawn from countries within as well as without the region. Active consideration should also be given to securing the participation of those nations of the Third World which are in a position to provide financial surpluses.

In order to implement the proposals approved at this Fifteenth Annual Meeting, we feel that the Special Committee should be charged with presenting specific suggestions to the Governors for revising the

Establishing Agreement according to the appropriate procedure and before December 31, 1974. Within this time we should be able to reasonably think out the consequences of this measure, and with our countries' willingness to bring about change we can arrive at a sound and well-thought-out institutional position.

Mr. Chairman, the considerations we have brought out so far, which are an expression of my country's concern with improving the financial organizations of the region, now lead us to propose the urgent need to restructure the Inter-American Development Bank, changing the balance of power within its decision-making organs, providing it with funds of a sufficient magnitude, and affording it a measure of institutional flexibility consistent with the financial standards demanded at this time, and within a just consideration of the fundamentals of the autonomous development of the region.

The accomplishment of all of these aims will fulfill the criteria that my country has maintained at the last few meetings of the Bank, which are accurately expressed in the remarks made in Lima in 1971 on the occasion of the Twelfth Annual Meeting of the Board of Governors by General Juan Velasco Alvarado, President of the Revolutionary Government of Peru, when he pointed out that:

"... the Inter-American 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."

The decisions that we adopt on this occasion will be indissolubly linked to the result of the only struggle our peoples can carry out: the struggle against underdevelopment, against economic dependence, and for the human fulfillment of each Latin American.

**Address by Mr. Paul Gérin-Lajoie,
Alternate Governor for Canada and President
of the Canadian International Development Agency**

I wish to speak in the language of this country and of most of the countries present here, to express Canada's solidarity with the other countries of the hemisphere. The new difficulties we are all facing, although in varying degrees of intensity, have made the interdependence of our peoples felt in a more perceptible manner. I therefore consider that the meeting of the Board of Governors of the Inter-American Bank provides us with a fresh opportunity to strengthen our necessary solidarity.

Although Canada is one of the newest members of the Bank, it might be useful to recall that our cooperation with this great inter-American institution goes back many years. Indeed, we shall soon celebrate the tenth anniversary of our effective participation in the Bank's activities through the Special Fund which Canada entrusted to the Bank. During the course of that decade we have observed real progress in our cooperation with the countries of Latin America; a progress which has been marked, among other things, by our admission as a permanent observer to the Organization of American States, by our accession to the Pan American Health Organization and to the Inter-American Institute of Agricultural Sciences, and also by our increasingly close cooperation with numerous Latin American regional organizations, such as the Economic Commission for Latin American and the Andean Group.

Canada's participation in the Bank is therefore one facet of our relations with the countries of the hemisphere; it is the beginning of a dialogue that is and will increasingly be taking place between the Canadian people and the other peoples of the Americas. It is with this dynamic prospect that we wish to be active partners in seeking and in putting into effect adequate solutions to the new challenges that must be met by our societies and our economies.

Since the cooperation undertaken by Canada with Latin America takes the form of a dialogue, it presupposes mutual respect and, above all, respect for the postulates of pluralism and self-determination. We are still young countries, for whom the horizons of the future count as much or more than the achievements and the heroic feats of our past. It is in this youthful thinking of our countries and our peoples that we must seek the inspiration to build a human, egalitarian society in which the fundamental needs of man and of all men will be met. We are far

from having found the solution to all problems but we are ready to seek them, to depart from beaten paths, to examine with our partners new ways of cooperation, for we are convinced that both Canada and Latin America must gain from such an approach. Isolation leads to sclerosis; dialogue, on the contrary, creates new life and opens the way for mutually profitable innovation.

The dramatic changes in world relations, what we have come to call the energy crisis as well as the international monetary crisis, lead us all to reconsider deeply once more the policies of our countries, not only in the light of our national interests but also from the angle of human society on our planet. It is in this global perspective that we place Canada's efforts to diversify its trade and intensify its cooperation and its relations with Latin America. Awareness of our general interdependence causes us to realize that our relations with Latin America fit in with a long-term movement toward the complementarity of our economies, of our cultures and of our political and social aspirations. If we do not stand by passively as mere spectators, this situation will lead to changes that will generate the goods and services necessary for a quality of human life, in the broadest sense of the term, where there will be no scarcity of essential goods or lack of social justice. Unfortunately, present-day society, in many countries of the Third World, is suffering the effects of two simultaneous and cumulative crises: the energy crisis, which threatens the world economy and neutralizes the efforts toward economic and social progress of the developing countries that are not oil producers, and the world food shortage that sows anguish, destruction and death in Asia and Africa and constitutes a permanent threat in certain regions of Latin America.

In this context, I would like to repeat a thought from the message I published on the occasion of the New Year under the title "Man first": "The prospects lead me to think that we shall need more than men of good will to restore the balance, to plan the utilization of world resources and to change consumption patterns. We will require Governments of good will. The need to revise development patterns is becoming pressing both in developing societies and also in the industrialized societies. We have not foreseen the changes in our way of life. Such changes are imposed on us now, in spite of ourselves" "There remains for us collectively the possibility of choosing the form that the society of tomorrow will take." This society will be more human if our development objectives go beyond the mere criterion of growth and concentrate on solving the problems posed by the large concentrations of population: the unequal distribution of income which leaves a growing percentage of the inhabitants of the large cities and rural areas on the fringe of progress; the unemployment that deprives so many men of bread and

dignity; the absolute poverty that affects the lives of the people in at least 25 countries of the world, as well as those of the citizens of various underprivileged areas in many other countries.

We therefore believe that growth for growth's sake is an outdated idea and an outworn policy. We must seek together a model of human society based on equality and social justice where the wealth of a few is not derived from the privations of the majority. We are ready to reconsider and to work in order that the time may be brought genuinely closer when the economically more advanced societies and the developing countries will accept the reason for their dialogue on cooperation, which is none other than "man and all men." It is, above all, at the level of man that we will discover the common interests of our cooperation, which should benefit our people and the people of the countries with which we cooperate.

Mr. Chairman, a while ago I referred to the profound and dramatic changes that have taken place in the international scene since our last annual meeting. The international monetary crisis and the energy crisis oblige us to think anew about the manner in which we have hitherto approached the problems of developing countries. It is still difficult at this stage to gauge the exact import of these events and their future significance for each of us. Are we witnessing a normal cyclical phenomenon or, on the contrary, should we detect in the upheaval of the past few months the germ of a revolution that will permanently affect the relations between the countries that produce raw materials and the consumer countries? It is not yet possible to give a clear-cut answer to this fundamental question. Yet, there is no doubt that this energy crisis threatens the world economy, and particularly the development efforts of the poorer countries that do not produce oil. Obviously, we must ask ourselves what other consequences of these upheavals will be, what conclusions an institution such as the Inter-American Development Bank should draw from this new situation. These far-reaching changes call for a reexamination of the Bank's policies.

Many of my colleagues around this table will recall that already last year the Canadian delegation stressed the special interest that Canada attaches to the question of the distribution of the Bank's financial resources and, in particular, those of the Fund for Special Operations. We continue to attach vital importance to this matter and it seems to us more than ever opportune to ask ourselves squarely where we want to go.

In this regard, the basic document that accompanies the Resolution of the Board of Executive Directors proposing a study on the replenishment of resources stipulates that "any projection of amounts and of the nature of the resources which the Bank will need during the second half

of the decade should not be limited to an extrapolation of the past, but that the complexity and the magnitude of the changes that have taken place should be taken into account."

The same philosophy should be applied to the allocation and the distribution of funds, since the economies of the member countries will experience large variations in income as a result of those changes. Unfortunately, it is the economies of the less developed member countries that are most affected, their capacity to repay regular loans being reduced and their need for financing at concessionary rates consequently being increased. This occurs at a time when a decrease in the availability of concessionary fund is expected; it will therefore be more than ever necessary to see that better use is made of the resources which in relative terms, will be decreasing. In its current practice, the Bank takes this state of affairs into account to some extent. Thus, we are channeling a growing proportion of the Bank's concessionary financing to the less developed countries. I am happy to see that our most advanced member countries continue to recognize the more pressing needs of others.

While much has been done in this direction, it seems to me essential to develop a policy of distribution of special funds that makes it possible to channel an increasingly larger proportion of our concessionary resources to the less privileged countries. While continuing in that direction, I would like to stress, Mr. Chairman, that we must not forget the special needs of the more developed countries in the social sector, in the field of education and as regards the transfer of technology. Any study of the Bank's lending policy should take into account these various problems which are all interconnected. To that end, Canada has once again instructed its Executive Director on the Board to continue to promote a systematic review of the Bank's lending policy.

Canada hopes that an analysis such as this will make it possible to identify in 1974 the roads to be followed to adapt ourselves to the new economic conditions. The Inter-American Development Bank, ever since its establishment, has shown itself sufficiently flexible to meet the challenges posed by the events or circumstances of the moment. Once again, this year, this adaptability will have to be displayed. I am sure, Mr. Chairman, that we will, together, rise to the situation and formulate the new policies required to achieve the cooperation of which we are all spokesmen.

**Address by Mr. George P. Shultz,*
Governor for the United States
and Secretary of the Treasury**

First of all let me say on my own behalf, and on behalf of the American delegation, how much we appreciate the very warm treatment we have received here in Chile. I would have to say personally that while this is my first visit to Chile, I feel that I have been here before. Through the good auspices of Professor Arnold Harberger, who is a member of our Delegation, and others of the University of Chicago, we've had a stream of able Chileans come to study. Through them especially we've had some sense of the culture and of the aspirations of the people of Chile. I might say that this morning, particularly since it was so clear, we were able to see the snow covered peaks which do, in a literal sense, raise your eyes and perhaps that is a message for this morning.

I'd like to follow the pattern of my colleague from Canada and ask that my formally prepared remarks be distributed for the record for everybody to read. I hope that you will read them because so many people in our delegation worked so hard on it I would be ashamed if it went unread. But more to the point, the speech was read over by the members of our congressional delegation, and while it is my speech and I don't intend to attribute any of it to them, they nevertheless have gone over it and my impression is that they are in general in accord with it. I make that point because it is so important in our system of government that you listen not only to what someone from the executive branch has to say, but also remember that in the end the money is appropriated by the Congress, and the fact that there are six distinguished members of Congress here I think suggests the interest that they have and the willingness that they have to consider the subjects that we are concerned with here with great seriousness.

Let me make a few comments first about the Bank, and I don't think one needs to take very much time at it basically because things seem to be going well, but 1973 was a record lending year.

More than that the procedures for identifying and evaluating projects have been strengthened and there is ability to give more and more attention to the poorest of our members. We think that the Group of Controllers adds something to the structure of the Bank and that altogether the general thrust of activities has been positive. I want to com-

* A written statement by Mr. Shultz appears at the end of this speech.

ment some more as I go along on some of the particulars of that, but, I think all of this adds up to a vote of thanks to our President and all of his colleagues in the Bank for what they have done.

In a sense—and I don't believe this was said in so many words—the speakers preceding me acted on this notion: that after 14 years we are here with a mature organization that is an ongoing and secure body and, in a way, the year 1973 having been what it is, our efforts should be to examine the Bank in its environment. In what ways are new things happening which we must adapt ourselves to, talk about, and try to refocus and redirect our activities. So it's in that spirit that I'll direct most of my comments here.

I think we all recognize, as have the previous speakers, that 1973 was in many respects a stunning year to the world. In all sorts of senses we had tremendous real growth throughout the world. In some ways that thrust brought us a major problem, the problem of a stunning inflation. And it was a special kind of inflation, for there was an ingredient to it that was special, namely the big increase in world commodity prices, of commodities traded on world markets. We all buy from those markets, and most of us contribute to those markets. So we are all affected by them. And looking at it from the viewpoint of the United States certainly the big lesson of 1973 was how much we are part of the world economy, and how much we are affected by it, as we have a record inflation for any peacetime period in the United States. Of course, as has been noted by everyone, we have added on to the inflation that was strong throughout the year, the impact of the tremendous increase in the price of oil with all of its implications, for not only the problems of international finance, but the special implications for the development problem of the poorest among us.

So that is the background, I think, of all that worries us and which leads me first to offer some comments on the monetary trading and investment system as it is operating and as our Bank relates to it, and then, second, to comment a little on the subjects of energy and inflation as such.

Now, certainly in the monetary area, as discussed in our session yesterday afternoon, we saw major shifts and major problems arising from the inflation and, particularly, from the oil problem.

I believe that, in a sense, the world escaped by the skin of its teeth from being bound by a very inflexible type of exchange rate system into a more flexible one which was a means by which we could accommodate the major shifts that were taking place without a crisis in our international monetary arrangements. Now, I don't believe myself that that lessens at all the need to carry through as we discussed here, the Governors, yesterday afternoon, a successful conclusion to the Committee

of 20 negotiations, but I do think that the flexible system served us well in this crisis, as have the normal arrangements of swap lines and the International Monetary Fund (IMF) drawings and so forth, which everyone has found helpful as a holding operation, while everyone tries to sort out intellectually and as the market sorts out in practice just what these tremendous shifts in the flow of resources mean.

We have found in many forums pledges that we shouldn't have competitive devaluations, and that we must be careful that there doesn't come about a kind of deterioration of trading arrangements in response to these financial crises, so that we do have time to sort out and to think things through in a longer timeframe. All of this and particularly the excruciating problem of the poorest of the developing countries which I won't elaborate because they've been treated very well here already, suggests the importance of addressing the problem of oil prices and of seeing not only how those who are reasonably well situated can manage—and countries like the United States can—but to see how we can find some concessionary basis as well as some give in the price structure for the poorest of our countries. In that respect I would like to welcome, as others have, the initiative of Venezuela as an oil-exporting country in our own hemisphere. I believe there have been initiatives elsewhere as well which are welcome, and I wish our President, Mr. Ortiz Mena, the best of luck on his trip which I think he will undertake right after this meeting to see what support he may be able to generate from other oil-exporting countries.

Just as an aside on the monetary business as we discussed yesterday in our little meeting here, I was certainly impressed by the strong sentiments expressed by many of you on the importance of maintaining the voice of developing countries and of Latin American developing countries in the operation of the monetary system. We certainly support that, and while I, as I said yesterday, still can't personally support the link as usually understood, I thought the suggestion made here for linking finance ministers' answers to this problem in a very basic way was a very interesting and a good one. Insofar as the subject of investment is concerned, I would like to note that we have removed in the United States all of the controls that had existed on the export of capital from the United States. We haven't had any consequential controls on the import of capital, so we are genuinely supporting the idea of free and open capital markets, which I think is generally beneficial to everyone, so that we can see capital able to flow to where it gets a reasonable rate of return and where it has security.

Now, that brings me to a point that was perhaps the most heated point at the session we had last year in Kingston. I remember my colleague from Peru and I going at it pretty hot and heavy, and after the

public speeches getting together and saying "well, all right, we are both people of good will and we should work at this and somehow or other we think we ought to be able to work our dispute out." I think the record is that we have worked it out. As of this moment there are no outstanding investment disputes in our hemisphere, at least that I'm aware of. So it seems to me this is a good time to see if we can put in place some sort of mechanism for handling them or at least for finding the facts about them. That was one of the suggestions that came out of Secretary Kissinger and your counterparts in the foreign affairs area in their meeting in Mexico. I think that is a good thing to try to do and I take it the enlistment that President Ortiz Mena mentioned yesterday of some distinguished people who might consult with us was perhaps somewhat in this direction. We would welcome that and work on this subject in whatever way people want to do.

But I can see from the speech delivered by my colleague from Peru, that our differences of opinion are far from over, even though we have settled our particular differences. I would only make this comment, that, if we cannot feel secure from expropriation and certainly from expropriation without just compensation, you will not have a flow of capital, public or private. I just think that's just common sense. It's not really even economics.

So, in any case, we support that idea not as a matter of control or anything, but just as a matter of how we can encourage the flow of capital around the world where it can do some good and be a positive force.

Now, as far as the trading system is concerned, I think perhaps the greatest impact of 1973 in the trading area has been in highlighting the problem of access to supply. Of course, it is a great problem, in trying to assure ourselves, all of us, that at least if we are willing to pay the price, we will have access to supply on a non-discriminatory basis, and can count on markets that have been traditionally open or on suppliers that have been traditional suppliers.

Now I would like to say very pointedly from the standpoint of the United States that in the course of the embargo, when the United States economy was literally cut off from supplies—which has brought us a decline in real gross national product in the first quarter, not a reduced rate of growth, but an actual decline as a result of the embargo—we noticed, and we will remember, that our suppliers from Latin America, Venezuela being our largest supplier, were reliable suppliers that continued to flow, and while we thought the price was a little steep, we nevertheless were glad to pay it and get the oil. But being a reliable supplier I think is a very important ingredient. We all need to think about that in terms of this problem of access to supplies.

Second, without wanting to belabor the point or develop why—I'd be glad to do it with anyone who wants to pursue it afterwards—I think having said that the United States economy has declined in its real GNP in the first quarter, we are seeing it move back up again as the embargo has been lifted and as some of the drags on our economy have turned around. We expect to see a resumption of real growth of the economy at least by the second half of the year. I make that statement because we are a big trading partner with many of the countries represented here and when our market is flourishing it helps your trade and when our market is not flourishing it's tough. I think that as the year moves along our market will be a flourishing place in which to sell.

Now, a few comments about the subject of energy. First, I would like to identify the fallacy of the long-term projection. The fallacy of saying: here is a certain set of things that are true for this year. Now let us project them for a hundred years and assume that nothing changes and isn't the result intolerable, and you can take almost anything and project it like that and you'll get an intolerable result, and the point is that people react, things change, there's all sorts of human reactions to anything that seems to be a major new development. I think that is taking place in the subject of the energy supplies and I would put forward the proposition to you that the higher the prices are in the short run, the greater the plunge will be in the long run.

Because I think all our history teaches us that when we have an event like this, there is a tendency to focus our creative minds and managerial energies on how to solve that problem. There is an opportunity for a great rate of return even from resources that were formerly thought to be costly to exploit, which brings on a strain. As that happens and as the scientific and engineering and managerial talent that's available goes to work on those things, the cost of what used to be thought of as high cost materials tends to decline. Certainly in the United States we are determined to make a strong effort of this type. When you consider the fact that known resources are gigantic and the scientific knowledge needed to exploit resources like oil shale, tar sands or what have you is known, we will surely see some breakthroughs not only in those areas, but in related areas of energy supply. And I would put strongly, would say very strongly, that if in the course of this work in the United States, there are breakthroughs, and we do manage to see how we can produce lower cost energy, certainly that knowledge will be made available. Perhaps it would be available through some aspect of the IDB's work, but we would certainly want to share that, particularly with the poorest countries, as it develops.

Now, I believe that there are some implications beyond that sort of general statement on the economics of the situation, and I hope that the

wish is not the father to the thought in what I've said. But beyond that I think we certainly have, we have an immediate crisis. And no doubt in the long run the prices will never go down to where they were before. I think that's probably so, and so we have a real problem to think about.

From the standpoint of the Bank, it seems to me first of all, the lesson is husband your concessionary resources and try to direct them more and more toward the poorest who have the greatest need.

Second, to pay special attention to energy-related types of projects. Although I think there is probably a need to be careful that we don't just allow the label energy to precipitate careless loans or careless actions, but at any rate to focus there I think is a worthwhile matter.

Then I would say beyond that that we recognize in the United States that we have a responsibility to provide additional concessionary funds. We are working on that. I've personally been working on it hard, not only in the soft loan window of the IDB, but also on IDA's replenishment. I believe in the end that the Congress will be persuaded, that the American people will be persuaded, that it is not only good citizenship in the world to provide these funds, but also good sense for the United States to do so. So we will continue our strong effort and I think in the end we will succeed.

Just a few words about inflation since it is so related to everything that we are trying to do in the area of development. As I've said the problem is a worldwide problem. From the standpoint of the United States, look at our consumer price index. For 1973 we had a 10 per cent increase which was terrible for us. Fifty-five per cent of that increase came in the area of food prices and 25 per cent of it came in the area of energy prices.

I've commented on the energy side. I won't say any more about that. In the area of food, we have approached that in the same way as I've described on energy, but of course the food has a shorter turnaround time, so to speak, than energy does. While it takes a year to plant most crops and harvest them, still there is a year in which you can expand the acreage available and so forth. You can get a relatively prompt reaction and we have gone all out in the United States on the production of food. I think that it is beginning to show, and that the prices have been coming down. I mentioned this yesterday and there were some quizzical looks around the room so I sent back to Washington to get the latest quotations, after the markets closed, and I got a cable that is labeled "Flash" so it must be the latest that there is.

Let me run down the list of some of the key food commodities: soybeans, which a year ago, on the Chicago Exchange, were \$6.53 per bushel, closed yesterday at \$5.93. I might call your attention to the fact that on June 5th of last year they reached the maximum price of

\$12.27. So comparing the high that we all focus on and talk about, with yesterday's close the decline was 52 per cent. That's a big drop in the price of that particular commodity which is such an essential and big source of protein around the world. I gather Peruvian anchovies are coming in again so that will contribute to whatever happens on the soybean price. Similar declines are registered in soybean meal, and a little less in soybean oil.

Wheat has been a great source of concern all around the world for the past year, and the price of a certain grade of Kansas City wheat got up well above \$6 a bushel at one time. People were shouting around how it would go to \$10. You know you always have people, I suppose there are in every country, who are always forecasting the worst and making people believe that it has already happened. But in any case yesterday, April 1st, at the closing, the market price dropped below \$4 for the first time in a long while. I think some of those countries whose markets were closed, who did not ship out what they had been expecting to sell for \$8, may now be scrambling around and be lucky to sell it for \$3.50. I expect there will be some wheat put on the market here. So that price has taken quite a nose dive.

Corn has gone down 21 per cent from its high point. Cattle, hogs and broilers all have gone down. In the case of cattle the high price in the mid-summer was \$56.75 per hundred weight in Omaha and in yesterday's close it was \$41.50. Similar declines are taking place in other commodities. So there have been big declines in these food prices already, and that will take some of the pressures off from the oil situation for those countries who are importing food.

I didn't mean to take so long in developing it but, overall I think some of these comments suggest that the inflation problem may come under better control. Beyond that I would say that from our standpoint we kept our market open. We allowed everyone access to that supply, and in retrospect, we can feel very good that we did perform that way.

Now let me just say in conclusion some words about the discussions of the Finance Ministers. I felt that the so-called shirtsleeve sessions that we had here yesterday just sitting around talking among the governors was very worthwhile. I hope that that continues. I believe that it is important to link Finance Ministers to this subject of the transfer of real resources as was suggested yesterday, partly because I think that marshalls a group who have by necessity the habit of realistic thought. When you are the fellow in your government that finally has to add up the totals and pay the bills, you have to be a realist. And so you bring that to the work.

But at the same time I have found, and I believe, that working on the subject of development keeps reinforcing on you as a Finance

Minister the most essential thing, and that is, that we can't allow ourselves to be captured by the numbers that we are dealing with. I think there is almost an inevitable tendency to blink at these numbers, to become fascinated with them, and to think in terms of them whether we are talking about deficits or balance-of-payments numbers or trade numbers or whatever they may be, to argue about them and to get into our minds the idea that these numbers are the reality.

When we come around here and we talk about our problems, it puts a different perspective on the numbers and we see what it seems to me we always must keep in front of ourselves as Finance Ministers, that the numbers are not the reality. The reality is the human need—the human aspirations, the human problems, human opportunities—that the numbers, in a sense, represent and that is what we must deal with. I think that the IDB as a bank brings us together and puts us in that perspective, and it's a very good perspective for everyone to have.

Well, I have talked longer than I should but this is my last IDB meeting so I take advantage of the opportunity to do that. I would like to close by thanking President Ortiz Mena with all my heart for the leadership that he has given us and the sense of reality and the sense of humanity that he combines in that leadership and also to pay my respects to all of the others who work in the Bank: Executive Directors, regular employees, who carry out the essential functions and of course, I suppose most of all to my colleagues as Finance Ministers. It is a group which I have been very proud to be a member of. I hope in the long history of the trade union of Finance Ministers, that once member means always a member. That's the way I'll think of you.

Written Statement

Submitted by Secretary Shultz

My thanks, Mr. Chairman, to the Chilean Government for the warm welcome which has been extended to me and the entire United States delegation. For many years—going back to my days as a professor at the University of Chicago, where we were privileged to see a number of able Chilean students—I have heard much of this country, its people, its rich culture, and its high aspirations. As we meet here today, we are all conscious of the large challenges before you, and wish you God-speed in your vigorous efforts to meet them.

These are times when economic and political relationships are changing rapidly and on a global scale. Our hemisphere is not isolated from the tides of change. Old assumptions have been called into question, and old ways of doing things no longer seem adequate. None of us is wise enough to know all the implications of the changes we see. But we

all recognize the need to move ahead—to fashion new principles where necessary—to work together cooperatively on the problems at hand. We, the Finance Ministers of the Americas, have in this common effort a special responsibility to participate, for many of our problems are economic in nature. Fortunately, we have a foundation upon which to build.

Here in Santiago, and in other forums, we can sit down and carry forward a frank dialogue in a spirit of friendship and goodwill to assess our needs and our capabilities. Through this dialogue, it will be possible to reach mutually advantageous decisions.

In the Inter-American Development Bank, we have an institution in being that has been a source of increasing strength and a focus for cooperation for 14 years. It has at its head a man of large vision—Antonio Ortiz Mena.

A new record was achieved in 1973 in the volume of Bank lending commitments, and I am even more impressed by the evidence that its procedures for the selection and development of sound projects have been further strengthened. The problems of the poorest nations, and of the poorest sectors in each country, are properly receiving more concentrated attention. The work of the Group of Controllers and the increased attention given internal evaluation add to our confidence for the future.

Indeed, after 14 years, I believe it is fair to say that the Bank is more than ever ready to assume a broader role in promoting hemispheric cooperation.

Today—when development is threatened by shortages of energy, food, and fertilizer, when monetary relationships are in a state of flux, when new trade and investment issues are thrust upon us, I want to range widely in my remarks. I shall address areas not traditionally identified with the work of the Bank but which are inevitably of great importance to this work. I do so in full consciousness of the studies and progress the Bank has made in assessing and in helping to meet the needs of the Americas.

First, I am aware that for many years, numerous Latin American friends have thought and stated openly that the United States—preoccupied with problems elsewhere—paid inadequate attention to the problems of the Americas. We do believe that many of our efforts in other parts of the world spared the Americas serious problems. Nevertheless, last year, at Jamaica, I attempted to make a simple point—*we do care*.

I believe that fundamental point was the message that Secretary Kissinger brought to the meeting of foreign ministers of our nations convened in Mexico City just over a month ago. Out of their discussions, ranging widely over political and economic matters, a new understanding and a new spirit have begun to emerge.

We can sense the challenge. Approached with realism, with candor,

and with a new solidarity we can meet that challenge. That is the aim of the United States.

As Finance Ministers, dealing every day with hard facts and pressing problems crying out for decisions and resolution, we know that hortatory statements and vague principles are not enough.

We must be able to do tangible things. We must realistically appraise our capacity to act—to deliver what we promise.

Not least, we in the Executive Branch of the Government of the United States can never forget that we cannot act alone, without the broad support of the public expressed through its representatives in the Congress. For that reason, I am particularly pleased that we have with us a distinguished delegation from the Congress whose interest in the hemisphere is equal to mine. Their voices raised in support of the Bank, as they become convinced of its real significance, will have a definite and favorable effect in our Congress.

Permit me to review briefly some of the areas in which I believe we can work more effectively toward our common objectives.

First, we have supported a strong voice for Latin America in the ongoing process of *monetary reform* and in the *management of the monetary system*. In the proposed new Council of the International Monetary Fund, I believe we have found a promising approach toward strengthening monetary cooperation and the role of the Fund. The success of the Council will, in the end, rest on the ability of responsible national officials to work together in confidence and good will. Let us resolve that our dialogue in the Americas—a dialogue responsive to the needs of nations in all stages of development—will contribute effectively to that larger understanding.

Second, in *trade* we are also approaching new negotiations on a world scale. Every country represented here can benefit from reduced barriers to trade, and there are large strands of common interest among us to be pursued in these negotiations. In our preparatory work, we want to be alert to your problems, and we also want you to be aware of ours.

More specifically, I am hopeful that our proposed domestic legislation—which contains a provision for preferential entry into the U.S. market of products from developing countries—will be passed in this session of Congress. Before implementing that provision, we would welcome further analysis of your interests and needs.

For these reasons, we need to reinforce our consultative processes, and I am glad to be able to say that our Chief Trade Negotiator—Ambassador William D. Eberle—plans on visiting Latin America for that purpose later this month.

Third, as we work toward more open markets, we must be conscious of a *new threat to free trade from action to restrict supplies*. We favor

free trade, but it must be on a fair basis. Frankly, we are disturbed by some tendencies we see at work to restrict the supplies made available to the world market—either through exporter collusion aimed directly at influencing world prices or through export taxes and other restrictions aimed at insulating domestic markets from the general upward trend of primary-product prices. Indeed, the political processes in the United States, at a time of sharply rising prices for food, are not free of pressures favoring such insulation.

But I believe we are justified in pointing with pride to the fact that these pressures have been resisted—and we mean to keep our export markets open. But for the long run this commitment can be economically and politically defensible only in the context of reciprocal responsibilities. Cool and dispassionate international examination of this problem seems to me urgent. Ultimately, the problem and its solution are global in nature. But we have much to learn from each other in our own hemisphere as we approach even larger forums in the effort to develop acceptable codes of behavior.

The list of the issues that face us is long and complex. The problems of energy and inflation cut across all areas of economic activity and particularly affect development. For years, *the problem of inflation* was one endemic to developing nations and we often preached the virtues of restraint. Yet today the problem has become worldwide, crying out for a common effort in the interests of both our national and international prosperity. Since many of your economies are affected directly by the price level in the U.S., let me state simply that inflation is a matter of major concern to us and we will not be timid in attacking it. The worldwide supply shortages in basic commodities have, of course, made its solution and management more difficult—a fact which only underlines the urgency for all nations to follow responsible domestic and international economic policies. For our own part, the efforts we have made to expand food production seem to be paying off, with results now apparent in markets for raw agricultural products.

Energy poses the most serious current challenge to the world and the region. The abruptness and the magnitude of recent price increases have created problems that are virtually unmanageable for many of the poorest nations. Direct and urgent measures are needed to alleviate their situation. In this context, it is essential that traditional levels of development project assistance be continued by industrialized nations. It is equally essential that oil producers with excess revenues join in providing aid—particularly concessional aid—as well as conventional resources to the poorest. We welcome the initial positive response of the oil producers of this hemisphere—in particular Venezuela—who have announced their intentions to provide major help to sister nations.

President Ortiz Mena is to be congratulated on his recent initiative in calling together all the regional development banks in order to cooperate and coordinate the effort to obtain new resources from oil producers outside the hemisphere.

In our view, the operations of the Bank must be examined and reoriented to take into account the changed situation emerging from energy prices.

First, it will be more important than ever to husband the scarce concessionary funds of the Bank for the poorest.

Second, the increased economic value of energy products carries as a direct and logical implication that there should be a greater emphasis on energy. And this implication applies not only to project financing by the Bank but also to the allocation of local investment resources by the member countries. But it does not exempt the initiatives elicited by these new challenges to development from meeting the rigorous and professional standards which this Bank is trying to implement in its own work and to foster at the national level. Much hard professional work therefore lies ahead in identifying the types of investment whose attractiveness has been most enhanced by our new assessment of economic realities in the energy sphere, and in finding, and going through the arduous work of project preparation on the specific projects of each type to be implemented.

Third, the increased cost of energy has prompted the U.S., which now produces 85 per cent of its energy needs and 70 per cent of its petroleum needs, to undertake massive and sophisticated research on the development of all forms of energy. In view of the vast reserves of coal, oil shale and other resources available, and most importantly, of the creative talent now attracted to this effort from the relevant fields of science, engineering, and management, break-throughs toward more abundant energy at lower cost are probable. If so, these methods and their potential for lower costs will be made available, perhaps through the Inter-American Bank, to the poorer countries especially.

What has become abundantly clear in the past two years is that all of our major economic problems—money, trade, investment, development and internal growth and stability are inextricably linked.

While we have no shortage of forums in which to address one or another of these problems, they seldom are approached in full context. In years past, for instance, these meetings have properly concentrated on the specific needs of the Bank. In large part, they should continue to do so. But we can also use these meetings to look at the development problem in its broadest perspective.

I know from personal experience that the informal "shirt sleeve" session we had at last year's annual meeting made a large contribution

to my own thinking. The session yesterday was equally worthwhile from my point of view, and I hope such meetings will continue to be held.

If my perception of the value of these informal consultations is shared by others, the proposal—to make the mandate of the Committee of Governors ongoing—suggested yesterday by President Ortiz Mena makes a great deal of sense. And the U.S. would also welcome a commitment of all Governors to sit down at least twice a year in a frank and informal dialogue, once at the time of this Meeting—and once when we attend the Annual Meetings of the International Monetary Fund and World Bank. Between these two Meetings, the present Committee of Governors might act as a consultative and preparatory forum to enhance further the value of the discussion.

The agenda should, in my judgment, be flexible and organized around our common concerns. It would take as one point of departure issues affecting the Bank itself; but should range further afield into other economic issues of common concern.

Perhaps the clearest challenge at the moment is to *assure a continuing flow of financial resources to the poorer nations* of the region. This is an area in which we have some direct quantitative measure of results. Aggregate financial flows to Latin America have grown appreciably in recent years, reaching a total in 1972 of almost \$5 billion, 40 per cent larger than 3 years ago.

But such an aggregate figure hides as much as it clarifies about the nature of the problem and its complexities. There is evidence that the mix between public and private flows has changed substantially. For example, recourse by Latin American countries to international financial markets has, according to World Bank figures, expanded from \$500 million of gross borrowings in 1971 to \$3.1 billion in 1973.

This seems to me healthy and encouraging, for in part it reflects the stronger credit positions and rapid growth of many nations which are now able to go directly to world capital markets. Of course, the new pressures resulting from the oil situation raise questions as to the sustainability of these borrowing levels.

At the same time, we need to recognize that for many years to come, official assistance will be required. Those funds are scarce. We must utilize them with maximum effectiveness at the point of greatest need. Here lies the central role of the Bank itself. And, in performing this role, I believe the Bank would benefit from study of the ability of each of its members to acquire capital, from whatever source, as a basis for the Bank itself to see where its help is most needed.

You know of the difficulty we have had in funding the Bank and particularly the Fund for Special Operations in accord with the schedule agreed some years ago. Those problems grow out of the serious ques-

tions asked by our public and our legislature concerning the value and levels of foreign assistance—questions that led the House of Representatives in January of this year to vote against our proposal to replenish the International Development Association (IDA). We believe those questions can be answered. We are exerting every effort to carry our message to the Congress and to the people of our country. The IDA bill is now under review in the Senate and we are hopeful for early passage in that body. We also believe this year's and future appropriations will be forthcoming for the Fund for Special Operations in amounts adequate to maintain the momentum of that program.

But we must not ignore the basic fact that support for these programs depends upon a continuing record of performance in the Bank and other assistance institutions—and our ability to demonstrate that performance in down-to-earth, understandable terms. The Congressional delegation here today is a sign of our interest. Their participation in this meeting and the opportunity to visit projects is an integral part of governmental effort—by the executive and the Congress alike—to assure that our participation in the Bank is effective and that the benefits are understood.

Now the time is coming when we need to look ahead to the provision of new funds for calendar 1976 and beyond. I fully agree that the planning and presentation of specific recommendations for Governors by the annual meeting next year should be our goal. We are preparing for discussions of this matter during the summer, assessing realistically both the needs and the capabilities.

Unfortunately, the target we set for the effort to bring in new members has not yet been met. In our future financial planning, I believe we should not count on—but should keep open—the possibility of bringing countries from other areas more directly into the work of the Bank. The target contributions are fair and reasonable to the Bank and in proportion to the past contributions of members. I believe the target should not be reduced—and my conviction is reinforced by the changes in purchasing power that have taken place since the target was formulated.

So far as *private sources of funds* are concerned, I am particularly pleased that the tendency for many developed countries to restrain flows of capital has, at least in part, been reversed in recent months. Today, I know of no official impediments to the flow of capital from the United States, or indeed on the possibility of countries in good credit standing to tap international money markets. And there never have been significant restrictions on the movement of foreign funds into the United States in the form of either debt or equity capital. Just as we are striving to reform the monetary and trading order, we should

also be working to ensure that capital in its many forms can flow freely among countries to the benefit of all. If there are remaining problems in this area, let us appraise them together, and assess what needs to be done.

Now, obviously, the flow of private capital is directly related to the treatment that investment receives in the region as a whole, and in particular countries, as well as to the availability of supply. Last year at this meeting we spoke frankly and openly of the difficulties raised by the important investment disputes then outstanding and the need to resolve them, not in a doctrinal way, but pragmatically. I must say the results of this approach have exceeded my expectations. Today, there are no major investment disputes which have not been settled or are on a satisfactory road to settlement. The benefits seem to me demonstrable.

At the same time, we should take what steps we can to anticipate future difficulties, and avoid the threat that recurring disputes could affect not only the flow of capital and impede the transfer of technology carried by such investment, but also poison our overall relations. Sensitive to this need, Secretary Kissinger in Mexico suggested that we might consider the establishment of a regional factfinding body to help the conciliation process. Perhaps there are alternative ways to deal with these issues in a way consistent with the sovereignty and policies of each. If so, let us place them on the table for practical discussion in an appropriate body.

There are many other difficult economic problems which we will be facing now and in the future. But in closing let me say, I believe our greatest challenge lies in promoting the integral development of this hemisphere—to achieve the full potential of the new world. Of late there has been a disturbing trend for an increasing number of countries to believe that their own national interest can best be served by going their own separate ways. History teaches us a different lesson and I am convinced that it makes sense for us and sense for other nations to cooperate on a regional basis and on a global basis. Let us set about this task.

This is my last annual meeting as United States Governor for the Bank. I will shortly be returning to private life, but I wish to assure you of the sustained effort of my Government and my successor to the goals I have spoken of today.

In saying goodbye, I would like to pay especial homage—to President Ortiz Mena for his outstanding leadership in a time of great challenge for this Bank—to my fellow Governors for their spirit of friendship and professionalism—and to the men and women who make up this great institution, and who have worked the hardest at moving forward in practical ways the goals of all of our people—a prosperous and harmonious hemisphere.

**Address by Mr. Luis Fernando Echavarría,
Governor for Colombia and Minister
of Finance and Public Credit**

The representatives of the member countries of the Inter-American Bank, meeting once again in this beautiful Chilean land a year after our meeting in Jamaica, can add to the remark of a veteran politician that "a week is a long time in the field of politics," by stating that in the present-day world a year is a long time in the economic field. This meeting of the Board of Governors of the Bank is, without doubt, a very appropriate opportunity to attempt a detailed analysis of the most important events of the past year, apart from serving as a forum wherein to examine the activities of the Bank.

The year 1973 was marked by the occurrence and multiplication of events that a few years ago would have seemed improbable and which, having originated in the developed countries, prospered thanks to the unstable nature of their economies and to the policies they have followed. This situation has had strong repercussions in the developing countries, perhaps magnified by our own deficiencies.

Specifically, the disordered international monetary situation, with its exchange implications, the fundamental changes in the petroleum economy and the widespread food crisis, have substantially changed the picture we viewed a year ago and have led to economic results that have taken the form of shifts in the balance of power and substantive difficulties in the balance of payments of countries that hitherto had surpluses.

This can be observed in today's world-wide inflation termed, in the language of the press, two-digit inflation, which while originating in the industrialized countries, has affected the entire hemisphere giving rise to a situation both harmful to economic development and tending to accentuate the social imbalance between countries and within them.

This goes to show that the acceleration of present events, of a more unpredictable nature every day, has become symbolic of this decade. For instance, while not so long ago we witnessed the weakening of the value of the dollar which in post-war days stood for maximum security, we now see it regain some of its stability, though this fluctuates to some extent.

It is stimulating to note, in a world characterised by rapid changes, that the Inter-American Development Bank adapts itself with flexibility to new situations in order to update its operations. Our Bank has not

only shown the ability to look for new paths in the face of today's problems, but it has also evidenced cautious foresight. This is the appropriate time to recall the words of Antonio Ortiz Mena, President of the Bank, at the meeting of the Board of Governors held in Quito in 1972, when he emphasized the importance of increasing farm production and agricultural productivity in Latin America.

This increase is indeed necessary if we are to meet the food requirements of a constantly growing population, the present needs of international commerce, and the demands of certain domestic economic sectors in the process of development. The transformation and modernization of Latin American agricultural activities is a topic that is widely discussed in all countries. For a long time activities in this field have been criticized and numerous reforms have been considered inevitable. To meet the limited supply of foodstuffs and raw materials, a new concept is imperative on the part of the agricultural sector, which would enable it to set a goal in respect of the establishment and assimilation of modern techniques to increase unit yields while seeking greater advantages for the small farmer within the program of reform.

A policy of this type cannot be put into effect without simultaneously generating sufficient resources for its implementation. The Bank has consistently backed this policy, as shown in its statistics of loans by sectors, since of a total of \$6.3 billion, nearly one-fourth has been channeled to the agricultural sector thus giving it priority. It is our opinion that this policy should be stressed even more.

Allow me to refer briefly, as a subject of Pan American interest, to certain matters relating to my country and the energy crisis. The fact that we have an extensive area which is potentially oilbearing, does not preclude us from being involved in the problem. In the face of new circumstances our outlook could be quite different. Production and exploration at present levels will meet the demand till the end of 1975, but even the discovery of new oilfields would not solve our problem on a short term basis because of the time lapse involved in investments required for the transportation, refining and distribution of the crude oil. At present about one-sixth of our production is exported and the rest is consumed within the country.

With regard to our hydroelectric power, this is an important factor within the carefully controlled balance of our energy producing sources. The electric energy capacity has tripled since 1960, thanks in good measure to Inter-American Bank loans which in that field amounted to a total of \$227 million, accounting for 37 per cent of the total loans received from the Bank.

In view of prevailing conditions we ascribe high priority to the study of the various energy sources. This applies in particular to coal, since,

in the Latin American area, Colombia is a country that has abundant reserves of coal, estimated by some at as much as 50 billion tons. This product, the most economic type of fuel in the country, which is equally distributed over our territory, at the moment represents only 15 per cent of the present consumption of our four main commercial energy sources. Coal is also very important for the economy of Latin America as an input to steel mills, since the need for imported coke is estimated at 25 million tons. This natural resource should be the subject of technical study to determine not only its industrial uses, but also the technological development of its by-products. Herein lies an interesting and productive field for the Bank's financial assistance, which would benefit all Latin American countries.

The Bank was created, primarily, to assist in providing for the external financing needs of Latin America. We believe that it has done this job well and as times have changed it has performed others of equal importance. The reports presented to this Meeting are ample proof of this.

The characteristic spirit of our Bank can best be seen in an analysis of the cumulative figures posted during the life of the Bank. Of these I should like to stress the effort carried out in the field of economic infrastructure, which represents 36 per cent, and of social infrastructure which amounts to 22 per cent of the Bank's total loan volume. The total investment of \$20 billion mobilized, thanks to the loans that the Bank has granted Latin America, sums up in a forceful manner the satisfactory results which we can expect to see at this Fifteenth Annual Meeting of the Board of Governors. Another satisfactory result to encourage member countries is the rate, volume and proportion of disbursements which indicate a greater degree of activity than previously attained. The greater efficiency which this entails deservedly merits our approval.

It should be pointed out that only a few weeks ago the Bank called a meeting of the governing bodies of the five principal international financial institutions, with the object of studying the difficult situation that the impact of higher costs of imports, particularly foodstuffs, raw materials, petroleum and its by-products, created in developing countries.

In pointing out how this heavy load on the limited external resources affected the execution of development programs and growth prospects, the participants in that gathering emphasized not only the urgency of allocating additional external short-term resources—besides those necessary for development on a long-term basis—but also the need for specially favorable conditions that the oil-exporting countries would be

in a position to offer in view of their enormous accumulation of transferable real resources.

The member countries will undoubtedly demand a greater volume of credit, not only in order to finance their growing rate of development but to face the energy crisis. To collaborate with them, and taking into account that the programs of the Bank indicate that in 1975 there may be a scarcity of funds, the Bank should not only look for new resources but also for new sources of supply. Therefore, in addition to considering an increase in capital, it seems advisable to continue negotiations for the admission of nonregional countries whose governments show an interest in the development of our peoples, without limiting our independence in internal policies nor depriving ourselves of the capacity to decide in the Bank.

The Bank must find new capital resources. For this reason we commend President Ortiz Mena's initiative in exploring, jointly with the presidents of the other international development banks and with the International Monetary Fund, mechanisms and policies adequate to ensure that the resources of the oil producing countries be employed rationally in financing development programs.

In this context, the possibility of obtaining additional funds to counteract the initial impact caused by the higher cost of petroleum, as indicated by the Managing Director of the International Monetary Fund in Nairobi, would be of great importance and it would be feasible if that organization could obtain a loan from the oil producing countries. If within this criterion the negotiations with those countries take shape at the international level, it would permit the operation of mechanisms that would help to deal with this serious problem.

Incidentally, since theoretical suggestions are frequently the outcome of the rationalization of one's own interests, the reason given to developing countries for the inflationary effects derived from the special drawing rights, must have probably lost a great deal of its force. Based on that argument adverse decisions may be taken by the more powerful countries when they respond to arguments such as the link between the need for liquidity and the transfer of real resources from the developed to the developing world, but these arguments would be different were the needs to be in their own territory. Therein lies the importance for our countries to show a united front and to speak with one voice at the meetings to which we have access for the discussion of the great economic and financial problems of the world.

We warmly approve the announcement made early last March of an issue of 100 million bolivares of Bank bonds placed in the Venezuelan capital market, supplemented by another in the same amount by the World Bank.

We note with great pleasure the offer made by the Governor for Venezuela, in compliance with the declaration made by President Carlos Andrés Pérez on the day of his inauguration, for the setting up of a Trust Fund for Latin American development, using part of the resources accruing from the increase in world prices of fuel. This magnificent gesture of concern and Latin American sensibility exalts the Government of Venezuela and commits us all to greater solidarity. It is pleasing to acknowledge that the spirit which prevailed in our political emancipation is now shown in our support of economic emancipation, making us faithful and true interpreters of the ideals of Bolívar.

In this spirit, we hope that the difficulties which prevented the United States Congress from carrying out the international commitment to increase the resources of the Fund for Special Operations at the times and in the quantities agreed on, may soon disappear.

Before I finish I wish to say that it has been very satisfactory and useful for Colombia to be associated with Peru on the Board of Executive Directors, and we view with special satisfaction the events which have enabled our sister country to continue actively to transact its applications for credit with the Bank.

Fellow delegates, Colombia wishes on this occasion to reiterate its gratitude to President Ortiz Mena. The degree of progress attained is due to his talent and effort, and his will to plan for the future is an example to us all in this continent.

In this atmosphere of brotherly feeling and cooperation which prevails at the annual meeting of the Inter-American Development Bank, it is right that we should think of intensifying our efforts for the continued development of our continent. But it is also necessary to recall past achievements, more difficult perhaps but equally tenacious, which gave us greater support for our hopes of a joint Latin American effort. One outstanding example of this I have found in a letter written by Manuel Montt when he was President of Chile, that generous and beautiful country that today affords us its hospitality, and an attitude which is described in the words of its national anthem and which we here at this meeting have felt all around us, of benevolence and graciousness towards their visitors from abroad. The addressee of that letter was Florentino González, a member of parliament and candidate to the presidency of Colombia, who abandoned his diplomatic career in Chile to dedicate himself to the writing of juridical texts such as the Dictionary of Chilean Civil Law. The letter originated in the edition of a draft for the Code of Civil Procedure, which was considered a fortunate and necessary supplement to the Civil Code, a work undertaken in this country by don Andrés Bello. After numerous considerations on the work of González and on the existing analogy in the needs of the differ-

ent countries of our America, Manuel Montt wrote: "The precious gift you leave to Chile will also be a gift for the rest of our republics." We must reassert with the same enthusiasm the desire to attain a common destiny which was the thought that inspired the ideals of most of the fathers of our republics and which was always Simón Bolívar's dream for Latin America.

**Address by Mr. Jaime Moncayo García,
Governor for Ecuador and Minister of Finance**

We find it particularly gratifying to be in Santiago and to enjoy the warm hospitality of the Chilean people on the occasion of this Fifteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

Mr. Chairman, please accept our sincere congratulations on your appointment. My delegation is certain that, under your wise leadership, we shall obtain the successful results we so fervently desire.

This annual meeting, which the member countries of the Bank consider their most important financial forum, has a two-fold purpose: to evaluate the work done during the previous year and to strengthen the Bank's hand so that it may effectively attain its purposes and objectives to the benefit of the Latin American peoples.

In the face of the clear awareness our countries have of their problems and needs and of the critical circumstances prevailing in the international monetary, commercial and financial spheres, which tend to increase the obstacles and hamper the development of our societies, the responsibility of the Governors of the Bank becomes ever greater.

This situation renders it essential that countries and rulers adopt far-reaching measures and makes demands on international organizations, particularly ours, that we must be increasingly capable of fulfilling, through effective action and farsighted policies.

An important aspect of this eagerness for a positive response observed in the hemisphere and reflected in the Bank is the abandoning of formal speeches and getting down to discussion of ideas, the establishment of new mechanisms of cooperation and the refining of procedures to ensure more effective and timely action.

As regards the future course of the Bank, I wish to mention briefly some fundamental matters of concern to Ecuador:

In the first place, the multilateral nature of the Bank as a technical and financial organization at the service of its developing member countries must be preserved and strengthened. In this connection, we have drawn attention to the necessity that the decisions of the Board of Executive Directors be consistent with the unquestionable principle of keeping the Bank above any disputes of a bilateral nature, so that it may truly serve its lofty aims and not be used as an instrument of coercion against any of its member countries. The declaration of Tlatelolco, which reflects the new attitude of the countries of this hemisphere,

reaffirms that "external financial cooperation should preferably be channeled through multilateral agencies and respect the priorities established for each country, without political ties or conditions." I believe that this important agreement between Latin America and the United States should be reflected and faithfully applied in our institution and should serve as a guide for further strengthening the multilateral concept of cooperation embodied in the Bank. The increase in the volume of credit granted last year, the greater amount of technical assistance linked with future lending and the effective application of loan programming mechanisms, are very positive factors.

However, as regards procedures, I must note that the time-consuming and tedious procedures that accompany loan negotiations still subsist. Furthermore, in some cases there are certain requirements that unnecessarily complicate the execution of a project, or prolong the time before it is started, thus making fresh negotiations necessary which in practice only produce delays, very often unnecessary or unjustified, in the execution of projects. These delays are financially and economically costly for the borrower country and hold back the execution of other related projects.

It will be necessary to reassess these procedures with a view to more flexible and simpler operating procedures and to regain the sense of urgency required by Latin America. Moreover, we must urgently undertake the necessary changes in the Bank's decision-taking machinery and reaffirm in day-to-day practice the objectives and purposes for which it was established.

We are prepared to step up our internal efforts to this end, by streamlining procedures and steadily improving our ability to present clearly defined projects.

Additionally, I consider it highly desirable to broaden the field of action of the Bank's representatives in member countries, and to give them greater powers of decision on matters pertaining to the normal execution of projects, so that through their permanent and direct contact with the reality of the country and with the competent authorities, they might be in a better position to assess and solve, in the field, a range of questions that do not call for complicated procedures or analysis.

In Ecuador and abroad there were people who exaggerated our gains when oil exports were started in August 1973. Unquestionably these exports have had a significant and positive impact and provide us with a unique opportunity to speed up the economic, social and cultural development of our nation as a whole. However, against this favorable situation we must keep in mind the fact that Ecuador ranks very low on the scale as regards the development of its economic infrastructure and of its productive sectors, while it also has serious social problems

which call for considerable expenditures over an extended period since the situation which prevailed in the country before oil was struck cannot be altered overnight.

With the earnings from the oil it will be possible to attain investment volumes that will permit a faster rate of economic growth and social progress than in the past, thus bringing us nearer, along this difficult road of development, to those countries which have traditionally been better endowed than ours, and allowing us to lay solid foundations for a more just society that will be properly equipped for sustained development in the future.

The Ecuadoran Government is also fully aware that our oil production is modest by international standards and that to be able to ascertain our new resources we must take into account the increased cost of the imported goods necessary for our development, the negative effects of international inflation on the prices of foodstuffs and inputs we import and the need for large-scale support for agricultural production and the small farmer.

Mr. Chairman, it is indispensable that this Meeting give clear instructions to the Board of Executive Directors that will enable the Bank to have available additional resources on an urgent basis and from different sources. In the spirit of cooperation that inspires and guides the Inter-American Bank, Ecuador will most certainly contribute, within its means, to the Bank's efforts to increase its resources and step up its cooperation with the countries of Latin America at this stage, so complex derived from the current international situation.

This effort has been greatly facilitated by the happy initiative of Venezuela in opening its capital market to Bank bonds and setting up a trust fund which will greatly increase the capacity for cooperation of the Bank and will open up new dimensions in the theory and practice of financial cooperation in Latin America and the hemisphere.

Another aspect of great importance for obtaining new resources and strengthening our institution is the admission of nonregional countries, which we hope will become a fact in the near future.

Mr. Chairman, it is a pleasure to express to the President of the Bank, Mr. Antonio Ortiz Mena, as well as to the Board of Executive Directors, our warmest congratulations on the success achieved in the past year, especially as regards the volume of operations and to reiterate the appreciation and confidence of my Government over the sound conduct of the Bank's operations.

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

I join with other Governors in congratulating you on your election to preside over the deliberations of the Fifteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank. On behalf of my delegation I would also like to thank the Government and people of Chile for making the necessary arrangements for us to do our work.

President Ortiz Mena's Annual Report and his statement to us have been comprehensive and informative. We thank him for both. It is a source of great satisfaction to us that during the past year the Bank has been able to overcome the constraints of an increasingly difficult international economic environment and to record a very successful year of operation. And in this regard, Mr. Chairman, I am referring not only to the volume of new lending which reached a record level during the year and not solely to the progress which the Bank has made in assisting member countries in formulating and implementing solutions in new fields such as urbanization. I am referring in particular to the more intangible side of the Bank's progress—to the growth in the Bank's stature, in the minds of the ordinary people in the member countries, as a reliable ally in the development process and as a source both of finance and competent technical advice. Clearly this progress was only possible because of the imaginative leadership and the sympathetic professional competence that reside in the Bank. President Ortiz Mena, his Board and his staff deserve our warm congratulations.

Speaking for my own country, I thank the Bank for the support which it gave to our development efforts in this past year. The Bank not only provided two important loans to us but also responded expeditiously to our request for technical support in appraising a project of substantial size and significance related to securing effective control over our natural resources.

The Government of Trinidad and Tobago has taken the firm decision that the petroleum and natural gas resources which we are fortunate to have must be used to generate the optimal long-term effect on the social and economic development of our country—in the creation of jobs, the expansion of social infrastructure throughout the country, in the improvement of rural life and in raising living standards of the whole population with special emphasis on the lowest income groups.

The implementation of this policy is predicated on the establishment of energy based and energy using industries in the country. An integral part of this policy involves the combination in our country of our petroleum and natural gas with the resources, skills and capital available elsewhere. The people of Trinidad and Tobago will be associated as a full and effective partner in all these activities. In this regard the formation of joint ventures on a government-to-government basis or on the basis of government and private enterprise is being actively pursued. We expect the strong international financial institutions, such as the Inter-American Development Bank, to assist us to realize our legitimate aspirations not only through the provision of capital but also, and in particular, through the provision of impartial technical and financial advice.

Our existing economic structure, characterized by an intractably high level of unemployment and inadequate infrastructure, clearly determines that we would be preoccupied with the internal requirements of our country. Nevertheless, the Government, in keeping with its traditional policy, has decided to apply a part of the additional income which we expect to receive during the period of high oil prices to assist other countries of the region to maintain the momentum of their development. Our priorities in this regard lie with the countries of the Commonwealth Caribbean.

Mr. Chairman, when I addressed the Fourteenth Annual Meeting in Kingston last year, I drew attention to the inequities deriving from the exclusion of certain independent countries of the Caribbean from membership in our Bank, as well as to the urgent need for the Bank to direct its attention and its resources to the semi-autonomous countries of the Caribbean region. The distinguished governors will recall that I submitted a proposal which was accepted that machinery should be established to propose measures which would correct these inequities.

I am grateful for the prompt and effective response given by the governors to my proposal. The resolution approved by the governors is the result of one year of patient, conscientious and sympathetic study by the Committee of Governors under the Chairmanship of Minister José López Portillo of Mexico. I urge my fellow Governors, having given their unanimous support to the resolution, to ensure that the processes for giving legislative effect thereto are quickly completed. The Bank will then be able to play an active role in the development process of the Caribbean region which, historically, has held a special position in the development of the Western Hemisphere as well as in its relations with the rest of the world.

In advocating the special role which the Bank must discharge to all the peoples of this region, I recognize also the need for the Bank to

cast its net widely to mobilize resources for the development of the region. I therefore endorse the view that the discussions with the non-regional countries should continue with a view to arriving at a satisfactory conclusion.

Mr. Chairman, if our institution is to be alive to the changing realities of our times it is necessary that a continuous examination of its structure and operating policies should be undertaken. Certain aspects of the Bank's policies are now under review. We propose that the criteria and constraints currently employed by the Bank in lending for agriculture should also be reappraised. In general, we question whether the embargo on the use of Bank funds in the growing of certain crops is relevant in the light of the need to take urgent steps to avoid the food crisis that threatens the world. Quite apart from this, we urge that if any restrictions are to be imposed, they should not apply to small developing countries where the limitations of land space emphasize the need for special forms of agriculture. We consider it unrealistic that a peasant farmer, cultivating land inter-planted with coffee, cocoa and food crops, should be denied loan support from funds provided by the Bank.

Trinidad and Tobago has always sought to put the special position of the small developing countries of the region before the international community. We will continue to do so. These countries encounter special problems and constraints which impede their economic growth. But they can also provide valuable insights into the dynamics of the development process.

In the spirit of our continued support for the small developing countries of the region, Trinidad and Tobago has offered a loan of \$10 million to assist the Inter-American Development Bank in maintaining the momentum of its lending program, having particular regard to the needs of the countries of the Caribbean which have been affected by the energy crisis. I am pleased to say that the Bank has accepted our offer.

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

The setting for this Fifteenth Meeting of the Board of Governors of the Inter-American Development Bank could hardly be more propitious. The radiant skies of this land of splendid contrasts combine with the rugged grandeur of the Andes to inspire in us a clear and creative thinking in the search for just and balanced solutions to the difficulties that hamper the progress of our continent toward a higher standard of living for our peoples.

I should like on behalf of the Dominican delegation to express our sincere appreciation for the warm reception and hospitality extended to us by the people and the authorities of our sister republic of Chile.

This Fifteenth Meeting will provide us once again with an opportunity to review the Bank's performance over the past year and to examine new measures and policies for strengthening this vital source of financing, a decisive factor in the development of the majority of its member countries.

Witness to the Bank's great accomplishments during the past year in fostering Latin America's economic and social progress is the record volume of lending: \$884 million, up by \$77 million (9.5 per cent) over the 1972 figure, itself a record. The more salient activities of the Bank during 1973 include the negotiations for mobilizing new resources through the admission to membership of capital exporting countries from other parts of the world, and the increasing direct support that the Bank has been giving to agriculture, industry, electric power, irrigation, transportation, communications, education and tourism. It is a cause for the greatest satisfaction that in 1973 the Bank also made its highest contribution to the countries of relatively less economic development and the countries of insufficient market to help them in their aims of raising the economic and social well-being of their peoples.

Another cause for satisfaction is the strengthening and expansion of the Bank's important program of technical cooperation simultaneously with the broadening of its lending operations. This has been a positive factor in the success of IDB-sponsored development programs.

The Bank's nonreimbursable technical cooperation furnished to the relatively less developed countries has substantially improved the efficiency of their planning and preinvestment activities and of their development institutions and training programs. While these activities were

under way with highly positive results, extraordinary changes were beginning to happen in the structure and finances of world trade that have seriously slowed the rate of progress achieved by the region in the last few decades. These events lead us to consider that the Bank's work programs should accord high priority to topics related to the alternative solutions that we must seek to the problems of the urgent new needs of member countries whose economic structures are seriously threatened. This process of economic changes transformation, which calls for important changes in trade relations and in the mechanisms and international institutions that for many years have been regulating the established systems, is of particular importance for the majority of the countries of this continent, whose development is exposed to powerful pressures that it is beyond the capacity of individual countries to handle.

The economies of the developing consumer countries are being undermined alarmingly by inflation in the industrialized countries, aggravated by the rise in oil prices. It will take very little time for the scanty reserves and foreign credit of these developing countries to be swallowed up as a result of the growing shortage of the goods and inputs needed to sustain their development programs. The necessity is clear for our countries to protect their own interests by taking domestic measures that can alleviate the adverse effects of these economic events. Many countries, such as the small country that I represent, have already taken a number of measures of this kind. But these local efforts cannot suffice to withstand the tremendous external pressures which are bound in the end to prevail because of the inability of the countries to cope by themselves with the massive problems they face.

Mr. Chairman, what we are trying to point out in these brief remarks is that the magnitude of the problems we face transcends the limits of specialized meetings, not only because of the rapid and disastrous damage being done to the economies of the oil-consuming developing countries but also because these effects will reach the industrialized countries themselves and, therefore, the oil-producing countries. It requires little effort to see that at the present time we are witnessing the birth of a new era of economic colonialism in which the oil-consuming developing countries will have to work very hard even to keep pace with the imported galloping inflation which is gradually eliminating them from the consumer market. It is no secret to anybody that while the human population is growing, and with it the unsatisfied demand for basic food-stuffs, rising production costs must inevitably lead to a fatal broadening of the gap between the poor and the rich nations while the fateful burden of hunger, misery, desperation and chaos accumulates faster and faster.

If this gloomy situation is to be the outcome of the unceasing efforts

made over all these years by this and the so many other international organizations set up to work out all possible formulas for economic coexistence, for bringing people firmly together, for fostering collaboration in the pursuit of common goals, for achieving the laudable aim of helping each other through international agencies, for the benefit of all, then I must confess that the hard situation that has suddenly burst upon us reflects a truly frustrating economic and social state of affairs. But, Mr. Chairman, we should like to go on in the same spirit of optimism that has always guided us and to believe that in the search for the various alternative solutions to the economic crisis through which we are now living we shall choose the wisest course available to use, the one that takes into account the situations of all fellow countries of the world. And we should like to believe that the picture we have painted in the previous paragraphs is no reason to abandon that optimism that is our stimulus in the joint effort that we are being called upon, with the greatest urgency, to make.

We believe sincerely that the agenda items approved by this Fifteenth Meeting, the address by His Excellency the President of the Honorable Government Junta of Chile and the report of the President of the Inter-American Development Bank have already converted this meeting into one more forum in which it has inevitably been necessary to invoke this fundamentally important problem, which threatens the very bases of our civilization.

This being so we have found very timely those agenda items that relate to the adaptation of the Agreement Establishing the Bank to the realities of the present situation, and also all the other items concerned with action to strengthen the Bank, expand its operational capacity and scope and to provide it with the necessary mechanisms and instruments to help it perform of forecasting the region's potential economic and financial problems, contributing to the search for solutions to those problems and participating, with wider power, in the timely application of necessary remedial measures.

If the forecasts of continued inflation during the present year in the major industrial countries turn out to be correct, every day that goes by will demand a greater effort to avoid quickening the pace of deterioration of the economies of the developing countries, and sooner or later this deterioration will turn its destructive effects toward the industrial countries when they lose the growing markets that have been feeding development. Let us take as a simple example the case of the Dominican Republic, where the excess of its oil imports costs in 1974 over those of 1973 will alone absorb about 33 per cent of its export earnings. Now add to this the indirect effect of this input on the prices of other essential imports and it is quite clear what the outcome is going to be

unless rapid and definitive, not speculative, solutions, are found. Because the case of the Dominican Republic is not an isolated case but an example of what may well be happening in the third-world countries that do not produce oil.

It is clear that a realistic solution for avoiding a recession of unforeseeable proportions will necessarily have to take account of the economic future of all the countries involved, including the industrialized countries and the oil producers.

We claim this in the name of a member country of this community of nations which, after many long years of economic stagnation, is shocked by the present crisis right in the most constructive period of its entire history, in which all its people are imbued by a spirit of determination to overcome their difficulties and problems, a spirit of the kind that must have inspired all of those admirable communities which with, timely assistance like we are receiving from the Bank, have felt confident in their ability to launch their development process on firm and dependable bases. But we take the liberty of claiming it also on behalf of our sister peoples which, like our own, are putting forward their best efforts for development at this very time.

Before closing I should like to express the appreciation of the Government and people of the Dominican Republic to the Inter-American Development Bank and its authorities for their continuous efficient attention to our country's projects, and also warmly to commend the leaders of the Bank on the excellent work accomplishment in 1973 in pursuit of the laudable task of speeding up the economic and social progress of our peoples.

Finally, we should like to reiterate the invitation we made at the Fourteenth Meeting in Jamaica. The Government and people of our country would be delighted if the Governors were to select the capital of the Dominican Republic, the old yet youthful city of Santo Domingo, as the site for the Sixteenth Meeting of the Board of Governors, to be held in 1975. On that occasion the people of the Dominican Republic, with their tradition of hospitality, will spare no effort to provide their distinguished guests with the most propitious possible environment for the success of their work.

**Address by Mr. Héctor Hurtado,
Governor for Venezuela
and Minister of Finance**

It is an honor to address this meeting in Santiago, a city which has traditionally been an open forum for the ideals of justice and well-being for all the peoples of Latin America. Because it is the headquarters of the Economic Commission for Latin America and other international agencies, many of the ideas which make up current socio-economic thinking in Latin America have flowed from Chile. As a Venezuelan, I find it gratifying to be in the land where Andrés Bello produced the best of his wide-ranging contributions to freedom and culture.

A few weeks ago a new government, chosen in the electoral process, initiated the fourth five-year period of unbroken democratic rule. This is a reason for legitimate pride for us, since we are demonstrating that democracy is a viable system and the one which, with all its imperfections, is the best vehicle for attaining the aspirations of freedom, justice and well-being for our peoples, the ultimate aim of any development policy.

We have learned the painful lessons of our history, which have taught us how fruitful are tolerance and respect for one's opponent's ideas and how sterile is fratricidal hate.

Together with the strengthening of democracy, Venezuela's industrial base has been formed and secured over the past fifteen years. Nevertheless, we still have before us the considerable task of achieving satisfactory levels of efficiency, raising our productive capacity and diversifying our exports. This task is basically ours, but our awareness of the interdependence of Latin America obliges us to seek appropriate cooperation between our countries in order to carry it out. We have accordingly committed ourselves to a pragmatic and ambitious integration venture, in which we expect to share the tasks required by the common aims of the countries of the region.

Latin America has before it today an opportunity and a risk. We have passed beyond development schemes based on simple financial transfers and import substitution. Not only have we moved beyond these limited approaches, we have also raised the earning power of certain of our traditional exports. Regarding the latter, it is illuminating to note that we can obtain fair prices from the developed countries for our natural resources, provided we set up joint machinery for negotiating such matters. We nevertheless run the risk of not taking advantage of

this situation to establish solid and stable trade and financial relations with the industrial countries, by increasing our exports of industrial goods to those countries. Neither can we disregard the fact that the new prices for raw materials can place certain Latin American countries under balance of payments pressure, a situation which we must remedy by financial cooperation mechanisms and also by supporting their efforts to obtain better prices for their primary exports.

We have to note that these circumstances have arisen in a very special world context. The death certificate for the monetary system established at Bretton Woods was made out at the Smithsonian, but a new system to replace it has not yet been devised. In addition, the economies of the industrial countries have grown at an unprecedented rate that has brought about maladjustments which, in the absence of appropriate corrective action, have generated an international inflationary process which is today the most serious disruptive factor for world economic activity. This affects everyone, but particularly the developing countries, since the rise in the cost of capital goods and the technology they need to further their development is rapidly eroding the value of the foreign exchange earned from exports of their natural resources—in many cases nonrenewable ones.

The adjustments made in oil prices over recent months and which have put an end to the injustice suffered by the producer countries for many decades, have made various emergency measures necessary in different parts of the world. It would be unfortunate if these adjustments, which are but the compensation which the developing countries are today receiving through the oil-exporting countries—as a famous Nobel Prize-winner in Economics puts it—were to be put forward as the primary cause of the crisis in the world economy. On the contrary, the main responsibility lies with the countries which have held and still hold a dominating position through the concentration of the greater part of earnings, production and international trade. One of the clearest illustrations of this disequilibrium is provided by the fact that the United States, whose population is hardly 6 per cent of the world total, presently accounts for 33 per cent of world energy consumption.

It is painful to note that certain of the developed countries are using the new oil prices as a pretext for cutting down their already parsimonious contributions to the financing of the development of the poorest areas of the world.

Valuing nonrenewable resources and raw materials according to their scarcity and the effort invested in their production is no more than a means of making the international price system more rational. Venezuela, which has benefited from the new oil prices, is working to have this approach extended to the products of other Latin American coun-

tries. This fair correction happened to begin with our main export product. However, it is our belief that fairness does not accept discrimination and we accordingly intend to increase our efforts to have this more equitable situation apply to all.

Besides this initiative regarding prices of traditional exports, Venezuela is very much aware of its responsibility to take part in the development of Latin America through a real transfer of financial resources, in accordance with the principles discussed in certain instances and approved in others by the international community, through the United Nations.

In terms of the well-being of its population, Venezuela is a country that ranks well below the industrial countries which, although possessing abundant international reserves, have not come near to complying with the undertaking to transfer 1 per cent of their gross national product to the developing countries. Venezuela wishes to state in this meeting that it will honor this so frequently unfulfilled undertaking and in doing so will not impose any condition which could in any way interfere with the inalienable right of every country to determine its own development policies and aims. In other words, our contribution will not be a token and much less just one quantity in the arithmetic exercises in generosity performed periodically at the international community level.

The new resources which Venezuela is receiving at this time of disruption of the world economic system, do not change but rather reinforce Venezuela's traditional position in the matter.

In his inaugural address, President Carlos Andrés Pérez stated categorically the necessity of making Venezuela's experience with oil available to the countries of Latin America which produce other raw materials. We are accordingly holding discussions with the Foreign Ministries of the region in order to set up appropriate machinery for this.

The funds which Venezuela provides for Latin American development should be administered in a multilateral manner. Generally speaking, the beneficiaries will be the less developed countries of the region and the resources will have to be used, basically, for large-scale projects that will enable them to make better use of their natural resources.

Our solidarity with the Latin American development process cannot begin and end with the mere transfer of funds. Geographically and by our history we are part of Latin America. This means that our development must take place in close coordination with the region for the benefit of all. The monetary and fiscal re-organizations we are setting in motion include the establishment of a National Investment Fund into which will be channeled a substantial part of the increased earnings from our oil exports. These funds will be used internally as our capacity to apply them efficiently and effectively increases. The resources of

the fund will meanwhile be employed for financing operations outside Venezuela, including the purchase of bonds and participations in loans raised by international institutions. We are also preparing to open the Venezuelan market to bond issues by the more developed countries of the region, especially for projects which further Latin American integration, improve Latin America's position in international markets and make it possible to carry out genuine Latin American multinational projects.

Issues of the Inter-American Bank and the World Bank of 100 million bolivars each were recently floated on the Venezuelan market. We are studying the possibility of repaying in advance a large part of the debt we have contracted with the Bank, especially that received in soft funds, provided that mechanisms are set up that will enable reutilization of these funds to finance Latin American development.

This does not mean that Venezuela will no longer seek loans from the international finance institutions, since just as important as their financial contribution is the way they act as catalysts in our countries, promoting a substantial increase in the local funds available for investment, better orientation and preparation of programs and projects and, finally, stimulating improvement of the administrative systems employed.

As part of its cooperation program, Venezuela wishes to propose to this meeting the establishment of a trust fund to be administered by the Inter-American Bank as Trustee. As Venezuela will receive an appreciable proportion of nontraditional earnings, it is prepared to take the initiative in setting up this fund. However, Venezuela views it as a collective responsibility and trusts that the Latin American countries which possess resources will also contribute. The collective approach which Venezuela desires to see adopted for this fund also assumes that there will be no privileged positions or vetoes in regard to the application of its resources. No one country will be able to claim the right to lead or supervise what must be a collective activity. This means, however, that the aims and terms of reference for the administration of the fund must be clearly specified in order that it may have the widest possible scope and flexibility.

The basic aim of the fund would be to finance areas and projects that will make the greatest contribution to the development of the region. Special emphasis will be placed on coordination, as this must be a joint effort to assist the less developed countries. Similarly, the role which the fund can play in stimulating Latin American integration will be stressed. Generally speaking, the primary purpose of the fund would be to finance areas of importance for the region's development, this financing being provided, in the words of the President of Venezuela in his first address to the nation: "Without humiliating vetoes, with no

conditions but that it be used to promote the economic activities of interest to the multinational corporations, which by their influence are often able to paralyze the lines of credit to Latin America." It will therefore be a fund for developing the region's productive and exporting capacity and not one for strengthening the physical infrastructure, for which purpose international sources of financing are already available. All of these criteria will have to be the subject of careful study and negotiation between the Bank and the countries contributing resources to the fund.

The foregoing considerations are of special importance for the Inter-American Development Bank. The difficulties in obtaining funds from the countries which have traditionally been donors coupled with the worldwide inflation are appreciably reducing the value of repayments and earnings from the Bank's loans. In this connection, some brief comments on the Bank's Annual Report for 1973 are called for.

We are concerned about the stagnation in the volume of loans approved, since while there was an increase of 9.5 per cent in current dollars compared with 1972, this increase is canceled out in real terms by the decline in the dollar's purchasing power.

We deplore the delays by the United States Congress in approving the appropriations for the Fund for Special Operations, despite repeated prompting by the Chief Executive of that country. These delays now place the Bank in a position of uncertainty regarding the availability of resources in future years. To this must be added the right of veto that still applies in regard to that Fund, and which deters extraregional countries from joining the Bank.

It is not very encouraging that the Bank's efforts to cooperate more extensively with the English-speaking countries of the Caribbean which have become members in recent years have been ineffective. This may be an opportune moment to make a special declaration regarding one such country: although Venezuela has an old and delicate problem outstanding with our neighbor Republic of Guyana, the Venezuelan people and Government view Guyana's entry into the Inter-American Bank with the greatest good will and sympathy. We believe that all the cooperation which Guyana can provide or receive is of unquestionable significance for countries for which we have very profound feelings of friendship and solidarity. This is why, far from making the least objection to Guyana joining the Bank, we offer it our sincerest and most cordial welcome.

We feel obliged to express our concern about the very little that the Bank is doing in the sphere of Latin American integration. The list of integration projects referred to in the report is an extremely short one. We consider that the Bank has acted slowly and inadequately in rela-

tion to the subregional financing agencies. As the representative of a country that is both Andean and Caribbean, I must point out that so far not one single financial operation has been carried out with the Caribbean Development Bank, and only two, of small amounts, with the Andean Development Corporation.

Pursuant to Resolution AG-5/73 the Board of Executive Directors was asked to study the need for a general reform of the Agreement Establishing the Bank, not only as regards the matters which concern us here but also the structure of the Bank. The delay in carrying out this study prevents us from utilizing the present opportunity to adopt decisions on matters of such great importance for the Bank and Latin America.

However, the international economic situation, the position of the Bank and the new prospects that are opening for the development of Latin America oblige us to make certain points regarding the vital necessity of converting the Inter-American Development Bank into a Latin American Bank linking the Latin American countries as equals with the Bank's industrial member countries. This is no new proposal, since it has been put forward during previous meetings when considering the inclusion of extraregional members.

Making the Bank more of a Latin American institution in no way implies not recognizing the fundamental role which the United States has played in strengthening the Bank. It arises rather from the conviction that the time has come to convert it into an organization whose financial structure and administrative organization reflect primarily the interest of Latin America.

In Venezuela's opinion, the crucial point insofar as giving Latin America greater weight in the Bank is concerned, resides in the pressing need for the countries of Latin America to obtain, as soon as possible, a greater share in the Bank's ordinary capital, or for the Establishing Agreement to be amended in such a way that the fundamental decisions taken by the Board of Directors are in line with the basic interests of the development of Latin America.

This greater participation in the ordinary capital of the Bank is not in any way in contradiction with the participation and collaboration of the extraregional members or the maintaining of the transfer of resources to the region by the United States, in keeping with its tradition of hemispheric solidarity. To achieve this goal, we propose that the more developed countries of the region lend resources to those which must still be classed as less developed.

We want the industrial countries to participate in the Board of Directors of our Latin American institution to help us establish closer economic relations with them, but not to impose forms or patterns of devel-

opment, as all of our countries have reached the point where they are able to plan and direct their development independently.

The trust fund which Venezuela has proposed and in which we hope other Latin American countries will wish to participate provides a suitable means by which industrial countries can channel surplus savings into the Latin American economies. In contrast to the situation prevailing at the time the Bank was founded, today many of the Latin American countries enjoy a credit standing in the international capital markets which allows them to enter these markets as a group with only the backing of the Latin American community. Accordingly, we believe the trust fund should consist of a larger amount than the total contributed by the donors. Venezuela, and other members of the Organization of Petroleum Exporting Countries (OPEC), could purchase a proportion of the issues floated by the fund with that backing.

It is unfortunate that the Bank, unlike the trust fund, cannot have access to this potential source of funds, since the agreements for all the issues floated to date include a clause in which the Bank undertakes not to issue bonds in the world capital markets in an amount exceeding the unencumbered portion of the U.S. callable capital subscription, with the additional drawback that the Latin American countries' callable capital subscription serves as subsidiary backing for the Bank's issues. This clause should be omitted in future Bank issues. Indeed, we ought to examine ways of removing this restriction from issues already outstanding without impairing the reputation enjoyed by the Bank in the international capital markets.

Fellow governors: The thoughts I have expressed lead me to believe it would be useful to appoint a Committee of Governors charged with submitting within three months to a special meeting of this Board, its proposals for amending the Agreement Establishing the Bank, including even amendments for moving the headquarters, a matter which has been voiced in other meetings.

Venezuela's position at this meeting is based on a sincere interest of the people and government of my country in making this Bank more responsive to the higher goals of Latin American integration and development, that it contribute substantially to improving ever more relations between Latin America and the industrialized countries. We are fortunate in having an institution which over its 14 years of existence has shown a genuine desire to serve Latin America, the ability to adapt to changing conditions in the hemisphere and in the world financial situation, and an abiding determination to improve its performance from year to year. My fervent hope is that my colleagues in this Board will be receptive to my proposals for strengthening this priceless asset we have.

ADDRESSES

THIRD PLENARY SESSION

April 3, 1974

**Address by Mr. Carlos Chaves Bareiro,
Temporary Alternate Governor for Paraguay
and Undersecretary of Finance**

The Paraguayan Delegation to the Fifteenth Annual Meeting of the Board of Governors of our Bank—which I have the honor to head, in the absence of the Governor and Minister of Finance, General César Barrientos, wishes to take this opportunity, through me, to express both thanks and appreciation to the Bank and also to voice certain hopes and aspirations.

It is for us a great pleasure to be meeting here today under the symbol of the copihue, Chile's national flower, enjoying the never failing traditional hospitality of the heroic and cultured people of Chile, the glorious motherland of the immortal O'Higgins and of others who gave America its liberty and the land which nurtured one of the skilled craftsmen who created our Bank, Dr. Felipe Herrera.

We are gratified by the cordial welcome and kindness extended to us by the Chilean Government under General Augusto Pinochet and by the Chilean people, whose demonstration of true Americanism provides an ideal background for our discussions and decisions.

The 1973 Annual Report and the detailed statement made by the President of the Bank, Antonio Ortiz Mena, provide a picture of fresh successes achieved through his brilliant work and that of the Bank's Executive Vice President, Henry Costanzo, its Executive Directors and its technical staff. By constantly refusing to be thwarted by obstacles and difficulties they have succeeded in raising total lending and technical assistance to member countries, including the relatively less developed countries and those of insufficient market, to the highest level in the history of the Bank, bringing its total assistance in the 14 years it has been in operation to more than \$6.3 billion.

This development, for which countries like ours have been calling year after year, fills us with rejoicing and hope.

We also wish to applaud the efforts of negotiation accomplished by our Bank in raising increased financial resources among both member and nonmember countries. But there is another side to the successful picture of the activities of our hemispheric Bank; it is the general world picture of doubts and questioning, shadows and uncertainties, for the political, economic and financial events that disrupted the world during 1973 had wide repercussions in the countries of our continent, particularly those which, like Paraguay, depend for their development on for-

eign trade and have to import essential commodities such as wheat and oil.

The present energy crisis, particularly that of petroleum, together with inflation in the developed countries, has seriously affected our development activities and in many cases has generated grave difficulties.

The Government of Paraguay, presided over by our illustrious statesman General Alfredo Stroessner, has for many years been putting together a policy of stability built with sacrifice and an unbending will to succeed. In the present conditions the Government has succeeded, in spite of everything, in maintaining the external parity of the Paraguayan currency and in accumulating the highest volume of international reserves in the country's financial history. Nevertheless, it has not been able to avoid the difficulties associated with the domestic value of the currency, beset by extraneous problems and victimized by what has so accurately come to be called imported inflation.

Fortunately, Paraguay has immense potential resources—a characteristic shared by Latin America generally—and these, together with the manpower factor, are helping us gradually to overcome these difficulties through hard work, organization and the capacity to provide greater and greater incentive to both domestic and external private investment.

In light of all these problems it is this year more than ever essential to speak plainly, shunning euphemism, and avoiding at all cost resolutions that might simply be mere declarations, without any effect.

The need is greater than ever before for the three Americas to stand united—not only by the bonds of affection and understanding but also by a commitment to joint action in the economic and financial sphere.

The Bank, which has done so much for integration, should both provide the example and serve as one of the principal instruments for turning this dream into reality as quickly as possible. One of the major problems confronting us is that of the markets for our products. Let us therefore consolidate the markets constituted by our countries into one great market for all and at the same time work to open up the markets of other regions that may well be waiting anxiously for us to show that we can do it. If necessary, we must create more interregional mechanisms or instruments to ensure attainment of the economic goals of full employment, stability of prices for our products, balance of payments equilibrium and, as the net result, a solid and sustained economic growth.

Paraguay has succeeded in creating confidence in stability and progress under the law. It could be said that we are building a true national awareness as the means by which the people, the workers organized into unions, the farmers grouped into large cooperatives, may join hands

with the Government in seeking, within a framework of respect and common sense, the best solutions to all the innumerable problems that arise every day in any country which, like Paraguay, is in the economic development stage and is heavily dependent on external economies. Paraguay is accordingly ready to contribute its fair share in the field of integration, in which it has been a crusader from the very start. It must not be forgotten that Paraguay was the first country to come out openly, at governmental level, in favor of integration; this it did through the clear statement by President Stroessner at the Inaugural Session of the Sixth Meeting of the Board of Governors of the Bank, held in Asunción in 1965:

“One of the aspects of hemisphere development offered for consideration by the American community is that of the economic integration of the nations of the hemisphere.

“My government believes that economic integration is total and harmonious planning by all the nations in a concerted effort to achieve a great common goal.

“My government also believes that economic integration is not abandonment of sovereignty or the surrender of the national effort for the benefit of the more developed countries, but rather the just task of equalizing living standards, a task in which the least developed peoples ought to receive the greatest benefits of integration.

“We believe that the movement towards integration has reached sufficient maturity in the present-day world. We are convinced of its strength when we observe the powerful economic blocs already in existence, a development which should lead us, as Latin Americans, to ponder the need for our economic structures based on a generous supplementation of all our possibilities.

“There are many who still believe that a common market, or any other form of integration, would only be feasible between countries that have achieved a given level of development. Another manner of reasoning, however, tells us that unity can provide our countries with the necessary stimulus for progress and can enable us to compete on favorable terms with powerful and organic economic groups in other parts of the world.

“Paraguay is prepared to support the suggestions for new procedures in production and trade and for efforts to coordinate the economic policies of the Latin American countries. It will do so in full knowledge that each country will exert its best efforts—with the same sincerity as ourselves—to assure the attainment of these goals, and that that which is being demanded collectively of the industrialized countries will not be denied to our countries in their intraregional treatment.”

All these ideas are reflected in the language used by the spokesman

of our American countries, from the richest to the poorest. At the inauguration of the Conference of American Foreign Ministers in Tlatelolco, United States Secretary of State Henry Kissinger himself, speaking on behalf of President Nixon, committed his country to undertaking with dedication and vigor the task of construction for a constantly growing world. He pointed out that "the presence of so many distinguished leaders from the United States Congress underlines the depth of the United States concern for its neighbors and the determination of our government to implement our agreements through a partnership between the executive and legislative branches." These encouraging words bear out the remarks of a similar nature made by Mr. George P. Shultz at our Fourteenth Meeting of the Board of Governors, in Jamaica, when he included a distinguished group of Congressmen in his delegation and declared that "We want to identify our problems and work together to solve them."

We recognize the efforts made by our important partner, the United States of America, in cooperating with our countries and we know it is earnestly seeking an increasingly fairer relationship. But we are finding ourselves obliged to expect more and more from that cooperation and we believe the time has come to say that what would benefit us the most would be a continuously increasing trade with the great nation to the north, with preferential treatment for us over other countries.

At the Bank Round Table held in Guatemala in April 1969, during the discussions on the repercussions of domestic market restrictions on industrialization, the then President of the *Sociedad de Fomento Fabril de Chile*, Mr. Eugenio Heiremans, stated: "The only formula to enable us to grow and to emerge from underdevelopment is to establish the Latin American Common Market, which will introduce an element of healthy competition through reduction and elimination of tariffs among its member countries. To accomplish this we must have sufficient courage and imagination, and a true will to create the Market."

"Neither political nor theoretical formulas can suffice. Integration will enlarge the market, but this is not enough; we need to enlarge our economically active population and thereby increase income, a fact that will in turn give us greater purchasing power and a better standard of living."

Last year in Kingston we expressed our support for President Ortiz Mena's views regarding the proposal made at the Third United Nations Conference on Trade and Development (UNCTAD) held here in Chile concerning the advisability of adopting measures to facilitate the creation of new international monetary reserves for accelerating and increasing the transfer of resources to the developing world. Mr. Ortiz Mena expressed the view that, within a spirit of international cooperation,

the time had come to give serious consideration to implementing these ideas within the regional framework.

The efforts made to this end have yielded some success but the task is still only beginning. We should now seek easier ways to realize these aspirations.

We must express our concern at the industrialized countries' determination to increase substantially the price of gold in order to help minimize the impact of the oil crisis. In addition to the other adverse effects such as increase could have on our countries, this increase in international liquidity will disproportionately benefit the developed countries, to the detriment of developing countries such as ours. We urge that this question should be discussed in depth and that we should emphasize the need to solve the technical problems of assessment and profitability of Special Drawing Rights (SDR's). We wish most emphatically to stress that any increase in international liquidity should be brought about through the SDR's.

There is one topic on this Board's agenda in which we are particularly interested, since the future of our institution will depend on how well the Agreement Establishing the Bank can adjust to prevailing conditions. Above all, we must ensure that the future does not bring further sacrifices for developing countries such as ours.

It is for this reason that we wish, from the beginning, to express our frank and determined opposition, which we have expressed here and are prepared to express in any other forum, to the increase in the price of gold, which would disproportionately increase the liquidity of the industrialized countries to the detriment of the most needy ones, the relatively less developed countries.

The successive devaluations of May 8, 1972, and October 18, 1973, have caused us enough suffering, and we do not wish to have to bear any further such outfalls.

With the same sincerity and enthusiasm that we have congratulated the authorities of our Bank for the work done during the period under study, we must, with particular reference to Paraguay, express our Government's surprise at the unjustified and unjustifiable stoppage of Bank loans to our country for more than two consecutive years. This has been the case in spite of the tremendous efforts made by the Paraguayan nation to achieve progress and well-being in an atmosphere of social peace, monetary stability and respect for law and order—qualities which, unfortunately, can be boasted of by very few Latin American countries.

As a founding member of the Bank, as a relatively less developed country and a landlocked one as well, and, we repeat, by virtue of its longstanding social stability and its own efforts to overcome the prob-

lems of underdevelopment, Paraguay rightly deserves preferential treatment by the Bank in accordance with the policies recommended by the Board of Governors.

Nevertheless, I do wish to draw the attention of this Board to the fact that the Bank has recently set up a technical cooperation mission in our country and has undertaken to finance new development projects, including a global program for 1974 and 1975 in agriculture and forestry, as well as other technical assistance programs for the use, construction and operation of the Itaipú hydroelectric complex, including the first phase of the studies on the socio-economic effects of the future Yacretá works. There is also a request by the *Banco Nacional de Fomento* aimed at continuing assistance to small- and medium-scale farmers and another loan to finance small- and medium-scale industry.

We can assure the President of the Bank and the Board of Executive Directors that these projects can be placed underway as soon as our Bank agrees to finance them.

Going on now to a different subject, allow me briefly to outline the economic and social progress our country has made despite the great obstacles from outside sources.

During 1973, the Paraguayan economy grew 5.8 per cent. The main factor in this growth has been the agricultural sector, which has responded to a variety of incentives, especially a favorable investment climate, the provision of infrastructure facilities and an active worldwide demand for its products.

The economy of Paraguay depends to a large extent on its foreign trade; thus, its trade statistics reflect the success or the greater sacrifice and efforts made in its economic policy.

As a result of the above positive factors, during 1973 exports increased 47 per cent, to a total of \$126.9 million, whereas imports increased 50 per cent, to a total of \$104.8 million.

As a result, Paraguay has a balance of payments surplus of \$21.2 million and record international monetary reserves of \$53 million, which a few years ago, represented total exports for an entire year.

These figures are, of course, low by comparison with other countries of the hemisphere. This is due to the fact that our country is landlocked and freight and transportation cost are therefore very high, thus increasing the cost of imports of products that are essential for our development.

With regard to public and private investments, our Government has adopted a policy aimed at maintaining, in future, a higher rate of social and economic development. This policy consists of certain sound measures designed to deal with the exigencies of the situation so as to attack inflation and maintain a more favorable development of the

economy. In order to achieve this goal for our growth, we need, at this time, the sincere and close cooperation of the international financial agencies.

Our country, which has promptly met its obligations with international organizations for two decades, is an oasis of peace which offers the necessary political and monetary stability and the basic infrastructure for foreign investment. It is worth mentioning that the geological features of the Chaco region give reason to presume that it contains hydrocarbons. This has led the Government recently to grant concessions, through special legislation, for United States and European firms to explore and exploit oil on the basis of maximum guarantees. The Government will continue encouraging interested firms by granting further exploration permits until the precious liquid is found.

Our country has encouraged and has been actively participating in every program aimed at zonal, regional or subregional integration as a complement to its participation in the group made up of Uruguay, Paraguay and Bolivia (URUPABOL) and, particularly, in direct relation with its joint activities through the Bank and in the development of the River Plate Basin. The three countries will untiringly pursue their task of formulating a group policy with regard to other agencies and undertaking important specific projects and the studies on how to increase trade among themselves.

In conclusion, on behalf of the Paraguayan delegation, I should like to express our confidence that this Board will make a reality of the ideal of a Pan Americanism that will lead us toward an ever more prosperous and integrated hemisphere.

**Address by Mr. José López Portillo,
Governor for Mexico and Secretary
of Finance and Public Credit**

When accelerated change is what characterizes events, we run the risk that the situation and circumstances may lead us to lose the structure that lends meaning and consistency to the future. As we said at the recent informal meeting of Governors: The world we saw in Rome last January during the meeting of the Group of Twenty was a world different from the one we saw in Nairobi in September of 1973 when the International Monetary Fund was attempting to fill the void left by the collapse of the Bretton Woods system.

In a few months, even days, the character of the problems and the main protagonists changed drastically.

It was enough that a hypothetical situation, not widely admitted as a real possibility—the revaluation of a key raw material—became a reality for a substantial change to take place in the relative positions.

It was no longer a question of adjusting the economies of the industrial countries—whether they showed a surplus or a deficit—beset by convertibility problems and their technical derivations, and the secondary question of linking the process to the financing of the developing world. At that time the rules and the chips of the game had to be changed. Many of the countries that formerly showed surpluses could no longer do so; some of the rich became poor; some of the poor became rich; many of the poor became poorer, and some countries, such as mine, held on to their modest position having neither the advantages nor the risks of superior power.

Before the evidence of the Wheel of Fortune, it is safe to assume that the countries that today record surpluses may tomorrow be the ones that post deficits. And in the face of the savage dangers of disorder, one must admit the advisability of agreeing upon codes of behavior that will guarantee treatment generally in keeping with the golden rule which we believe should also govern relations between nations: to treat others as we would wish to be treated.

Obviously, this happens when the exercise of a just principle, one for which we have always struggled—the revaluation of raw materials—because it is operated in a disordered environment, contributes to yet greater confusion and destroys blameless economies, without there being any immediate procedures to restore them, although excuses for abandoning them do exist. Like Secretary Shultz, we refuse to juggle statistics

and numbers since, if we were to make projections now, the figures for 1976 would be an absurd assumption.

We must find structures that will secure the future. That is why at this meeting we wish to recall that two years ago in this very city of Santiago, which is so dear to the heart and thoughts of my country, President Echeverría proposed to the Third Session of UNCTAD, the Charter of Economic Rights and Duties of Nations that is now, and with the assistance of all of you, being studied by the United Nations. We feel that only by regulating these can we become responsible authors in the drama of history and not actors who take turns playing the role of wolves, heroes or villains.

Seldom has the developing world been faced simultaneously by the discontinuance of the diverse supports it can usually depend upon for its progress. At present, an unfavorable situation prevails as regards world costs and prices, one that affects the nations importing food and energy. The lack of growth in external demand now being experienced in our export commodities is aggravated by sharp fluctuations in reserve currencies, which drag ours along erratically and without regard for the balance of payments position or the economy in general. This situation of uncertainty hinders the planning and effective accomplishment of investment projects in our countries. Moreover, financing prospects have narrowed down, both as regards amounts and suitable terms in the international capital markets, thus reducing the possibility of attracting external savings to supplement national efforts.

The convergence of unfavorable factors in the world economy has caused distortion in the prices and in the supply of commodities which, in turn, has provoked unilateral action on the part of countries that want to isolate or defend themselves against such movements.

Yet, in spite of this change and collapse of systems there are institutions, such as the Bank, that lead us to view the future with optimism.

We note with satisfaction the increased volume of its lending; yet, if we take the growing deficit on current account of the balance of payments of Latin American countries and we add to it the increasing amounts paid for foreign debt servicing, both to the Bank and to other institutions, we come to the conclusion that the net volume of resources received by the developing countries of the area has tended to drop. We know also that their financing needs are increasing and, consequently, we believe it essential to find new sources that will take into account not only the return on each specific project, but also the amount of funding required to meet the development needs of our countries.

In accordance with the principle we have always maintained, the first effort should be one's own. Thus, if our Bank is to have adequate resources, we must find a formula allowing it to increase its own

resources as well as those obtained through borrowing, for we have seen with concern that the amounts obtained by the Bank last year in the capital markets are below the volume obtained in the past five years; and we would stress the fact that no borrowings were placed in the largest market, which is the United States.

As regards equity capital, we believe there is an urgent need to increase it, not only the soft funds but also the ordinary capital assets. We favor the immediate undertaking of studies designed to achieve concrete objectives for our next meeting, and we are confident that by that time the outstanding payments on the increase approved in 1970 will have been completed.

In the same way, we do not reject other support. Latin America is willing to develop broader relations with all developed and developing countries that show surpluses, provided due account is taken of the benefits to be derived from such relations.

Any increase in trust funds should be multilateral in character, both as regards the origin of the funds and their application, for we believe that the Bank's field of action, provided for in the Establishing Agreement and covered by its operating policies, is large enough, and that the criteria it employs in evaluating projects are adequate to obtain the greatest efficiency in the national circumstances that condition the projects.

Furthermore, various Latin American forums have dwelt on the need to study all matters relating to the transfer of development resources and to capital markets. In view of the prevailing situation, this matter takes on added scope and urgency. In this connection, it is true that many countries, which were a traditional source of funds, have eliminated or reduced controls; but in attempting to resort to those markets we find that limitations are imposed on institutional investors from other countries, or decisions adopted to postpone foreign issues.

As in previous years, we are gratified at the Annual Report of the President of the Bank to the Meeting of the Board of Governors. This underscores the increased lending activities of the Bank, particularly to the less developed countries and those with insufficient markets. The financing granted to directly productive sectors, such as agriculture, industry, mining, and electric energy is particularly stressed, as these will contribute to improve living conditions and to tapping new sources of funds.

We have led our Bank's financing operations into very diverse fields of action, but they all tend to support suitably balanced economic and social development.

This should serve as encouragement in confronting the problems posed by the current situation. Without losing sight of the need to care-

fully weigh the various factors that jointly affect the economic and social development of our peoples, it is now imperative to direct our efforts to successfully overcoming the short-term problems that seriously threaten not only the normal behavior of the economies but also their prospects of sustained growth over the middle term.

Our country shares the concern expressed by the Bank with regard to the rate of growth of the agricultural sector in Latin America.

Its feeble rate of growth also signifies not only the lack of production of foodstuffs and raw materials, now aggravated by the substantial increase in fertilizer prices, but also acute social problems in the farming areas and unemployment among huge segments of the population.

Because of this situation, the Bank's mission in the agricultural sector must be intensified. Traditional projects, such as irrigation, farm credit, and agricultural and animal sanitation programs, must be complemented by collective rural organization and development programs in order to furnish small farmers with the basic infrastructure necessary to improve their living conditions and increase their productivity.

In addition it is important to point out the need for the energy sector to receive a greater participation in the Bank's financing. Without overlooking the pioneering work done by the Bank in promoting projects for the distribution of natural gas and petroleum refining, it becomes imperative to accelerate cooperative action in this sector. We must seriously search for new formulas of cooperation within and without the hemisphere, and explore all possible major sources of financing, if we are to successfully overcome the world energy crisis.

The Bank's guiding and coordinating task in this respect will be of maximum importance in future decision-making.

To counteract, even if only in small measure, the worldwide energy problem, several interesting prospects in new areas are open to the Bank. Among these is mining which could produce certain strategic raw materials and thus contribute to improving the balance of payments of Latin American countries.

Another sector that deserves special attention is the exploitation of fishery resources, not only as regards the catching, processing, marketing and transportation of fishery products, but also the subsidizing of extensive programs of education and training in this activity on an elementary and intermediate level. For this reason, we are pleased to see that the Bank is willing to assist in the task of shaping new policies in our countries.

All these misgivings with regard to the field of action of the Bank, whose past and recent work, pioneering in many respects and always dynamic, and whose undoubted results in promoting the development of our Latin American countries is not in question, makes us pause to medi-

tate in the light of the worldwide economic revolution we are presently encountering, wherein the forces of production are being readjusted and redirected, whether it would not be advisable for our Bank, in accord with the opinion of its members and qualified technical studies, to adopt a new strategy in the use of its resources, in harmony with the new position and economic conditions of Latin America.

In this new world past tendencies and situations are no longer rigid rules but past experience, and the rapid change of policies in the use of available economic resources and our attitude in using them efficiently, obliges us to think about activating the transformation of Latin American development strategy, with an eye to the future. In this manner, and with sufficient flexibility to enable us to be ready for outside changes, we too may change as experience demands and continue to uphold the belief in justice with Liberty, which is what ennobles human beings.

**Address by Mr. Eduardo Cano Quijada,
Alternate Governor for Chile
and President of the Central Bank**

In beginning these remarks on behalf of the Chilean delegation, I wish to reiterate our pleasure at having had this opportunity of being hosts at this Fifteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

All Chile hopes that each of the delegates of the member countries of the Bank, as well as the many observers attending this Meeting has had a most enjoyable stay in our country and an opportunity to judge objectively the current situation in Chile.

As the President of the Government Junta has already pointed out, our country has embarked on a crusade of National Reconstruction in order to recover from the profound political, economic, moral and social crisis in which it had been plunged.

In this crusade, we Chileans realize that outside cooperation is and will continue to be an important supplement to our own efforts, though it can never replace them. We believe that such cooperation must be provided in our country within a suitable framework of economic policies in the fiscal and taxation, monetary and credit, foreign trade, rates of exchange and prices and wage fields. These policies call for tremendous sacrifices by every segment of the population but are absolutely essential if international cooperation is to be fruitful and not to wither.

Through the economic measures we have adopted we are reducing inflation and revitalizing production. Thus, we hope that in the near future, with increased development of our agriculture, with improved use of our energy resources and with growth in our exports, we will be able to enter a stage of truly dynamic economic and social development which will bring higher standards of living to our people.

We are optimistic about the future because ours is a country with great economic, social and cultural potential. The Chilean Government is opening up the economy and society to enable everyone to contribute to the country's growth within the framework of a social market economy. At the same time, the necessary steps are being taken to decentralize economic power and prevent small groups, of whatever nature, from exercising excessive influence over the economy and the society. Chile is making its own effort and this, with the help of foreign cooperation, gives us reason to expect much from the next few years.

This Meeting of the Board of Governors provides us with an oppor-

tunity not only to make the facts of our domestic situation known but also to express our views and our concern regarding the activities of the Inter-American Development Bank.

We do not wish for one moment to criticize the work done in the past. On the contrary, we believe that the work accomplished by the Bank since its establishment, has had an immeasurable impact on the development of the countries of the region. Chile and its Government appreciate the cooperation received and praise the work done by the Bank's Board of Executive Directors and staff, chief of whom is its distinguished President, Antonio Ortiz Mena, successor to a compatriot of ours.

Nevertheless, although the Bank has led the way in development in this hemisphere, if it is to maintain this position it must continuously adjust its programs to changing times; because of world conditions have changed rapidly since the Bank was established.

Institutions cannot survive unless they serve their purpose of increasing the well-being of man and of society. Unless they adjust to changing world conditions, they either disappear *de facto* under the frills of bureaucracy or are dissolved *de jure* because they have ceased to be useful.

The Inter-American Bank has indeed been adapting its programs to new conditions. We should like now to draw attention to those fields in which this adaptation must continue in the future.

In the past, the Inter-American Bank has contributed effectively to improving economic and social infrastructures and developing national productive activities. The increasing importance of international trade makes it necessary to think more and more in terms of winning entry into the large foreign markets for new products, not only to increase the flow of income in our national balance of payments but also to diversify the sources of that income. This will make it possible both to break the bottleneck of foreign trade and to reduce fluctuations in foreign exchange earnings.

We feel that the cooperation of the international agencies in this field should focus on two basic areas: the strengthening of export production activities, and the establishment of mechanisms for covering export credit risks and export financing.

We attach great importance to the creation of an export credit insurance and export financing systems, because our region's exports are sometimes unable to compete on foreign markets due to the credit terms offered by enterprises in the developing countries.

We wish to stress the need to encourage exports of every kind to the great world markets. But we would stress also the need to ensure that any mechanisms created are designed to support only such exports as

are compatible in price and quality with those found on the international market.

Obviously, such programs will call for additional resources and the Bank should try to mobilize them so as to avoid having to limit its other activities.

The Bank should also cooperate effectively in improving the terms of transfer of technology to the countries of the region.

In the situation of limited resources that is typical of our countries, the rational development of scientific research should be accompanied by efforts to promote technological progress by making effective use of the transfer of technology which the more developed countries are able to make under suitable conditions.

In this same field, the Inter-American Bank should continue the technical assistance it has been providing to the countries of the region. To this end, as the President of the Bank has proposed, the Bank's offices in each member country can be used as centers of operation for the high-level experts who are to provide this assistance.

Another efficient way to foster the development of our own technology is for the Bank to give preference to local consultants in project studies and execution. In this regard, we feel that the best channel for transferring specialized technological know-how is through cooperation of foreign consultants associated with local engineers. Such a system also allows projects to be adapted to the particular conditions of the country concerned and thereby facilitates optimum use of domestic resources.

Furthermore, we feel that the Bank, without detriment to the continuance of its policy of financing specific projects, should keep open the possibility of granting financing for what we might call "sectoral programs and loans."

There are in our countries certain sectors of the economy that require special development. In these sectors, the users of resources consist of a large number of small- or medium-scale economic units that are not in a position to seek financing directly from the international agencies. This points to a need for national agencies to coordinate programs and allocate resources to the end users, acting as intermediaries between the users and the financial institution providing the resources. Such national agencies are in a better position to assume the related responsibility, both because of their solvency and because of their ability to provide the information required in this type of operation.

From this standpoint, the financing of "sectoral programs and loans" is a type of operation that the Bank should continue to perfect, since it is a means for supporting economic development that cannot be carried out through the traditional financing of specific projects.

We also wish to stress the need for the Bank to maintain its willing-

ness to consider loans for financing specific projects that the countries need to carry out even if they might be able to obtain financing directly from outside private sources. It should be emphasized that in certain circumstances governments may prefer particular investments to be made directly, in order to avoid internal difficulties that might otherwise arise.

Moreover, the cost of international credit has risen recently, with the consequent effect on our countries as credit users.

In this regard, we wish to appeal to the Bank to renew its efforts to review the cost of its loans so as to reduce the debt-service burdens of our countries. Any review of the Bank's administrative and operational costs that could offset the impact of world market increases and make it possible to hold or reduce the cost of loans would help all the member countries.

We should also like to propose the appointment of a committee of Governors to study, with the support of the Board of Executive Directors, the possibility of creating an effective instrument to provide private enterprise in our countries with proper access to external financial and technical cooperation. Cooperation of this kind is very restricted at the present time because the multinational financial organizations have given preference to supporting large-scale projects which by their very nature are usually carried out by the public sector.

If the Bank is to perform its many functions effectively and in particular if it is to be in a position to respond to the new demands made on it, it must be given additional resources.

We therefore feel the Bank must intensify its efforts to find further ways of mobilizing financial resources from extraregional markets for channeling to its member countries.

Any continued efforts by the Bank along these lines will be most important, whether the external resources are obtained in the form of contributions from countries outside the area that wish to become members of the Bank—provided their contributions are kept within the framework of the terms originally proposed—or of external assets channeled to regional development.

The urgent need to find further ways of attracting resources so as to strengthen the Bank's operational capacity requires no further explanation.

By the same token I should like to make very special mention of the contribution offered by the Government of Venezuela for the establishment of a Trust Fund.

This valuable contribution by our sister country deserves recognition by the Board of Governors, representing as it does one more example of Venezuela's role in inter-American cooperation.

Finally, we wish to place on record our view that the Board of Gov-

ernors, as the Bank's highest organ and thus the one ultimately responsible for its conduct, should clearly define what it considers to be priority goals for the development of the region at this time. The Bank should then apply the major portion of its available resources to attaining these goals while at the same time respecting each country's independent, sole and sovereign right to define its own development goals and establish its own priorities.

Obviously, such a definition of overall priority goals by the Board should be sufficiently flexible as to make them compatible with the particular features of each member country's development.

This would make it easier to avoid the differences of opinion that sometimes arise between the Bank's technical teams and national authorities in evaluating projects, and thereby remedy the lack of communication that is frequently observable.

At the risk of generalizing, and remembering the Bank's duty in helping the American countries to fill the gaps left by other international agencies, we propose that it should give priority to the following fields:

- Development of food production.
- Export promotion policy.
- Increase and development of energy sources.
- Social development, particularly in the fields of housing, child health and education.

We have expressed these concerns to the Bank because we know that all associated with it are imbued with the spirit of renewal and because we are certain that in improving the Bank's effectiveness we shall be helping it maintain its position in the vanguard of development in the Americas.

**Address by Mr. Manuel Mercado Montero,
Alternate Governor for Bolivia
and President of the Central Bank**

At the special request of the Governor for Bolivia it gives me great pleasure to convey to this Meeting his warmest greetings and to express the hope that our deliberations will be successful.

Speaking for my Government, I am also pleased to reaffirm our faith in the American principles of living together in peace and of international solidarity embodied in the new spirit of friendship based on equality and on respect for the dignity of each one of the Latin American countries.

I wish to congratulate the Board of Executive Directors, the President of the Bank, and its management staff on the satisfactory results presented to us in the Annual Report of the Bank's activities. The figures contained therein give eloquent proof of the hard work and perseverance of those at the Bank who are putting into effect its commitment to work for the development of the nations of America.

Though we may not agree that the Bank's progress should be measured by the volume of loans granted, which is larger every year, that measurement is nevertheless an indication of the Bank's tireless efforts to channel funds to countries seeking to develop their own potentials.

We think it is a wise policy to step up activities in the directly productive sectors, mainly agriculture and stockraising, which in the graph included in the report accounts for 23 per cent of the whole, especially since from the data provided on development trends in Latin America, we see that this sector was unable to maintain the per capita production achieved in 1966. The report is right in stating that this is a serious problem, bearing in mind the importance of agriculture in most Latin American countries, not only because of its contribution to production and employment, but, I would also add, because of the worldwide food crisis and the problem of overpopulation.

We must remark on the chapter that deals with the progress of the Bank during the year under review, in which 42 projects representing a total cost of \$1,014 million were completed with the assistance of Bank loans of around \$263 million. This mobilization of resources and the scale of the project involved are clear evidence of the role played by the Inter-American Bank in our America. We sincerely believe that data such as these should be used as the measure of the Bank's success in fostering development in our countries.

We are concerned that the Bank's operations cannot be maintained at the same level, since we understand from the Annual Report that the mobilization of resources, particularly as regards the Fund for Special Operations, have not flowed as programmed. We hope that the U.S. Senate will, in the near future, allow the Government of that country to fulfill its commitment to our Bank. We also trust that the Committee of the Board of Governors will bring the task assigned to it by the 1970 meeting to a successful conclusion.

Fortunately, however, there are also grounds for renewed hope in international financial cooperation. For instance, Venezuela has announced its intention of making available, to less developed countries mainly, part of its additional oil earnings, through a trust fund administered multilaterally and not subject to restrictions or vetoes. Congratulations to Venezuela and may its gesture prompt similar action in the future.

The Annual Report also informs us how the Bank is putting into effect the resolutions of the Board of Governors relating to the volume of loans and technical cooperation for the relatively less developed countries. Congratulations! However, as the main work of the Bank is just this, it is perhaps appropriate to dwell on this matter for a moment.

The Twelfth Meeting of the Board of Governors, following up the matter discussed at preceding meetings, asked the Board of Executive Directors by Resolution AG-7/71 to report on the new measures that are to be taken to improve the treatment accorded to the less developed countries. This Resolution did not, in effect, have the desired results and in time it was practically pigeonholed in view of a "new policy of the Fund for Special Operations" which emerged from the capital increase approved in 1970 at the Montevideo Meeting, as a measure intended to minimize the impact on the projects themselves and on the balance of payments of the countries benefited, which it was thought would contain parallel measures requiring those countries to repay their loans in the currency loaned. That is, although through this new policy of the Fund for Special Operations measures were adopted that meant an effective improvement in credit conditions in respect of those resources, particularly for the less developed countries, in virtue of the document approved at the Quito Meeting in 1972, it becomes evident that the original idea of preferential treatment in Bank operations as a whole, was quietly forgotten.

There is another related point which I think should be brought up. In accordance with the spirit and letter of Documento AB-300, approved at the Thirteenth Meeting at Quito, through Resolution AG-11/72, the fundamental difference in the granting of new loans from the Fund for Special Operations (and not of the loans from the new funds, as the

text in the proceedings for that year erroneously states) consists in that whereas in the former system the loans from that Fund were granted taking into account the nature of the project and its greater or lesser social content, the Fund for Special Operations loans were now to be used for less developed countries even in cases where the projects were such as to show an economic return and which in the case of other countries would be financed with ordinary capital resources, i.e. the loan would be granted under a "two stage" system specifically to strengthen the beneficiary.

In spite of all this, the policy applied in individual cases is not as agreed and, in order to justify differing criteria, accommodating interpretations are introduced which imply the introduction of an inadvisable policy that simply brings matters back to the position as before, since the granting of loans from the Fund for Special Operations seemingly is not subject to clear and previously stated rules but to transitory and special factors in each individual case.

It is very disturbing to us that this rule should tend to be ignored; it is not even mentioned in the Annual Report when in the pertinent chapter the details of this "new policy", approved at the Quito Meeting, are given. We would like to believe that this was an involuntary omission. This is also perhaps the reason why my country is shown as receiving a loan of \$47 million in the list of loans granted "on specially favorable terms," when in fact and in spite of timely and well founded objections the loan was granted from ordinary capital resources, and this was the only loan (with the exception of technical assistance) granted during the year under review.

To refer once again to the problem of the criteria used in granting loans from the Fund for Special Operations, it is also disquieting that certain economic factors, such as for instance the prospect of exporting certain volumes of hydrocarbons, should be allowed to vary the classification of countries, just as if that simple fact could of itself bring a country out of underdevelopment.

It might be useful to recall that the indicators used to classify countries in the scale of development are various, such as low income per capita, a high rate of illiteracy, infant mortality, deficient physical infrastructure, etc., to which in our case must be added one that particularly affects us, namely our lack of access to the sea.

The United Nations Conference on Trade and Development (UNCTAD), in a preparatory document relative to the Second United Nations Decade, noted that the lack of access to the sea must be considered one of the determining factors in identifying relatively less developed countries, a recommendation that was incorporated in a Resolution approved by UNCTAD in its second period of sessions.

Although it is true that the greater earnings we might obtain from the sale of hydrocarbons, should the present high prices be maintained, could allow our country, by building up a reserve for its local contribution to external financing, to overcome in certain measure the factors that characterize our underdevelopment, one of those factors, i.e. the lack of access to the sea, is not solely a domestic problem and can only be overcome by an understanding of it as a whole and application of the American principle of hemispheric solidarity.

We should also like to refer to some important aspects relating to the maintaining of the value of the currencies held by the Bank. Although the Agreement Establishing the Inter-American Bank contains regulations that are applicable in the case of fluctuations in the value of the currencies contributed as capital of the Bank, which oblige member countries to maintain the original value of the currency to preserve the Bank from being drained of its capital, the devaluation of the United States dollar brought about unforeseen situations since the dollar was used not only as the currency of one of the contributing members but as the pattern or reference unit for the others.

At the moment, although the duty of each member to maintain the value of the currency of its country in relation to the 1959 value of the dollar for ordinary capital, is recognized, and taking into account that ordinary capital is what defines the participation and vote of member countries, the same criteria seemingly does not exist with regard to the contributions by each country to the Fund for Special Operations, in which case it is sought to apply the obligation of each member country to maintain in the debit balance of the loans the value of the foreign currency received.

Because of the complexity of the subject and the fear that interpretations, not always fair in character, may shift the obligation to maintain the value of the currency to others, it is considered highly important that the Board of Governors should arrange that this subject be studied by a special committee that, in conjunction with the Finance Department of the Bank, should analyze the situation and propose a just solution.

As a consequence of the obligation to maintain the value of the currencies held by the Bank, it is noticeable that the new contributions set for the member countries to the Fund for Special Operations bear no relation to the original figures and successive increases. There are as many different sizes of contributions, as member countries, which is clearly unreasonable when both the Fund for Special Operations and the ordinary capital were based on contributions and capital subscriptions which have grown uniformly through successive increases. This seems to stem from the adjustments made after the devaluation of the dollar

applying the net results of the revaluation of the assets of the Fund for Special Operations to the respective contributions of member countries, when we believe that the process should have been the same as that for the adjustment of ordinary capital accounts, which have maintained the logical and rational order set down originally. We feel that it is urgent to revise these procedures with a view to correcting them and re-establishing the financial structure of the contributions and capital on a logical, legal and technical basis.

In the field of technical cooperation we are confident that priority will be given to the study and financing of sectoral programs of economic development rather than to the preparation and execution of isolated projects, without of course prejudicing the improvement of projects submitted to the Bank for financing. That is to say, a system of loans for sectoral or regional programs, on the understanding that some countries have the trained personnel able to draw up investment programs and prepare and also execute the projects that form the backbone of the sectoral programs.

Another point that we should welcome with great pleasure, because it is needed urgently, is that the management of the Bank should study the setting up of an emergency fund in the immediate future, through which prompt assistance could be provided when natural disasters which some of our countries have suffered, such as earthquakes, floods, etc., that require the urgent help of not only our own countries but also of international financing institutions, and most particularly the Inter-American Bank.

Finally, we should like to request that all the recommendations of the Inter-American Committee on the Alliance for Progress (CIAP) be taken into account by the Management of the Bank, especially those calling for credit for the economic development of our member countries. All the more so, if we bear in mind that such recommendations are put forward with the consent of all the international financing agencies that study our projects and investment plans.

Mr. Chairman, I wish to add my voice to yours and that of other distinguished Governors, in thanking the Government and people of Chile for their hospitality. May I conclude by expressing our appreciation to the Directors of the Bank and to its staff at all levels, for the excellent work done during a particularly difficult year such as 1973.

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

I regret that Mr. Phillip Greaves, the Governor for Barbados, is indisposed and therefore unable to deliver this address. I should like to take this opportunity to thank the Governors for Argentina and Brazil who were so kind as to give me their positions on the list of speakers thus permitting me to catch a plane this afternoon.

Mr. Chairman, I would like first of all to congratulate you on your election to preside over the Board of Governors. In reviewing the Bank's operations for the year 1973, we have noted with satisfaction that new records were established in the amounts of loans authorized as well as in the volume of technical assistance extended to the less developed member countries. I should like to congratulate President Antonio Ortiz Mena, the Board of Executive Directors and other members of the Bank's staff on this achievement. It is obvious that if the Bank is to continue to respond to the increasing demands of its members, it will lead to additional mobilization of capital resources, further challenging the resourcefulness of the President and the staff.

Mr. Chairman, the speakers who have preceeded me have dealt comprehensively with the activities of the Bank in 1973 and also with those dramatic developments in the pattern of world trade and payments as well as relations of States which have marked this remarkable year. I do not wish to impose on my fellow governors by going over this familiar ground. Instead I would like in the next few minutes to elaborate briefly on one or two points which are of special interest to Barbados and to many Caribbean countries.

The first relates to the dramatic and potentially disastrous effects on small economies of the rapid escalation of petroleum prices and the emergence of global inflation. I am particularly concerned with the kind of immediate response which the Inter-American Development Bank should make in order to assist in ameliorating the worst effects of these international developments on the real standards of living of the people of these countries. Because of its narrow resource base Barbados has not benefited like many other developing countries from the current boom in commodity prices. Adverse weather conditions and other pro-

* Read by Mr. Valerie T. McComie, Alternate Governor for Barbados and Ambassador to the Organization of American States.

duction problems in the sugar industry have resulted in a seriously disappointing crop. In addition, prospects for continuing growth in the tourist industry—now the most important foreign exchange earner—are threatened by the decline in the level of economic activity in the countries in which our major markets are located and by the serious effects of rising fuel prices on the cost of international travel. Against this humble background two initiatives which have been discussed at this meeting appear of crucial importance.

Barbados considers that the Inter-American Development Bank must in its lending policies intensify the trend of channeling an increasing volume of concessionary financing to countries facing problems such as I have outlined. In this regard, the traditional criteria used by the Bank in evaluating the terms and conditions of financing for various categories of projects must be modified to take account of the impact of recent developments on balance-of-payments prospects and living standards. Individual projects must not therefore be considered in isolation but must be viewed against the background of the hard realities to which I referred.

The second initiative, which is warmly welcomed by my country, is that of the generous offers of the Governments of Venezuela and Trinidad and Tobago to place some of the resources obtained by the increase in revenues from the sale of oil at the disposal of Caribbean and Latin American countries. I would like to support the hope expressed by the distinguished governors for Jamaica that the talks which the President of the Bank will shortly be having with other oil exporting countries will result in the transfer of substantial real financial resources to those developing countries in this hemisphere which face major problems in adjusting to the new international economic environment.

I now turn to the approval of membership in the Bank for the nations of Bahamas and Guyana. This historic decision is consistent with the policy of my Government as first enunciated in clear and precise terms at the Thirteenth Meeting of Governors in Quito in 1972 and reiterated in subsequent meetings. With respect to cooperation between the Inter-American Development Bank and the Caribbean Development Bank, Barbados first raised this question in Quito in 1972 and returned to the theme last year in even more explicit terms. We pointed out that both financial institutions had accepted and implemented the principle of special concessions for the less developed members and we urged that financial and technical assistance should be channeled to those members of the inter-American family which were not yet independent, through a program of cooperation between the Inter-American Development Bank and the Caribbean Development Bank.

You can imagine, therefore, Mr. Chairman how delighted I am that both of these aspirations have been realized.

I should like to congratulate all of the members of the Committee of Governors responsible for erecting this stone in the Bank's development. In the course of time other countries of the hemisphere not now members of this institution will find their places within the American family.

Mr. Chairman, we endorse the views of our fellow governors who have called for a new policy guidance for the Fund for Special Operations. We also support the proposal for reforms in the Agreement Establishing the Bank. I recall that in April of last year the General Assembly of the Organization of American States established a special committee to examine the inter-American system and propose measures for restructuring it. The objective was to enable the system to respond adequately to the new political, economic, social and cultural situations in which member states find themselves as well as to hemispheric and world conditions. I believe that as an inter-American institution this Bank should collaborate in this task of restructuring. The decisions that the Bank has taken with respect to expansion of its membership can serve as guidelines for other organs of the inter-American system.

In conclusion, Mr. Chairman, I would like you to convey to the government and people of Chile our appreciation for the generous hospitality extended to us during our short stay in this historic and beautiful city of Santiago.

ADDRESSES

FOURTH PLENARY SESSION

April 3, 1974

CLOSING SESSION

**Address by Mr. José Ber Gelbard,
Governor for Argentina
and Minister of Economy**

Once again Chile has given proof of that spirit of hospitality for which it has been known throughout its history. All of us present at this Meeting have been conscious, at every moment and in every detail, of the warmth and friendship so unstintingly dispensed by the people of this land. And this friendly atmosphere has provided the perfect setting for us to face up, in a spirit of optimism, to the complex problems and decisions that confront our region at this time.

In passing on my thoughts on the situation I should like to begin by stressing that, as Argentina sees it, the role that the international agencies for the financing of economic development are playing at the present time was designed to meet different situations from those today imposed by new structures in international relations. The guiding concept then was of a world in a state of relative dormancy from the point of view of the spirit of national liberation and of integration that today prevails over vast areas of the globe. In an evolving world the financial agencies are continuing to be run as if it were possible to cling to an operational strategy that met, very incompletely, the needs of the times a decade ago.

It is a common error in judging the process of Latin America's evolution to assume that Latin America lacks the needed maturity to define the model best suited to its national and regional development. Moreover, it is today more true than ever before that relations between countries cannot be based on principles of paternalism that have been outstripped by the times and by the aspirations of our peoples. We believe that the course of events has changed so radically that we can no longer work with tools designed for other situations, other attitudes and outlooks and other sets of economic and financial circumstances. Our proposals form part of what we believe is a realistic view of the present situation and of future needs. Moreover, they spring from deeply rooted social and political convictions, which serve to guide us to coincide, with our sister countries, in a new Latin American approach.

To review the errors of the past would serve no purpose at this time. Our purpose is quite simply to identify the great task that lies ahead of us, a task on which we already embarked, in some measure, at Port-of-Spain. On that occasion we stated, with a reasonable consensus, a number of partial reforms for improving the financing of Latin Amer-

ica's development. To enable the Bank to accomplish objectives that we felt to be geared to the present and future process of evolution in our continent, we proposed at that time a minimum program of six points, which were incorporated into this discussion in the form of studies, recommendations and draft resolutions. That indicates not only that the proposals were realistic but also that we Latin Americans shared certain tacit convictions that only needed to be expressed.

The belief that the solution to the problems of the developing countries—quite apart from their degree of industrial maturity—lay in the obtaining of loans that gave them long-range importing capacity forms part of the obsolescent attitude to which we have referred.

In this idealized view everything was simple: the developing nations accepted the long-term financing offered by their industrialized partners and the multinational corporations served as the instrument of import substitution in its simplest stages. There were many who felt that this fictitious structure would solve their problems.

We are however convinced that a valid strategy leading to the autonomous and integrated development of our economies calls for the growing incorporation of authentic resources. And this is possible only through expansion and diversification of exports. The fact is that our countries do not only want an increase in loans linked to the financing of imports—in other words, of the exports of the Bank's more powerful members; they also seek the establishment of an export policy beneficial to their national interests, and this is an aim that the agencies for the promotion of Latin America's development are going to have to support and foster.

For these fundamental considerations of political realism and economic desirability we must on principle state that no country and no product important to Latin American exporters should be excluded in the Bank's financial policies. Similar consideration led us to propose that the Bank should finance development plans and sectoral programs distinct from individual investment projects, and that it should allow national authorities greater independence in managing them.

Argentina would also like to see a change in the way the so-called commitment fee is applied. The Bank should meet its need for funds through sound financial policy and not by means of subterfuges that conceal operational problems. In our opinion, the commitment fee should be charged from the time the loan becomes eligible for disbursement and not, as now, from the time the loan contract is signed. Furthermore, the fee should be charged according to the disbursement schedule, which should reflect the actual physical limits of each investment. Finally, we propose that the fee should be eliminated altogether

in the case of loans made in the currency of the borrowing country, simply because there is no justification for charging it.

We should also like to reiterate our wish to see the Bank give maximum possible preference to Latin American consultants. It is beyond question that the training of Latin American technicians is as good as and often better than that of technicians from other parts of the world. By the same token, the experience to be gained is in this case a further factor in considering the interests of the region.

For the sake of brevity, we shall mention only that the same premises inspired our proposals for the creation of a Latin American technology capable of solving the specific needs of the region and free from the preconceptions stemming from cultural patterns originating in situations different from ours.

A typical example of such needs might be found in the development of nuclear technology, in which case Argentina has sought to choose what was most suited to its own aspirations, taking advantage of experiences that are more compatible with a genuine strategy for development.

We note with great satisfaction that the Management of the Bank has expressed the intention of adopting our proposal to modify the criteria for evaluating projects. Thus, among the proposals that are duly being put into practice by the Bank, we might mention the gradual incorporation of the concept of social return, which provides for more realistic projections in our region.

The above suggestions have been wholly or partly accepted by the Management of the Bank and by this Board. This demonstrates the justice of our proposals and strengthens our determination to continue struggling to have them put into practice without reservations or conditions alien to the interests of the region.

Mr. Chairman: Just as in Port-of-Spain we submitted the minimum bases for the reforms we considered urgent, we now find ourselves obliged to put forward what we feel is a fundamental proposal: the *Latin-Americanization of the Bank*.

In so doing, we are echoing similar views expressed at this Meeting by several Governors who have spoken already. We do so with the conviction that to Latin-Americanize means to propose a change in the objectives and operating rules of the organization, rather than to set any of its partners aside.

To Latin-Americanize the Bank means to redistribute the decision-making power so that resolutions adopted under a new structure may adequately reflect the interests of the region. This way will be more consistent with the schemes now governing international relations, which are based on a dialogue between equals.

As Argentines and Latin Americans, we are unwilling to continue accepting the existence of the veto in a regional institution. It is simply inconceivable that there should still exist diplomatic, economic and financial mechanisms capable of affecting the juridical unity of states. As we have stated time and again, this is a deplorable custom carried over from some dark past. To Latin-Americanize means to transform the Bank into a dynamic and suitable instrument for the irreversible process of regional integration to which our nations are called. To Latin-Americanize means to define the plan for bringing our region into the mainstream of history as a world power factor, because, as the President of the Argentine people—Juan Perón—has said, by the year 2000 we will either be “united or dominated.”

Latin-Americanization means the permanent exercise of solidarity so that we care about the problems of others as if they were our own. Nothing happens to one sister country of Latin America that can fail to concern all our nations. Therefore, we cannot regard as a favorable event the drops in commodity prices which now only partly offset the continuous deterioration of the terms of trade which seriously affected our countries’ prospects for independent capital formation.

By the same token, there seems to be little sense in the reference made at this meeting to the substitution policy that some countries propose to undertake, diverting all their economic and technological resources to the production of substitutes. We do not feel that it is fair to use technological advances as a weapon to depress international prices of raw materials when the cost of manufactured goods continues to grow. The mental attitude that postulates these laws of the market place as positive frankly appears inadmissible and not very constructive to us. This form of pressure lessens the value of the legitimate and praiseworthy efforts to improve the knowledge of mankind.

On this subject, we were pleased to hear the words of solidarity spoken by Venezuela, Peru and other countries that view Latin American reality in the context of the true aspirations of the region. These expressions show how much we all share in the desire to Latin-Americanize the Bank and to bring about basic reforms.

We share other major common concerns with the Latin American countries that spoke earlier. We share the concern expressed by the Governor for Venezuela for moving the headquarters of the Bank to a Latin American country.

We believe in the need to stress all the issues on which our views coincide at this debate because these evidence the solidarity of the nations of our hemisphere.

But not only in the views we share on programs and strategies have we reached decisions of importance but also in the realm of hard

facts. One of the problems that most concerns us about the present structure of the Bank is the problem of its capitalization. We feel that the question can be dealt with as a whole if we accept the premise that the Bank must obtain more funds and conceive an adequate scheme for distributing them more effectively as well. In his efforts to finalize negotiations for raising capital, the President of the Bank has done a commendable job for which he deserves our warmest congratulations. Nevertheless, as decided by the Committee of the Board, the negotiations with the extraregional countries should be continued on the terms established by that Committee. The offers made by Venezuela and Trinidad and Tobago are evidence that in certain circumstances the search for additional funds could be carried out within the hemisphere. But the Venezuelan offer is particularly significant for us because it was made in the name of Latin American integration and solidarity, a fact which transcends purely financial considerations to join in the noble cause of liberation.

Mr. Chairman: Our proposals for reform do not invalidate the positive aspects that have characterized the work of the Bank to date. The idea of Latin-Americanizing its structure is clearly in harmony with the times. We are convinced that events deal harshly with those who are incapable of moving ahead and adapting to the dynamics of their needs.

Tacitly or explicitly, the debates of this meeting have shown that the prescription of Latin American self-determination is the correct one. It has led us to the conclusion that even countries that resist change, because circumstantial and often minor interests lead them to take refuge in misunderstood caution, will yet leave this meeting with food for thought.

In this dynamism which we seek, the Management of the Bank—we might state—has shown the right attitude. If there is a need for change in the Bank's organization, its lending policy and other features of its operational structure, we feel that our anxieties should be addressed to the members of this Board and not to the Management.

At this meeting we have inaugurated a new style which we consider very constructive. Deadlines have been established; more sprightly mechanisms for the action of the Bank have been propitiated, and we appear to have embarked on the path which will lead us to get rid of the perennial frustrations of our countries. We naturally hope that the antibodies and the subtle pressures which paralyze the Administration of the Bank, which has played a leading role in this process, will not go into action.

This meeting ends also with a feeling that no one can or should hide: that is the greater gravitation which we all wish to accord to the rela-

tively less developed nations of our continent. It was thinking about them which led us to draft the major share of the proposals which we have presented to the consideration of this body. We hope that this attitude will also not be lessened in the permanent action of the Bank, in spite of the constructive proposals being suggested by the Administration.

Latin America, Mr. Chairman, is an expression which no longer defines just a geographical area but rather a community of interests, which have heretofore been poorly identified by those of us who must play a decisive role in international relations during the next few years.

The ground we have covered at this meeting is most significant: we have begun to mark a path. We are certain that sooner or later the community of interests leading us to integration and national and regional liberation will endow the process with overwhelming force. We will bend every effort to step up our progress to that moment in time when the vision, now one of our fondest hopes, will become reality.

**Address by Mr. Paulo H. Pereira Lira,
Alternate Governor for Brazil
and President of the Central Bank**

Gathered together as we are at the feet of the majestic white mountains that link the Americas, this Fifteenth Meeting of the Board of Governors of the Inter-American Development Bank held here in Chile, a country of such rich traditions and so warm in its welcome, assumes particular significance.

The Governors of the Bank are meeting for the first time in the transition period from what was termed the World of Nairobi to the World of Rome.

In that historic city, in the form of the Committee of Twenty, the Ministers of Finance, under the catalytic effect of the increases in oil prices, realized that it was necessary to resume, this time seriously, the effort to reshape the organization of world economic and financial relations as set up at Bretton Woods in order to adapt it to the changed circumstances.

The time for purposeful consideration had arrived. Immediate action was called for.

In simple terms, the guiding principles for the future were perhaps three:

1. The already oft-proclaimed interdependence of nations had to be carried through into the operational sphere. Major decisions in the international monetary field should no longer be the outcome of ad-hoc deliberations of a small number of powerful countries, but should be produced by appropriate machinery with the participation of representatives of all the countries concerned, in a world in which interdependence is a recognized fact.

2. In the face of a highly fluid situation—one in which the economic relations of production, trade and international capital flows had been severely impacted by the end of the cheap oil era—it was vital that the decision-making machinery should not only function smoothly but should also be able to keep abreast of changing circumstances and take up those enduring elements that could be incorporated, gradually, into a new system.

3. The higher oil prices also made essential a full re-examination of the problem of the financing of transfers of real resources from the capital-rich countries to those engaged in the struggle for development.

The biggest irony of the situation lies in the fact that, if the international community did not adopt immediate measures (and immediate in this context means that the pertinent decisions should already have been taken), the developing countries are themselves having to transfer real resources to others.

The seriousness of this situation is clearly evident, because the industrial countries as a whole are not fulfilling their undertaking to transfer to the developing countries, through official financing, real resources equivalent to 0.7 per cent of their gross national product. And the new oil situation can in no way be considered grounds for going back on such undertakings.

It is in the light of these circumstances that we have to reflect on the work done and to be done by the Bank, under the competent and skillful direction of Felipe Herrera and later Antonio Ortiz Mena, assisted by our Executive Directors and backed by a competent and dedicated staff.

I am convinced that we can be proud of the Inter-American Development Bank.

The Inter-American Bank has done pioneer work and displayed an innovative spirit in instituting new approaches in the external financing of development projects. This conscientious and sure work, rather than harming the Bank's ability to raise funds in the international capital markets as some pessimists feared, helped on the contrary, to consolidate its reputation in this new world in which recognition stated that the object of progress is man himself.

The Bank has also made innovations in the area of operating methods, by consolidating the success of the Committee of Governors, which has been found to be highly effective for expediting the taking of decisions, as we have been able to note at this meeting.

In the same vein, I should like to make mention of the welcome and opportune decision of the Government of Venezuela to share with the developing countries of the hemisphere its increased earnings from higher oil prices.

Being aware of their sudden transmutation from a capital-importing country to the happy state of a capital-exporting one, the Venezuelans have not hesitated to assume their new responsibilities and take their place alongside the United States and Canada as suppliers of resources to the Bank.

The magnitude of the task we are all faced with in each of our coun-

tries leads us to accept, with gratitude, the Venezuelan proposal, as being in the highest interests of the nations of the Americas.

May these resources be added to those already available to us and to those which we may legitimately expect—for which we would also express our gratitude—so that we may press ahead with speeding up the progress of our peoples.

Similarly, in regard to the rethinking of external development financing—something which we trust the Ministers of Finance of the international financial community will undertake in Washington in July—we shall see that there, too, the Inter-American Bank will make its innovative contribution.

Article 1 of the Agreement Establishing the Bank states quite clearly that the purpose of the Bank shall be to contribute to the acceleration of the process of economic development of the member countries, individually and collectively, and that to implement its purpose, the Bank shall have, among other functions, that of cooperating with the member countries to foster the orderly growth of their foreign trade.

Accelerating development means, in practical terms, raising it above the level that would result from the greatest possible effort to increase national savings. Even so, in the last analysis, and notwithstanding the recognized and accepted responsibility of the international community to contribute toward the accelerating of growth, the basic responsibility for the development of our peoples rests with each of us, in our respective countries.

Moreover, it is not just a matter of speeding up development, but of doing this in such a way that, at the same time, provision is made for sustaining this acceleration through policies which ensure the medium- and long-term feasibility of the route selected.

Accordingly, the salutary effects of two categories of measures come into play here. Firstly, those designed to permit forward planning as regards the future availability of funds to finance the difference between imports and exports of goods and services, which is the basic equation for absorption by a capital-importing country of real resources transferred to it. Fundamental in the last analysis are the second category of measures designed to provide unrestricted access to the markets of the industrial countries for the exports of the developing countries.

Gentlemen: In addressing the members of this group of Finance Ministers at a time when a distinguished representative, Secretary Shultz, is leaving, I recall something said by one of them: In the field of the decisions we have to take in our task of building a world economic and financial community that will further the progress of each of our peoples, I believe that, in the majority of cases, a disadvantage for one member does not, necessarily, mean an advantage for all the others.

We are all linked by a cord of interdependence as we scale the "majestic white mountain," seeking heights from which we hope to initiate the greater progress desired for our countries.

In the course of this climb, if one of the climbers loses his footing the others can hold him up as long as they are all united in the same endeavor.

Together, we are sure, we shall overcome.

**Address of Mr. Claudio A. Volio,
Alternate Governor for Costa Rica
and Manager of the Central Bank of Costa Rica
on Behalf of the Central American Countries***

Once again Central America is present at this meeting of the American countries, and I have the honor of being the spokesman for the Governors of the Bank for Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, who thus reaffirm the spirit of unity which inspires them and the firm intention which they have to continue and improve their integration process.

We have read with particular satisfaction the Fourteenth Annual Report of the Bank, which informs the Governors of the work done by the institution over the past year. We are pleased to note the progress achieved and to see that some of the suggestions made by various countries have been put into effect.

On behalf of the Central American countries, I wish to express our appreciation for the financing we have received from the Bank for several projects and for the technical assistance it has granted, which is contributing to the development of our countries. But I must point out that the aid being received by Central America is small and that it is insufficient to quicken the pace of our development. In point of fact the world economic situation is marked by increases in the price of petroleum and of manufactured products; a shortage and higher prices of the raw materials required for our industries and of products essential for agriculture. All of this is causing an adverse balance-of-payments situation and a constant increase in over-all level of prices. As a result, we will not be able to go through with many programs we had planned to carry out with our own resources and, in order to alleviate the situation, will need greater financial assistance from the Bank.

We shall now refer specifically to a number of fields of activity we consider of great importance in Central America.

The increase in prices of the goods and services that Central American countries purchase abroad is seriously affecting the execution of the projects financed with the participation of the Inter-American Bank, since counterpart funds are significantly higher than originally provided for. Consequently, it is essential that the Bank grant supplementary

* Read by Mr. Augusto Contreras Godoy, Alternate Governor for Guatemala and President of the Bank of Guatemala.

financing for those projects whose costs have undergone significant increases as a result of world inflation. This would amount to an equitable adjustment of the proportion of financing extended by the Bank and would avoid adverse effects on the national budgets at a time when the countries are faced with difficulties of a fiscal nature.

The need is greater than ever for financial support enabling us to avail ourselves of the opportunities afforded for the establishment of basic industries that will make better use of the raw materials produced in the region and to improve and increase the productive capacity of our industrial and agricultural enterprises so that they may have access to the international markets and, as a result, increase export earnings. In this task the Bank should play an important role, through ample financing that will enable credits to be granted on favorable terms to strengthen productive capacity for export purposes, so that our countries may cope with the adverse situation they face in trade with other regions.

As a complement to this task, the Central American Bank for Economic Integration (CABEI), which is a regional organization, ought to be enabled to rediscount export credits covering all goods produced in Central America. These less developed countries should not be restricted to the financing of capital goods which are not produced in the area.

Central America has national and regional financial organizations but needs a fund to rediscount its export credits for all goods actually produced in the region.

It should be kept in mind, moreover, that the Bank has revised its lending policy so as to, in effect, eliminate loans for housing projects. We believe in this regard that the Bank should continue to finance housing for the people of smallest means. For this reason we ask the Bank to reconsider its present policy with a view to making this possible.

I would like to reiterate that it would be helpful to the Central American countries for the Bank to support CABEI by granting it new and broader lines of credit, since the Central American Bank can be more liberal as regards counterpart funds and the Inter-American Bank would be able to count on the guarantee of a regional financial institution in which the Governments and Central Banks of the five countries participate.

We wish once again to underscore the importance for Central America to develop the agricultural sector, since this means supplying raw materials for industry, bringing large segments of the rural population into the market economy, combating unemployment and underemployment, making use of land now lying idle or improperly used and supplying commodities necessary for subsistence. This has become all the more urgent at this time, when we are faced by the threat of a shortage of basic foods and raw materials and by a grave inflationary process.

In view of the insufficiency of agricultural credit granted by local financial institutions, the Bank should take determined action to grant ample financing for agriculture on favorable terms and to provide emergency credits, thereby cooperating with efforts being made by the governments and institutions of each of our countries to speed up the improvement and development of the agricultural sector.

The constant increases in petroleum prices have had serious and unexpected effects on the economies of the Central American countries, which, merely to cover oil imports required to meet the demand levels of last year, will have to pay approximately \$200 million more than was paid for such imports in 1973. Obviously, this is having an unfavorable effect on the Central American economies and it is urgently necessary to seek solutions to the problems. Extensive and rapid assistance to meet the situation in the very near future is essential. Assistance is likewise required in studying the improved use of hydraulic and other energy-producing resources, with a view to reducing the consumption of oil and bringing down the cost of various products and services. Because of the seriousness of the situation and the shortage of domestic resources for these important studies, it would be advisable, and it is so requested, that the Bank take resolute action to channel the technical assistance and the financing required to carry such studies out.

We are pleased to see the measures taken to reorganize the Bank, since they have brought greater efficiency to the processing of loan applications and to the timely availability of the proceeds of approved loans. However, in inflationary times such as these it is important to redouble the efforts in this field so as to prevent long processing delays affecting the costs of projects.

At last year's meeting of the Board of Governors, the Central American countries expressed their concern over the decision adopted at the Thirteenth Meeting regarding the use of resources from the Fund for Special Operations, when a classification of borrower countries was adopted. Costa Rica was included in Group C, and the rest of the Central American countries in Group D. This situation could place one of the partners in an integration program at a competitive disadvantage and we therefore consider it essential that the entire Central American area be placed in Group D.

The Bank has given support to the agencies of the economic integration program by providing assistance in carrying out various studies and projects. However, this aid should not be subject to complicated procedures or requirements which might be justifiable in the case of industrial firms or construction projects but not for programs in which five governments participate and which require great flexibility in order

to adapt them to the changing economic situations and policies of the countries.

At present our governments are taking the necessary steps to perfect and restructure the economic and social integration program. They have established a high-level committee which is now studying a restructuring of the process.

The various agencies of integration, as well as the just-mentioned committee, must carry out the delicate and transcendental mission to restructure the Central American Common Market. For that purpose resources additional to those normally received are essential. This circumstance makes it essential for the Bank not only to continue its support for the organisms and institutions of integration but also to broaden its aid and to extend it on a timely basis.

The high-level committee has told Inter-American Bank officials that it requires technical advice, particularly from the Bank, in carrying out the important task of examining the proposed restructuring and improvement of the Common Market.

The President and other high officers of the Inter-American Bank have expressed their sympathy for and interest in having the Bank extend assistance in carrying out these tasks, but their good intentions have not yet been molded into a program of cooperation from the Bank in support of the work of restructuring the Central American Common Market. We are therefore, on this occasion, requesting that the decisions contained in the joint statement signed by the Governors for Central America and the presidents of the Inter-American and the Central American Banks in Managua in August 1972 be put into effect.

We are grateful to the Bank for the valuable assistance it has agreed to provide for the study on Central American transportation, in which the Bank itself, the Central American Bank and the Permanent Secretariat of the General Treaty of Central American Integration (SIECA) will participate. We also appreciate the financial assistance granted for the operation of meteorological telecommunications centers in Central America.

We would also like to express our thanks for the financial aid granted by the Inter-American Bank to carry out the first phase of the study on the development of three multinational water basins: These are the Gulf of Honduras, the Gulf of Fonseca and the San Juan River. This study has merited favorable comments from the Bank and has met with acceptance from various sectors in our countries, which have reason to expect beneficial results for their economies as these multinational basins are developed, thus strengthening integration and creating important development poles. For this reason, it is to be regretted that the Bank has not approved the application submitted by SIECA

with the support of CABEI and the Governors of the Bank for Central America the second phase of this important project, which promises positive benefits for the region.

The Central American countries fully support the proposal made by the Governor for Venezuela with regard to the establishment of a trust fund and regarding a greater share for the Latin American countries in the ordinary capital resources of the Bank. Furthermore, we thank the Government of Venezuela for its intention of contributing additional funds to be channeled in aid to the less developed countries, and particularly to those being most affected by the increased oil prices and the impact of inflation.

The Central American countries are confident that the Inter-American Development Bank will respond, with the speed that present circumstances demand, in giving the technical and financial cooperation that their economies require, for, apart from having to face their own development needs, they must now resolve the grave problems that have arisen as a result of the world shortage and increased price of fuel and raw materials that are fundamental for increasing, or at least maintaining, productivity levels in agriculture and industry.

Finally, I wish to say that we are highly pleased that the Governor for El Salvador has offered the city of San Salvador for consideration as a possible site for a future meeting of this Board. Acceptance of this offer would cause great rejoicing among all Central Americans.

May I be allowed, on behalf of my colleagues, the Governors for Central America, and on my own behalf, to express our thanks to the President and staff of the Bank for the cooperation extended to us.

In conclusion, we thank the Chilean people and Government for the courtesy and hospitality they have shown us. We fully appreciate the efforts put forth by Chile to make this meeting a success. And along with our thanks to our hosts for their success in that regard we would like to express our admiration for this beautiful portion of the American hemisphere.

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

We come to the end of this Fifteenth Meeting of the Board of Governors with a feeling of satisfaction at having completed an important stage in the evolution of the Bank. At each meeting of this Board, the highest policy-making body of our organization, we are tempted to speak of the beginning of a new era. Without going that far, I would say that I am convinced that on this occasion we have made significant progress in our continuing effort to adapt the Bank for the performance of new functions in the context of regional and world conditions.

At the start of these brief comments on our deliberations I should like to express my appreciation once again to the Government and people of Chile for their cordial hospitality and the excellent organizational arrangements. I also want to thank the Governors on behalf of the Board of Executive Directors and all the staff of the Bank for the many kind remarks about last year's activities. We were particularly pleased by your recognition of the Bank's continuing effort to extend increasing cooperation to the smaller and less developed countries.

I should now like to say a few words about the principal features of the meeting and its results. This meeting, like those in the past, and perhaps to an even greater extent, was marked by frank and clear discussion in which the Governors recognized what was considered good but spoke out frankly on any mistakes or omissions they thought should be corrected. As I have said on other occasions, this is a practice we should encourage so that in performing its primary function as a regional development agency—that is, service to the member countries—the Bank can keep step with the changing realities in each of them and the region at large.

The resolution approved on admission of new independent countries of the region is a very important step because it helps to strengthen the regional character of our Bank and also to consolidate its autonomy within the Inter-American System. I trust and hope that we shall soon be welcoming Guyana and the Bahamas as member countries and establishing closer cooperative ties with the Caribbean Development Bank. In doing so we shall be fulfilling more effectively our responsibility for promoting the development of the whole region.

The resolution on beginning a new process leading to an increase in the Bank's resources was another highly important decision. The development needs of the region call for higher levels of external finan-

cial cooperation. As I have pointed out, this means that Bank's program of operations for 1974-76 will have to average somewhat more than \$1.1 billion a year. In order to operate at this level the Bank will need additional resources both in the ordinary capital and the Fund for Special Operations. The mandate given by the Board at this meeting allows the Board of Executive Directors to take action at the proper time to set in motion the administrative and legislative process required in each member country so that the new resources can be available for use by 1976.

In regard to association of nonregional countries with the Bank, I shall simply say once again that we are fully prepared to continue the negotiations and do everything possible to complete them successfully in the months ahead.

The Latin American oil-exporting countries have confirmed at this meeting that they are firmly resolved to place at the Bank's disposal a part of their additional export earnings deriving from the rise in fuel prices. This decision does honor to the idea of regional solidarity and is a concrete manifestation, in the economic field, of bonds of friendship having their origin in shared cultural values and a common history. It opens up an important source of funds for the Bank, as well as a new pattern of cooperation between the Bank and borrower member countries. It is a unique relationship in which countries continue to receive technical and financial cooperation from the Bank while also channeling to our institution a portion of their additional oil reserves.

During the course of this meeting, initial conversations were pursued with Ecuador and Trinidad and Tobago with a view to early completion of the first operations to transfer resources to the Bank. Trinidad and Tobago has expressed a willingness to purchase \$10 million in bonds. And we are negotiating with Ecuador on the amount of its first contribution.

The Governor for Venezuela made a formal proposal on establishment of a trust fund to be administered by the Bank as trustee. The meeting has adopted a resolution that we are confident will enable us to take prompt action to implement this initiative without restrictions limiting its effectiveness. Thus, our Bank will have an important additional source of funds which is to be used preferably—by express decision of the contributing country—for financing projects of major importance to the development of the region which the Bank has up till now been unable to finance with resources of its own. Among other things, it is sought to give technical and financial support to make possible the execution of large-scale projects for better utilization of natural resources, especially in the less developed countries.

Significant decisions have also been taken here with respect to the

Bank's operating policies. First of all I should like to mention the decision of the Board of Executive Directors giving greater flexibility to the policy of the Fund for Special Operations so that countries with a limited market can finance up to 70 per cent of the total cost of a project, and in exceptional cases up to 80 per cent, with resources from that Fund. These percentages rise to 80 per cent and 90 per cent, respectively, in the case of less developed countries. A just aspiration of a large number of member countries is thus fulfilled.

The question of granting program loans was again raised in this meeting. This gave us an opportunity to report to the Governors on the progress we have made in providing greater flexibility to global loans and financing of multiple projects. This paves the way for a constructive response to a long-held aspiration of our countries and for better use of funds allotted to investments which by their very nature are mutually reinforcing. This situation arises frequently in urban development, as the orderly growth of a city calls for simultaneous consideration of the projects making up development plan. However, these comments should not be taken to mean that the evolution of each project included in the plan can be dispensed with. In fact, it is most important that the international lending agencies concerned perform the requisite feasibility studies, evaluating the merits of each project individually and as part of the plan.

This meeting also examined the possibility of expanding the operations of the Bank in the field of export financing, a matter which has long been of concern to many of our member countries. As the Governors know, in 1963 the Bank established an innovative system for helping finance intra-regional trade in capital goods. This is a program of great importance but unfortunately still insufficient in scope. We shall continue our efforts to bring about an agreement that will remove this restraint and make it possible to include the financing of manufactures other than capital goods and of exports of manufactured goods to countries outside the region.

Finally I should like to stress the importance of the decisions to make the Bank's working procedures and mechanisms more effective and smoother-operating. The decision to extend and broaden the mandate of the Committee of the Board of Governors indefinitely gives us the opportunity to call a meeting of the Ministers of Finance as often as required to examine urgent questions of basic importance to the progress of the Bank. We shall also make arrangements permitting us to act promptly in organizing consultative groups including Governors of the Bank when this is warranted.

These working procedures and mechanisms will help to provide greater strength and flexibility to the Board of Executive Directors in its

work as the highest authority of the Bank in continuous operation. It will accordingly be possible to act with the promptness and decisiveness required in these times of rapidly changing values and day-to-day adjustments in economic and financial relationships in the region and the world.

Before concluding my remarks I wish to underscore the importance of making greater efforts to promote economic integration in the region by means of the various existing schemes. The Bank will give preferential attention to these activities, both directly and through its Institute for Latin American Integration, and will endeavor to strengthen its ties with the integration agencies.

We well realize that we live in a crucial period in which our function of serving the member countries and the region acquires much greater importance than it has in normal times. We return to our daily activity strengthened by the inspiration and support received in this meeting. This will help us carry on our work with renewed enthusiasm and with even greater faith in the future of Latin America and her ability to assume her share of responsibility in the world community.

**Address by Mr. Lorenzo Gotuzzo Borlando,
Chairman of the Board of Governors,
Governor for Chile and Minister of Finance**

We have reached the conclusion of this Fifteenth Meeting of the Board of Governors of the Inter-American Development Bank and I must again express, on behalf of my country, the great satisfaction it has given us to host this meeting and to make our modest contribution to it.

Chile as a country and through many of its citizens is very closely linked with the Bank. Right from its inception, we have participated wholeheartedly and enthusiastically in this institution.

The historic period through which Chile is passing and the extraordinary effort which every one of its citizens is making to ensure that the country recovers from the serious economic damage caused to it, have been compensated by the presence of so large and select a group of experts in economic problems holding, as you do, such high responsibilities in both the public and the private sectors of various countries of the world. We trust that, when you are back in your homelands, you will tell of what you have seen and experienced here, and thereby help to counter the effect of untrue or intentionally distorted accounts.

We are convinced that to be able to obtain and make proper use of external cooperation, a great effort must be made either previously or simultaneously on the home front. I can assure you that we are facing up to this effort with the support and selfdenial of the entire population, demanding more from those who possess more and are in a position to do more.

The Inter-American Bank, in holding the Fifteenth Meeting of its Board of Governors here in Santiago, already has a long history behind it which has enabled it to gain experience that is highly valuable for our countries.

I wish to refer to certain aspects only, which in our opinion are of major significance. The work done by our Bank and the subsequent founding of the Asian and African Development Banks, show how important for the developing countries is the establishment of organizations which help to decentralize the application of the economic resources of the industrial countries and hence to reduce traditional patterns of dependence. This has also made possible more active and meaningful participation by the developing countries, thereby helping them to gain a deeper and fuller understanding of their true economic and social posi-

tion, so that they are able to allocate their resources better and exchange experience and concerns which they have in common.

This salutary process which, in short, mobilizes more resources, orients them better and brings sister countries closer together, must be continued by the Inter-American Development Bank.

The pessimism displayed by many in the early days of the Bank and their scepticism about its success can be compared with the position today, measured in terms of the sustained increase from year to year in the volume of our institution's operations.

The present position of the Bank, as an agency respected in the major capital markets of the world, permits resources to be channeled to the region that would not otherwise find their way to it and, what is more important, has made it possible to undertake projects which were formerly barely if ever eligible for external public financing.

In this connection I must recognize that through the active participation of each country in the Bank and the knowledge which the Bank has of each one of them, it has proved possible to finance a wide range of projects tailored to fit specific requirements and features of our region.

As a result of these factors to which I have referred, Chile and many other countries of the hemisphere have been able to obtain financing for projects which would not normally have been eligible, such as those connected with incipient agricultural development, small and medium industry and the social sectors such as education, public health and housing.

It is of interest, finally, to emphasize the need for the Bank to intensify its participation in the Latin American integration process and in the financing of projects which, since they are not limited to the boundaries of any one country, are formulated on a region-wide scale. Such action is of vital importance for our continent, since it will enable more systematic use to be made of resources and thus complement the development processes as such.

The distances which separate us from the main financial centers, the difficulty and cost of communications, and the isolation which derives from the concentrating efforts of solving pressing domestic problems, are today less of an obstacle since we have an institution which is ours and which is cooperating with us in seeking solutions to our problems by its presence in the areas concerned.

Now that we are concluding this Meeting of the Board of Governors, during which it has been the overriding desire of all the countries to seek formulas by which the Inter-American Bank can be made consistently more important and more efficient, we must stress that notwithstanding our pressing need for economic development, we cannot assign any less urgent priority to social development.

The Bank has shown itself a pioneer in organizing financing designed specifically for the greater wellbeing and development of man as a human being and this is one of the sides of its work which we must seek most to strengthen.

I repeat here the gratitude of my country for giving us the opportunity to receive you with the hospitality of a frank and friendly people who are aware of their responsibility in the international community and moved by a deep affection for their fellow-peoples of the hemisphere.

**RESOLUTIONS APPROVED
BY THE BOARD OF GOVERNORS
BETWEEN ITS FOURTEENTH
AND FIFTEENTH MEETINGS**

Resolution AG-10/73

Modification of Conditions of Service of the President of the Bank

The Board of Governors,

RESOLVES:

That, taking into consideration increases in the salaries of the chief executive officers of the international organizations, the Chairman of the Board of Governors is authorized to execute, in the name of the Bank, a modification of the contract of employment of the President of the Bank, in order to increase his annual salary effective November 1, 1973.

(Approved November 28, 1973)

Resolution AG-11/73

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 1974, 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 5, 1973)

**RESOLUTIONS APPROVED
AT THE FIFTEENTH ANNUAL MEETING
OF THE BOARD OF GOVERNORS**

Resolution AG-1/74

Financial Statement of the Ordinary Capital Resources (1973)

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, 1973, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 2, 1974)

Resolution AG-2/74

Financial Statement of the Fund for Special Operations (1973)

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, 1973, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 2, 1974)

Resolution AG-3/74

Measures Providing for the Admission of the Bahamas and Guyana to Membership in the Bank and for Lending to the Caribbean Development Bank

WHEREAS:

The Committee of the Board of Governors, in fulfillment of Resolution AG-4/73, has presented a report on measures providing for the admission of new independent countries of the region to membership in the Bank, and

It is the desire of the Board of Governors that the Bank provide for strengthening the economic development of the members of the Caribbean Development Bank,

The Board of Governors,

RESOLVES:

1. To request the Board of Executive Directors to prepare appropriate amendments which would:

- (a) Modify Article II, Section 1 (b) of the Agreement Establishing the Bank in order to specify that membership shall be open to the Bahamas and Guyana, at such times and in accordance with such terms as the Bank may determine, and
- (b) Modify the pertinent provisions of the Agreement Establishing the Bank for the purpose of enabling it to extend loans to the Caribbean Development Bank so that the latter may relend in the territories of its members whether or not they are members of the Inter-American Development Bank.

2. The proposed amendments to carry out this resolution shall be submitted to the Board of Governors no later than June 1, 1974, for a vote without a meeting, in accordance with Section 5 of the By-Laws of the Bank.

(Approved April 2, 1974)

Note: In its first session, held March 31, the Committee of the Board of Governors established a working group to consider the various alternative measures for admission of new independent countries of the region presented in the Board of Directors' report. As a result of its deliberations, the working group presented a proposed resolution that was later submitted by the Committee to the Board of Governors and approved as Resolution AG-3/74. The report of the working group appears on page 165.

Resolution AG-4/74

Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70. Extension and Broadening of its Mandate

WHEREAS:

The Board of Governors, in accordance with Resolution AG-3/73 adopted at the Fourteenth Annual Meeting, held in the city of Kingston, extended the mandate of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70, until the Fifteenth Annual Meeting;

The Committee has presented a report on the activities undertaken since the Fourteenth Annual Meeting, and

From the said report it follows that it is advisable to extend and broaden the mandate of the Committee so that it may continue to study the matters referred to it,

The Board of Governors,

RESOLVES:

1. To take note of the report of the Committee of the Board of Governors and to express its appreciation for the work accomplished.
2. To extend indefinitely and to broaden the mandate of the Committee in order that it may attend to such matters as the Board of Governors may refer to it.
3. To authorize the Committee to adopt its own rules of procedure which, among other things, shall provide that all members of the Board of Governors may participate by rotation in the work of the Committee and, furthermore, that the officers of the Committee shall be changed periodically.

(Approved April 3, 1974)

Note: The Committee held its Eleventh Meeting in Santiago, March 30-April 2, 1974. The report presented to the Board of Governors appears on page 155.

Resolution AG-5/74

Expansion of the Export Financing Program

The Board of Governors,

RESOLVES:

1. That the Board of Executive Directors, taking into account the document entitled "Latin America and the Financing of its Exports," is requested to study the measures and resolutions that may be necessary to expand the program for the financing of exports, to which end the Board may consider the inclusion of other goods for which financing may be appropriate in accordance with international practices, as well as the enlargement of the geographic area of destination of such exports, particularly to other developing countries which are members of the International Monetary Fund with adequate preference given to the relatively less developed countries.
2. That in considering the matters indicated in the preceding paragraph the Board of Executive Directors examine the question of whether the Agreement Establishing the Bank permits the Bank to cooperate with the member countries in the financing of exports which are not necessarily capital goods and which may be destined to an area extending beyond Latin America.
3. That the Board of Executive Directors report to the Committee of the Board of Governors no later than September 30, 1974, in compliance with this resolution.

(Approved April 3, 1974)

Note: In its second session, held on March 31, the Committee of the Board of Governors established a working group to study the Board of Executive Directors' report on the possibility of expanding the export financing program. As a result of its deliberations, the working group presented a proposed resolution that was later submitted by the Committee to the Board of Governors and approved as Resolution AG-5/74. The report of the working group appears on page 167.

Resolution AG-6/74

Cooperation Measures Proposed by Venezuela for the Purposes of Latin America's Development

WHEREAS:

It is the function of the Bank to cooperate with the member countries by promoting the investment of public and private capital for development purposes;

The Republic of Venezuela has stated its intention to enter into agreements with the Inter-American Development Bank allowing the Bank to act as one of Venezuela's financial agents for the channeling and utilization of part of the resources deriving from petroleum through the establishment of a trust fund which would be administered by the Bank as trustee;

In the administration of the fund it would be desirable for the Bank to use broad and flexible policies and procedures with the object of financing, in whole or in part, fields and sectors of regional importance that the Bank has up to now been unable to serve out of its own resources; and

Other member countries may be able to strengthen the action of the Bank and use it as an agency for the placement of part of their resources in the light of the financial requirements of the region,

The Board of Governors,

RESOLVES:

1. To welcome the proposal formulated by Venezuela to provide for the establishment of a trust fund to be administered by the Bank as trustee.
2. To authorize the President of the Bank to negotiate, with the prior approval of the Board of Executive Directors, an agreement for the establishment of the trust fund, part of the resources of which may be used on concessionary terms, and to conclude such an agreement, after review by the Committee of the Board of Governors, at the earliest possible time.
3. To allow the agreement to remain open for adherence by other Latin American member countries of the Bank which desire to be included under the same conditions or under others in which case such conditions shall be agreed upon in conjunction with the Venezuelan Government and the Bank.

4. To instruct the Board of Executive Directors to study and propose broad and suitable policies and procedures making possible prompt and productive utilization of the trust fund resources, enabling the trustee, among other things, to finance large-scale projects providing for the most suitable utilization of natural resources and the acquisition of capital stock and the financing of working capital in Latin American companies, especially in the relatively less developed countries and the countries of insufficient market, and to supplement the Bank's present program for the financing of exports, including exports of manufactured and semimanufactured goods, and exports directed to countries outside the region.

(Approved April 3, 1974)

Note: At the preliminary session, the Board of Governors appointed a working group to study Venezuela's proposal on cooperation measures for Latin America's development and requested the group to present its recommendations to the Committee of the Board of Governors. As a result of its deliberations, the working group presented a proposed resolution that was later submitted by the Committee to the Board of Governors and approved as Resolution AG-6/74. The report of the Chairman of the working group appears on page 169.

Resolution AG-7/74

Status of Bank Resources. Study of a Possible Increase in Resources

The Board of Governors,

RESOLVES:

1. That the Board of Executive Directors is requested to carry out a study on the possibility of enlarging the resources of the Bank by means of an increase in the authorized capital and an increase in the resources of the Fund for Special Operations.
2. That the Board of Executive Directors provide to the Committee of the Board of Governors a report as may facilitate a review of the question of replenishment by the Committee. Such report shall be provided in time for consideration by the Committee at a meeting to be convened in Washington no later than July 31, 1974.
3. That the Committee of the Board of Governors is requested to present recommendations on the foregoing matter to the Board of Governors no later than October 1, 1974.

(Approved April 3, 1974)

Note: In the preliminary session the Board of Governors appointed a working group to examine the Board of Executive Directors' proposal on the status of the Bank's resources and requested the group to present its recommendations to the Committee of the Board of Governors. As a result of its deliberations, the working group presented a proposed resolution that was later submitted by the Committee to the Board of Governors and approved as Resolution AG-7/74. The report of the working group appears on page 173.

Resolution AG-8/74

**Place and Date of the Sixteenth Annual Meeting
of the Board of Governors**

The Board of Governors,

RESOLVES:

That the Sixteenth Annual Meeting of the Board of Governors, which the President shall convene at the appropriate time, shall be held in the city of Santo Domingo, in the month of April 1975.

(Approved April 3, 1974)

**REPORT OF THE COMMITTEE
OF THE BOARD OF GOVERNORS
AND REPORTS OF THE WORKING GROUPS**

Report of the Committee of the Board of Governors

The Committee of the Board of Governors is pleased to submit for consideration by the Board of Governors this report on the activities carried out since the Fourteenth Annual Meeting, held in Kingston in May 1973.

Background

At the Eleventh Annual Meeting, the Board of Governors adopted Resolution AG-5/70 establishing a committee, under the chairmanship of the Governor for Mexico, composed also of the Governors for Argentina, Brazil, Nicaragua, the United States, Uruguay, and Venezuela, for the purpose of studying various alternatives for assuring an increased flow of resources to the Bank from developed countries that are not its members, including, particularly, the matter of such countries in the Western Hemisphere. When the membership of the Board of Executive Directors was increased in July 1972, the number of members of the Committee was also increased to include Canada and Colombia.

At the Thirteenth Annual Meeting, the Board of Governors extended the mandate of the Committee to include a study on the scope and application of the provisions of the Agreement Establishing the Inter-American Development Bank relating to maintenance of value of currency holdings in order to recommend to the Board of Governors any changes that might be required in the pertinent provisions, taking into account the changes in the world monetary system and in the provisions of the Articles of Agreement of the International Monetary Fund.

Later, during the Fourteenth Annual Meeting, the Board of Governors again extended the mandate of the Committee, entrusting to it the study of measures to provide for the admission of new independent countries of the region as members of the Institution, as well as the adaptation of the Agreement Establishing the Bank to prevailing general conditions and the immediate outlook. For consideration of the first topic, the Committee's membership was increased to include the Governor for Trinidad and Tobago.

At the Preliminary Session of its Fifteenth Annual Meeting, the Board of Governors, in considering the Agenda, decided to set up two working groups to furnish opinions on the proposal by Venezuela concerning cooperation measures for Latin America's development and on a proposal by the Board of Executive Directors that consideration be given to the status of the Bank's resources. The Board of Governors

requested that the reports of these working groups be submitted to the Committee. The Board of Governors also decided that the report of the Board of Executive Directors on the amortization and interest terms of loans from the Fund for Special Operations should be considered by the Committee.

Negotiations With Potential Nonregional Members

Pursuant to the mandate received from the Fourteenth Meeting of the Board of Governors, the President of the Bank has kept the Committee informed of the results of his negotiations with potential nonregional members. Thus, on the recommendation of the President of the Bank, the Committee approved a statement on November 9, 1973 reiterating its interest in having the contributions of nonregional countries be sufficiently large so that the matter of the participation of nonregional countries might be promptly and successfully resolved.

At its meeting in Port-of-Spain, the Committee took note that observations had been received from some interested governments concerning various nonfinancial questions which could be settled without regard to the amendments to the Agreement proposed by the President of the Bank in order to provide for the admission of nonregional countries. With regard to these amendments which the Board of Executive Directors had been requested to study by Resolution AG-7/73, it was considered that the study should be made after the outcome of the negotiations with the nonregional countries was known.

Insofar as the financial aspects of the negotiations are concerned, the Committee ascertained that the figure for the contributions established by the Committee had not been reached. In this respect, it was generally agreed that while it was in the Bank's interest to have nonregional countries among its members, the President should continue his negotiations in accordance with the basic principles as revised at the Ninth Meeting of the Committee held in Kingston in May 1973, maintaining the minimum quotas established on that occasion.

The report just presented to the Committee by the President of the Bank notes that to date 12 nonregional countries have offered to subscribe a total of approximately \$420 million. In view of this the Committee had to choose between two alternatives: the first alternative was to accept the sums definitively offered by these countries, bearing in mind that other countries were interested in eventually becoming members of the Bank, and the second alternative was to maintain the goal established in the basic principles.

After carefully considering the matter, the Committee unanimously decided:

1. To express its satisfaction over the fact that 12 countries have expressed interest in joining the Bank and emphasize that 10 of those countries have agreed to contribute an amount that would be consistent with the achievement of the goal of \$500 million in cash established in the basic principles approved in Kingston in 1973.

2. To agree that the basic principles should not be altered and that this exercise should be left in abeyance until October 1, 1974, with the confident expectation that by that date the interested countries will be able to meet the minimum conditions laid down in the principles. If these minimum conditions were not met within that period, the situation would be re-examined. The factors that would have to be considered include the fact that the purchasing power of the minimum contributions established in the principles has been declining because of worldwide inflation, which means that the total contribution is at present lower, in real terms, than that which was originally provided for.

3. To express its appreciation to the President of the Bank for the work accomplished in conducting the negotiations with prospective nonregional members.

Admission of New Independent Countries of the Region

In its Tenth Meeting, the Committee began a study of measures to provide for the admission of new independent countries of the region as members of the Bank, pursuant to Resolution AG-4/73 adopted at Kingston by the Board of Governors. On that occasion the Committee deemed it advisable to compile information on the new independent countries of the region that are not members of the Bank or of the Organization of American States; on the status of the nonautonomous territories in the Americas; on the current provisions governing the admission of countries to the Organization of American States and to the Bank; and on the various alternatives that might be considered to provide for the admission to the Bank of the new independent countries of the region. In this respect, the Committee requested the Board of Executive Directors to present a complete study of the different aspects involved in this matter.

At the Eleventh Meeting held in Santiago, the Committee received the report of the Board of Executive Directors and established a working group to study the various alternative measures presented in that report and such others as the group considered appropriate. After examining the recommendations of the group, the Committee is submitting for consideration by the Board of Governors a proposed resolution requesting the Board of Executive Directors to prepare the pertinent amendments to the Agreement Establishing the Bank to provide that the

Bahamas and Guyana may be admitted to the Bank at such times and in accordance with such terms as the Bank itself may determine and also to authorize the Bank to grant loans to the Caribbean Development Bank which the latter may in turn relend in the territories of its members, whether or not they are members of the Inter-American Development Bank. The proposed resolution provides also that the relevant proposed amendments shall be submitted to the Board of Governors no later than June 1, 1974, by the procedure for voting without calling a meeting provided for in Section 5 of the By-Laws of the Bank. This proposed resolution has been distributed to the Governors as Document AB-388.

Adaptation of the Agreement Establishing the Bank

Another matter considered by the Committee was the study on adaptation of the Agreement Establishing the Bank to prevailing general conditions and the immediate outlook, which the Board of Governors requested the Directors to make in Resolution AG-5/73. During the meeting at Port-of-Spain the Committee took note of a legal analysis of the suggestions presented during the Fourteenth Annual Meeting which served as a basis for Resolution AG-5/73, and of a proposal of the Governor for Argentina on this matter. In this respect, the consensus was that it was important that the Bank adjust to the present economic, social and political conditions in the hemisphere, to which end the Board of Executive Directors was requested to examine the proposal of the Governor for Argentina and report to the Committee.

In the Eleventh Meeting the Committee received two reports of the Board of Executive Directors relating to this matter. The first of them (Document CA-55) examines the various points contained in the proposal of the Governor for Argentina, such as program loans; granting preference when engaging consultants to those who are Latin Americans; project evaluation criteria; the commitment fee, and the financing of technological research.

The Committee expressed agreement with the opinion expressed by the Board of Executive Directors to the effect that an exhaustive and detailed study should be made of the forms taken by, and the experience with respect to, the financing of program loans in support of a general development program, including global loans, sectoral loans, and loans for multiple projects, and that the results of the study be submitted to the Sixteenth Meeting of the Board of Governors. The Committee also noted that the Board of Executive Directors proposes to review the basis for imposing the so-called commitment fee as soon as it concludes the analysis of the financial impact of this charge which it is presently carrying out, and to bring its decision immediately to the attention of the Board of Governors. The Committee recommends that the Board of

Executive Directors bear in mind the opinions expressed by the Governors during this meeting when it studies these matters.

At the same time the Committee agreed with the opinion of the Board of Directors that the Bank's present policy with respect to preferential treatment in the hiring of consultants, to project evaluation criteria and to financing of technological research, is satisfactory and does not need to be modified.

Amortization and Interest Terms of Loans from the Fund for Special Operations

Pursuant to the decision of the Board of Governors, the Committee considered the Report by the Board of Executive Directors concerning the amortization and interest terms of loans from the Fund for Special Operations, adopted by the Bank in 1972 within the framework of the policy of preferential treatment for economically less developed countries and countries of insufficient market (Document AB-375).

The Committee finds acceptable the reasons put forward by the Board of Executive Directors for recommending that consideration should not be given to retroactive application of any of the provisions contained in the policy guidelines of the Fund for Special Operations and preferential treatment for economically less developed countries and countries of insufficient market, adopted by the Bank by Resolution AG-11/72.

Export Financing

The second report submitted by the Board of Executive Directors pursuant to Resolution AG-5/73 concerns the possibility of expanding the export financing program to enlarge the list of eligible products and destinations. The Committee noted that this report at the same time implements the requirement set forth by the Board of Governors on this subject in Resolution AG-8/73. The Committee also had before it Document CA-56-1 containing the opinions of the Bank's General Counsel concerning these aspects of the program, issued in May and September 1970 and February 1971.

Following study of this matter, first by a working group set up by the Committee and later by the Committee itself, it is recommended that the Board of Governors adopt the proposed resolution contained in Annex I.

The Delegation of Argentina expressed reservations concerning this recommendation and requested the Committee to put before the Board of Governors an alternative proposed resolution, the terms of which are given in Annex II.

Cooperation Measures for Latin America's Development

The working group set up at the Preliminary Session to study the proposal by Venezuela calling for the establishment of a trust fund, administered by the Bank as trustee, to finance fields and sectors of regional importance that the Bank has so far been unable to serve out of its own resources submitted a proposed resolution which the Committee recommends to the Board of Governors for adoption (Document AB-401). The Committee received the proposal by Venezuela with satisfaction and considers that the Board of Governors should authorize the President of the Bank, acting in accordance with explicit guidelines to be approved by the Board of Executive Directors, to negotiate an agreement for establishment of the trust fund and to submit it to the Committee for consideration with the object of proceeding to its signature as soon as it is approved by the Committee. Following signature, the agreement should remain open for adhesion by other Latin American member countries of the Bank either on the same conditions or on other conditions to be determined by mutual agreement between the parties. At the same time it would be recommended that the Board of Executive Directors study and propose policies and procedures for flexible use of the resources of the trust fund. In this connection it was explained that the expression "large projects" does not refer to the size of projects but to their importance and significance for the country or countries concerned.

Study of a Possible Increase in the Bank's Resources

The working group set up at the Preliminary Session to study the proposal by the Board of Executive Directors concerning the status of the Bank's resources (Document AB-376), has submitted a proposed resolution which the Committee recommends to the Board of Governors for approval. The text of this proposed resolution is given in Document AB-376-1.

In the view of the Committee the procedure proposed is a suitable one. It would consist in asking the Board of Directors to prepare a report facilitating study by the Committee of the question of replenishment of the ordinary capital resources and those of the Fund for Special Operations. For the purpose of considering this report it was agreed that the next meeting of the Committee will be held in Washington no later than July 31, 1974. After studying the matter the Committee will in turn submit its recommendations to the Board of Governors by October 1, 1974 at the latest.

Mandate of the Committee

Resolution AG-3/73 extended the mandate of the Committee until the present annual meeting. At the Inaugural Session the President of the Bank suggested that the Committee created in Punta del Este in 1970 be made a permanent body in view of the positive results of its work. Various Governors endorsed this suggestion in the Committee, which is therefore submitting to the Board of Governors the proposed resolution attached to this report as Annex III which would extend the Committee's mandate indefinitely so that it could attend to such matters as may be referred to it by the Board of Governors. Should the Board of Governors accept this proposal the Committee would adopt its own rules of procedure, which should provide, *inter alia*, for all members of the Board of Governors to participate on a revolving basis in the work of the Committee and for renewing the Committee's officers periodically.

It was clarified that the system of rotation used in determining what countries are to make up the Committee will be the same system that governs the selection of Executive Directors and Alternates of the Bank. That is to say, each group of countries appointing or electing an Executive Director will be entitled to designate, according to such individual arrangements as its constituent countries agree upon, a principal member and an alternate.

ANNEX I

Proposed Resolution

Expansion of the Export Financing Program

The Board of Governors,

RESOLVES:

1. That the Board of Executive Directors is requested to study, taking into account the document entitled "Latin America and the Financing of its Exports", the measures and resolutions that may be necessary to expand the program for the financing of exports, to which end the Board may consider the inclusion of other goods for which financing may be appropriate in accordance with international practices, as well as the enlargement of the geographic area of destination of such exports, particularly to other developing countries which are members of the International Monetary Fund, with adequate preference given to the less developed countries.
2. That in considering the matters indicated in the preceding paragraph the Board of Executive Directors examine the question of whether the Agreement Establishing the Bank permits the Bank to cooperate with the member countries in the financing of exports which are not necessarily capital goods and which may be destined to an area extending beyond Latin America.
3. That the Board of Executive Directors report to the Committee of the Board of Governors no later than September 30, 1974, in compliance with this resolution.

ANNEX II

Proposal submitted by the Argentine Delegation

Expansion of the Export Financing Program

WHEREAS:

The Committee of the Board of Governors has received a report from the Board of Executive Directors concerning expansion of the export financing program;

The conclusions contained in that report include the following:

- a. That it is necessary and desirable to promote exports of industrial manufactures and that suitable financing mechanisms need to be established for that purpose;
- b. The main beneficiary of the promotion of exports through their financing is the exporting country and it therefore appears undesirable to retain the restriction whereby the Bank finances only exports destined to other developing countries that are members of the Bank, and

The Board of Governors is authorized by Article 13 of the Agreement Establishing the Bank to interpret the provisions of the Agreement,

The Board of Governors,

RESOLVES:

1. To recognize the need to expand the program for the financing of exports established pursuant to Resolution AG-8/63 so as to include other manufactures and semimanufactures, in addition to capital goods, without restrictions as to the areas of destination. The terms and other conditions of such financing shall be in accordance with the practices in international trade. The new scheme of export financing shall explicitly contemplate the needs of the less developed countries of the area and their subregional organizations.
2. That the Board of Executive Directors be instructed to study and adopt, prior to September 30, 1974, the regulations for carrying out the program as expanded in accordance with paragraph 1 above. This study and decision of the Board of Directors shall contemplate the allocation of resources for the execution stages of the program.

ANNEX III

Proposed Resolution

Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70. Extension and Broadening of its Mandate

WHEREAS:

The Board of Governors, in accordance with Resolution AG-3/73 adopted at the Fourteenth Annual Meeting, held in the city of Kingston, extended the mandate of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70, until the Fifteenth Annual Meeting;

The Committee has presented a report on the activities undertaken since the Fourteenth Annual Meeting, and

From the said report it follows that it is advisable to extend and broaden the mandate of the Committee so that it may continue to study the matters referred to it,

The Board of Governors,

RESOLVES:

1. To take note of the report of the Committee of the Board of Governors and to express its appreciation for the work accomplished.
2. To extend indefinitely and to broaden the mandate of the Committee in order that it may attend to such matters as the Board of Governors may refer to it.
3. To authorize the Committee to adopt its own rules of procedure which, among other things, shall provide that all members of the Board of Governors may participate by rotation in the work of the Committee and, furthermore, that the officers of the Committee shall be changed periodically.

Reports of the Working Groups

Study of Measures to Provide for the Admission of New Independent Countries of the Region as Members of the Bank

The study of measures to provide for the admission of new independent countries of the region as members of the Bank, requested by Resolution AG-4/73 adopted in Kingston by the Board of Governors, was initiated at the Tenth Meeting of the Committee of the Board of Governors, held in Port-of-Spain in January 1974. On that occasion, the Committee, requested the Board of Executive Directors to present to it a complete study of the various aspects involved in this matter.

Upon examination of this matter at the first session of the Eleventh Meeting of the Committee, being held in Santiago, a working group was established to consider the various alternative measures to provide for the admission of new independent countries of the region contained in the report of the Board of Executive Directors to the Committee (Document CA-53) and such other measures as the group might deem appropriate, for the purpose of recommending the adoption of one of them by the Committee.

The working group, composed of the representatives of Mexico, Trinidad and Tobago, and Venezuela, met on Saturday, March 30, at 6:30 p.m., and on Sunday, March 31, at 10:00 a.m., under the chairmanship of Mr. Héctor Hurtado, Governor for Venezuela.

In the course of the discussion on the three alternatives presented in Document CA-53, four new alternatives developed which could also be taken into account for facilitating the admission to the Bank of new independent countries of the region. These new alternatives are:

Alternative 4

Membership shall be open to other members of the Organization of American States, Canada, the Bahamas and Guyana and such new independent countries of the region as are members of the International Monetary Fund, at such times and in accordance with such terms as the Bank may determine.

Alternative 5

Other members of the Organization of American States, Canada, the Bahamas and Guyana may be admitted to the Bank at such times and in accordance with such terms as the Bank may determine. Other inde-

pendent countries of the region which are not members of the Organization of American States may be admitted as associate regional members with such rights and obligations as the Board of Governors may determine.

Alternative 6

Membership shall be open to other members of the Organization of American States, Canada, the Bahamas, Guyana and such new independent countries of the region as the Organization of American States may authorize to accredit Permanent Observers or admit to less than full membership, at such times and in accordance with such terms as the Bank may determine.

Alternative 7

Part A. Article II, Section 1(b), of the Agreement Establishing the Bank would be modified to specify that membership shall be open to other members of the Organization of American States, Canada, the Bahamas and Guyana at such times and in accordance with such terms as the Bank may determine.

Part B. At the same time, the pertinent provisions of the Agreement Establishing the Bank would be modified for the purpose of enabling it to extend loans to the Caribbean Development Bank that the latter may relend in the territories of its members whether or not they are members of the Inter-American Development Bank.

The working group analyzed the seven alternatives at length and concluded that the most conducive to the purpose sought was Alternative 7. The group pointed out that a careful legal study should be made of the question of channeling resources through other subregional financing organizations. Consequently, and pursuant to the assignment it was given, the working group presents to the Committee the following proposed resolution which, if approved by the Committee, would be submitted for consideration by the Board of Governors.

Proposed Resolution

WHEREAS:

The Board of Governors has examined the studies on measures providing for the admission of new independent countries of the region to membership in the Bank, carried out in fulfillment of Resolution AG-4/73; and

It is the desire of the Board of Governors that the Bank provide for strengthening the economic development of the members of the Caribbean Development Bank,

The Board of Governors,

RESOLVES:

1. To request the Board of Executive Directors to prepare appropriate amendments to the Agreement Establishing the Bank which would:
 - (a) Modify Article II, Section 1 (b) of the Agreement Establishing the Bank in order to specify that Guyana and the Bahamas shall be eligible to become members of the Bank at such times and in accordance with such terms at the Bank may determine; and
 - (b) Modify the pertinent articles of the Agreement Establishing the Bank for the purpose of enabling it to extend loans to the Caribbean Development Bank so that the latter may relend in the territories of its members whether or not they are members of the Inter-American Development Bank.
2. The amendments to fulfill the purposes stated above shall be submitted to the Board of Governors no later than June 1, 1974, for a vote without a meeting, in accordance with Section 5 of the By-Laws of the Bank.

Export Financing

The working group composed of Argentina, Mexico and the United States, with Canada attending, studied Document CA-56 submitted to the Committee of the Board of Governors by the Board of Executive Directors pursuant to the mandate given to the Board of Directors by the Committee of the Board of Governors in its Tenth Meeting, held in Port-of-Spain.

Mexico, the United States and Canada recommend that the Committee amend point XVII of the above-mentioned document to read as follows:

“The Committee of the Board of Governors recommends that the Board of Governors adopt a proposed resolution whereby:

- (a) The Board of Executive Directors would be requested to consider, taking into account the study entitled ‘Latin America and the Financing of its Exports’, the measures and resolutions that may prove necessary for the expansion of the present program, to which end the Board may consider the inclusion of other goods for which financing may be appropriate, in accordance with international practices, as well as the enlargement of the geographic area of destination of such exports, particularly to other developing coun-

tries which are members of the International Monetary Fund, with adequate preference given to the less developed countries.

- (b) In considering the matters indicated in (a) above, the Board of Executive Directors would examine the question of whether the Agreement Establishing the Bank permits the Bank to cooperate with the member countries in the financing of exports which are not necessarily capital goods and which are destined to an area extending beyond Latin America.
- (c) The Board of Executive Directors would report to the Board of Governors no later than September 30, 1974, on compliance with these recommendations.

The Delegation of Argentina expressed reservations concerning these recommendations and proposes to the Committee of the Board of Governors that it recommend to the Board of Governors a proposed resolution whereby:

- “(a) Attention be drawn to the need to expand the program for the financing of exports established pursuant to Resolution AG-8/73, so as to include other manufactures and semimanufactures, in addition to capital goods, without restrictions as to the areas of destination. The terms and other conditions of these financing operations shall be in accordance with the practices in international trade. The new scheme of export financing shall explicitly contemplate the needs of the less developed countries of the area and their subregional organizations.
- (b) The Board of Executive Directors be instructed to study and adopt, prior to September 30, 1974, the regulations for carrying out the program as expanded in accordance with (a) above. This study and the decision of the Board of Directors shall contemplate the allocation of resources for the execution stages of the program.”

Cooperation Measures Proposed by Venezuela for Latin America's Development

The working group appointed at the Preliminary Session met on April 1 at 3:00 p.m. to consider the cooperation measures proposed by Venezuela for Latin America's development and other financial relationships through the Bank. The group met under the chairmanship of the delegate for Argentina. Delegates for Brazil and Venezuela were also present, as were observers for Chile, Ecuador, Peru, the United States and Uruguay.

The group had before it for consideration the following proposed resolution presented by the delegation of Venezuela:

Proposed Resolution

WHEREAS:

It is the duty of the Bank to cooperate with the member countries by promoting the investment of public and private capital for development purposes;

The Republic of Venezuela has stated its intention to enter into arrangements with the Inter-American Development Bank allowing the Bank to act as one of Venezuela's financial agents for the channeling and utilization of part of the resources deriving from petroleum through the establishment of a trust fund which would be administered by the Bank as trustee;

In the administration of the fund it would be desirable for the Bank, without losing sight of its institutional objectives and purposes, to use broad and flexible policies and procedures with the object of financing, in whole or in part, fields and sectors of regional importance that the Bank has up to now been unable to serve out of its own resources; and

Other member countries may be able to strengthen the action of the Bank and use it as an agency for the placement of part of their resources in the light of the financial requirements of the region,

The Board of Governors,

RESOLVES:

1. To welcome the Venezuelan initiative and authorize the President of the Bank to conclude, with the prior approval of the Board of Executive Directors, such agreement or agreements with the Republic of Venezuela and/or with any of the Bank's member countries as may be necessary for the establishment of a trust fund to be administered by the Bank as trustee.
2. To authorize the Board of Executive Directors to sponsor and approve broad and suitable policies and procedures making possible prompt and productive utilization of the trust fund resources enabling the trustee, among other things, to finance large-scale projects providing for the most suitable utilization of natural resources, especially in the less developed countries, to acquire capital stock and to finance working capital in Latin American companies, and to supplement the Bank's present Program for the Financing of Exports, including exports of manufactured and semimanufactured goods and exports directed to countries outside the region.

The delegate for Venezuela made a statement explaining the scope of his proposal, mentioning certain specific points, such as:

- Nature of the projects
- Characteristics and nature of the beneficiary countries
- Provision of a contribution in soft funds for specific uses including analysis of projects and prefeasibility and feasibility studies, even on grant or contingent recovery basis, that will foster the transfer of technology
- Repayment terms, interest rates and currencies in which the loans would be denominated
- Preference for less developed countries and countries with insufficient market
- An expiration date reconciling the interests of the borrower countries and Venezuela.

The members of the group received the Venezuelan initiative with satisfaction, so that the discussion dealt more with procedural aspects than with the substance of the proposal. Some participants were of the opinion that the legal aspects should be taken into account. In view of

Venezuela's desire to have the resources of the fund made available to beneficiary countries promptly, it was agreed that the most expeditious procedures should be followed in order to hasten their utilization.

The working group clarified for the record that the fields of activity mentioned in the proposed resolution it was submitting to the Committee were merely illustrative and did not exclude the possibility of using the resources of the fund for other activities.

The following revised version of the proposed resolution presented by Venezuela, which was supported by the consensus of the working group, is submitted for the Committee's consideration:

Proposed Resolution

WHEREAS:

It is the function of the Bank to cooperate with the member countries by promoting the investment of public and private capital for development purposes;

The Republic of Venezuela has stated its intention to enter into agreements with the Inter-American Development Bank allowing the Bank to act as one of Venezuela's financial agents for the channeling and utilization of part of the resources deriving from petroleum through the establishment of a trust fund which would be administered by the Bank as trustee;

In the administration of the fund it would be desirable for the Bank to use broad and flexible policies and procedures with the object of financing, in whole or in part, fields and sectors of regional importance that the Bank has up to now been unable to serve out of its own resources; and

Other member countries may be able to strengthen the action of the Bank and use it as an agency for the placement of part of their resources in the light of the financial requirements of the region,

The Board of Governors,

RESOLVES:

1. To welcome the proposal formulated by Venezuela to provide for the establishment of a trust fund to be administered by the Bank as trustee.
2. To authorize the President of the Bank to negotiate, with the prior approval of the Board of Executive Directors, an agreement for the establishment of the trust fund, part of the resources of which may be used on concessionary terms, and to conclude such an agreement,

after review by the Committee of the Board of Governors, at the earliest possible time.

3. To allow the agreement to remain open for adherence by other Latin American member countries of the Bank which desire to be included under the same conditions or under others in which case such conditions shall be agreed upon in conjunction with the Venezuelan Government and the Bank.

4. To instruct the Board of Executive Directors to study and propose broad and suitable policies and procedures making possible prompt and productive utilization of the trust fund resources, enabling the trustee, among other things, to finance large-scale projects providing for the most suitable utilization of natural resources and the acquisition of capital stock and the financing of working capital in Latin American companies, especially in the relatively less developed countries and the countries of insufficient market, and to supplement the Bank's present program for the financing of exports, including exports of manufactured and semimanufactured goods, and exports directed to countries outside the region.

Status of the Bank's Resources. Study of a Possible Increase in Resources

As agreed at the Preliminary Session of the Board of Governors, held on the morning of Monday, April 1, 1974, a working group composed of Canada, Chile, Colombia, El Salvador, Jamaica and the United States was established.

The group met at 4:00 p.m. on the same day in the Puyehue Room of the Carrera Hotel to carry out the assignment it had been given with respect to the status of the Bank's resources as referred to in the report of the Board of Executive Directors to the Board of Governors (Document AB-376).

The meeting was attended by delegations of Chile, Colombia, Jamaica and the United States. A representative of the Argentine delegation was also present.

The group elected Dr. Germán Botero de los Ríos, Governor for Colombia, as its Chairman.

After hearing a statement by the Financial Manager on the matter, the working group examined the proposed resolution appended to Document AB-376, as well as other possible alternatives. The consensus favored presenting to the Committee of the Board of Governors the following proposed resolution which, if endorsed by the Committee, would be submitted for consideration by the Board of Governors.

Proposed Resolution

The Board of Governors,

RESOLVES:

1. That the Board of Executive Directors is requested to carry out a study on the possibility of enlarging the resources of the Bank by means of an increase in the authorized capital and an increase in the resources of the Fund for Special Operations.
2. That the Board of Executive Directors is requested to provide to the Committee of the Board of Governors a report to facilitate the Committee's review of the question of replenishment of resources. Such report shall be provided in time for consideration by the Committee at a meeting to be convened in Washington no later than July 31, 1974.
3. That the Committee of the Board of Governors is requested to present recommendations on the foregoing matter to the Board of Governors no later than October 1, 1974.

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SPECIAL GUESTS

The Fifteenth Meeting of the Board of Governors was attended by 486 special guests from 39 countries.



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GO-Meetings, Annual Proceedings
GO - 15th Meeting Board of (1974 -1974
Santiago, Chile, 1974

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