

INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Sixteenth Meeting of the Board of Governors

Santo Domingo, Dominican Republic, May 1975

PREFACE

The Sixteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in Santo Domingo, Dominican Republic, from May 19 to 21, 1975. Preliminary sessions as well as meetings of the Committee of the Board of Governors appointed pursuant to resolution AG-5/70 and the working groups appointed during the Meeting were held in the Convention Center of Loews Dominicana Hotel.

Dr. Joaquín Balaguer, The President of the Dominican Republic, attended the inaugural session and officially opened the Meeting. At that session Mr. Diógenes H. Fernández, Governor for the Dominican Republic and Governor of the Central Bank was elected Chairman of the Board of Governors and he presided over the work of the Meeting.

This publication contains the addresses delivered at the Meeting and the resolutions approved between the Fifteenth and Sixteenth Meetings, as well as those adopted during the latter. It includes also the reports of the Chairman of the Committee of the Board of Governors, the list of the delegations of the member countries and the observers from countries and international organizations that were in attendance.

Jorge Hazera
Secretary

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AGENDA

1. Election of the Chairman of the Board of Governors
2. Fifteenth Annual Report of the Bank, 1974
 - a. Financial Report, ordinary capital resources
 - b. Financial Report, Fund for Special Operations
3. Election of Executive Directors
4. Lending to the Caribbean Development Bank
5. Status of the Bank's resources
6. Expansion of the export financing program
7. Adaptation of the Agreement Establishing the Bank to prevailing general conditions.
 - Program lending
 - Credit commission
8. Measures to facilitate the entry of nonregional countries
9. New policy guidelines and preferential treatment for economically less developed countries and countries of insufficient market
 - Interpretation and application of Resolution AG-11/72
 - Supplementary financing for cost escalation
10. Place and date of the Seventeenth Meeting of the Board of Governors

SCHEDULE OF SESSIONS

Saturday, May 17, 1975

- 3 p.m. Fifteenth Meeting of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 (First Session)

Sunday, May 18, 1975

- 10 a.m. Meeting of the Committee of Governors appointed pursuant to Resolution AG-2/72
- 4 p.m. Preliminary Session (Chiefs of Delegations)

Monday, May 19, 1975

- 11 a.m. Inaugural Session (First Plenary Session)
1. Address by Mr. Raúl Sáez Sáez, Chairman of the Board of Governors and Governor for Chile
 2. Approval of the Agenda of the Meeting
 3. Election of the Chairman of the Board of Governors
 4. Address by Mr. Diógenes H. Fernández, Chairman of the Board of Governors and Governor for the Dominican Republic
 5. Address by Mr. Joaquín Balaguer, President of the Dominican Republic
 6. Address by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
- 3 p.m. Fifteenth Meeting of the Committee of the Board of Governors (Second Session)

Tuesday, May 20, 1975

- 9 a.m. Second Plenary Session
1. Fifteenth Annual Report of the Bank, 1974
 - a. Financial report, ordinary capital resources
 - b. Financial report, Fund for Special Operations
 2. Election of Executive Directors
 3. Address by Mr. Juan José Martínez L., Governor for Nicaragua, on behalf of the Central American countries
 4. Address by Mr. José López Portillo, Governor for Mexico
 5. Address by Mr. David H. Coore, Governor for Jamaica¹

¹ Read by Mr. Maurice Tenn, Temporary Alternate Governor for Jamaica.

6. Address by Mr. Jaime Moncayo García, Governor for Ecuador
7. Address by Mr. William E. Simon, Governor for the United States
8. Address by Mr. José Carlos Soares Freire, Temporary Alternate Governor for Brazil
9. Address by Mr. Alastair W. Gillespie, Temporary Alternate Governor for Canada
10. Address by Mr. Héctor Hurtado, Governor for Venezuela
- 3 p.m. Presentation by Mr. Juan Felipe Yriart, Deputy Director General of the FAO, on establishment of the Group for International Cooperation in Agricultural Development and Food Production in Latin America
- 5 p.m. Fifteenth Meeting of the Committee of the Board of Governors (Third Session)

Wednesday, May 21, 1975

- 10 a.m. Fifteenth Meeting of the Committee of the Board of Governors (Fourth Session)
- 11 a.m. Third Plenary Session
 1. Report of the Chairman of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70
 - a. Measures to facilitate the entry of nonregional countries
 - b. Lending to the Caribbean Development Bank
 - c. New policy guidelines and preferential treatment for the economically less developed countries and countries of insufficient market; supplementary financing for cost escalation
 - d. Institute for Latin American Integration; future organization
 - e. Regulations for the election of Executive Directors; proposal presented by Mr. George M. Chambers, Governor for Trinidad and Tobago
 - f. Criteria for differentiation among countries for use of the resources of the Fund for Special Operations
 - g. Status of the Bank's resources
 - h. Expansion of the export financing program
 - i. Rules of procedure of the Committee

2. Group for International Cooperation in Agricultural Development and Food Production in Latin America

3:30 p.m. Fourth Plenary Session

1. Expansion of the export financing program
2. Measures to facilitate the entry of nonregional countries
3. Statement by Mr. Horst Moltrecht, observer for the Federal Republic of Germany, on behalf of the nonregional countries signatories to the Declaration of Madrid
4. Address by Mr. Nicolás Ardito Barletta, Governor for Panama¹
5. Address by Mr. Roberto Keil Rojas, Alternate Governor for Peru
6. Address by Mr. César Roméo Acosta, Alternate Governor for Paraguay
7. Address by Mr. Víctor Castillo Suárez, Governor for Bolivia
8. Address by Mr. Ricardo A. Cairolí, Alternate Governor for Argentina
9. Address by Mr. Carlos Sanz de Santamaría, Temporary Alternate Governor for Colombia
10. Address by Mr. P. M. Greaves, Governor for Barbados
11. Address by Mr. Raúl Sáez Sáez, Governor for Chile
12. Address by Mr. George M. Chambers, Governor for Trinidad and Tobago

5 p.m. *Fifth Plenary Session (Closing Session)*

1. Agreement on the place and date for the Seventeenth Meeting of the Board of Governors
2. Remarks by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
3. Address by Mr. Diógenes H. Fernández, Chairman of the Board of Governors and Governor for the Dominican Republic

¹Read by Mr. Eduardo McCullough, Temporary Alternate Governor for Panama.

ADDRESSES

FIRST PLENARY SESSION

May 19, 1975

INAUGURAL SESSION

**Address by Mr. Raúl Sáez Sáez,
Outgoing Chairman of the Board of Governors,
Governor for Chile and Minister of Economic Coordination**

In April 1974 Santiago, Chile, had the honor and the pleasure of playing host to the Fifteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank. For that reason, as Governor for Chile, the pleasant task of delivering the opening address of this Meeting falls to me before handing over the Chairmanship to my successor. But first I would like to take this opportunity to express thanks for the friendly welcome—eloquent evidence of the cordial hospitality of the Dominican people—extended to us all by this beautiful country.

Nearly five centuries ago this Caribbean island witnessed the beginning of a civilization uniting the native American culture with that coming from Europe, thus creating a tradition. By tradition I mean the manner in which we receive experiences and how we interpret them, and the form of culture created in the past by man in society. I therefore believe with Kenneth Clark that civilized man must be conscious of living in space and time and should be able to look to the future as well as to the past.

It is through tradition that we receive what is transmitted to us by the past. In other words, tradition consists of two different actions, at two different times, within a single process; transmission and reception. If the conditions existing at the time of reception differ appreciably from those prevailing at the time of transmission then our reception of what is transmitted by tradition will be incomplete, since we are always trying to preserve those basic values that we want to survive, regarding as permanent and unaltered by the new set of circumstances. This is fundamental since all civilizations are founded on energy, force and vitality, a cumulative effort which no one may underestimate without running the risk of seriously slowing or even halting progress, which to me means a continuous and indefinable movement toward the improvement of humanity.

Why have I ventured in this address to depart from the traditional form? Perhaps my boldness can be justified by the concluding remarks of Bank President Antonio Ortiz Mena in his opening address in Santiago last year. He said:

"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. . . . 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 . . . 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."

I should perhaps add that the words that I have just quoted reflect the tone of the majority of the speeches of the Governors that we heard in Santiago. Unfortunately, since the difficult situation already discernable in April 1974 has worsened, and what has euphemistically been called recession has reached crisis levels in many countries, I therefore believe that we may say that the differences between the world of last year and the world of today are wide. Therefore, I feel entitled to follow the formal tradition of the speeches laid down by outgoing chairmen in the past only partially.

I am among those who believe that the modern world of today is undergoing at least two fundamental changes. The first is the launching of a process of large-scale shifting in the pattern of income, something which must inevitably generate over the long term a process of structural change. This is a matter of very great importance. If the change in purchasing power were confined only to the industrialized and petroleum exporting countries it would result in the final analysis only in a widening of the gap between the rich and the poor countries. This would give fresh currency to the assertion of good old Sancho who, chatting with his master Don Quixote after the wedding of Camacho said: "As my grandmother used to say, there are only two races in the world—those who have and those who have-not . . ."

The second fundamental change is, in the words of Prof. Richard N. Gardner, the search for the building of a "world order, a structure that ensures peace, that safeguards human values and that guarantees the conditions needed for economic progress. It is clear that never has a gulf so wide separated the goals and the capacities to attain them which, supposedly, are going to lead humanity along the path of world order. . . . We have witnessed the budding of a shortsighted nationalism which seems ignorant of the meaning of interdependence in the economic, political and moral spheres."

The outlook for success in the efforts to achieve a new "world order" seem dim indeed if judged by the present international situation, or if one interprets broadly the efforts toward general agreements by the super-powers—only among themselves—in their spheres of dominance or influence. But at the same time the situation could hold much hope if one believes that in one way or another a new world juridical order is being formed, one that seemingly embodies such characteristics as a spirit of solidarity and cooperation. As an example of that order, I would like to allude to the difficult debates on population, food, environmental pollution or new laws of the sea, that are taking place in different inter-

national forums in the fervent search for the Platonic ideal: "Man is the measure of all things."

No international organization—even less if it is only regional in scope as is the Inter-American Development Bank—can make a definitive contribution in these matters. But its example and its proposals can be the catalyst that permits the formation of that new humanity in which Sancho's words will lose in the passing of decades more and more of its great present-day validity.

The work of the Bank over the past year can be considered to be very positive, within the framework of the goals that I have just mentioned. There are two facts in particular that I would now like to point out which are especially relevant.

First of all, we note with satisfaction that in Madrid agreement was reached on the reciprocal interest that exists between the American nations and an important group of non-regional countries in channeling through this institution part of the latter's growing participation in the development process of our region.

In second place, the completion of negotiations to establish a Venezuelan trust fund adds \$500 million to the Bank's volume of resources. The fund will not only help increase the normal flow of loans, but will also make it possible to extend financing to new areas of vital importance, which until now had not been covered by existing resources. Such an auspicious fact is but a reaffirmation of the Latin Americanist spirit of the Venezuelan people and government, which I feel deserves recognition.

In addition, I believe I can speak for the Board in stating that it is also a cause for satisfaction to know that the Bank continues to move forward in its endeavor to incorporate Caribbean countries into membership, thus bringing us closer to the goal of joining together all independent nations and peoples of the hemisphere.

I do not think I should evaluate the progress made in 1974, a year in which the Bank surpassed the \$1,100 million mark in authorized loans to developing countries of the hemisphere and disbursed more than \$670 million: both figures representing the highest in the Bank's history. The evaluation of its work, as such, is one of the tasks of this Meeting.

The facts mentioned are auspicious and welcome, because the disastrous effects of the crisis besetting the world bring about in many developing countries the need for ever more agile and powerful institutions to overcome the impact of these changes on the continuity of growth and social development in our nations.

I would not wish to conclude without stating that, in my opinion, the President of the Bank, Antonio Ortiz Mena, his close associates and the personnel of the Institution deserve our sincerest congratulations for the results achieved in this fiscal year. I apologize for taking up so much of your time, and pray that this meeting, attended by such a distinguished group of people, achieves the success we are all hoping it will.

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

I should like to begin by extending the warm greetings of the Dominican people to the distinguished guests who honor us with their presence today. We hope that your short stay in this small country will permit you to witness the hospitality which we traditionally give to our visitors.

The city of Santo Domingo de Guzmán, crowned by history as the port of entry and original setting for the events that led up to the civilization of the Continent, today dons its full regalia to once again open wide its doors in sincere welcome to the sentiment of human brotherhood that characterizes the highminded thinking of my illustrious colleagues, gathered here today to inaugurate the work of this great meeting of the nations of our hemisphere.

I humbly accept the honor conferred on me by the Governors to preside over this Sixteenth Annual Meeting of the Board of Governors.

I am very much aware of the challenge that the chairmanship of this important Meeting presents, because of the high level of knowledge required to guide the lofty deliberations of such distinguished colleagues in their discussion of our interesting agenda. But it is reassuring to know that I shall have by my side our friend and indefatigable veteran of long and successful campaigns for the economic and social development of America: the President of our Bank, Antonio Ortiz Mena. It is also good to know that I shall be able to rely on the experience and wisdom of our skilled Secretary and his assistants. The understanding and kindness that I am sure I will receive from the Governors makes me pledge not to fail in the mission entrusted to me. For its success, I will exert my utmost efforts.

Before continuing, I should like sincerely to congratulate my distinguished colleague from Chile, who preceded me as Chairman, on the effective work accomplished since the last Meeting.

Fellow Governors, allow me to make special mention of the presence at this Meeting of the representatives of a group of nonregional industrialized countries who have formally indicated their decision to join this great Inter-American Bank family as contributing members. We thus extend cordial greetings to the representatives of Austria, Belgium, Denmark, Germany, Israel, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom and Yugoslavia. The substantial contribution that these future members will make jointly to the Bank will enable it to continue its valuable work of making new resources available to member

countries in need of them for their development on the softest and most favorable terms available in today's money markets.

This is also a suitable opportunity to express our appreciation to our future members for their gesture of solidarity and cooperation in the form of the Declaration of Madrid, signed December 17, 1974. In signing the Declaration, they demonstrated their confidence in the role which the Inter-American Development Bank has been playing in fostering the economic and social development of the countries of the region in the certainty that our countries are utilizing these financial resources to consolidate the accelerated rate of development achieved during recent years.

The entry of these nonregional countries into the Inter-American Development Bank and the help that this signifies for the region are particularly important at this time if we keep in mind the fact that their decision was made against the background of a world economic and financial situation convulsed by inflation, by economic depression in the majority of the developed countries, by decreasing bilateral aid, by a possible fall in the prices of our principal export commodities, and by the hardening of terms on the international financial markets.

The Declaration of Madrid thus evidences a recognition that the world economic crisis has created a new awareness of the need of nations to seek the solution to their economic problems in ever broader and closer international cooperation. And it demonstrates clearly that the idea is rapidly gaining ground in the thinking of our peoples that the way to prevent our economic and social system from being overwhelmed by the upheavals caused by the world crisis is in more rational interdependence between the economies of the industrialized countries and those which are still developing.

The Inter-American Development Bank, which began operations in 1960, is the tangible materialization of one of the greatest and best hopes of our peoples. It has developed into the most efficient agency in the search for solutions to the problems associated with the very wide spectrum of conditions found in Latin America. An example is the intensive efforts accomplished to mobilize an increased volume of resources through the entry into the Bank and contribution to its capital resources of non-regional industrialized countries. Another is the unremitting work done to secure new financing from countries with surplus resources. The agreement with the Venezuelan Investment Fund is another, very recent example of the activities of the Bank's Management in this field. At the present time, the mobilization of resources is vital to the continuance of the important work that the Inter-American Development Bank has been carrying out in behalf of its developing member countries. This commendable work has enabled it to maintain a satisfactory rate of growth in lending. Thus, in 1974 the Bank made 53 loans, for a total of \$1,111 million, an increase of 26 per cent over the 1973 figure.

The Bank's financial support and technical assistance has thus been a decisive factor in the progress accomplished in the economic development of our peoples, particularly at the present time, when we are suffering the effects of the processes of adjustment and adaptation of the economies of the developed countries, racked by inflation, the international monetary imbalance and the disruption of the flows of financial resources. This situation is moreover complicated by the fact that the developing countries today need a greater volume of resources than they have been receiving up to now. For our countries to be able to utilize them to the best advantage, these resources must be available on terms that only agencies such as the Inter-American Development Bank can offer.

The present climate of economic uncertainty in which the world lives means that it is becoming daily more urgent to join efforts to step up economic cooperation by strengthening the international lending institutions that serve to channel the resources accumulated by the surplus countries towards the countries that most need this aid in priority fields.

We hope that the framework in which this Meeting is taking place will provide a stimulus to ensure the complete success of the decisions taken here.

By happy coincidence, this financial event of worldwide importance is taking place just when our country is engaged in extraordinary efforts to accelerate its economic and social development with its own resources and with the advisory and financial assistance of the international agencies such as the Inter-American Development Bank. These efforts have made it possible for us to carry out many projects fundamental to the economic and social development of our people.

It is our earnest hope that from the deliberations of this Meeting new initiatives and plans will emerge that will broaden the sources of funds available to the Bank with which to meet Latin America's growing needs, and that measures might be adopted that will have a positive effect on the pace and pattern of the future economic development of the countries of our hemisphere.

As regards the facilities for the Meeting, we hope you will forgive and understand any inconvenience. This having been said the Dominican Republic is justly proud of the effort it has accomplished to make available the necessary minimum facilities to ensure that this Meeting will mark a new milestone in international cooperation in behalf of the economic and social development of our peoples.

May we therefore wish every success to this international Meeting as it begins its work today. May we also reiterate our fervent hope that the distinguished colleagues and guests who honor us with their presence here will feel at home in our land, which warmly welcomes them.

Address by His Excellency Joaquín Balaguer, President of the Dominican Republic

My formal opening remarks on this occasion should logically be designed to welcome you and to convey to you the admiration and hospitality of the people and government of the Dominican Republic.

But such expressions hardly serve in this case, for the country that is receiving you today is proud to call itself the "House of America" and therefore belongs to all the nations of this hemisphere.

For many years, a prestigious publication entitled *La Cuna de América* was published here. Its literary value was high and its contributors included the most esteemed Dominican and foreign authors. The publication ceased to exist long ago but many still remember its title because it stated an incontrovertible historical fact: here, in this first city, was the stepping off point to the Indies: what Philip II called "the gateway and the key" to the newly discovered world.

This Meeting begins its work at a time of signal importance, not only for the Americas but for all the countries of the Western World. The profound changes and great uncertainties created by the instability of international economic and monetary systems call for pragmatic solutions that emphasize the spirit of solidarity in foreign affairs which has, to date, been the goal of all the American countries.

This situation has been worsened recently by a development requiring the intervention of those regional institutions that serve in our hemisphere as instruments stabilizing our available human and financial resources. This new source of instability emerged just as the international monetary system was passing through a period of significant change and realignment. Naturally, the countries in four continents were affected, but the greatest impact was felt among the countries of the so-called Third World, that is, those of us that continue to wage the hard-fought struggle against economic and social underdevelopment.

The crisis unleashed by the rise in oil prices—the new factor that has brought world inflation to near catastrophic proportions—forced many of our countries to call a halt to development plans and made more difficult our common efforts, which have met with varying degrees of success, to activate our economies and thereby solve the population explosion and bring about the social reforms which are so urgently needed to prevent the onslaught of chaos and violence that can nullify or minimize our civilizing goals.

The capacity of the international financial agencies to provide aid has been curtailed by the afore-mentioned developments, forcing many governments to resort to the domestic resources available to them, which are,

obviously, far from sufficient in the case of the developing countries. The austerity programs instituted in most nations of the region, especially those that have no petroleum resources at all or not enough to satisfy their own consumption, have in turn heightened social dissension. Without question, 1974 was a year of testing. It was a year when the world, and Latin America in particular, had to face the consequences of the financial imbalance brought about by the energy crisis and world inflationary pressures. It was a year that spawned the idea, now accepted by most countries, of seeking collective solutions to those problems. Specialized agencies like the so called Committee of 20 on international monetary reform have worked, though with little success, to provide the countries of the Third World with the financing they must have to meet the high costs of importing oil and oil by-products. We are still impatiently awaiting the final results of some of the most promising steps taken by the agency established in 1974, among them the establishment of the Provisional Committee whose creation was supported by the Annual Meeting of the International Monetary Fund in September 1974 with the task of recommending and carrying out currency reforms, and the International Development Committee, which was entrusted with the task of promoting a meeting between the industrialized and the developing countries to encourage the transfer of a larger volume of financial resources from the rich to the less developed nations.

Among these economic cooperation efforts, we must not overlook the initiative of the oil-producing countries in making available to international and regional bodies, such as the Inter-American Development Bank, special funds to enable the countries hardest hit by the energy crisis to solve the serious balance of payments problem, one among others of lesser importance. The recommendation of the Committee of 20 which established the Oil Facility within the International Monetary Fund was another significant step. It must be acknowledged, however, that those measures have not to date basically improved the financial position of the Third World countries or protected their economies from imported inflation and from the recession which is driving some of them to the brink of social and economic collapse.

The Government of Venezuela deserves our gratitude, and particularly the gratitude of those of us constituting the majority bloc of those countries which still belong to the so called Third World, that is the world of poverty and frustration, for its decision to make substantial contributions to the Inter-American Bank in order to set up a Trust Fund to expand credit aid to countries with serious balance of payments and foreign exchange problems resulting from the energy crisis.

If we are to be frank, as it is our duty to be in dealing with economic questions closely tied to the very survival of our peoples, we must concede that the measures adopted thus far are no more than palliatives.

The decision to provide our developing countries with the financing means required to overcome problems stemming primarily from balance of payments disequilibrium will in the long run simply plunge the countries utilizing that facility into debt with no real hope of meeting their basic needs.

Many of our governments have already exhausted their creditworthiness, while others obviously cannot support further indebtedness in addition to the already very heavy burden of interest and amortization on their public debt. Clearly, the type of financing being offered our countries can provide momentary relief and can solve the shortage of foreign exchange for two or three years. But the problem itself will remain, with the added disadvantage that the interest on new debts will deprive those countries of resources they urgently need for their development. External debts are justified when they are incurred for productive activities and can therefore be of positive benefit in the long run.

Yet, the problem of which I speak is not exclusively an economic concern. We are living in a world wracked by violence and in most of Latin America, even where underdevelopment has for some time been partially resolved, the outlook for public order and stability is not very heartening.

Most of our peoples, hungry and undernourished, are clamoring for a more equitable distribution of national wealth. The air resounds with the desperate cry of the masses demanding radical social reforms as our only possible instrument for achieving the peace for which we all yearn.

Now we must ask ourselves: can those problems be resolved by measures such as those proposed by the Committee of 20 and by palliatives like the financing program offered our countries through the Inter-American Development Bank?

Nobody who is aware of what is happening in Latin America can answer those questions in the affirmative. The only solution, in our view, to the problem created by the energy crisis and world inflation would have to be one of these two alternatives: either to raise the prices of those materials produced by those countries of our underdeveloped Latin America to seek in some such way to restore balance of payments equilibrium and ease the adverse effects of imported inflationary pressures on our economies or to evolve other formulas for achieving the economic cooperation so extensively discussed in inter-American meetings. One such formula might be to lower the prices of oil and oil by-products for the developing countries. The super-industrialized countries can withstand the crisis that is engulfing us all because they possess ample resources and a civic awareness lacking in most Latin American countries. There is no government in that part of our hemisphere undergoing what has been termed "the tragedy of underdevelopment" that can speak of true austerity and call upon the masses to do without many essentials and to

sacrifice themselves in the higher interest of the nation, without endangering its stability. Boycotts such as the boycott of sugar consumption by the public in the United States can only be successful in countries with a highly developed social consciousness or high levels of education.

Another equally feasible formula might be to make the resources of the Trust Fund generously provided by our sister nation of Venezuela available to the developing countries of Latin America free of interest payments and with an especially flexible grace period and an adequate term of amortization payments. Financing, in that case, could be confined to covering exclusively the excess of present prices over prices in force up to the end of 1973. Such a limitation would remove from that operation the character of a grant and would maintain it as a genuine loan of solidarity, since the high price of petroleum products today in itself ensures sufficient return to the producing countries.

If any other course of action is followed, we shall soon find that Latin America will become a shambles. Its institutions, subverted by the hunger and frustration of the masses, will feel the full impact of violence which instead of solving problems does nothing more than intensify them, accenting the discontent of the poverty-stricken masses even more.

Is what we have suggested merely a dream, or can it become a reality? However valid the ideas we have put forward may be—and they reflect the views not of a technical expert but of the ordinary citizen and man in the street—I urge you to regard them as the product of our thinking about what might happen to every one of our countries in the very near future. I am confident, however, that through your wisdom, you will be able to choose the technically practical solution in responding to the various questions arising from each of the items on the agenda of this Meeting. The important thing is to find a satisfactory solution to the present situation for otherwise all the countries of the region, rich and poor alike, will be doomed to perish. This disaster will not spare those countries which now refuse to pay adequate prices for our raw materials or those currently reaping profits from the high prices of their minerals. Peace is interdependent in the economic field, as is the balance of international political relations. Economic prosperity is indivisible in the sense that the well-being of any one group cannot be sustained long in the midst of poor countries which will in time stop consuming to become virtual beggars. Just as there is a clamor for social justice for the disadvantaged within each country, so must there be established the same kind of justice between the developed and the undeveloped countries. It is perfectly plain that to date the problem created by the energy crisis has been dealt with only superficially. Efforts have been made to apply measures of only limited and temporary impact to the solution of a problem which will inevitably worsen with time and therefore calls for drastic remedies instead of merely transitory arrangements.

The illustrious President of the Inter-American Development Bank, Antonio Ortiz Mena, perhaps the Latin American who is most knowledgeable on the subject and can speak with the greatest authority, has pointed out that the development of Latin America over the 1968-73 period has been satisfactory to a high degree. In that five-year period, the gross domestic product of the countries of the region increased at a rate of 6.7 per cent. According to that official, on whose vast experience and thorough knowledge of the question these analyses are based, that achievement can be attributed to the expansion of Latin America's export trade and the increase in investment by public and private sectors in most countries of the region.

A third factor, for which the Inter-American Development Bank itself is chiefly responsible, also seems to have had a remarkable influence on our economic growth: the expansion of external financing. According to available statistics, external financing in Latin America had remained static until 1968, ranging around \$1.5 billion a year. But from that year on, loans granted to the countries of the region steadily increased until they amounted to \$5 billion during the last three years. That inflow of capital to the region, together with better utilization of such capital, was the decisive factor in the economic development of Latin America over the five-year period.

Those facts indicate the effectiveness with which the Inter-American Development Bank and other institutions, such as the World Bank, are participating in our economic growth process providing us with the external financing without which our efforts would have come to nought. It has become clear that the policy pursued by those international financing institutions has resulted in a situation in which only 14 per cent of Latin America's exports of goods and services is channeled into amortization of its external commitments. Any higher rate would necessarily have been excessive and would have created economic problems which might have proved insuperable for most Latin American governments.

The rapidity with which economic situations change nowadays compels us to develop new guidelines with respect to the allocation of international financial resources. We are facing what amounts to a reduced demand for our primary exports and a spiraling increase in the prices of most of the goods we import. Another factor which tends to aggravate this less than encouraging picture is the rise in the cost of the financial resources which our countries need to carry out their major development programs. It is only fair at this point to stress the important role played by the Inter-American Development Bank in 1974 in promoting the economic and social progress of Latin America. The share of that banking institution in our regional economic growth represents approximately 30 per cent of the total financing received bilaterally from international agencies, as can be seen from the survey entitled *Flows of*

External Public Financing to Latin America recently prepared by the Organization of American States.

The Inter-American Bank has not only proved to be an efficient financial instrument in promoting the development of our economies but it has given many of our countries valuable technical assistance in the planning and execution of large-scale social programs and important projects in strategic areas aimed at improving the standard of living of our peoples south of the Rio Grande. One significant demonstration of the Bank's efforts to increase its financial and technical assistance to our countries can be seen in its ongoing negotiations with governments outside the region aimed at securing greater resources and more favorable terms than those now prevailing in the capital markets.

The Dominican Republic is an example of what the Bank is doing and can do for the economic and social development of Latin America. The loans granted by this banking institution to our country over the last 10 years come to \$172 million, which is being invested primarily in the agricultural sector. The Bank's participation in 63 technical cooperation projects, with a contribution amounting to \$11.1 million, is further evidence of the importance of its assistance to our development programs. The support we have received from the Bank to date can be estimated at \$40 per capita. For its part, the Government of the Dominican Republic has made counterpart disbursements totaling DR\$128 million. That last figure is especially eloquent because it indicates that the Dominican nation has shown itself capable of utilizing the help it is receiving to good advantage, having expended efforts on its own which equal or exceed the cooperation it has received in technical assistance and foreign currency.

As a measure of the extent of that technical and economic cooperation, suffice it to mention briefly the work we are carrying out or plan to carry out to transform agriculture in the Dominican Republic. We are engaged in a project for the full utilization of the Yaque del Norte basin through irrigation of 370,500 acres, that is, the intensive development of the area in which one-third of the rural population lives. This area of fertile land will be enlarged by 62,985 additional acres through a supplementary agreement for the construction of the Bao Dam. The Inter-American Development Bank recently granted us seven new loans amounting to \$54.8 million which will be entirely invested in the areas of the country best suited to farming. The principal agreement is designated as *PIDAGRO*, an ambitious agricultural development program which will cost, in the initial stage, \$37.2 million, of which the Bank will contribute \$24.8 million. The basic aim of these programs are to satisfy our food needs, diversify and increase our exports, improve income distribution in rural areas and fully utilize our natural resources.

It is my opinion that the seven loans recently made by the Bank to the Dominican Republic, if implemented as strictly as planned, will have

a decisive effect on the national economy, as can be seen from these figures, which speak for themselves:

The programs will benefit 988,000 acres of land under cultivation; 10,000 farmers and cattlemen will receive technical assistance through the agricultural extension program organized by *PIDAGRO*; 2,400 farm leaders and 800 university-level experts will receive training, and fellowships for special studies abroad will be granted to Dominican students. In addition to those plans especially designed to promote our economic development, we have put into operation five programs which will have considerable influence on the maintenance of good health among our population and the improvement in living standards of rural inhabitants. The program known as the National Rural Water Supply Plan will benefit 650 small communities, and almost the entire population now engaged in agriculture will be benefited by the Rural Electrification Plan being executed by the Bank and the Dominican Government at a total cost of DR\$12.7 million.

The Bank is also assisting the private industrial sector through the Development Investment Fund and has already contributed \$12 million for investment in small and intermediate industries of the Dominican Republic. The advantages of that program have been many, as shown, among other achievements, by the creation of 9,190 new jobs, the mobilization of DR\$54 million in domestic savings, import replacements amounting to \$30 million and the contribution of DR\$68 million to the increase in the gross domestic product.

Nevertheless, none of those benefits would have been possible if the Dominican nation had not made a special effort to support the Bank's assistance by providing its own resources. With funds from the national budget we are carrying out productive projects amounting to over DR\$300 million, wholly invested in high-priority sectors. Among the most relevant, all the result of our own efforts, I might mention the Valdesia Dam, constructed at a cost of approximately DR\$50 million; the Sabaneta Dam, in which the State will invest DR\$42.6 million; the Sabana Yegua Dam, which will cost almost DR\$80 million; the Yaque del Sur Canal, in its concluding phase, costing DR\$24.5 million; the Rincon Dam, which is about to be opened with an investment of approximately DR\$18 million; the Lower Yaque del Norte Canal, which has been started on a contract with *Inversiones y Construcciones, S.A. (INCONSA)*, and *Ingenieros Civiles Asociados, S.A. (ICA)*, for DR\$17 million and, lastly, the DR\$20 million, which the State appropriates annually for the settlement of campesinos and the purchase of top quality land for its programs of social justice incorporated in the agrarian reform.

The Government's investment program, based on its own resources, has been made possible by a steady increase in the sections of the national budget allocated to investment in the public sector. The Public Expendi-

tures Act, which in 1966 allocated only 11.1 per cent for investment costs, provided 39.6 per cent for that purpose in 1974, that is, the allocation rose from DR\$21.5 million to DR\$203.1 million in the last year.

Other international credit institutions have also associated themselves in our national development efforts. Outstanding among them, in view of the scope of the programs it has sponsored to date, is the International Bank for Reconstruction and Development, which has joined the Central Bank of the Dominican Republic in carrying out an ambitious tourism program in the city of Puerto Plata and its vicinity and the Agency for International Development (AID), which has been our closest ally since 1962 in plans to diversify our production, extend our educational services and raise the nutritional and health levels of our most needy classes.

Esteemed delegates: In reiterating my warmest welcome and expressing the pleasure with which we welcomed your decision to choose the Dominican Republic for this important meeting, I wish to extend to you my best wishes for the success of your deliberations, which we all hope will be conducted at the high level and with the selflessness essential in coping with the serious monetary and financial problems before you, for they are of overriding importance to all the peoples of the Americas.

The eyes of all America are upon you, and we all hope, with justified apprehension, that this meeting will generate not only words, but constructive decisions for a world which is experiencing one of the most difficult moments in the history of the last hundred years. What our Americas, in particular, need is not prodding and mere promises, but above all measures which will help to reduce the hunger gnawing at most of our peoples and to relieve the crises which are making their development an increasingly arduous task. Only thus can you help to restore the faith of our peoples in many areas vital to international coexistence: faith in justice and peace based on a recognition that well-being should not be a privilege of the rich but a right of those underdeveloped nations that are contributing their raw materials and their consumer markets to the common endeavor to maintain universal order and civilized coexistence among nations.

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

In holding the Sixteenth Annual Meeting of the Board of Governors in this illustrious city of Santo Domingo, the oldest in the Hemisphere, we are becoming reacquainted with an important part of our historic past. Hispaniola was the first political and administrative center of the New World and from here the Spanish presence was projected towards the Caribbean and Central America. The vigor, imagination and spirit of enterprise that radiated from this city which welcomes us today with its proverbial hospitality are values that we need to rediscover and update in order to enlist them in the no less ambitious cause of ensuring the well-being of all the inhabitants of our Hemisphere.

In addition to expressing our profound satisfaction with the opportunity of meeting in this first city of America, it is my pleasure extend to the Dominican Government and people our thanks for the generosity and cordiality with which they have received us. We should like to give especially warm thanks to those responsible for preparing this Meeting, since their dedication and efficiency are important contributions to its success.

Bank Activities in 1974

This Meeting of the Board of Governors of the Bank is particularly significant because it is held in the year in which the Bank completes the first 15 years of its existence. During these years the Bank has sought to identify itself ever more closely with the development goals and financing requirements of the member countries, and within that comparatively brief span has become the most important external source of public funds for economic and social development in Latin America.

In reporting to the Governors on activities carried out by the Bank during Fiscal Year 1974, I should like to note that the Bank registered substantial increases over the previous year. The Annual Report which the Board of Executive Directors presents to the Meeting and which I have forwarded to the Governors contains a complete account of the work performed by the Bank. Consequently, I shall refer in this statement only to the most outstanding aspects of our work.

In the first place, the volume of loans and technical cooperation authorized in 1974 exceeded by a broad margin the level recorded in any previous year, amounting to \$1,111 million. This represented the first year in which the volume of loans exceeded \$1 billion and was 26 per cent higher than the previous record of \$884 million set in 1973. The Bank's technical cooperation reached an unprecedented \$51.8 million, including

\$22 million authorized on a nonreimbursable or contingent recovery basis. The latter is more than triple the previous highest annual figure of \$6.4 million recorded in 1973.

The Bank's lending in 1974 raised the Bank's cumulative loan portfolio to \$7.5 billion distributed in 822 individual operations. These resources, in turn, mobilized counterpart contributions of some \$18 billion derived mainly from the domestic savings of the benefited countries. Consequently, the projects and programs which the Bank is helping to finance within the region amount to a total of \$25.5 billion. During the year, the Bank's share in the execution of an additional 65 projects was completed, bringing the cumulative total of completed projects at year end to 495.

Disbursements on authorized loans in 1974 continued the steadily rising trend recorded in the past, reaching a total of \$673 million, compared with \$582 million the year before. At the end of 1974 total disbursements had risen to \$4,341 million, or 58 per cent of the volume of loans authorized through that date.

A total of 57 per cent of the Bank's 1974 portfolio consisted of loans extended with conventional resources, compared with 51 per cent in 1973. The higher percentage of conventional loans in 1974 is explained by a lesser availability of concessionary funds, which are increasingly being devoted to the smaller and less developed countries in the region. On a cumulative basis, the portfolio reflects a balanced distribution in the utilization of funds from the various sources: \$3,320 million in ordinary capital loans, \$3,497 million in concessionary loans from the Fund for Special Operations, and \$593 million in loans from various trust funds.

In 1974 the Bank continued a policy initiated in 1971 of channeling an increasing volume of loans and technical cooperation to the less developed countries and those of limited market. Loans extended to such countries totaled 62 per cent of the volume authorized from the Fund for Special Operations in 1974, in contrast to only 21 per cent in 1971. In 1974, some 38 per cent of the Bank's total lending went to those countries, compared with 28 per cent in 1971.

As a result of the application of this policy, five of the less developed or limited market countries in 1974 received the highest annual volume of loans in the history of the Bank. They included Barbados with \$9 million, Costa Rica with \$54 million, Honduras with \$36 million, Paraguay with \$49 million and Uruguay with \$57 million. Bolivia with \$46 million and Ecuador with \$55 million received loans equal to their previous maximum annual levels.

Sectoral Distribution

The sectoral distribution of the loans authorized in 1974 reflected a trend determined by the world fuel and food crisis. The increase in hydroelectric

and food output within the region is closely connected to the utilization of a common element essential to both sectors—water. For that reason, in financing projects and programs of this type, the Bank is particularly concerned with promoting the rational use of Latin America's vast water resources.

A total of \$384.1 million of the Bank's 1974 loan portfolio helped increase electric power production in the region, making that the year's largest loan sector. Approved loans were distributed as follows: \$162.5 million to help finance hydroelectric projects that will promote power development, irrigation and other farm improvement facilities in Costa Rica, Chile and the Dominican Republic; \$93 million to increase hydroelectric potential, including rural electrification cooperative programs, in Argentina and Ecuador; \$95 million in a binational credit to assist in financing the second stage of the Salto Grande hydroelectric plant on the Uruguay River that will supply energy to Uruguay and to the coastal provinces of Argentina, and \$33.6 million to build power distribution systems in Paraguay.

These bring the cumulative value of loans granted in this sector to \$1,570 million. Such resources are helping to finance the installation of 13.1 million kilowatts of power, of which 12.5 million kilowatts represent hydroelectric plants. A similar amount of energy produced by petroleum would require the consumption of 89 million barrels of oil a year valued at \$623 million. Authorized loans are also helping to install 94,748 additional miles of transmission and distribution lines and to improve distribution systems in 2,392 communities.

The farm sector, to which the Bank has allocated the largest cumulative volume of financing, received loans totaling \$228.3 million during the year: \$45 million to help construct irrigation facilities in Argentina benefiting 15,000 rural families; \$36 million, for farm rehabilitation and credit programs benefiting small and intermediate farmers in Chile, Panama and Paraguay; \$90.5 million to construct irrigation works benefiting 28,000 rural families in Mexico; \$46.5 million for the development of fishery production in Mexico and Panama, and \$10.3 million to combat livestock diseases in Honduras, increase dairy production in Guatemala, and to promote forestry development in Nicaragua. At year end cumulative Bank financing in the agricultural sector amounting to \$1,672 million was improving more than 10.9 million acres of land, of which 2.2 million acres benefit from irrigation systems. In addition, more than 1 million farm credits were made available to individual farmers, 100 rural cooperatives and 11 consumer food cooperatives.

The Bank's contribution to improving transportation and communications in the region amounted to \$195.1 million in 1974. Of that amount \$95 million is being used to construct, improve or expand highways in Bolivia and Brazil; \$49.1 million to finance a program of feeder roads in Mexico; \$41.9 million to recondition road networks in Honduras and

Uruguay, and \$9.1 million to expand port facilities at Bridgetown, Barbados.

At year end Bank financing in this sector totaled \$1,511 million which is helping to build or improve 28,250 miles of roads, including 8,450 miles of main highways and 19,800 miles of access roads. In addition, 1,367 miles of main gas pipelines and 318 miles of distribution lines are being built, 12 major ports are being improved, seven grain elevator facilities are being modernized and six main telecommunications systems are being built.

Loans extended for the industrial sector during the year totaled \$105 million. The bulk of these resources was devoted to a program for the expansion of two steel mills in Brazil. The remainder was loaned for an industrial credit program in Paraguay. At the end of 1974 cumulative Bank financing in this sector came to \$1,080 million, which is helping to improve or build 76 industrial plants and 6,260 small and intermediate enterprises.

Bank loans devoted to sanitation and education in 1974 amounted to \$129.3 million. The \$110.3 million in sanitation loans included \$35.2 million for a national water supply program and the expansion of urban sanitation systems in Peru; \$54.8 million to build water supply or sewage systems in several cities and towns in Bolivia, El Salvador, Guatemala, Honduras, and Paraguay, and \$20.3 million to expand national health services in El Salvador, as well as a hospital and a number of health centers in Trinidad and Tobago.

The three education loans amounting to \$19 million were devoted to a technical and vocational training program in Honduras and the expansion of a technological institute in Costa Rica. I should point out that the level of loans for education was low. This indicates that there are still limitations in the utilization of external financing in this sector, perhaps derived from the very special situation through which these institutions are going.

Loans authorized in 1974 brought the cumulative total in the social development sectors to nearly \$1.5 billion. In the sanitation sector these loans are helping to build, improve or expand 4,820 water supply systems and 415 sewage and storm drainage systems which will benefit 57 million persons. Urban development loans are helping to build 350,500 housing units, with related community services, as well as 10 municipal markets. Loans in the education sector are helping to modernize, expand or improve 690 learning centers, of which 146 are university level, 522 are vocational, technical and other level, 19 are research institutes and 3 were educational credit institutions.

Finally, I should like to refer to the Bank's activities during the year in such nontraditional sectors of international financing as fisheries, tourism, the financing of intraregional exports of capital goods and preinvestment. I reported on the loans for fishery activities elsewhere in

my remarks about the agricultural sector. For the development of tourism infrastructure, the Bank authorized two loans totaling \$29.3 million to help carry out a comprehensive tourism program in the Departments of Cuzco and Puno in Peru. This brought the cumulative total at year end to \$69 million for projects under way in nine countries. The year's lending to finance intraregional exports of capital goods included a credit to Mexico to export the goods and services needed for a paper and cardboard factory in the Dominican Republic and a revolving line of credit to the *Banco Industrial del Perú*. At year end the Bank's total credits in this sector amounted to \$108 million, with an invoice value of \$160 million.

In the preinvestment sector, the Bank loaned \$27.6 million to finance studies for development programs in Bolivia, Brazil, Ecuador and Panama. These brought the cumulative total to \$133 million, a volume of lending which has already resulted in the execution of more than 1,000 studies.

Technical Cooperation

Technical cooperation approved by the Bank in 1974 totaled \$30 million in loans and \$22 million in nonreimbursable or contingent recovery assistance. This cooperation contributed to the preparation of projects and programs eligible for international financing, to the support of institutions through the execution of studies to reorganize or modernize centers of higher, technical or vocational education and to carry out courses to train specialists in various fields related to economic and social development.

During 1974 the less developed countries continued to benefit in growing measure from nonreimbursable or contingent recovery technical cooperation from the Bank. Those countries received \$12.8 million of such assistance or 58.1 per cent of the total authorized.

At the end of the year cumulative technical cooperation granted by the Bank aggregated \$225 million. Of this sum \$72.2 million represented nonreimbursable or contingent recovery assistance, while \$182.8 million was authorized in the form of loans or portions of loans.

In order to demonstrate the reach of the Bank's technical cooperation in promoting regional development, I should like to mention a few examples undertaken in 1974:

- \$4 million in nonreimbursable cooperation for Latin American-based international agricultural centers. These included the International Center for the Improvement of Maize and Wheat in Mexico, the International Center for Tropical Agriculture in Colombia, and the International Potato Center in Peru. Thus, the Bank has become the major source of external funds for the three agencies.
- \$1.3 million in Honduras to strengthen the administration of the nation's forestry agency, for studies on the utilization of its forestry reserves, the comprehensive development of the Sula Valley and to

implement an animal health program. A similar amount was committed to benefit the agricultural sector in the five Central American countries, Panama and Paraguay.

- \$1.6 million to prepare feasibility studies on hydroelectric projects in the Dominican Republic and Paraguay.
- \$2.4 million for studies and programs relating to transportation requirements in Barbados, Bolivia, and Honduras and Nicaragua.
- \$2.2 million to help finance a number of studies on educational projects in Barbados, Brazil, Costa Rica, Haiti, Honduras and Nicaragua.
- \$1.1 million for studies on development planning, the identification of investment programs and other development aspects in Barbados, Costa Rica, El Salvador, Guatemala and Panama.
- \$2 million for programs involving training and development of craft enterprises in several countries, including Bolivia, Brazil, Ecuador, Guatemala and Nicaragua.
- \$1.4 million for a study of the relationship between education and economic and social development in Latin America and another on technological development policies in the region, carried out by the Program of Joint Studies of Latin American Economic Integration (ECIEL) and the Economic Commission for Latin America (ECLA), respectively.

Mobilization of Resources

During 1974 the Bank mobilized resources totaling \$64.5 million through long-term loans and bond issues in Japan, Sweden, Trinidad and Tobago, and Venezuela. In addition, the Bank placed an issue of short-term bonds, mainly in Latin America, for \$40.2 million. The total of \$104.7 million raised during 1974 brought the outstanding borrowings as of December 31, 1974, to \$1,347 million.

In addition during 1974 the Government of Canada entrusted a 1.5 million Canadian dollar fund to the Bank to finance the preparation of projects.

I shall refer elsewhere in this report to the efforts carried out in replenishing the Bank's own resources, the prospective contribution of funds from nonregional countries and the mobilization of resources from oil-exporting countries.

Financial Highlights

I am pleased to inform the Governors that the Bank's total earnings in 1974 were higher than in any previous year. The gross income from the ordinary capital resources and the Fund for Special Operations amounted to \$240 million, compared with \$197 million in 1973, and net earnings amounted to \$94 million in 1974, compared with \$71 million the year before.

The Bank's total reserves at the end of 1974 totaled \$441 million, compared with \$336 million in 1973. As of December 31, 1974, cumulative reserves of the ordinary capital resources amounted to \$308 million, compared with \$241 million at the end of 1973. Those of the Fund for Special Operations totaled \$134 million, compared with \$95 million as of December 31, 1973.

For the Social Progress Trust Fund the net income was \$2 million in 1974, compared with \$17 million in 1973, while gross income for those same years came to \$14 and \$13 million, respectively. Accumulated earnings as of December 31, 1974, totaled \$48 million, compared with \$46 million the year before. The decline in earnings in 1974 was due mainly to an increase of more than \$7 million in technical cooperation costs over the previous year and to the reversal and credit to income in 1973 of a \$6 million prior-year provision for unrealized exchange adjustments for which 1974 accounts were unaffected.

Administrative Aspects

In 1974, as in previous years, the Bank sought to improve the processing of loans and technical cooperation operations and its administrative efficiency in general. As a result, it succeeded in limiting the growth of its administrative expenses to a rate well below the level of inflation. One example of this effort was the installation at headquarters of a computer which will increase efficiency by permitting the consolidation of all electronic data processing for areas related to technical evaluation and administration of projects and the processing of financial and administrative accounts.

Administrative expenditures of the year amounted to \$45.4 million, compared with \$39.1 million in 1973. Considering that during the past year inflation pushed the cost of goods and services up by approximately 12 per cent, the heavier administrative outlays represent a real increase of only 4 per cent, which is much lower than the approximately 26 per cent increase in credit operations. This result reflects improved operations and more efficient staff performance.

I would not wish to conclude this account without expressing my most sincere appreciation to the Bank staff for their outstanding work.

The International Situation

We are living in a time of drastic political, economic and social change. The outlook for a peaceful solution to conflicts has reached critical proportions in several areas where armed confrontations have developed that pose a threat to world peace. Furthermore, many developing countries, including those in our region, are engaged in altering traditional structures and values in a climate that often has violent overtones. We can

say, therefore, that great masses of the world's population are mobilizing in a search for new models of political organization which will undoubtedly have a decisive influence on economic and social orientation and evolution.

For the past 15 years we have witnessed a series of drastic changes in the world economy originating mainly in the major industrial centers. The strong economic progress of these nations, culminating in the first part of this decade, unleashed inflationary pressures and forced the countries to adopt policies designed to contain the deterioration of their currencies. This touched off a period of economic recession which, in 1974, virtually paralyzed growth of the overall economy in the OECD countries.

The inflation and recession affecting the world economy was still further aggravated by the very sharp rise in oil prices, in addition to the impact of poor harvests that produced a shortage of various basic foods.

Although there are signs that the worst of the crisis has now passed, we must continue our vigilance so as to prevent the adoption of restrictive policies designed to reduce balance of payments deficits. The adoption of measures restricting trade or financial and capital flows could seriously damage both the industrialized countries and the developing world.

A comment should be made here on the possible impact of the economic crisis on the trade balance between industrial raw materials and manufactured products. In this connection, it should be noted that there has emerged in recent years an awareness of the danger entailed in the ever more rapid growth of demand for certain basic products that are of vital importance to industrial development and whose known reserves are being exhausted within a comparatively brief span. This legitimate concern has prompted initiative within the international community aimed at establishing new rules of play to achieve greater balance between supply and consumption of nonrenewable resources and, at the same time, at trying to preserve the natural environment that is part of our essential well-being.

The trend towards a more rational utilization of natural resources encourages us to think that a more equitable relationship will also be achieved between the prices for those products and for manufactured goods. This would reduce the waste of natural resources and help attain a more rational distribution of wealth, with obvious benefits to both the developing countries and the industrial centers.

Many studies and negotiations directed toward ensuring more equitable and stable prices for raw materials have been undertaken. There is no need to examine here the various formulas proposed, but I do want to point out that it will be easier to fulfill that purpose if the industrial countries adopt more open policies permitting the free importation of basic resources from the developing world.

The Latin American Scene

The international situation I have described, characterized by a simultaneous process of inflation and recession, poses a serious challenge to our region. The structure of political and economic power that emerged at the end of World War II has undergone a drastic change that affects Latin America as well. In view of this fact, it is essential for leaders and for public opinion in our countries to realize clearly that they are witnessing the birth of a new system of international relations in which Latin America can play a more vigorous part if it is able to take advantage of the positive factors offered by the present situation.

Perhaps the most important contribution of the crisis is our new awareness of the close ties between economic progress of the industrialized countries and the development of the least advanced countries. In the case of Latin America, this interdependence has become particularly relevant in the field of international trade and in the provision of food and those raw materials vital to industrial development. In international trade, the Latin American market has expanded steadily over the past 15 years and has succeeded in absorbing a significant share of exports from the industrial centers, particularly of goods and services incorporating modern technologies. For example, United States exports to Latin America more than doubled between 1972 and 1974, from \$6.8 to \$15.1 billion. In 1974 Mexico alone imported more than \$4.8 billion in United States merchandise, while United States exports to the entire African continent fell short of \$3.7 billion. In the same year, total United States exports to the Soviet Union, India, Pakistan and Indonesia amounted to \$2.3 billion, while Brazil alone imported United States merchandise amounting to almost \$3.1 billion. Sales by the United States of capital goods in Latin America represented a market three times larger than that of Japan and almost as large as that of the European Economic Community. So it can be said that Latin America has become a very important market for American exports. This is particularly significant at a time when the American economy is undergoing a recession.

Latin America's expectations as a source of raw materials and power resources are also very promising. According to estimates by the United States Geological Survey, our region possesses 15 per cent of world iron ore resources and 30 per cent of copper and bauxite, the three most important raw materials for the modern industrial process. Our countries also have significant deposits of lead, zinc, tin, and molybdenum. A World Bank study indicates that the region has approximately 20 per cent of the potential oil resources of the world. Moreover, its tillable land area, water potential and variety of climate make Latin America one of the regions best equipped to produce food and natural fibers. For five products, three countries are the second largest exporters—Argentina for beef and corn, Brazil for sugar and soybeans and Colombia for coffee.

Venezuela and Chile rank third among exporting nations in petroleum and copper, respectively. For four products, three countries are the fourth largest exporters—Brazil in cocoa and iron ore, Chile in fishmeal and Argentina in wool and finally three Latin American countries are the fifth largest exporters of three products—the Dominican Republic of sugar, Uruguay of wool and Brazil of cotton.

It should be made very clear at this point that the increasing effort being made by Latin America to increase production in the farm and extractive sectors in no way implies a postponement of the industrialization process. To the contrary, well-organized rural activity and the establishment of companies engaged in efficient development of the major natural resources provide the most solid possible base for building a dynamic and competitive structure. The industrial centers confirm this fact: their output of food and raw materials continues to be the largest in the world, and, even more important, continues to outstrip that of the developing world.

Furthermore, Latin America possesses the reserve of manpower needed for a rapid and effective development of its natural wealth. The large supply of pools of professionals and experts and of skilled labor and the progress we have already made in strengthening institutional structures facilitates the implementation of large-scale projects for the development of minerals and power resources and for their subsequent processing.

The higher prices for raw materials recorded in recent years and their comparative scarcity in relation to the growing demand by the industrial centers noted earlier indicates that the world economy has entered into a new stage characterized by a higher valuation for primary products, compared to manufactures.

This development, which will probably hold over the long run, is not necessarily supported by short-range price trends. Actually, beginning in the third quarter of 1974, prices for most basic commodities declined, a trend that is likely to continue over the next few months as a result of a drop-off in demand resulting from the economic recession in the industrial centers.

Thus, a cycle we have witnessed in the past is repeating itself. In the 1950s for example, the Korean War created a demand that forced up the prices of many basic commodities. These dropped back toward the end of that decade to a level which was maintained, with some fluctuations, over a long period. Accordingly, as late as two years ago the line item of basic products was the least dynamic sector in world trade and its price index rose at a rate equivalent to half that recorded by manufactures.

I have wanted to give special emphasis to this matter in order to stress the vulnerability of our economies to the fluctuation of prices for basic export commodities, which are, for several of our countries, the

major source of foreign exchange. Obviously, this situation works against the planning of development, and occasionally causes serious disruptions in that process.

These considerations lead me to point out other aspects of the current crisis that are adversely affecting the balance of payments of our countries. The drastic rise in prices of fuel and food and most manufactured products as a result of world inflation caused an alarming growth in Latin American imports. This situation, aggravated by sharp declines in export earnings for certain basic commodities, raised the region's trade balance deficit, excluding the oil-exporting countries, from \$640 million in 1973 to \$8.7 billion in 1974.

In overall terms, this sizable deficit was financed through a net flow of external resources amounting to more than \$5 billion and at the expense of the regional expansion of monetary reserves, which had been significant since 1971. However, the balance-of-payments problems faced by some countries is so critical that it can only be solved by means of special cooperative efforts in terms of both short- and long-range external financing and renegotiations of external indebtedness. This situation may become still worse if, as is possible, the flow of external funds should decline as a result of economic recession in the industrial centers, and there should be reduced access to private international credit, including the market for Euro-currencies, which may be in much greater demand to finance capital and foreign exchange requirements of the industrialized countries.

The foregoing data highlight the importance of external debt management during this critical period. The rapid growth of external indebtedness, more expensive money and the difficulty of maintaining a growing net flow of external resources pose serious problems in financing our countries' development and foreign trade. Under these circumstances the International Monetary Fund and the external development agencies, each in its respective field, must do everything possible to prevent the impact of external prices from paralyzing economic growth in countries of the region.

In this connection, I should also like to express my deep concern for the reactivation of an inflationary trend in Latin America. Generally speaking, the Latin American countries have been making a resolute and successful effort to master the major causes of inflation. As a result, by 1970 only four countries recorded price increases of more than 15 per cent a year. Yet, in 1974, 14 countries exceeded that percentage. Without ignoring the primary responsibility assigned to national authorities, this situation has been stimulated by the previously cited external factors. Reactivation of the inflationary process can have a very harmful effect on domestic savings with serious consequences to the development process.

This observation is still more pertinent considering that in recent years the share of local savings in investment financing has declined significantly in Latin America.

The Inter-American Development Bank and the International Situation

The international situation and its impact on Latin America provide a suitable context for determining the major tasks to be performed by our Bank over the next few years in the fulfillment of its basic mandate to serve the member countries.

Mobilization and Use of Resources

First I should like to observe that the Bank has been able to maintain an interest rate of 8 per cent on loans with ordinary capital resources, a lower rate than that charged by similar agencies. This has been possible because we have been able to choose the best time and place for mobilizing resources on the capital markets. For example, we abstained for an extended period from entering the United States market, and only recently have we re-entered it to place two issues for a total of \$225 million at interest rates of 8 and 8- $\frac{1}{4}$ per cent, which are the lowest rates recorded by that market for the entire period.

The mobilization of financial resources which the Bank must have in order to fulfill its purpose deserves mention. With reference to the increase in its own resources agreed upon by resolution of this Board in 1970 in Punta del Este, I should like to express my profound concern with the fact that this exercise, which should have been concluded in 1973, has not yet been completed. The legislation recently approved by the United States Congress allocating \$225 million to the Fund for Special Operations, of which \$175 million is unrestricted, still leaves pending a commitment to pay \$325 million.

Special mention should be made of the appropriation of \$50 million for the Fund for Special Operations to make loans for the exclusive benefit of cooperatives, including credit cooperatives and savings and loan associations. We fully share the idea that such institutions should be supported. In fact in the 1972-74 period the Bank authorized assistance of about \$140 million to help finance various types of such associations, including rural communities and cooperatives of small-scale farmers, of rural electrification and of fisheries. Of that amount \$90.5 million was authorized in 1974. In 1975 the Bank has in evaluation an additional 10 projects for about \$84 million for similar purposes. What cannot be accepted, however, is that the contributions of resources by member countries should be subject to conditions that contravene the letter and the spirit of our Charter. The acceptance of such conditions would undermine the freedom of action of the Bank's management in allocating resources according to technical criteria, keeping in mind the priorities

established by the beneficiary countries. That, in my opinion, would do irreparable harm to both the international cooperation extended by our Bank and its own multilateral character. I trust that the United States Congress understands our position and will find a way to eliminate the restrictions it has placed on the use of those resources.

With regard to a new replenishment of the ordinary capital resources and the Fund for Special Operations of the Bank, I should report on the action taken pursuant to the decision made by this Board at the Santiago meeting. In that regard the Board of Executive Directors submitted to the Committee of the Board of Governors first a preliminary report then a revised version that has been distributed at this Meeting.

I should like to ask the Governors to give immediate attention to this matter, because there is urgent need to replenish the Bank's ordinary capital resources. Due to the difficult economic situation I have already outlined, the goals established for the Bank's program of loans over the 1975-77 three-year period call for a 7 per cent annual growth rate in real terms, which is the average recorded in the past. The Management considers this goal to be the minimum necessary for the Bank to maintain adequate support for the economic and social development of the region, especially at a time when a sizable group of member countries are confronting a critical situation. The note of urgency which I place on this call is based on the length of time needed to complete these replenishment exercises.

I should like to refer now to the admission of a group of nonregional countries to our Bank. The Declaration of Madrid, signed December 17, 1974, formalized the results of extended negotiations with 12 countries outside the region interested in becoming contributing members of the Bank. Allow me to mention on this occasion the very significant work done by the Committee of the Board of Governors and the Board of Executive Directors, as well as the representatives of the countries concerned, which made it possible to advance negotiations to a point where, if approved by this Board, only the executive and legislative ratification required in each country would remain pending.

The topics submitted to the Governors for consideration include an increase in the ordinary callable capital subscriptions of the borrowing countries which is required to retain the regional nature of the Bank. Among other amendments to the Agreement Establishing the Bank is one providing for the creation of an inter-regional capital to be subscribed by the nonregional countries. This measure would expand the Bank's capacity to obtain borrowings since the callable inter-regional capital would serve to back new obligations of the Bank, thus obviating the existing commitment that the outstanding debt of the Bank may not exceed the amount of the ordinary callable capital subscribed by the United States.

The 12 countries signing the Declaration of Madrid—Austria, Bel-

gium, Denmark, Germany, Israel, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom, and Yugoslavia—would initially subscribe to Bank shares amounting to \$372.7 million and contribute an equal amount to the Fund for Special Operations so that the two initial contributions would come to \$745.4 million, of which \$434 million would be paid in.

A block of unassigned shares would be available for a certain time for subscription by other nonregional countries, as agreed upon in Kingston in 1973. I trust that the remaining procedures will be completed rapidly so that this historic initiative can be implemented as promptly as possible.

I should like next to inform the Governors of our negotiations with the oil-exporting countries. In the first place I would like to refer to those Latin American countries which have, in accordance with their possibilities, contributed resources to the development of the region. In Trinidad and Tobago we have issued bonds equivalent to \$10 million, at 8 per cent interest and a term of 10 years, made up equally of convertible local currency and dollars. Negotiations have been concluded with the Ecuadorean Government for a transaction involving a similar amount.

The cooperation offered by Venezuela merits a special comment. Negotiations were conducted over the past year for the establishment of a Trust Fund to be administered by the Bank. These culminated in the signature of an agreement on February 27, 1975. The fund consists of contributions from the Venezuelan Investment Fund equivalent to \$500 million, consisting of 430 million bolivars and \$400 million. This provides an instrument that will make it possible to extend the Bank's assistance to new and important areas of regional economic development, as I shall explain elsewhere.

The resources of the fund will be administered on the basis of criteria ensuring the profitability and safety of investments. They are therefore similar to the ordinary capital resources of the Bank. However, the Government of Venezuela is still studying the possibility of contributing concessionary funds to the Bank in order to help carry out projects, especially in agricultural development, which require this type of financing.

In addition, the Bank has made an initial placement of bonds on the Venezuelan capital market amounting to 100 million bolivars. The Government of Venezuela has also cooperated with other international agencies, such as the World Bank and the subregional Latin American banks: the Central American Bank for Economic Integration, the Andean Development Corporation and the Caribbean Development Bank.

I should also like to inform the Governors that we have continued our efforts to expand relations with the oil-exporting countries of the Middle East in terms of both the transfer of resources and their eventual association with the Bank. To this end contacts have been established with

the governments and institutions of several of those countries, with the hope that they will lead to specific results in the near future.

Moreover the Bank is promoting understandings to facilitate the direct investment of surplus oil resources in the financing of large-scale projects in Latin America. Undoubtedly the region's capacity for absorbing a sizable volume of resources for development offers opportunities that can be of great interest to investors from the oil-exporting countries.

I should like to report here on the meetings of the regional banks and of the World Bank and International Monetary Fund held with a view to coordinating activities relating to the mobilization of surplus petroleum resources. These gatherings have also made it possible to establish an increasingly broader exchange of data and experiences that are most helpful in improving the work of our institutions.

These comments on the mobilization of resources would be incomplete without mention of Canada's recent contribution of 7.5 million Canadian dollars to increase the technical cooperation granted by the Bank to member countries.

Bank Relations with Borrowing Member Countries

As a regional agency of technical and financial cooperation, the Bank was set up to serve all of the developing member countries. Consequently, it can exclude none. But its cooperation must be adapted to the situation in each country and to its economic evolution.

In my account of our activities I emphasized the special attention which the Bank gives in both loans and technical cooperation to the less developed countries and those of limited market. We need to re-state this policy, which is based on those countries' need to offset their smaller negotiating capacity in capital markets, with an adequate flow of public external financing. In applying this policy we also take into account the fact that such nations must allocate a very considerable volume of their resources to strengthening incipient economic and social infrastructure. This makes it necessary for them to receive the largest possible flow of concessionary funds. The situation has become more urgent for most of those nations because of a deterioration of their external sector that warrants our increased support. We will also continue to intensify technical cooperation, with special emphasis on the improvement of institutions, formulation of investment programs, preparation and evaluation of projects and training of manpower through which the economically less advanced countries will expand their capacity to absorb local and foreign resources for development.

The Bank's relations with the largest countries are oriented differently in the awareness that their economic potential and level of development brings them close to the take-off threshold. The development of manpower in these countries and the availability of a well organized institutional

infrastructure enables them to absorb a very high volume of resources. Generally speaking, public external financing granted to them represents a very low percentage of total external financing and is only an infinitesimal part of total investment. Our cooperation with those nations is therefore based not so much on the transfer of resources as on their utilization to ensure their most effective contribution to the mobilization of funds from other external sources on as favorable terms as possible. In other words, our cooperation serves as a catalyst requiring us to function simultaneously as bankers and as financial advisers. To fulfill this purpose best we must strengthen relations with the local institutions responsible for development, and adopt operating procedures which, without neglecting the project's evaluation, make it possible to finance comprehensive investment programs by sector or geo-economic area.

In this connection I should like to express my concern over recent proposals advocating the concentration of public external financing in the extremely poor countries. We concur with the need to provide urgent aid to hunger-stricken nations. However, this is no reason to neglect those nations which, as in the case of most of the Latin American countries, have progressed in terms of their economic and social development but are still far from attaining a level at which they no longer require international cooperation.

This concern prompted me to send a communication to the Chairman of the Development Committee operating within the institutional framework of the World Bank and the International Monetary Fund. Among other things that letter said:

"... great areas of the developing world, which include most countries whose long and tenacious efforts have succeeded in driving towards a process of growth, yet remain a long way from their desired goal, have encountered in these moments the simultaneous risks of a diminution of demand for their products in world markets, increased inflation for the prices of manufactured products and capital goods which they must import in addition to the increase in the prices of hydrocarbons and their derivatives, along with the decrease in the flow of public and private financing for development.

"If an urgent change of orientation in the focus of international cooperation is not faced up to, to assure an adequate flow of public and private financial resources to countries at all levels of development, we confront the risk of facing a massive retrogression in the economic conditions of a large number of countries and a lamentable increase in the list of those countries in a critical situation."

Along other lines, it is important to emphasize that the Bank has found a broad field of activities in the implementation of intraregional technical and financial cooperation programs.

The collaboration between the Latin American and Caribbean na-

tions—mainly between the larger and the smaller ones—is one of the most positive and perhaps least known advances made by the Latin American community. I should like to mention certain cases by way of example. I have already remarked on Venezuela's activity in behalf of less developed countries through the international agencies, especially our Bank and the financial agencies of the subregional integration plans. Also praiseworthy is Venezuela's cooperation with the Central American countries and Panama in order to absorb part of the balance-of-payments deficit stemming from higher fuel prices. The agreements concluded between the Venezuelan Investment Fund and the respective central banks of the countries mentioned provide balance-of-payments credits at a term of six years for an amount which in 1975-80 is expected to total more than \$400 million. Furthermore, the cooperation granted includes a clause whereby the local resources generated by those credits can be used as counterpart funds in development projects financed by international agencies, including our Bank. In this case the financing authorized by the Venezuelan Investment Fund can have amortization terms of up to 25 years.

Other major countries in Latin America have set up bilateral technical and financial cooperation programs that are of special importance. For example, Brazil is providing significant support to Bolivia and Paraguay. As you know, Brazil will purchase that country's surplus power from the enormous hydroelectric plant at Itaipú and will finance the total cost of the project, including equipment, materials and services provided by Paraguay. In addition, Brazil has authorized a credit of \$50 million to the *Administración Nacional de Electricidad* of Paraguay and has pledged its aid for the construction of a plant to produce steel and rods for reinforced concrete.

Argentina, for its part, has signed an economic cooperation agreement with Uruguay designed to open up markets to a large number of products and has in turn granted significant assistance for financing of the Salto Grande hydroelectric plant and the Fray Bentos-Puerto Unzué International Bridge. During 1973-74, Argentina granted financing amounting to \$300 million to Chile, Costa Rica, Honduras, Paraguay and Uruguay through lines of credit to finance capital goods, automobiles and farm machinery. It should be recalled that as early as 1970 Argentina had made available to the Bank a fund to provide national counterpart resources for projects financed by the Inter-American Bank in Uruguay, Paraguay and Bolivia.

From its beginning the Bank has helped to carry out joint programs involving two or more member countries, primarily through support to the smallest nations so they can obtain the maximum possible benefit from construction and operation of the projects. In these cases the Bank plays its part not only through such technical and financial cooperation as it may authorize but also by its contribution as an impartial agency

facilitating understandings among countries whose bargaining capacities are not always comparable. For example, we recently approved nonreimbursable technical cooperation for Paraguay amounting to more than \$750,000 to carry out the preparatory works needed to make that country's participation in the Itaipú project more effective. Again, the Bank contracted the services of an outstanding Latin American professional who is serving as advisor to the Paraguayan Government on economic and technical matters deriving from construction of the hydroelectric complexes on the Paraná River. The Bank is furnishing similar services to the Government of Bolivia, to Central America and to other less developed countries. This has made it possible to accomplish much useful work, especially in the planning and promotion of projects and the establishment of preinvestment mechanisms.

We also need to stress at this point the Bank's role in stepping up technical cooperation among the Latin American countries. While the region will continue to require external technical resources, the time has come for developing broad and systematic programs that mobilize Latin American technical capacity. All of our countries have valuable experiences and manpower to offer. Through its technical cooperation the Bank has helped to promote the participation of Latin American professionals and experts who are now extending their services to cover the international field. The Bank is also encouraging technical cooperation by public agencies to other countries in the region.

Major Areas of Future Bank Activity

The foregoing observations prompt me to comment on our future participation in certain areas of particular importance to the development of Latin America.

Technical and Financial Cooperation for Industry

I should like to refer first to industrial development. The serious problems affecting a large group of Latin American countries as a result of the altered world economic order strongly underscore the need for improving economic relations within the region. Faced by a sharply uneven balance of payments, our countries must coordinate their efforts to expand mutual trade to the maximum so that they can better utilize the installed capacity of industry and acquire internally some of the goods and services they have been importing from the outside.

This heightens the importance of the network of bilateral payments agreements signed among the Latin American central banks to facilitate the financing of intraregional trade and provide credit to finance temporarily the balances produced in offsetting these transactions. Full bilateral agreements must be expanded and strengthened in order to include all

countries of the region and to provide additional resources to make the payment system more flexible.

In this regard, I should like to report to the Governors that the Bank has continued to cooperate with the efforts sponsored by LAFTA to set up in the United States a market for Latin American banking acceptances. This project has progressed satisfactorily, and permission has been secured for those securities to be traded on the United States market without prior registration with the pertinent authorities. I am certain that this initiative will be concluded rapidly and satisfactorily, providing an important instrument to help finance Latin American exports.

The implementation of large-scale industrial projects with a view to supplying Latin American and nonregional markets is another field which, in today's critical circumstances, is of great importance for maintaining the development pace of Latin America. In many cases the scope of these projects exceeds the executing capacity of some countries, providing an opportunity for the implementation of joint undertakings or the organization of Latin American multinational enterprises.

Inexperience in this area makes it necessary to set up a specialized center to cooperate with the member countries in carrying out this type of project. In addition to authorizing the technical and financial cooperation requested by the countries, its staff should be experienced in the identification and preliminary evaluation of investment opportunities, organization of negotiations, selection and financing of technical services required for project preparation and evaluation and mobilization of resources to finance investments.

In some instances, Latin American enterprises will have to secure the participation of investors from outside the region who will contribute capital, technology, administrative know-how and sales organization, primarily in the external markets. The specialized regional agency I mentioned can provide very useful help in setting up channels of cooperation between the Latin American enterprises and the foreign investor aimed at optimum utilization of external contributions, while at the same time avoiding the political or economic problems that have in recent years undermined such relations.

The Bank Management has for some time been endeavoring to set up such a center as part of our organization or as an affiliated agency or an independent unit to which the Bank will provide technical and financial support. To date this initiative has not materialized. Fortunately, the establishment of the Venezuelan Trust Fund opens the way for the Bank to launch such an activity, to which end it must adapt its organization and provide proper staffing. In the future, if the member countries so wish, this fund can serve as a core for the organization of an agency to promote Latin American industrial enterprises.

As the Governors know, the resources of the Venezuelan Trust Fund

will be used, among other purposes, to finance industrial projects, including agro-industrial activities, with special emphasis on the development of nonrenewable natural resources. Generally speaking, these represent heavy investments and have a significant impact on the economy of the beneficiary countries. In addition, an effort must be made, whenever possible, to promote economic integration within the region.

To facilitate the organization of large national or multinational Latin American enterprises, it has been agreed that the resources of the Venezuelan Fund can be used in operations of very different types, such as loans, subscription of shares or capital participations, acquisition of shares and other medium- and long-term obligations, loans to Latin American investors for share purchases, loans to finance working capital and financing of Latin American exports of manufactured goods and semi-manufactured goods inside and outside the region. Implementation of such a broad range of operations requires a substantial change in Bank activities. To this end, I plan to appoint, in due course, a high-ranking and experienced professional answerable to the office of the President, who will be responsible for identifying and promoting operations of the Fund.

The organization of Latin American enterprises to develop and process natural resources opens up a new operating window within the Bank, which is of the greatest importance to Latin American development. Fuel prices and the consequent shortage and rising cost of fertilizers, together with the growing difficulty of ensuring an adequate and economical supply of industrial raw materials over the long range, are all factors that tend to enhance the value of potential resources in the region and that encourage us to develop such wealth with the greatest benefit to Latin America. The possession of raw materials with comparative advantages over other world suppliers is not only a potential source of foreign exchange but also justifies the organization of large enterprises whose technical, economic and financial capacity will serve to prime the development of industrial complexes that can make the national and regional economy more dynamic and efficient.

The development of Latin American natural resources will require an enormous effort in prospecting for reserves and conducting feasibility studies leading to their economic development. It is a task involving risks that is carried out by successive steps. Fortunately, much of this work can be done by employing remote sensor techniques. This calls for mapping the region and its continental shelf from space units relaying to ground stations. This provides a rapid compilation of information of great worth in evaluating the wealth of the soil, the sea and subsoil. In the case of Latin America, the use of satellites to explore mineral resources is facilitated by the fact that many deposits have already been identified, though only on a preliminary basis; which makes it possible to correlate

their profiles with those of other sites with a very high probability of containing such ore deposits. This technique has already been used successfully in various parts of the world.

The United States is the only country that has to date been able, through NASA, to place in service a satellite system that can conduct such investigations, which is currently being used by several countries. The Bank proposes to expand its relations with NASA in order to extend this service to all the member countries. Likewise, we will develop in the Bank the technological capacity to cooperate with the countries in planning such work, including personnel training, installation of ground stations and the establishment of specialized centers to interpret the profiles, in accordance with their various applications.

Comprehensive Rural Development and Food Production

I should like to refer now to our activities in connection with the United Nations World Food Conference held in Rome last November.

On that occasion I remarked that the Bank had assigned preferential attention to rural development from the start of its operations, as indicated by the fact that this sector holds first place in the Bank's loan portfolio. Nevertheless, the world food crisis that has been particularly severe in most of the developing regions in recent years makes it necessary to accelerate technical and financial cooperation for agriculture still further. We must also strengthen collaboration with other international agencies in order to ensure better utilization of available technical and financial resources.

Among other resolutions adopted, the World Conference provided for the establishment of a Consultative Group for Food Production and Investment in order to increase, coordinate and improve the effectiveness of technical and financial assistance provided to farm production in the developing countries.

Subsequently, United States Secretary of State Henry Kissinger called for the formation of a Consultative Group on Farm Development on a hemispheric scale, specifically suggesting that it be based at the Inter-American Development Bank's headquarters.

This suggestion, which coincides with the ideas I expressed in Rome, and which has received support in member countries at the highest levels, caused me to step up preparations for the group. As the Governors know, we will have available the collaboration of Juan Felipe Yriart, Deputy Director General of FAO, who is serving as coordinator of this work. I am pleased to report at this time that we have advanced the pertinent studies and consultations for the establishment of the International Cooperation Group for Farm Development and Food Production in Latin America, which will operate at the Bank's headquarters in Washington.

This group will work in close coordination with the consultative group operating at the world level. Its members will be selected from among the agencies providing technical and financial cooperation, in accordance with criteria reflecting a broad institutional range, and their participation will be determined taking into account the matters to be discussed at each meeting, so that only those agencies directly involved in the topic at hand will attend. Representative and effective participation by the Latin American governments is also sought. I should like to take this opportunity to ask for the Governors' support for this important step, with the assurance that their backing will enable us to carry out coordinated action with the other technical and financial agencies that will lead to broad benefits for rural development and food production in Latin America.

Other Fields of Activity

Finally, I should like to comment very briefly on certain topics that are the special focus of the Bank's attention. First, I should like to refer to the urgent need for having the Latin American countries draft a long-range policy in the field of energy. The industrialized countries have already made progress in designing such a policy. The enormous recent increase in the price of fuel is a new factor that drastically alters the criteria we use in deciding on the type of energy to be utilized in each basic sector of the economy. For example, a comparative cost study of transportation services could be made in order to determine whether it would be advisable to step up the use of electricity as a power source.

In the field of economic integration, it is proper to note that in recent years the Institute for Latin American Integration (INTAL) made a very praiseworthy effort to improve its service to the countries and the integration schemes. For this reason we have viewed with satisfaction Argentina's decision to increase its contribution to the Institute, which was an important factor in the decision of the Board of Executive Directors to raise the Bank's contribution by the same margin.

Similar action by the other countries will make possible the institutional transformation and operational expansion of INTAL during the period of transition that will end in 1978. We will then have an independent and administratively autonomous agency still closely tied to the Bank through cooperative agreements for the conduct of research, advisory services and technical cooperation.

I should like to recall that this is International Women's Year. In Latin America women have attained high positions in the professions and in the discharge of very responsible administrative functions, enabling them to play a more active and responsible role in the economic and social development of the region.

We must not forget that women are a decisive factor in the execution of programs that are basic to economic and social evolution, such as

community development, improvement of nutrition and implementation of population policies. For this reason we will step up our effort to expand the participation of women in all programs and projects where they are needed.

The number of women on the Bank's professional staff has increased substantially in recent years, currently accounting for 16 per cent of the total. They are also majority participants in education programs at the university level established by the Bank to benefit its employees. In 1974, for example, 116 of a total enrollment of 185 were women. Although these figures place the Bank well above the level of similar agencies, we will continue to encourage a greater participation of women professionals in Bank activities.

Finally, I would like to stress the importance of the United Nations Conference on Human Settlements, to be held in Vancouver in mid-1976. At the end of June, a meeting of the Latin American countries will be held in Caracas to coordinate preparations for that conference.

The Governors have already examined this matter at earlier meetings, and attention has been drawn to the danger involved in explosive urban growth as regards orderly development of the region. Suffice it to say that the urban population of Latin America, which totaled 66 million in 1950, will leap to nearly 500 million by the end of the century. Every year we must build cities, or expand present ones, to accomodate and serve eight million persons.

The Bank's experience emphasizes the enormous complexity of the problem and the difficulty of solving it for lack of a comprehensive focus and, in most of our countries, of an institutional political system capable of programming, constructing and administering the cities. There are, however, successful experiences of which we should make better use, since they provide criteria and solutions that are of great interest for those of us who face similar problems. For this reason, we will step up the promotion of projects with the maximum possible demonstration effect.

Our Bank offers its total support to the governments for carrying out preparations for the Vancouver meeting and for implementing such operating conclusions as it may adopt.

I should like to conclude this address by pointing out that the international situation and that of Latin America in particular form the framework within which we must perform the several tasks to which I have referred. We will try to perform them with the greatest diligence so that the Bank may continue to discharge in full its function of service to the economic and social development of the entire region.

ADDRESSES

SECOND PLENARY SESSION

May 20, 1975

**Address by Mr. Juan José Martínez L.,
Governor for Nicaragua
and Minister of Economy, Industry and Commerce
on behalf of the Central American Countries**

First of all I should like to convey a message of goodwill and sincere friendship from Maj. Gen. Anastasio Somoza Debayle, President of the Republic of Nicaragua, along with my own good wishes, to Dr. Joaquín Balaguer, President of this beautiful country, to the Dominican people, to Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank, to my fellow Governors and their delegations, and to the special guests.

As spokesman for the Governors of the Central American countries, who once again appear jointly in this meeting, demonstrating our spirit of fellowship and solidarity, it is a pleasure for me to open this annual review of the Bank's activities.

I take pleasure in congratulating the President of the Bank and the Chairman of the Board for their interesting addresses, which have highlighted and paid recognition to the Bank's efforts during the past year to comply diligently with its mission and seek solutions to the problems brought up at earlier meetings of the Board. It is clear that the Bank has continued to furnish credit assistance for programs with a great impact on the economic development of its member countries and has, in addition, supported activities in the social sector through technical and financial assistance. This has helped alleviate the depressive effects of the present world economic situation.

Another important accomplishment is the Trust Agreement entered into between the Venezuelan Investment Fund and the Inter-American Development Bank establishing a Venezuelan Trust Fund of \$500 million. The money is earmarked for contributions to the financing of projects and programs that will have significant effects on the progress of the less developed countries and those of insufficient market through the better utilization of their natural resources, the promotion of their industries and agroindustries, and preference for projects and programs that strengthen economic integration plans. However, we believe that these funds will be made available to our countries on hard terms. We feel that for the funds to have their intended effect they should be allocated as soft loans just as other countries do, so that they may meet the true needs of the less developed countries.

A further positive achievement is the placing of \$225 million in ten-year bonds on the U.S. market to attract funds for the development of the Latin American member countries.

We also express our recognition of the Bank's efforts to attract resources from nonmember countries. Increasing the funds available to the Bank for its lending operations will broaden the scope of the Bank's development lending.

It is interesting to point out that the Bank's operations are increasingly realistic and are directed toward solving fundamental problems of our development in the areas of education, agriculture, community development, health, energy, transportation and communications. All this has a positive impact on our countries, whose governments are striving to overcome the difficult situation their peoples face. The Central American countries have received lending assistance for various priority programs under their national development plans. But, notwithstanding the Bank's accomplishments, even greater effort is required not only to accelerate the economic and social development of the countries with less resources, but also to avoid further deterioration of their economies.

As you all know, the world continues to pass through a critical economic and social situation. Throughout 1974 and so far into 1975, inflation has spiraled dramatically, as a result of the oil situation, plus the measures of varying nature and degree adopted by the industrialized countries. This compels the Central American countries to bear the double burden of recession and continuing inflation. This world situation has seriously affected the development of the Central American countries, which suddenly find themselves without the means and methods of action needed to give proper and urgent attention to the problems of recession, nor do they have the necessary flexible mechanisms to adjust their economic systems to such serious and protracted events. As a result, the consolidation of the Central American economies is being held up just when the Regional Economic Integration Program has embarked on a serious process of reorganization.

Furthermore, in the Central American economies which are characterized by openness and great external dependence, the inflationary effects stemming from other parts of the world have been major causes of the price instability that is affecting the region. The flow of imported goods and services has been the means for the external propagation of inflation, which has spread at a great pace because of the import of such strategic goods as fuels, lubricants, pig iron and basic agricultural inputs such as fertilizers and insecticides. In addition, the rise in the prices of imported materials has raised production costs in the manufacturing industry.

The balance of payments position and fiscal situation of each of the Central American countries is being critically affected by the inflationary crisis: the fall in the prices of traditional exports; restrictions of access for our products to foreign markets; export limitation due to production shortages caused by the lack of raw materials and intermediate products; high prices of oil and oil-based products; and increases in air, sea and

land freight rates. This whole situation has been aggravated by unforeseeable natural disasters such as the Managua earthquake and Hurricane Fifi which hit Honduras, as well as by bad weather conditions which have caused serious losses and shortages of agricultural products.

In this extremely difficult situation, the countries of Central America stand more than ever in need of international cooperation to enable them to pursue their economic and social development, especially from regional financing agencies like the Bank, which are in a position, through timely technical and financial aid, to mitigate the adverse effects of the present crisis which is strangling our economies and our nations.

The Inter-American Bank has provided constructive assistance to our countries, but the programs launched have not been sufficient to overcome the increasingly overwhelming problems in which the less developed countries live, problems which have worsened in the last year and for which we foresee no early solution. Consequently, it is urgent that the officials in charge of the Bank's financial, operational and administrative activities apply the fullest understanding, sensibility and flexibility to enable them to grasp the full import of our countries' needs and to adapt to changing world economic situations to avoid the need for spur-of-the-moment decisions which will not have the intended impact.

As we have said, the Central American region has been seriously affected by a number of natural disasters and adverse climate conditions which have done considerable damage to the agricultural sector, causing shortages, particularly in the production and supply of basic grains and other food products and in the output of traditional agricultural exports. To overcome this distressing situation, the governments of the countries of the region have given special priority to the agricultural sector. For example, in the Meeting of Central American Presidents held in Jalapa, Nicaragua, in February of this year, a Declaration was issued in which the Presidents expressed their profound concern over the food situation in the region and gave the highest priority to the agricultural sector in reorganizing and improving the Central American Common Market with a view to developing a common policy for agriculture. They also recommended a series of measures which were subsequently supplemented by the Ministers of Agriculture of Central America at their Third Meeting held in Costa Rica last April. The "Plan of Action for the Production and Supply of Basic Cereals in Central America," adopted by the Ministers, includes important aspects on financing and technical assistance. It gives high priority to the creation of a "Regional Fund for the Stabilization of Basic Grain Prices" to provide additional resources to Central American price stabilization agencies. To implement that urgent program, part of the resources for the Fund are expected to be provided by the Central American Bank for Economic Integration or to be channeled through it. We believe that the Inter-American Bank should participate in programs

of this kind immediately through soft loans on preferential terms through the Central American Bank for Economic Integration, for the Regional Fund for the Stabilization of Basic Grain Prices of the Central American countries.

The enactment of the United States International Trade Act just about completes the preferential treatment schemes that the industrialized countries pledged in 1970 to grant to the developing countries. The General System of Preferences, which is part of that Act, is now operating and has become a mechanism through which the Third World countries can increase their exports to the various industrialized countries. This meeting is an appropriate time to suggest that the Inter-American Development Bank should take steps to promote financing of the production and marketing of those commodities of principal interest to the member countries that now have been included in the General System of Preferences. Central America requires that flexible lines of credit for those purposes be set up within the Bank's Program for Financing Exports of Capital Goods and Services. In groups of developing countries which benefit from the system, such as the Central American countries, those funds could be channeled through existing regional financing organs such as the Central American Bank for Economic Integration.

In April 1971, the Inter-American Bank and the Permanent Secretariat of the General Treaty for Central American Integration (SIECA) signed Agreement ATN/SF/TF-1035-ST for an overall survey of frontier zones, designated the Survey of Multinational Basins in Central America. After investigating all of the sectors closely related to production and development, a diagnosis was made. Its conclusions concerning the basins of the Gulf of Honduras, the Gulf of Fonseca and the San Juan River point to an urgent need to undertake a second phase of the Survey to bring the project of prefeasibility level and enable the governments to initiate negotiations for carrying them out. Multinational projects of this type offer countless advantages that cannot be obtained through isolated projects. It is therefore considered that the Bank should take urgent action to supplement the necessary technical assistance within the framework of the Fund for Special Operations.

In 1974 the Inter-American Bank stepped up its efforts in the area of nonreimbursable technical cooperation. Nevertheless we feel that this effort is still not sufficient, and consider that the resources of the Fund for Special Operations, known as the New Fund, with its greater volume of resources and greater flexibility of management, could fill that need.

Although the Bank has undertaken some financing of tourism development, it has done very little in terms of the potential of the region, particularly in Central America, where the opportunities for the development of national and international tourism have remained essentially unexploited. We wish to ask the Bank to take a greater interest in the

financing of tourism in Central America, mainly with resources of the Fund for Special Operations.

The efforts to reorganize and improve the Central American Common Market have been actively pursued with the detailed examination by the High Level Committee (CAN) of the proposal submitted by SIECA in October 1972 for consideration by the governments through specific national-level committees composed of representatives of the private and public sectors. CAN is now studying the institutional aspects of the new scheme for creating the Central American Economic and Social Community and of the wording of the corresponding Preliminary Draft Treaty.

The reorganization activities call for substantial technical assistance and additional resources. Since the Inter-American Bank has been the prime mover and participant in the movement for Latin American integration and has rightly been called the "Bank for Integration," CAN accepted the kind invitation made by the President of the Bank in February 1975 to attend a meeting held at Bank headquarters between the Secretary General of SIECA and the President and senior officials of the Bank, at which it was agreed that the Bank would provide assistance to CAN in the analysis of those aspects of the Preliminary Draft Treaty establishing the Central American Economic and Social Community that require specialized knowledge not available in SIECA and in carrying out studies and making recommendations to help CAN in its work. Indeed, an agreement for nonreimbursable cooperation equivalent \$186,000 is about to be signed.

We wish publicly to acknowledge the Bank's cooperation in the Central American Transportation Survey now under way and in the work related to the establishment of a Meteorological Communications Network, which is in the final stage.

I should also like to thank the Bank Management for its assistance to the Central American Institute of Industrial and Technological Research (ICAITI) on its forthcoming study aimed at determining, through laboratory research and a pilot plant, drought cycles and better methods for conserving Central American lumber to improve the utilization of the region's forestry resources. We also wish to express our appreciation for the assistance the Bank is providing, through Nicaragua's National Development Institute (INFONAC), in the execution of a Study on Chemical Intermediates from renewable resources aimed at finding substitutes for oil-based products.

We believe that the technical capacity of ICAITI, which is listed as an adviser to the Bank, should be utilized to the full in future programs. We therefore request that the Bank, as well as other institutions, contract the services of ICAITI in undertaking specific studies within its area of competence in Central America.

In the important field of training in public administration in Central

America, we wish to point out the successful and growing collaboration between the Bank and the Central American Public Administration Institute (ICAP). In 1972 agreement was reached on an initial program of collaboration in the field of training in project management. Subsequently, at the Board of Governors Meeting in Jamaica, a request for assistance was made for the development of a broader program costing more than \$600,000 which was granted on the basis of the success of the initial program. The project management program seeks not only to disseminate more modern techniques adapted to the region's needs, but to introduce them through in-service training and by training instructors in ICAP-associated enterprises and public services in the member countries. The Bank has also supported ICAP in setting up courses in the administration of integration programs, aimed at strengthening the public sector in the integration process. All of these joint efforts reflect the increasing cooperation of the Bank with ICAP programs that seek to strengthen Central American public administration.

I am especially pleased to express, on behalf of my Government, our appreciation to the Bank for a training program designed to train national technical personnel in project preparation and evaluation and in the preparation of prefeasibility studies that cannot be postponed. The program began in November 1974 and will be continued for three more cycles with the Bank's indispensable cooperation.

Speaking specifically of the Central American Bank, in order to step up its lending activities in the traditional sectors it serves, there is a need for qualitative and quantitative strengthening of its financing operations on the best available terms. Among other things, this calls for intensified financial cooperation between the Central American Bank and the Inter-American Bank on the basis of recognition of a new approach to providing financing for the region, particularly in view of the present world situation which has seriously affected the economic structure of the Central American countries.

There is a need to inject new thrust into the agricultural and agro-industrial programs of the Central American countries and to intensify the efforts to mobilize resources and the promotional activities in that resource sector. The sector's impact on the economic life of the region is so great that action along those lines cannot be postponed. There is a need also to stimulate a new strategic approach on the part of the Central American Bank with regard to providing financing for social sectors in order to plan, within the limits of its resources and in the most effective way, to build a sounder basis in some of those sectors, such as housing, health and education.

It is in our interest for the Inter-American Bank and the Central American Bank to conclude agreements to implement a system to improve the network of financing institutions operating in the region through program financing and some degree of specialization in activities at the

regional, subregional and national levels, as long as this does not impede or raise the cost of loans that could be negotiated directly by the countries. The idea would thus be to supplement, not replace, the loans normally available to members of the Bank.

The Inter-American Bank should give high priority to broadening the program for financing non-traditional exports both of primary commodities and of consumer manufactures, with a view to stimulating and broadening international trade and channeling resources to support systems of financing of intraregional commerce. It should speed up the creation of a promotion fund and encourage the preparation of industrial projects, identifying sectors of special interest for the development of integration, such as industrial activities for the manufacture of capital goods and strategic inputs, petrochemicals and fertilizers, products for the massive export of manufactures and primary commodities, infrastructure, and certain services such as sea transportation.

It is especially important for the Inter-American Bank to give preferential assistance, through the Central American Bank, to projects for organizing Central American multinational corporations in such branches as capital goods manufacture, transportation services, and marketing of the major raw materials produced in Central America. To that end, the Venezuelan Trust Fund managed by the Bank, as indicated earlier, offers obvious possibilities for the Central American region through a series of activities, projects and programs of national or regional impact.

The Costa Rican delegation states that Costa Rica is classified by the Inter-American Bank for lending purposes in Category C, while the other Central American countries are in Group D. It considers this treatment to be unfair because it is more severe and, particularly, because Costa Rica is participating fully in the process of Central American integration. Consequently, the Central American countries, through me, are submitting a specific proposal to the Bank for revision of this classification.

The Inter-American Bank should strengthen its representation in the Central American countries, and give them greater decision-making powers, so that the problems of national borrowing institutions in connection with loans granted can be resolved more expeditiously. This would enable them to cooperate constructively in the execution, administration and operational use of such loans. The results would be excellent because it would speed up development programs and avoid delays resulting from constant consultation with the Washington headquarters.

Another matter that we would suggest for the Bank's consideration with a view to finding a prompt solution is the following. After a loan contract has been signed, all that should remain to be done is the meeting of legal requirements, all the other required action having been taken previously. That would avoid unnecessary delays in disbursement.

On financing, although the point has been discussed at previous

meetings of the Board, we feel that the regulations for the execution of the Intraregional Export Financing Program for Capital Goods should remain under review and that consideration should be given to the possibility of extending export financing not only to that category of goods, but also to final consumer goods, thereby assisting member countries that produce only the latter.

With regard to the lending terms, which include in addition to the interest rate and a commitment fee of $\frac{3}{4}$ of 1 per cent on undisbursed balances and a service charge of $\frac{3}{4}$ of 1 per cent on the outstanding balances, we request that the Bank consider the possibility of reducing the latter charge because it is high and it deprives countries of financing.

We consider it vital that the Bank revise its criteria of economic self-sufficiency in the financing of road networks in our countries, particularly as regards penetration and farm-to-market roads. It should replace it by another criteria more in line with the real needs of communities that have to be brought into the system of production and into the overall development of the country, and which have barely 10,000 people. A growing economy needs expansion of its transportation and communications systems and the fact that, as in Nicaragua, the transportation sector has absorbed more than two-thirds of total public investment in the last four years clearly demonstrates that sector's high priority in the planned development of the country.

I am grateful to my colleagues from Central America for the confidence and the honor they have bestowed on me in choosing me the spokesman for the region, and to this august Meeting for its attention.

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

It is a great personal pleasure for me to be at this meeting of men from all the Americas in Santo Domingo, the converging point of our American identity and common origin, the key and gateway to our common heritage.

History was here presented with the possibility of a New World where man could seek and sometimes find his universal dimension. Major questions, some answered, some still pending, were posed here. Victories and defeats have shaped the character of Santo Domingo. She has witnessed new institutions, integrations, wealth and power, poverty, union and disunion, and imperial power plays of different rulers and at different times.

We must not forget that it was here in old Hispaniola that the powerful and mighty were first presented with questions which are still burning the conscience of man. In the beginnings of the Sixteenth Century Father Montesinos, a humble Dominican priest, in an immortal sermon that one would like to see inscribed on a wall of this heroic city, confronted the doughty conquistadors, the most efficient war machine of that time, with a question of human equality and human solidarity which today, four centuries later, is still relevant:

"Tell me," he said, and I quote from memory, "by what right you make war on these people who were living apart and in peace on their land? By what right do you impose this cruel bondage on them? What entitles you to dispose of their fortunes, their lives and their fate? Are they not also men? Are they not endowed like yourselves with a rational mind? Do you not feel this? Do you not know this?"

These were forceful questions being hurled for the first time at a mighty power structure, challenging its rights and its violence-based privileges, questions still not completely answered today after the many intervening centuries. We are still asking ourselves whether great power gives its possessor a rightful claim to be the arbiter of humanity and its destiny; the judge of prices, systems, and inequalities, the dispenser of riches, abuses and misery. Are there not means other than power to determine relations among men? Can there not be other policies differently oriented, for putting an end to violence? Don't we know this? Don't we understand this?

These thoughts of mine are inspired by my stay in this city in total pursuit of its full identity and by our Meeting of Governors of this institution which is part of our common effort to advance together free of servitude, just in our goals, effective in action, right in our judgment.

Let us never forget that our Inter-American Development Bank is a Latin American creation that was convincing when established, and remains convincing because of the results obtained in 15 years. The past is prologue to the future. We can rightfully take pride in the progress made and the professionalism of the Bank's Management.

The confused world economic situation, along with its social consequences, is known and thoroughly understood in each country. The documents prepared for this Meeting are sufficiently clear and it would be superfluous for me to dwell on this point. Each nation must find its own path. Mexico has found the path she must travel and we know how to make our way, immersed though we are in an international reality over which, alone, we can have little influence. Therefore, I should like to place before this Meeting four basic themes that go to the very essence of the Bank, in hopes that they will help us in our capacity to influence our history rather than bemoan our fates like puppets on a stage or witnesses of our own inefficiency.

First, the Bank must have sufficient resources to be able to make an even larger contribution to the economic and social development of our nations. Words are meaningless without the support of concrete facts. Without a real increase in the volume of resources, the Inter-American Bank, despite all its studies and good intentions, cannot perform its true mission.

Second, a true multilateral effort requires equitable contributions from all concerned. Timely disbursements are a crucial factor, since delays hold back the execution of new programs. We have no time to waste. Sometimes we feel that efficiency is lost through administrative delays even when resources might be available.

We must plan with firmness and foresight our solution to the difficulties caused by the growing gaps between savings and investment and the balance of payments deficits so typical of Third World economies.

Our Bank must keep the real rate of growth of its lending operations at a minimum of 7 per cent a year in the next few years as its Management has proposed. Our efforts in this direction are vitally important.

Third, once the allocation of funds has been determined, disbursement conditions must be carefully observed. We have rules of the game that were accepted by all, and we must respect these rules. Any unilateral attempt to alter multilateral rules shows little knowledge of the facts.

Obviously, special interests must not influence the allocation of resources or affect the distribution of funds. The Inter-American Bank has the obligation, which it has met in the past, to evaluate projects and programs in the light of the priorities of each government and the Bank itself.

Fourth, The Bank's President, whom we congratulate for his leader-

ship, is rightly concerned lest the Bank's lending be limited to certain general conditions in specific countries, with no direct consideration given to the social and economic needs of particular population groups, especially when the people concerned are themselves going to contribute with their own effort to the execution of the project and help to cover the cost of the loan.

The most heavily populated Latin American countries need more effective international cooperation. Any attempts to place limits on this aid are entirely unacceptable. Just think of the consequences of this for the hope of masses of our people.

I must emphasize that countries with high rates of population growth and abundant labor run the risk of devouring themselves. Rapid progress is essential simply to maintain the balance or even to avoid falling behind. The basic policies of international cooperation are laid down in the recently approved United Nations Charter of Economic Rights and Obligations of States. Latin America's efforts are served by appropriate mechanisms, either in operation or being developed. A political decision must be stated as soon as possible and must reflect the solidarity of the hemisphere.

The participation in the Bank of twelve nonregional countries enriches us intellectually and transfers resources to the Bank. It is a promising sign of a more harmonious and equitable relationship for the future. They are truly welcome.

We say to you all that Mexico needs aid and is prepared to do its part. We make every effort, as we have said time and again to obtain justice through freedom. We realize there are others who seek freedom through justice. It seems absurd to sacrifice justice and liberty on the altar of mere order and foolish to allow them to be destroyed by disorder. We sincerely believe that by assisting each other with intellectual honesty and good will we can help and respect each other for the good of all, thus finding the answer sought by Montesinos as long ago as the Sixteenth Century and still sought by us here.

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

I must first apologize for the absence of the Governor for Jamaica who is unable to deliver this address in person because he had to return to Jamaica to deal with urgent parliamentary business.

I therefore, have the honor on his behalf to say first of all that we are particularly pleased to be here in this sister country in the Caribbean, the Dominican Republic. Jamaica has close ties of friendship and understanding with the Government and people of this beautiful country.

We would like to take this opportunity to rededicate ourselves toward the pursuit of goodwill and mutual cooperation between our two countries. We extend to you, Mr. Chairman, Jamaica's congratulations on your election yesterday to this most important position. This is a signal honor not only to yourself and to your country, but also to the other island nations of the Caribbean. We are somewhat disappointed that the formal procedures for the admission of Guyana and the Bahamas have not yet reached a stage which would have enabled us to welcome these two countries as members at this meeting. We are confident that this will soon be an accomplished fact, however, and we look forward also to welcoming Grenada as a member of the Bank in the course of this year. We also expect that the technical difficulties which have arisen in connection with the Bank lending to the Caribbean Development Bank will be fully resolved in the course of this meeting.

Mr. Chairman, we in this hemisphere are united in a common fight against poverty, unemployment, the uneven distribution of wealth and income. We search for freedom, justice and better living standards for the people of our lands. Because the Bank is both the symbol of and a vital instrument for achieving this common purpose, we observe with some pride the significant successes it has achieved in 1974. The Bank authorized a record total of loans and disbursements for economic and social development in its member countries; the amount of nonreimbursable technical cooperation approved in 1974 was three times the record high level in 1973; and the rapid increase in the Bank's income speaks well for the Bank's financial management. The Bank's emphasis on its role of assisting member countries to mobilize funds from other external sources, on more favorable terms than they would have in bilateral negotiations, has also been most successful.

Perhaps the most important achievement of the Bank in 1974 was the

*Mr. Coore's address was read by Mr. Maurice Tenn, Temporary Alternate Governor for Jamaica.

Bank's successful efforts to increase the volume of resources available for lending. This increase in resources is notable not only because the expansion was achieved at a time when the resource gap had begun to widen dangerously, but because the expansion involved a rededication of the Bank's member countries to the principle of cooperation for development. In so doing, the Bank secured pledged support of nonregional participation.

Mr. President, in our 1974 address to the Board of Governors, we referred to the international crisis in oil and its profound adverse effect on our national economies. At that time we urged that Latin America seek measures to solve these problems. In this regard, we are pleased that the countries of our hemisphere, Venezuela, Ecuador and Trinidad and Tobago have now taken the lead in using their expanded resources for mutual cooperation within the region. The establishment of the Venezuelan Trust Fund to be administered by the Bank has heralded new forms of cooperation within the region, opened up new fields in international financing and provided further opportunities to develop the regional natural resources, particularly those of nonrenewable character and to establish national and multinational Latin American enterprises. The Governments of Venezuela and of Trinidad and Tobago have made additional efforts to transfer more resources to other countries of the region, including Jamaica, in order to compensate for balance of payment deficits. We salute these actions of regional self-help initiated in the interest of hemispheric solidarity and economic cooperation.

The Declaration of Madrid signifying the intention of 12 nonregional countries to become members of the Inter-American Bank marked the beginning of an historic phase in the annals of the Bank. The signing of this Declaration with its anticipated augmentation in Bank resources was a personal triumph for President Ortiz Mena and we congratulate him on his achievement. We in the Caribbean already have ties with many of these countries and welcome their anticipated entry into the Bank. It is hoped that members of the Bank will expeditiously ratify the admission of signatories of the Declaration of Madrid.

The admission of these new members will present an opportunity for a restructuring of the Board of Executive Directors which should not be missed. We are of the view that the Board should at the appropriate time be restructured so as to reflect the realities of membership in the Bank in a more logical and representative way than it does at present.

In particular we believe that the island economies of the Caribbean, though hitherto separated by differences of culture and language as well as difficulties of communication, have today such an affinity of interest and similarity of economic problems as to justify them being accorded special treatment in any new groupings that may emerge from any restructuring of the Executive Board.

As we look toward 1975 and beyond, it is obvious that the first critical challenge facing the Bank is the replenishment of its own resources. Inevitably, as the region develops, its demands for external resources will greatly increase. If the Bank is to continue to be a main instrument of Latin American development, it must seek to mobilize resources in increased amounts to fulfill its own program. This challenge becomes more formidable in the face of a dwindling international supply of development aid. Jamaica therefore reiterates its 1974 pledge to support proposals to increase the Bank's ordinary capital resources as well as the Fund for Special Operations.

The necessity to expand the Bank's resources at this time involves also responsibility to have equitable, effective and efficient policies for allocating such resources.

In reviewing guidelines for future lending policies, we think strong emphasis should be placed upon channeling more funds into the development of human resources and upon raising the level of physical living standards of our people. Specifically, we urge that the Bank provide more assistance, both technical and financial, to education and training at all levels, to housing and community development and to physical amenities for the community.

One of the consequences of the oil crisis has been an increase in the cost of fertilizers which threatens to frustrate and retard agricultural productivity and production. Agricultural problems and their consequences are not confined to national boundaries. There is a growing inability of the world to feed itself. Within this context, Latin America cannot continue to rely heavily on imported foodstuffs. We can neither afford the increasing adverse effects on our balance of payments nor can we afford the deleterious effect on the health of our people. As a region, we must therefore increase our allocation of resources to agriculture in order to increase the supply of foodstuff bearing in mind that such increases in production and productivity can only be achieved on the basis of responsible and responsive agricultural policies, strategies and programs. We in Jamaica continue to feel the ill effects of the burden of imported food and we have already instituted projects to increase production. Our projects are specially designed to assist the small and medium-sized producers, and in this regard, we are emphasizing land reform, cooperatives and land-lease complexes. We therefore welcome the Bank's initiatives to emphasize agriculture. We agree fully with the Bank's actions to avoid duplication of activities among international bodies. We urge specifically that technology, marketing and training for small- and medium-sized producers be given special assistance.

At our Fifteenth Annual Meeting in Chile, we urged strong support for assistance to increase export earnings and we are therefore pleased that the Bank will be able to provide additional support to exports on the

basis of the Venezuelan Fund. However, there is some indication that this amount will not be sufficient to meet the needs of our countries, and we urge therefore that additional resources be sought to meet these needs.

However successful its efforts in resource expansion may be, it is apparent that the Bank will never be able to provide all or even the major portion of the external capital requirements of the region from its own resources. The second challenge facing the Bank therefore is to find ways in which member countries can be assisted individually and collectively in obtaining access to the world capital markets for long term loans (i.e. 20 to 25 years) at reasonable rates of interest. The need is both critical and urgent. The present state of the world money market is such that developing countries like mine are forced to take five-year loans for long-term development projects. Perhaps rich countries can afford this kind of repayment burden. We cannot. The alternative of slowing down the pace of development is not acceptable. As President Balaguer in his most thoughtful address to us has rightly emphasized, the masses of our people are demanding that an irreducible minimum of felt needs be satisfied now—not tomorrow or the day after but now. The orderly progress and social stability of this whole region is contingent on the satisfaction of those demands. This Institution, as well as the World Bank and the International Monetary Fund, is therefore faced with the challenge of devising mechanisms, perhaps by way of some system of multilateral guarantees, which can enable developing countries to obtain general purpose loan funds on the kind of terms which I have indicated. I would respectfully suggest that this is a matter to which the Executive Board and the Management of the Bank should give the highest priority during this year.

Finally, Mr. Chairman, I would urge on fellow Governors the necessity for uniting all our efforts and influence to achieving in practice the principles of a new world economic order as set out in the Declaration of the Sixth Special Session of the United Nations.

The recent meeting in Jamaica of the Heads of Government of Commonwealth Countries, representing roughly one-quarter of the world's population, agreed to set up a Committee of Experts who have been charged with formulating a program of practical action to be placed before the United Nations in September. It is my hope that these proposals will obtain the support of all countries in this hemisphere.

During its 15 years of operations, the Bank has displayed the ability to adapt its policies to the changing conditions in the hemisphere and to changes in world-wide financial and economic situations. Jamaica is confident that the Bank under the skillful direction of our President and with the strong supportive action of its board of Governors will continue to find solutions to the problems which confront us.

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

It is a great pleasure for us to be here in the beautiful and gracious homeland of Duarte, where we have been welcomed with traditional Dominican hospitality and whose Government has spared no effort for the effective development of our meeting. Before I proceed, I should like to extend my wholehearted congratulations to the Governor for the Dominican Republic on his election as Chairman of this Board.

The Inter-American Bank has completed 15 years years of fruitful work and needs the full support of all its members so that it will be continually strengthened and constantly increase its valuable contribution to the development of the Latin American nations.

In his important statement at yesterday's session, President Ortiz Mena gave a clear, precise and factual account of the Bank's performance, particularly last year, and its principal policies and goals. The sizable increase in lending and disbursements deserves our recognition, as does the emphasis laid on supporting the region's less developed countries and those of limited market in compliance with express decisions of this Board and in a search for a more equitable and balanced development of the countries of Latin America.

With attitudes such as these, our countries strengthen their moral authority to call for a new international economic order in which justice and equity will prevail as the pillars of a creative peace and of sincere cooperation among nations.

The President's position concerning the inacceptability of any member country unilaterally imposing conditions at variance with the letter and spirit of the Agreement Establishing the Bank deserves and enjoys the full support of Ecuador.

Under the same principle, I feel compelled to say that any policy or practice that discriminates against any Latin American country in the Bank's financial and technical cooperation is equally unacceptable. So is any attempt to use this cooperation as a means of exerting pressure or, even worse, as an instrument of reprisal, particularly with respect to sovereign decisions taken by developing countries to protect their natural resources and use them freely for the benefit of their peoples.

The Latin American countries are going through a critical stage of their struggle for economic independence and social justice. The monetary and financial system devised at Bretton Woods is fated to suffer profound and irreversible changes. Otherwise humanity would not be able to cope with problems as serious as the food shortage, pollution, the energy crisis, poverty, sickness, illiteracy, and the increasingly unequal and unfair

distribution of wealth, at the national and international levels alike, with the efficacy needed for overcoming them and to replace confrontation or the predominance of the few with a system of interdependence signifying cooperation and genuine development.

Very great strides have been taken in this direction in recent years. I do not propose to examine them in detail here but only to stress the changing attitudes in the Third World toward a fairer treatment for farmers and workers, an equitable price for raw materials, a more rational and adequate protection and utilization of natural resources, an industrial promotion based on a profound social awareness and a willingness to engage in frank discussion between equals, shunning the temptation to seek causes or culprits in immediate circumstances and instead looking squarely at the factors, the policies and the individuals that have long been chiefly responsible for the crisis now emerging so clearly.

Inflation and the so-called energy and food crisis were not caused by increases in the price of oil. The true causes are deeply rooted in the present economic system and in the direction taken by the progress of technology in the more developed nations and the consequent imbalance in international economic relations.

In the case of my own country, the increased earnings from a limited volume of hydrocarbon exports will not change our economy or society in any short span of time, and they are certainly not enough to support the belief that international aid is no longer required. The new revenues merely give us an opportunity to build the minimum economic and social infrastructure we have always lacked and enable us to speed development to a point where we can rise at least partly above the backward conditions we have long had to tolerate.

Ecuador is particularly grateful for the cooperation extended by Venezuela, one of the salient features of which is the establishment of the Trust Fund to be administered by the Bank. Venezuela is in this way making a real contribution to the strengthening of Latin American cooperation.

Among the institutional aspects of the Bank's activities, the future admission to membership of 12 nonregional countries deserves specific mention, as it will reinforce the Bank's multilateral character. It is to be hoped that the wealth of experience of the new members will help the Bank to apply more flexible and dynamic policies, especially in the area of concessional resources and in the incorporation of new modes of lending so as to preclude the possibility of a unilateral veto by any member country.

It is important that Bank support for the financial agencies of subregional integration schemes be increased. In particular, we should like to see the Bank conclude a cooperation agreement, as soon as possible, with the Andean Development Corporation, so that the latter

may be provided with adequate resources and be able to contribute effectively to the Andean Group's sectoral planning. We should also like to see the Bank provide support to the Caribbean Development Bank as soon as possible.

With deep satisfaction we note the very gratifying progress which has been achieved in the studies and consultations for the establishment of the Group of International Cooperation of Agricultural Development and Food Production, which will operate at the Bank's headquarters. This is the successful culmination of negotiations initiated at the United Nations World Food Conference held in Rome last November.

Ecuador, fully endorses the Bank's emphasis on rural development, which we consider to be urgent and indispensable. Structural change in the rural sector and substantial improvement of rural living conditions are essential for Latin America's development and will at the same time help to alleviate the world's growing food deficit.

In concluding these brief remarks, let me express to the President of the Bank the appreciation and gratitude of the Ecuadorean Government for the unique achievement in 1974 of a record volume of lending and disbursements by the Bank to my country. Without the valuable and decisive action of the Bank's President and Management, as well as the Bank's Representative in Quito, this achievement would not have been possible. My congratulations go to you, Mr. President, for your never failing defense of the Bank's institutional integrity and the clear goals of its Charter.

**Address by Mr. William E. Simon,
Governor for the United States
and Secretary of the Treasury**

On behalf of the American Delegation, I want to thank the Government of the Dominican Republic for serving as such a gracious host for this Sixteenth Annual Meeting of the Inter-American Development Bank. It is indeed fitting that the representatives of the inter-American family gather in the place where Christopher Columbus first arrived in the Western Hemisphere.

Economic development in Latin America continues to have high priority for the United States. We recognize that many of our southern neighbors measure, in part, the degree of our interests and commitment to Latin America in terms of our support for their economic and social development. This is an important meeting, because the Bank's resources require early replenishment. We are prepared to discuss a major replenishment, which would include \$1.8 billion from the United States over a three-year period. This surely would represent a substantial increase in the resources provided the Bank annually by my country.

Joining us here today are several distinguished representatives from the United States Congress. As members of key committees responsible for legislation affecting international financing institutions, they have a special interest in the affairs of the Bank.

I am particularly pleased that when our meetings are adjourned, these Congressmen will have the opportunity to visit several projects financed by the Bank and thus see first hand the results of the Bank's efforts. Their participation here and in visiting Bank projects expresses in a very practical way the continued support for the economic development of Latin America by all parts of the U.S. Government and our people.

We share your pride today in the notable economic progress that has taken place in Latin America in recent years. The development process in most countries of the region has reached a point where high and steady growth rates have become a normal phenomenon. According to the latest figures compiled by the Bank, Latin American countries as a group have sustained a very impressive 7 per cent rate of growth a year over the past several years. By comparison, the rate of economic growth in the United States has averaged less than half of that amount during the same period. While our economy remains large and dynamic, we rank near the bottom of the hemisphere in terms of growth rates. In recent months, the United States has experienced a negative rate of growth. There is growing evidence, however, that the economic recession in my country is nearing its end, and we expect to be on the road to recovery before the end of the

year—a process that will, of course, be helpful to all of us since the United States remains the largest market for Latin American exports.

Because of the strong growth rate in Latin America in recent years, several nations in the region, when measured in terms of sustained growth and diversification, competitiveness in international markets, and—most importantly—in terms of their ability to attract, use, and service large amounts of private foreign capital on commercial terms, are now approaching the status of developed countries. The substantial private flows of loan capital to Latin America over the past several years attest to the confidence of private investors in the future of Latin America. This remarkable progress achieved by your countries is a tribute to the talent, the hard work and the perseverance of people throughout the hemisphere.

Our Continuing Commitment

Plainly, however, the economic growth of recent years has not been equally shared among Latin countries. There are still very real needs in many of the poorer countries of the hemisphere for continued and increased concessional assistance. Moreover, even those countries with strong and rapidly expanding economies which can afford to service ordinary capital loans, continue to need long-term capital from the Inter-American Development Bank.

As a nation blessed with relative abundance, we in the United States will not shirk our responsibilities in this hemisphere. The economic development of Latin America continues to be a high priority of the United States Government, and we look upon the Bank as a major vehicle by which that objective can be realized. Two months ago, the Congress indicated our continued support for the Bank by appropriating \$225 million for the Fund for Special Operations.

My fellow finance ministers will appreciate the fact that like many American countries the United States now finds itself short of the capital required to meet its own internal investment needs. Those needs are impressively large, and they will demand a full-scale effort, especially since the United States has not been keeping pace in its capital investments. We must devote many of our resources to this purpose if we are to remain internationally competitive and meet our needs for urban renewal, revitalize our transportation, expand energy resources and development, and modernize our industrial plants.

Moreover, in 1974, many of the developed countries, which have traditionally transferred resources to the developing world, were themselves unable to cover their imports of goods and services with export earnings and thus had to borrow on an unprecedented scale. For most donor countries this was a new situation where they themselves were forced, in effect, to borrow in order to provide assistance. In most cases,

the interest and terms of such borrowing were much harder than the terms of the aid they were giving.

Despite these difficulties, the donor countries, including my own, held steady in continuing their aid for developing countries. Maintenance of these aid levels in the current economic environment is clear and convincing testimony to our continuing commitment to the process of economic development.

Yet it is only fair to add that under these conditions, sustained support for the programs of the international development banks will heavily depend on their performance. The fine performance over the past decade and a half of the Inter-American Development Bank gives us confidence that it will continue to be a critical and effective multilateral institution for furthering economic development in most Latin American countries.

Evaluating the Bank's Performance

Let us turn, then, to an evaluation of the Bank's record and its policies for the future.

Looking over the past few years, especially 1974, the Bank has registered several outstanding achievements under the impressive leadership of its President, Antonio Ortiz Mena:

- At the end of 1974, the Bank reached agreement with ten European countries as well as Japan and Israel for their entry into the Bank as member countries.
- Negotiations on the \$500 million Venezuelan Trust Fund were completed and the agreement was signed earlier this year.
- The Bank, through the work of its Group of Controllers, has been in the vanguard of the international development banks in the field of independent evaluation of programs, activities and operations. We look forward to progress on the Group's recommendations to the Board.
- The Bank has also continued to hold the line on staff expansion, thus emphasizing efficiency and avoiding the waste of a growing bureaucracy.

In considering the progress made by the Bank, it is wise to remember that the annual amount of new loans is not itself the proper measure of the Bank's effectiveness. As I told a recent meeting of the Asian Development Bank, the key measure of a development bank's success is how much development actually takes place through the quality of bank-supported projects and the bank's contribution to institution building, training and priority setting in its member countries.

In order to achieve the best results, we strongly believe that the

limited resources of the Fund for Special Operations should be reserved for the countries that have a genuine, pressing need for concessional assistance and have demonstrated by their own self-help efforts that such assistance is justified. We recognize, also, that in several of these countries medium-term prospects do not permit servicing of more expensive capital. However, some of the countries in the so-called "limited market" and "intermediate" categories ought to begin the process of "graduating" from the Fund for Special Operations.

For those member countries that are most developed, I would urge, in the context of the next replenishment of the Bank, that they make a part of their own contribution to the Fund for Special Operations in the form of convertible currencies. Such a demonstration of support for the Bank will immeasurably strengthen the ability of the Executive Branch of my Government to assure that the United States makes a substantial input to the next replenishment.

I know that even the economically most advanced member nations have pockets of poverty or sectors of their population which are extremely poor. In our judgment, however, eligibility for concessional lending should depend on the country's ability or inability to attract and service loans on ordinary terms, and that depends on the country's overall economic strength and balance of payments. The internal distribution of income within a country is determined by the projects financed and by the country's general economic policies.

With the very rapid growth of Bank lending over the last several years, it would be prudent in the period immediately ahead to concentrate on improving the quality of new loans, improving the estimation and control of project costs and achieving more efficient implementation of loans underway. The Bank is well-managed and ably staffed. Nonetheless, I am sure my fellow Governors will agree that we must continue to strive for higher standards of excellence in all aspects of its operations.

There are a number of operational and policy measures that should be considered in this regard. For example, increased emphasis should be given to establishing realistic conditions and then adhering to those conditions which are, after all, designed to help the borrowers. The Bank should also seek ways to reduce the accumulation of undisbursed funds, particularly on old loans. The fact that there are still large amounts of undisbursed funds from loans made before the end of 1970, many of which are less than 50 per cent disbursed, underscores this point. These amounts are larger than need be for a well-run bank like the IDB. Another area in need of attention is cost overruns, which have become a major problem for the Bank. Not only do cost overrun loans preempt Bank funds which are scarce and are needed for new projects, but they also divert a great deal of valuable staff time from other new projects that should be claiming more attention on the part of the Bank. Assuming the

projects financed by the Bank are among the highest priority undertaking for the recipient countries, we believe that alternative means of financing should be found for these cost overruns.

I believe an important step that can be taken to ensure progress on these operational matters which I have discussed would be for the Board of Directors to insist that before approving new projects they be brought to a sufficiently advanced stage of preparation to ensure efficient implementation. This requirement will no doubt be easier to express than to accomplish, but the Bank now has an established reputation for prudent, able management and such an approach is certainly within its capabilities.

As for the Bank's lending policy, we believe the Bank should become even more active than in the past in the sectors where innovative lending is needed, such as rural development and other types of projects which reach lower income groups. While increased production and productivity should remain the chief objective in agricultural loans, we believe the Bank should place special emphasis on projects which ensure that benefits will be widely shared among the rural populations of its member countries.

In view of the rich potential of the Latin American countries for helping the world surmount the growing food crisis, we strongly support the Bank's efforts in the field of agriculture and endorse its initiative in seeking to establish a Hemisphere Agricultural Consultation Group. We urge the Bank to continue and expand its funding of international agricultural research institutions in Latin America. It is through agriculture that the member countries can make a great contribution to solving one of the world's greatest resource problems, for Latin America has great potential not only for feeding its own people better but also for increasing exportable surpluses of agricultural food products. For this reason, the Bank should make a concentrated effort to reverse its recent tendency to lend increasingly for infrastructure projects at the expense of lending for the agricultural sector.

We would also regard any move to reconsider nonproject lending at the Inter-American Bank as unfortunate. Loans for sectors or general programs are superficially attractive since they usually can be quickly disbursed and provide balance of payments support. The regional development banks, however, should not be diverted from their fundamental purpose of financing projects which promote long-term economic growth. They should not try to solve short-term balance of payments problems for which other institutions exist and for which other vehicles are being developed.

Although we are focusing in this meeting on inter-governmental relationships and the affairs of an official lending institution, we should also not lose sight of the overwhelming importance of the private sector as a supplier of external capital to Latin America. Approximately three-

fourths of net financing flows to Latin America comes from private sources. Despite our balance of payments problems and our domestic investment needs, the United States has maintained, and will continue to maintain, a free and open capital market. Latin American countries, along with other nations of the world, will continue to have access to this valuable source of funding. At the same time, let me stress that it is up to each developing country to establish a suitable investment climate and record of creditworthiness.

Given the Bank's tight resources position, we would encourage the Bank to step up its efforts to fund new projects in cooperation with private investors and banks. It would appear that a large volume of resources could be available to the Bank in the form of parallel, joint and other types of co-financing in collaboration with the private sector. I urge the Bank to pursue more actively co-financing techniques that would pioneer a new cooperative arrangement with the private sector in providing development finance. This could help the Bank, with a given amount of its resources, to contribute more widely to the development of member countries. It would also be a significant initial step in assisting member countries to establish substantive financial relations for further access to international capital markets. The private sector is important to the Bank not only as a source of financing but also as a recipient of Bank loans largely through development finance companies. Most Latin American countries have a dynamic private sector. Since a private sector free from government controls is the most certain underpinning for economic development, the Bank should seek to increase the share of its lending to productive enterprises outside the public sphere.

In our view, the job of the international development lending institutions is to supplement private investment, not to substitute for it. The Inter-American Bank and its institutional colleagues were established to be innovative and to pioneer in those areas which are not, at least in the early stages of development, attractive to private enterprise. Countries should not look to these public institutions to fill resources gaps created by a poor investment climate or by the failure to mobilize and efficiently utilize domestic resources. The United States Government is eager to work with the nations of this hemisphere to help them find ways to draw more effectively upon the private capital available in our country.

State of the World Economy

Let me direct your attention now to broader economic issues facing the member countries of the Bank, for it is clear that our hopes for economic development hinge to a large degree upon the general health of the international economy.

At the time of last year's meeting of the Bank Governors, inflation

was plaguing much of the world. That inflation grew partly out of the simultaneous boom conditions of 1972 and 1973 in the major countries and partly out of long-standing government policies in many countries, including my own, that served to fuel inflationary pressures. The steep increase in international food and oil prices, of course, severely aggravated that inflationary trend.

Since last year's meeting, some of our countries have moved temporarily into a generalized condition of minimum or negative growth and substantial unemployment. Inflation has diminished, but it continues to be the most fundamental long-term economic problem facing many nations.

With the acute strains of current economic conditions, there is a natural tendency for nations to turn inward and to seek economic solutions at the expense of their trading partners. Although solutions must indeed begin at home, joint efforts at international cooperation will permit all of us to do a better job at solving our problems. In today's interdependent world, mutual prosperity depends on mutual cooperation more heavily than ever before.

Cooperation among nations has already helped us to make a good beginning in coping with the many new challenges facing the developing countries. We have begun a constructive dialogue to respond to the problems of the developing countries in the context of the new Development Committee, which is associated with the International Monetary Fund and the World Bank. The committee began by focusing attention on the emergency financing problems of the poorest developing countries. We are hopeful that the international community will resolve to establish a Trust Fund for such emergency financial assistance in 1976, after the IMF oil facility with its subsidy account terminates lending.

While searching for answers to the problems of the poorest developing countries, we remain mindful of the severe short-term dislocations being suffered by middle-income countries. The Development Committee will meet in June, and I can assure you that the United States will be energetic in seeking cooperative solutions to these pressing problems.

Already a substantial volume of funds has been made available from the International Monetary Fund's regular resources to many countries with balance of payments difficulties—developed and developing countries alike. Moreover, about 2.5 billion SDRs have been lent from the IMF special oil facility established last year.

Looking beyond 1975, IMF members have agreed in principle to seek an increase in IMF quotas which will place the Fund in a position to make substantial resources available to countries in need. The United States has agreed to such an increase, provided that accord can be reached on a series of important amendments to the IMF Articles of Agreement.

A major step has also just been taken to provide the international payments system with an additional measure of insurance. Together with the Finance Ministers of the OECD countries, I was pleased last month to sign an agreement on a new facility to be called the Support Fund. This agreement established a \$25 billion safety net to be available to participating countries as a supplement to, but not a substitute for, established international institutions such as the International Monetary Fund. The United States continues to view the IMF as the principal source of multilateral assistance for those members facing temporary balance of payments difficulties. It is our hope that this safety net will never be used, but the confidence it gives should make major contributions to the effective functioning of the international financial system. By so doing, it will help to avoid a situation in which individual countries, eager to gain greater protection, would be tempted to take restrictive measures which would in the end be detrimental to both developed and developing countries.

Turning to trade matters, let me reiterate that in adapting international trade policies to the new economic environment, our goal must be to avoid the temptation for each country to seek unilateral solutions to its problems. Toward that end, the United States has recently enacted legislation, the Trade Act of 1974, which will help us to work constructively and positively toward an increasingly open world trading system.

The United States and Latin America share a number of mutual concerns in the field of trade. For example, several Latin American countries and the United States are major exporters of some temperate-zone agricultural products for which we have a common interest in persuading other countries to lower their barriers. On tropical products, too, the United States supports Latin American interests, and cooperative action on the part of Latin America and the United States in the multilateral trade negotiations helped initiate negotiations on tropical products this past March.

Let me also reassure you that we are firm in our resolve to implement the Tokyo Declaration with its special consideration for the needs of the developing countries. I should also point out that a specific mandate in our Trade Act gives special consideration to developing country interests.

The United States also fully recognizes the concerns of Latin American exporters over the wide fluctuations that have occurred in recent years in commodity export prices. Commodity prices have fallen sharply during the past year after rising to record levels in early 1974. Although most commodity prices are still well above the pre-1972 levels, the declining prices of many primary products have not been matched by price decreases for imports such as oil and manufactured products. Thus, there is a genuine basis for concern over the effects of falling commodity prices

on the balance of payments and the serious threat such prices pose to long-term development plans.

The U.S. and other industrialized nations are sensitive to these concerns and are currently studying methods that could address them properly. We continue to believe market forces of supply and demand are generally the best allocator of resources. Within the United States, the Treasury Department is chairing an inter-agency task force to study the problem and to formulate recommendations for U.S. commodity policy. Our general policy approach is that we are willing to continue discussing individual commodities on a case-by-case basis. While we emphatically disapprove of unilateral producer actions that artificially raise prices by restricting supplies to consumers, the United States is prepared to work with other countries concerned with commodity issues in a spirit of mutual cooperation.

In closing, let me re-emphasize our fundamental commitment to the "new dialogue" between Latin America and the United States. The nations of our hemisphere share a history of mutual support in good times and in times of crisis. We also share the hope of a better life for all of our people. The United States recognizes the importance of its long-standing economic inter-relationship with the countries of Latin America, and we recognize a continuing obligation to assist in the economic development of this region. Let us remember that the oldest U.S. aid program is not the Marshall Plan but the Institute of Inter-American Affairs, which was established in 1942 under the inspired leadership of the man who is now the Vice President of the United States, the Honorable Nelson Rockefeller.

Since 1960, the United States has provided over \$8.5 billion in various forms of assistance to the member countries of the Inter-American Development Bank. We have also made major contributions through the World Bank and the International Development Association. We are particularly pleased that some of these funds have helped to provide the seed money for the remarkable economic progress that several Latin American countries have achieved.

Let us, then, take heart from the progress of the past as we look forward to a new era for the Inter-American Development Bank—an era which will bring a sizeable increase in its capital resources, greater concentration of the Bank's concessional resources on the poorest member countries, innovative co-financing techniques for private sector collaboration, and hopefully, a stronger momentum toward economic development throughout the hemisphere. We in the United States look forward to working with the other members of the Bank in this vital endeavor.

Address by Mr. José Carlos Soares Freire, Temporary Alternate Governor for Brazil and Secretary General of Finance

My first words are for the Government and people of the Dominican Republic, who are carrying on the traditions of courage, tenacity and hospitality of the American people and, in solidarity with their sister peoples of the hemisphere, are pursuing the lofty aim of ensuring a better life for future generations.

It is with satisfaction that I observe during this Sixteenth Annual Meeting of the Board of Governors that the Inter-American Development Bank, joined with us in this effort, has been unstinting in its cooperation for the development of the hemisphere, even though it is passing through the most critical phase of its existence.

As the major inter-American financing agency, the Inter-American Development Bank in facing serious problems that threaten its very survival reflects in a way the difficulties of all its members and especially the battles being waged by each of them. For most of the Bank's member countries the problems in the socio-economic area center around three main points: (a) recurrent inflation, (b) market instability, and (c) balance of payments deficits.

Since 1973 the countries of the hemisphere, particularly the developing nations, have been suffering the effects of widespread inflation in the industrialized countries and the rise in the prices for raw materials in general and of oil in particular. At the same time, our countries have had to maintain their commitment to bring about the changes required by their societies, particularly with regard to increased production and per capita income.

In Brazil, the Administration of President Geisel decided to respond to this challenge by following the principle that freedom of private initiative and government planning are compatible.

With this principle as its point of departure, my Government realized that the present difficult world situation called at least for a review of our investment priorities and of the possibility of maintaining high growth rates, having regard to the balance of payments limitations and preserving progressive reductions in the rate of inflation.

To comment on only one of the above aspects, it should be noted that we have passed from a situation of abundant oil supply to a situation which we hope will be short, in which there is a drastic need to re-evaluate fuel consumption. Consequently, in reformulating priorities, our earlier decision to build roads has been replaced by an emphasis, also planned, on rail and sea transportation.

On the other hand, as my Government has noted in other forums, disparities in the development level within a given country must be eliminated as soon as possible. This problem is particularly serious in the developing countries. Yet such disparities persist, in spite of the very successful operation of a policy of transfer of funds through fiscal incentives, as in the case of Brazil. This obliges us to seek supplementary resources in order to raise to acceptable levels the living standards of a densely concentrated population which, even today, has one of the lowest incomes in all of America.

The extension of resources has to be understood in the full sense of the term since, like other countries of the hemisphere, our local investment effort in social-sector projects in less developed zones substantially exceeds the inflow of foreign capital on concessional terms.

This widely recognized evidence of the internal effort being made on the domestic front is an assurance that our countries are prepared to face up to the challenges of the time with imagination and initiative, since supported by our own resources, we are prepared to adopt a pragmatic economic policy. In this task the Inter-American Development Bank unquestionably has a most important role to play.

The importance of the Bank is reflected in the address by its illustrious and efficient President, Antonio Ortiz Mena, and in the quantitative references in the Annual Report. The Bank's Management has once again proven its dedication and capability, in spite of the difficulties it is facing, most of which are traceable to a shortage of funds which is in turn linked to the critical world situation.

The eloquence of these references in the Annual Report cannot be ignored, and I should like to draw attention to the need shown therein for the Bank to be urgently assured of greater financial resources. On the basis of this need, the Bank operates on the assumption that it has the right to receive these funds without any limitations as to areas of utilization or machinery which distorts the Bank's multilateral character.

As I have indicated, it is difficult to reconcile the idea of limiting areas of utilization with the reality of the Continent's developing regions, since even the most highly developed countries contain some of the poorest areas in the world, however successful the social-investment policies of their governments.

I believe that, used creatively, multilateral cooperation can greatly contribute to the solution of problems derived from the above-mentioned world situation.

In this regard, I believe that the Bank's present export financing mechanism must be improved with all the speed demanded by the resurgence of even sharper trade protectionism. In line with the concept of fostering development, which is the very purpose of the Bank, let us revise and expand this mechanism, instituting new systems both within and

outside the region. If we could set up a mechanism of interbank credits, with deficit balances refinanced by the Bank within the region, this alone would be a major step toward stimulating, in competitive terms, the exports of the developing countries of the region. Here, I must stress that we consider the possibilities for increased exports and the feasibility of the economic development goals as two closely associated concepts.

The Brazilian Government regards Latin American integration as a fundamentally important objective. On the bilateral level, we have deliberately expanded the areas of understanding with the countries of the hemisphere through initiatives of effective economic cooperation. In the same sense we have made strong efforts to reduce, if not eliminate, the obstacles to the collaboration which, in specific sectors, we should like to establish with the other countries.

At the multilateral level, Brazil is prepared to participate, within the Bank, in activities aimed at fostering transfer of its technological know-how and experience in the fields of project preparation and specialized consultative services to countries that so wish.

I should like to turn now to two other fields of activity of benefit to all our countries that the Bank could enter when the essential financial backing is available.

The first field is food and nutrition. This would be basically the sphere of the Latin American Agricultural Development Group recently set up within the framework of the Bank to provide a structure for broad and permanent specific consultation among its member countries. I need not dwell on the importance of this subject in view of the universal recognition that the problems of food and nutrition are intrinsically linked to the socio-economic development process, since food scarcity is at once cause and effect of underdevelopment.

The second area of interest is urban development. Predominantly urban areas in the developing countries of the Hemisphere are constantly increasing and, in many of these nations we note an accelerated trend towards the creation of great metropolitan centers. These urban agglomerations are growing in a disorderly fashion and some population centers are already recording high pollution rates. The Bank is making serious efforts in this sector, but it has to be admitted that it still lacks sufficient resources to properly deal with the problem. In this regard you will note the discrepancy between the concern attached by the industrialized countries to the problem of environmental contamination and their continued reluctance to make the contribution expected of them in the establishment of integrated urban development policies.

The other problems of the Bank mentioned during this Meeting of Governors appear to stem from the ever present threat of a shortage of funds, a matter of concern to all of us. Because of their operational nature, these problems could be dealt with through the Bank's own

institutional mechanism, by general assent of its members, once this basic question is resolved.

This, in general terms, is how I see the Bank's present situation, which I have tried to present in plain terms and with the realism that I feel is needed. Without realism and pragmatism we shall not attain our goals.

May I congratulate President Antonio Ortiz Mena, the Board of Executive Directors and the staff of the Bank for another year of fruitful labor. May I also express appreciation to this beautiful city of Santo Domingo for its generous welcome. In closing, let me stress once again that without unity among its member countries, the Bank will face even more serious problems in carrying out the task we have entrusted to it.

But, I am convinced, that if we honor the commitments we entered into when we first founded the Inter-American Development Bank, we shall be building a more just continent for the generations to come.

**Address by Mr. Alastair W. Gillespie,
Alternate Governor for Canada
and Minister of Industry, Trade and Commerce**

I am honored to address this session of the Sixteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank. Indeed, I consider it a singular honor to be here on the occasion of the Bank's anniversary.

The arrangements for our visit indicate the high value placed by the Dominican Republic on the Bank and the success of our deliberations here. To all those within the Dominican Government responsible for preparing the conference, we express our appreciation.

We are most grateful to the President of the Dominican Republic, Dr. Joaquín Balaguer, for his welcome to us and for making it possible for all of us to enjoy the great Dominican friendship and hospitality.

It is three years now since Canada has been a member of the Bank. We value this association. We look on these annual meetings as ideal for reviewing together the role of the Bank and as an opportunity to appraise ongoing developments in Latin America and the Caribbean in the light of more recent world economic events.

We would hope that, as a result of these deliberations, we can look to the future with confidence and with a renewed faith in the goals and aspirations of our institution.

Foreign Policy

Some five years ago, Canada adapted its foreign policy to a new set of realities and conditions. Some of these realities are internal to our own society. Canadians have become more conscious of their own national identity and of the need to project it more forcefully on the world scene.

Canadians are increasingly an outward-looking people. They want to participate with others who want to develop because we see it as being in our interest, too.

At the same time, however, we are very much aware of changes in the international environment. Perhaps one of the most significant of these changes is the rapid emergence of Latin American countries. The dramatic political initiatives of the Third World in the United Nations and its agencies—particularly their call for a new economic order—may have taken some by surprise. But, really, they form an integral part of a broad historical movement.

We support the efforts of the developing countries to accelerate their development and bring about a more equitable distribution of wealth in

the world. However, we have been somewhat concerned by the strains which some of these initiatives have placed on international institutions.

We are concerned not because we seek to preserve within these organizations the power of the industrialized minority but because we want to maintain, and even improve, the effectiveness of the industrialized countries for the resolution of international problems.

Canada feels that a long-drawn out confrontation between Third World and industrialized countries would be sterile and fraught with danger. We feel, rather, that the best interests of all would be served by a strategy of accommodation and negotiation based on practical solutions rather than lofty declarations or statements of principle.

Canada's Unique Position

In all of this, Canada is in an unique position in the Hemisphere. We are an industrialized country. Thus we share many interests and preoccupations of the other developed countries.

At the same time, we are also a major producer and exporter of natural resources. Thus we can understand the concerns of resource exporters in Latin America and other countries. So, you can see that as a resource exporter and consumer our situation is a rather complex one.

Because of this position we have adopted certain policies which are different from the solutions now being suggested elsewhere.

As an example, we want to ensure, as do many of you, that our raw materials are more fully processed before we export them. We feel it will be better for Canada in terms of employment and other economic benefits. And because upgrading of raw materials is both energy intensive and usually polluting (expensive to eliminate) there are advantages to our customers in having the upgrading take place in Canada.

We also believe that producers and consumers both should be represented in any commodity-based organization. After all, both sides are needed to ensure effective market stabilization.

Against this background, Canada is now reviewing the full range of its economic relations with the developing countries—both in development cooperation and in trade.

Similarities with Latin America

In this review I am impressed by how much Canada and the Latin American countries have in common. Canadian firms and Latin American firms are substantial investors in many countries, but our investments (Latin American and Canadian) abroad are heavily outweighed by the massive foreign investment in our countries.

Thus we in Canada believe we are in a position to understand the hopes and aspirations of countries receiving foreign investment as well as the viewpoints of international investors.

We also have in common the problem of bridging vast distances to bring about industrialized economies. The industrialization of Canada really took place during the past 30 years; Latin America's more recently.

Ours took place because we learned how to harness our abundant sources of electric energy—including nuclear power—and move it over thousands of miles of often harsh terrain. We also developed ways to move people, goods, and raw materials, over these same huge areas and to tie the country together through telephones, telex, radio and satellites.

Some of the techniques, machinery, equipment and processes we developed are unique to Canada. Because of our similar geographical situations we think that some of these techniques, machinery, equipment and processes can be adapted to help Latin America further its industrialization.

Trade Missions to Latin America

In our search for closer relations with Latin American and Caribbean countries, I have led trade missions to four of these countries in the past 15 months: Mexico, Brazil, Cuba and Venezuela.

On each mission I have been accompanied by Canadian businessmen and industrialists. We have shown our interest in these countries and our businessmen have gained a better understanding of the role they can play in helping these countries in their development plans.

We want to work more closely with each of you. We recognize that each of you has different needs and priorities. We want to adapt our capabilities to your particular needs. We want to put our technology to work for your benefit and ours. And we would welcome the opportunity to enter joint ventures with you.

We do, indeed, look on our relationship with Latin America as a joint venture and, really, one of the best examples of a joint venture is our participation in the Inter-American Development Bank.

Changing Environment of the Bank

Our interest in the Bank and in the countries of Latin America is not just Canadian in origin. It owes a great deal to the increasing dynamism of the region itself.

When we consider that this dynamism is paralleled by major upheavals in the traditional international financial and economic order, it becomes clear that to do business internationally will require a readiness to consider new ways, new approaches and a new flexibility.

The Inter-American Development Bank itself has reacted promptly to the situation. This is evidenced by, for example:

1. The establishment of the Venezuelan Trust Fund, a most positive and welcome response to the region.

2. The pending admission of a substantial number of nonregional countries.

3. The acquisition of capital in unstable financial markets at costs which permit the Bank to maintain the lowest lending rate among the international development banks.

4. And, finally, the steady expansion of the Bank's loan program and its technical cooperation activities.

We feel that these successes are due in large part to the leadership of Don Antonio and to the competence and professionalism of his staff, a matter of considerable pride to us all.

While the Bank has shown such commendable ability to adapt to change, it is clear that the process must continue and, in some respects, we believe it should be accelerated.

I am thinking in particular of the need to adapt to the situation that has emerged in the current year—a situation wherein for the first time the Bank has a shortage of funds rather than a shortage of projects.

Does this, then indicate a declining role for the Bank? I think not. But I believe that some further change in emphasis of the Bank's programs and activities must take place. I would suggest that careful attention be given to three areas in particular.

First, the Bank should review its resource allocation policies. Specifically, we would welcome some change in the country classification system which so greatly influences the distribution of the Bank's concessional funds. We must, more than ever, ensure that it reflects the changing circumstances of both the richer and poorer member countries if we are to make the most effective use of scarce resources of the Fund for Special Operations.

This could be accomplished if the more developed countries would sacrifice at least a portion of their claims on the concessional fund. We would hope, in addition, that in due course they might follow the example of Venezuela and become contributors to these resources.

Second, the Bank should actively promote greater participation by the international financial community in its loans. I believe that this idea has already been proposed by the President and it would seem that now is a very opportune time to implement it.

The Bank might begin a strong campaign to attract new funds from international capital markets to be used along with Bank funds for sound investments.

I have already found considerable interest in the Canadian financing community in this general principle. I think that it would find wide acceptance in the international community.

A successful program of this nature would increase the Bank's

financing leverage, thus permitting a far larger project pipeline to be financed.

Third, I think the Bank might play a greater role in technical cooperation.

One of the most evident examples of the type of problem which the Bank might help to resolve lies in the apparent limitations on our ability to solve the problems of integrated rural and urban development. As evidence of the Canadian interest in finding solutions in this area we hope that the Habitat Conference in Vancouver in 1976 will play a significant role. We are most pleased in Canada that this United Nations Conference on Urban Settlement will be held in our country. We are even more pleased that this conference will be directed by a distinguished Latin American who is a close friend of this Bank—Enrique Peñalosa.

For all of these reasons, we fully support a more active role by the Bank, a role by which the Bank will not only finance projects but also help to find the solutions to broader problems.

I would also like to draw your attention to a new contribution of \$7.5 million to the Canadian Project Preparation Fund.

This Fund permits the financing of a range of activities from basic studies of development problems to the final design of projects on a grant or contingent reimbursable basis.

I am delighted to learn that it is to be used to fund a study of the transportation sector in our host country: the Dominican Republic. This study will help to design a master plan for the transportation sector to rationalize its development.

I hope I've made it clear to you where we stand. We want to participate with you in your development. We want to put our resources, knowledge and expertise to work in Latin America. We want to enter into joint ventures with you. As I mentioned earlier, we look on our relationship with Latin America as a joint venture.

We want to see the Bank grow in influence and are proud that Canada is a full partner in this effort.

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

Venezuela and the Dominican Republic, both Caribbean countries, have been united throughout history by warm bonds of friendship and mutual interests related to our development. For this reason I am particularly pleased to attend this Meeting in Santo Domingo, a friendly and hospitable land.

In recent years, efforts at achieving international cooperation have encountered obstacles caused by the attitude of the industrialized countries toward transitory problems of liquidity. The much needed realignment of the international monetary system has been left pending and the measures that have been taken domestically have not taken account of the needs of the world community or of world trade. The promises of cooperation by the developed countries have been virtually forgotten and there has been an effort to lay the responsibility on the doorstep of the oil producing countries.

There has been desire to blame these countries for a worldwide situation that, according to Mr. Ortiz Mena, President of the Bank, has been unfolding over the past 15 years and whose principal roots can be traced to the major industrial centers. In the face of the readjustment of oil prices, this attitude must be viewed as resistance on the part of the developed countries to the readjustment in commodity prices which they had hoped to use to break the essential unity between Third World countries. The decrease in raw material prices, and of Third World exports in general, is self-defeating since it will not attain the development objectives being sought.

The oil producing countries have clearly and concretely indicated their willingness to cooperate in an effort to restructure the world economy. The Declaration of Algiers, signed by the Sovereigns and Chiefs of State of the Organization of Petroleum Exporting Countries (OPEC), is a reaffirmation of their decision to use their financial surplus for the development of the Third World and to provide a framework for recycling these surpluses as part of this goal.

The financing of the countries of the Third World should not be considered as a gift, but rather as an effort to strengthen the development potential of these countries. The practice of giving aid that impoverishes recipient countries must come to an end, and must be replaced by a true cooperative effort at eliminating exchange inequities and helping these countries develop their economic potentials.

Both the International Monetary Fund and the World Bank have studied—and in the former case implemented through the use of substan-

tial contributions from the oil exporting countries—methods to alleviate balance of payment difficulties and to provide interest subsidies, thereby giving the most seriously affected countries access to financial resources on non-concessionary terms.

However, these mechanisms can be utilized only to a limited extent in this fiscal year. Therefore, discussions must continue in a search for more far-reaching solutions, at least on a temporary basis, such as those proposed by the Committee of 24 on the application of Special Drawing Rights or the use of the proceeds, from the sale at current market prices, of a portion of the International Monetary Fund's gold holdings.

The aforementioned problems related to the international monetary system, the general objectives of economic recovery, and the establishment of a new international monetary structure can be attacked effectively only if the developed countries assume their responsibilities. A transitory liquidity problem cannot hide the fact that most of the world's wealth and productive potential is located in the industrialized countries. The readjustment of the price of a single scarce and nonreplenishable raw material cannot hide the fact that through the price mechanism all raw materials producers subsidize the high standards of living enjoyed by the industrialized countries.

Contributions by countries whose wealth derives from nonrenewable materials represents a depletion of capital resources, while those made by the industrialized countries represent a redistribution of income. For this reason, it can no longer be maintained that price adjustments are the means by which the industrialized countries can discharge their obligations. All efforts at income redistribution on an international scale would be in vain if the increased volume revenue from higher raw material prices would result in a counterbalancing adjustment in the financing area. Moreover, by increasing the prices of capital and intermediate goods, the developed countries have used their economic power to counteract the transfer of funds which could have been occasioned by the new oil prices.

Due to the foregoing, development efforts have become more and more difficult. Upheavals in the world economy during the past year have brought on an alarming deterioration in the foreign reserve position of the non-oil producing developing countries, a situation which threatens to paralyze urgently needed development efforts. The great majority of the Latin American countries are finding themselves trapped by short-term problems that may turn their attention away from more far-reaching objectives and, in some cases, eventually affect economic viability.

Therefore, top priority must be given to the efforts to devise new financing means for countries of intermediate development, as is the case with the Latin American countries, and to increase the region's participation in the Development Committee and in the creation of the Third Window of the World Bank.

On the other hand, estimates of capital movements used to demonstrate the precariousness of the situation faced by the developed countries are exaggerated. Actually, the oil producing countries have received a much lower volume of resources than had been predicted.

Petroleum exports during the past year were down by six million barrels a day, proof of the wastefulness which had prevailed and of the lack of basis for estimates of revenue flowing to the oil-exporting countries.

Thus, there is no reason to consider that the responsibility of the industrialized countries has diminished in any way. These countries should not try to shun further responsibility; they should agree on establishment of new criteria and financial flows as part of international economic relations. The efforts begun in Paris in March can and must yield positive results. A common attitude of unity and cooperation would be the best guarantee of success.

In this context, Venezuela is pleased to note the possible membership of nonregional countries in the Inter-American Development Bank. The willingness of these countries to allocate funds for Latin American development is a hopeful sign that some industrialized countries are prepared to adopt new policies. The increase in the number of members could also lead to a reinforcement of the multilateral nature of the Bank through the power of voting.

In spite of the fact that it is almost five years since the first steps were taken toward an agreement on the membership of nonregional countries in our Bank, and despite desires to limit the conditions under which these countries may enter the Bank, it is only proper to recognize how this situation contrasts with the relationship that prevailed between the Bank and some of the nonregional countries seven years ago, when resolutions were adopted whose aim was to limit the use of resources in countries which refused to allow the Bank to float securities and bonds on their markets.

It is essential to examine carefully some of the conditions established to facilitate entry of nonregional countries into the Bank. The expansion of Bank resources should not be subject to conditions relating to decision-making mechanisms and development objectives. A sum of money, clearly very little in terms of the economic strength of the nonregional countries, must not be allowed to serve as pretext for embracing guidelines that recall outdated alignments.

Although an artificial mechanism, the concept of inter-regional capital is an acceptable formula which overcomes limitations first established in borrowing contracts granted by the Bank on the basis of the first United States bond issue.

It is of concern, however, that the new conditions might emphasize one of the Bank's most obvious defects. Several member countries, including Venezuela, have pointed out repeatedly that the possibility of a

veto effects the very nature of our Bank. By retaining the possibility of a veto in the constitution of the quorum for the meetings of the Board of Governors and the Board of Executive Directors, the decision-making capacity, as well as the deliberating capacity of the majority of the member countries, is affected.

We are convinced that the foregoing problems can be surmounted in such a way that the entry of nonregional countries into the Bank can become a true act of international cooperation and fears that their participation in regional organizations might impede the establishment of regional development policies can be dismissed.

The amendment to the Agreement Establishing the Bank providing for the entry of nonregional countries should serve as occasion for an overall revision of this instrument, so that it can be adapted to the region's new realities.

In reforming the Agreement Establishing the Bank, an attempt should be made to resolve all the problems which have restricted the expansion of the export financing program, and the technical problems that have absorbed a large part of the collective talent found in the Inter-American Development Bank, should be put aside.

Acceptable formulas have not yet been found that would allow the Bank to obtain additional funds to provide concessionary loans. Although efforts have been made in this direction, conditions have not as yet been found which would permit the wealthier countries, and eventually the nonregional countries, to contribute funds for this purpose, unhampered by the present limitations of the Fund for Special Operations. In this case, it will also be necessary to totally redefine the problem.

For us it is of the greatest importance that formulas be found which will permit the use of the Fund for Special Operations under less restrictive conditions than at present. Within our legal framework and the structure of relationships between the Executive and Legislative powers, our contributions of soft funds through this Fund may be a more viable solution.

Venezuela is especially pleased by the entry into the Bank of new regional members. By extending its field of activities, the Bank also strengthens its regional character and, through the entry of Caribbean countries, helps integrate this area into the Latin American Continent. This appears particularly important in view of the fact that, for historical reasons, some of the Caribbean countries have held themselves aloof from the rest of the region. The integration of these countries among themselves, as well as with the other countries of this region must be stimulated and promoted by the Bank, as they are an essential component of a much needed Latin American unity. Bank involvement in the Caribbean first began with the entry of member countries of the Organization of American States (OAS) and, in accordance with resolutions

approved at the Fifteenth Annual Meeting of the Board of Governors, would be broadened through the extension of lines of credit to the Caribbean Development Bank. Venezuela considers it necessary to find mechanisms of collaboration with the Caribbean Development Bank that are entirely independent of the territorial-political status of some of its members, since the development of any part of Latin America is a step toward self-determination of the region's destiny.

It is necessary to design and implement new formulas of cooperation and integration which profit from the economic potential of the region and which have a sufficient degree of flexibility to adapt to the needs of different groups of countries. Associations of producers and multinational firms, among others, are formulas which go hand in hand with efforts already underway and which require particular attention.

At the beginning of this year, the Venezuelan Investment Fund established a Trust Fund administered by the Inter-American Development Bank whose basic objective is to finance development projects and programs which tend to promote and strengthen Latin American integration, export possibilities, the position of the relatively less developed countries and, in particular, the exploitation of natural resources in the interests of the producing countries. Operations and areas of financing of this Fund are slated to include activities never before undertaken by the Inter-American Development Bank. It is our firm belief that the Bank will carry out these new tasks effectively and will demonstrate its capacity to adapt to new institutional operations and forms created by the region's development needs.

The thoughts expressed by the Bank's President and by the other Governors who addressed this Meeting before me on this Fund and on other actions of financial cooperation taken by my country are our greatest reward for what we consider a compelling demonstration of Latin American solidarity.

These actions reflect a policy inspired by the commitment of Venezuela and other member countries of the United Nations to establish a new international economic order. We believe that the effectiveness of this unified effort will depend on the actions taken by each country to give impetus to its individual development process and that international agencies such as the Inter-American Development Bank will be able to adapt to the new objectives proposed by the world community as well as to the new operational mechanisms required to attain these goals.

The resources needed for development tasks grow greater each passing day. The strengthening of our Bank, which during its 15 years of existence has demonstrated its experience, efficiency and dedication to serve mankind, thus becomes an urgent task. Those who undertake it must continuously bear in mind that this is a Bank for Latin America's development—development as understood by Latin Americans.

**Report of the Chairman
of the Committee of the
Board of Governors
appointed pursuant to Resolution AG-5/70**

THIRD PLENARY SESSION

May 21, 1975

Report of the Chairman of the Committee of the Board of Governors

Once again I wish to express my thanks for the opportunity to report to the Governors on the results of the work entrusted to the Committee of the Board of Governors.

In order to make a pronouncement on the matters referred to it, the Committee held four working sessions, starting Saturday, May 17, and reached the decisions that we are now submitting for your consideration.

Measures to Facilitate the Entry of Nonregional Countries

At its meeting last Saturday, the Committee noted with satisfaction the report by the President of the Bank on the negotiations with the nonregional countries that led to the signing of the Declaration of Madrid and the submission to the member countries of the measures recommended to facilitate the entry of these countries as members of the Bank.

The Committee felt that the conditions proposed for the entry of the nonregional countries were adequate and therefore considered it would be appropriate for the Board of Governors to issue a recommendation to the member countries that they take the necessary steps to approve and ratify the resolutions submitted to them by the President of the Bank last March 18th. The Committee also felt that it would be appropriate to recommend to those nonregional countries that signed the Declaration of Madrid that they accept the Agreement Establishing the Bank in its amended form. Concerning the nonregional countries that did not sign the Declaration, the hope was expressed that they would join the Bank within the period established for the purpose in the proposals presented to the member governments.

This position of the Governors of the Bank was reflected in a proposed resolution included in Document AB-442 and submitted for approval.

Lending to the Caribbean Development Bank

As requested by the Board of Governors at the Preliminary Session, the Committee considered the status of the proposed amendments to the Agreement Establishing the Bank empowering it to lend to the Caribbean Development Bank.

The Committee agreed that it was appropriate to recommend that the member countries accept and ratify the proposal of the Board of Executive Directors contained in Document AB-409 and for this purpose proposes that the Board of Governors adopt the proposed resolution appearing in Document AB-418-2.

I should like to point out that the Governor for Guatemala stated that his government is against having resources of the Bank channeled through the Caribbean Development Bank to territories over which there is a claim or litigation on the part of any member country, because it believes this would fail to recognize the firm obligation of nonregional colonial powers to help promote the economic and social development of those territories. The Delegation of Argentina stated that it supported the Guatemalan position. The Secretariat will note the position of the Governor for Guatemala in the summary of the meeting of the Committee.

Supplementary Financing for Cost Escalation

The Committee considered the proposal presented by the Governors for Bolivia, Paraguay and Uruguay to the effect that the Board of Executive Directors be asked to consider the possibility, under the policy of preferential treatment for economically less developed countries and countries of insufficient market, of granting supplementary financing if an increase occurs in the cost of a project not attributable to the borrower.

The Management reported that the Board of Executive Directors had taken steps to meet situations such as those contemplated in the proposal of these countries, and it was therefore agreed that the Committee would transmit the proposal to the Board of Executive Directors together with the comments made in the Committee, so that they could be taken into account in considering the policy to be adopted in this regard for all countries, independently of the preferential treatment already being granted to some of them.

Institute for Latin American Integration: Future Status of the Institute

The Committee considered the proposals submitted by the Governor for Argentina concerning the future status of the Institute for Latin American Integration, referred to in Document AB-427.

The Committee was informed that, pursuant to Resolution DE-72/72 establishing the manner in which the activities of the Institute are to be financed from 1973 to 1978, inclusive, the Board of Executive Directors was conducting a study on the future arrangement that would be appropriate for the Institute. The Committee therefore believed that the Board of Executive Directors should continue examining this matter, taking into consideration the proposal submitted by the Governor for Argentina as well as the other observations made during the discussion of the subject.

The Secretariat will include a detailed record of the statements made in the summary of the meeting of the Committee.

Regulations for the Election of Executive Directors: Proposal for Increasing the Number of Executive Directors

In accordance with the decision made by the Board of Governors at the plenary session on May 20, the Committee received the proposal of the Governor for Trinidad and Tobago to increase the number of Executive Directors elected by the Latin American member countries (Document AB-415-1 Rev.).

The Committee expressed its agreement with the proposal of the Governor for Trinidad and Tobago that this matter be kept open for consideration so that the member countries could be consulted as to the appropriateness of adopting the proposed measure and how it would be implemented.

Criteria for Differentiating among Countries in the Use of the Resources of the Fund for Special Operations

The Committee considered the proposal of the Governor for Costa Rica contained in Document AB-421 that the Management define the interpretation and application of Resolution AG-11/72 which established new policy guidelines and preferential treatment for economically less developed countries and countries of insufficient market in lending with resources from the Fund for Special Operations.

Taking into account the observations made during the discussion of the matter, the Committee recommends that the Board of Governors request the Board of Executive Directors to examine and adopt criteria for differentiating among borrower countries in the use of the resources of the Fund for Special Operations. Since either the Board of Governors or the Committee may meet in Washington in September on the occasion of the annual meetings of the International Monetary Fund and the World Bank, the Committee proposes that the Board of Executive Directors submit a report not later than September 1, 1975 on the measures it may have taken. In the summary of the meeting of the Committee, the Secretariat will include a record of the observations made by the Governors at the time this matter was considered. Document AB-448 contains the proposed resolution that the Committee recommends to the Board of Governors for its approval to implement this decision.

Status of the Bank's Resources

As directed by the Board of Governors at the Preliminary Session, the Committee considered the Bank's requirements for funds for 1976 through 1978, both for ordinary capital and the Fund for Special Operations, bearing in mind the estimates prepared by the Management and those of The Representative of the United States as to the possible

contributions from his country. There was agreement that replenishment of resources is of fundamental importance to the Bank and it is therefore urgent to reach agreement on such replenishment in order to avoid any interruption in the Bank's activities in support of the economic and social development of the region.

In view of the foregoing, the Committee recommends that a working group be established to study the status of the resources of the Bank and submit recommendations on measures to be taken. The group would submit a report to the Board of Governors not later than September 1, 1975, so that a decision can be made on this matter at a meeting of the Committee or Board of Governors held in Washington not later than next September. For this purpose, the Committee recommends that the Board of Governors approve the proposed resolution appearing in document AB-450.

Expansion of the Export Financing Program

The Committee took note of the documentation submitted to it by the Board of Executive Directors in compliance with the request received from the Board of Governors at the Santiago meeting. This documentation consists of a study of the measures that have to be taken in order to have the program include the financing of other goods that are not capital goods, as well as exports destined to places outside of the region. The Committee also considered the legal study prepared for the purpose of determining whether the Agreement allows the Bank to cooperate in the financing of exports such as those I have just mentioned. It also had before it Document CA-85 containing a proposal of the Delegation of Argentina on this matter. When this subject was considered the consensus of the developing member countries was that in view of the importance of this program for the region, action should be taken to reflect the political decision to make some headway in expanding the program. It was therefore agreed that the export financing program should be expanded to include not only capital goods but also manufactures, semimanufactures and other exports of a non-traditional character, that contribute to production increases in the exporting as well as importing country. August 31, 1975 was established as the deadline for the Board of Executive Directors to take such measures as necessary for implementing this recommendation. It was also agreed to request the Board of Executive Directors to complete the study of all the matters raised in Resolution AG-5/74 and adopt or propose appropriate measures to the Governors no later than October 31, 1975.

With this in mind, the Committee recommends that the Board approve the pertinent proposed resolution.

Rules of Procedure of the Committee

In compliance with Resolution AG-4/74, extending indefinitely and expanding its mandate, the Committee studied the proposed rules of procedure presented by the Board of Executive Directors containing provisions relating to its operations, except on the Committee's composition. The Committee felt that it would be appropriate to obtain a pronouncement from the full Board of Governors on this matter.

At the Preliminary Session, the Board of Governors issued a pronouncement in favor of maintaining the procedure that has been used up to now to make up the Committee, as stated in Resolution AG-5/70.

At the meeting on May 20, the Committee approved the proposal recommended by the Board of Executive Directors and appearing in Document CA-63-1.

ADDRESSES

FOURTH PLENARY SESSION

May 21, 1975

**Address by Mr. Horst Moltrecht,
Observer for the Federal Republic of Germany
and Deputy Assistant Secretary
and Minister of Economic Cooperation
on behalf of the Signers of the Declaration of Madrid**

It is a great pleasure and a particular honor for me to speak to you here on behalf of the nonregional countries which are about to become members of the Inter-American Development Bank.

First of all, let me express my sincere thanks to the Government of the Dominican Republic for its kind hospitality. I should also like to thank the President and all his associates who organized this meeting in such an excellent and efficient way.

With your permission, Mr. Chairman, I should like to report briefly on the concluding steps which have been taken in order to finalize our negotiations.

As you know, on December 17, 1974, the Declaration of Madrid was signed. The representatives of the nonregional countries announced their intention to seek from their appropriate executive and legislative bodies the necessary authority to become members of the Inter-American Development Bank and make available to it and to the Fund for Special Operations a total of \$745 million. The documents relating to the admission of the nonregional countries were subsequently examined in detail by the Board of Directors of the Bank and a number of remaining issues were resolved at a further meeting of representatives of nonregional countries and of the Bank in Washington on February 25, 1975. As a result, the Board of Directors was able to approve all necessary documents which are now being submitted for final decision to the competent authorities of the regional as well as nonregional countries.

That it was possible to achieve this positive result after prolonged and sometimes difficult negotiations is in large measure due to the President of the Bank and his staff members. They deserve our gratitude and our respect for their patience and their efficiency.

Our success in concluding these negotiations also is in itself evidence of the determination of the nonregional countries to make contributions towards solving the economic and social problems facing the world today. They are aware of the growing gap between the rich and poor nations and their increasing interdependence. They know that the conflicts threatening this world can only be solved by working in partnership, by balancing interests, by recognizing joint responsibility and by practicing worldwide solidarity. This realization has caused the nonregional countries to hold

firm to their intention of becoming members, although in most of them the economic situation has considerably deteriorated in the last year and the prospects for the future are not exactly bright. It is an encouraging sign, and proof of this will for partnership, that the signatories to the Declaration include a number of countries which themselves are not among the economically advanced nations of the world.

This constructive spirit may be taken as an example showing that in a world in which confrontation seems to be growing, cooperation is still possible.

Many developing countries in the world have in recent years been very seriously affected by natural disasters, by worldwide inflation and by the enormous increase in the price of oil. The consequences of these events as well as the growing discontent with the economic inequality existing among nations today are causing us deep concern. The tension that has sprung up in the world is partly reflected in the international discussion on development policy. We see a succession of escalating demands and resolutions in international organizations.

Since last year we have been discussing the call for a new international economic order. I can assure you that the governments of the nonregional countries will contribute to reduce the economic and social imbalance in the world, and to strive for equitable partnership between industrial and developing countries. We want a fair compromise of interests, and a worldwide solidarity bringing more benefits to the weaker nations.

We cannot overlook the present inequality in the distribution of wealth among nations and their unequal share in economic activities. Twelve industrial countries of the East and the West account for more than three-quarters of GNP, capital goods, energy and exports of the world. For example, investments on research and development which are the indispensable investments in our future and the future of our children are nearly totally concentrated in 12 industrialized countries.

What can be done to change this unsatisfactory situation? In my view, confrontation cannot force industrialized countries to accept solutions which are controversial to their interests. Experience has already shown that developing countries are suffering even more in such a process of confrontation. It cannot be expected that the economic systems existing today, neither that of the Western market economies nor that of the socialist countries, can be changed by passing resolutions with a majority vote.

Instead, we have to work for mutually acceptable solutions which take everybody's interest and, in this context in particular, the needs of the developing countries into consideration.

The nonregional countries are willing to join the Bank in such a spirit of cooperation with the Bank and its regional member countries. We have

been impressed by the successful role it has been playing in Latin America as a regional institution. We expect that it will retain its regional, distinct inter-American character. But we hope to give added strength to the Bank by intensifying, through it, the traditional ties of friendship and cooperation existing between us and Latin America. We are certain that our cooperation with the Bank will have particularly fruitful results, for here is a region which has at its disposal the material and intellectual resources for bringing about rapid economic growth and greater social justice. We, the nonregional countries, shall do all we can to contribute, through continuing and active cooperation in the Bank, to the economic and social progress in Latin America.

**Address by Mr. Nicolás Ardito Barletta,*
Governor for Panama
and Minister of Planning and Economic Policy**

We wish to associate Panama with all the other delegations in offering warm greetings and profound appreciation to the people of the Dominican Republic for their magnificent hospitality. Our bonds with the Dominican Republic are based on the geography of the Caribbean and the history of our two peoples since the earliest times when we were the vital links for the trade of the region with Spain and the European world. Here, we feel at home and are grateful for Caribbean cordiality, at the same time that we admire the efforts being made by the people to achieve integral development.

Those who spoke before me dealt clearly and eloquently with most of the items of vital importance to IDB given the present economic situation of Latin America and the world. We shall therefore not go into matters already discussed, but shall express our support for the proposals we endorse and outline certain other ideas or different approaches which will help to guide the work of our regional bank for the next year. We shall also take this opportunity to refer briefly to a few questions of particular interest to Panama.

Bank Activities in 1974

Certain outstanding features of the Bank's activity in 1974 deserve to be mentioned once again as highly significant achievements:

1. The volume of authorized loans reached \$1.111 billion and disbursements reached \$670 million;
2. The Venezuelan Trust Fund was established with substantial resources;
3. The formula to widen the participation of 12 nonregional countries in the Bank's capital resources was brought into being.
4. The program of technical cooperation was expanded;
5. A greater share in loans went to the economically less developed countries and those with limited markets, and an increased share of lending went to such sectors as agricultural production and rural development, education and expansion of energy resources;
6. All of this was accomplished with a real increase of only 4 per cent in administrative costs.

For all of this the President of the Bank, Mr. Antonio Ortiz Mena, and the entire staff deserve our heartfelt appreciation. The institution has

* Read by Mr. Eduardo McCullough, Temporary Alternate Governor for Panama.

opened new channels of activity with diligence and imagination, while steadily strengthening the more traditional operations, which indicates that it can and should continue to expand its cooperation services in the region in a changing world situation.

Report on Panama

I should like to report to this Meeting on an initiative discussed in the Meeting of the Board of Governors of the Central Banks of Latin America held in Panama City last week. I refer to the financing of Latin American exports to the rest of the world and intraregionally, a question amply discussed in the working groups of this Meeting of the IDB and for which the Bank has provided technical cooperation which is being implemented by the LAFTA Secretariat.

At that meeting, Panama raised the question of the need for a comprehensive, in-depth study of the technical, operational and financial feasibility of establishing a Latin America fund which would serve as a basis for creating an acceptances market. Such a mechanism, which could be funded from many different sources, would help to create and sustain an acceptances market for the financing of Latin American exports and could offer special guarantees to banks acquiring those acceptances.

The fund established by the Latin American countries would be the instrument for placing acceptances of a value many times higher than the capital of the fund and with greater facility for marketing than would be feasible without the guarantees of repurchase and meeting of obligations which it would offer. It is not difficult to envisage the operation of an initial fund of \$200 million generating an acceptances market of over \$1.5 billion in its initial stage of operation.

The acceptances market would finance traditional and nontraditional Latin American exports to the rest of the world and intraregionally and would tend to establish short- and medium-term financing terms in accordance with the requirements of the acceptances being negotiated.

The Meeting of the Board of Governors of the Central Banks responded favorably to the Panamanian proposal and recommended that CEMLA, jointly with Panama, continue to study it in depth, taking into account the various operational options for setting it in motion, so that it could submit a progress report to the next meeting of the Board of Governors of the Central Banks, to be held at the end of August.

I should like to add that many of the branches of big international banks located in Panama and engaged in substantial regional business there have expressed a great deal of interest in the proposal and think that they would be in a position to participate in carrying it out. We regard their views as important because Panama's regional banking system already has 70 banks of sound international reputation and \$6 billion in deposits.

In presenting this report on the meeting of the Board of Governors of the Central Banks of Latin America, we hope to offer new insights and suggest entirely practicable new opportunities with regard to the financing of exports by establishing Latin American mechanisms, since the question has aroused so much interest in the discussions of the working groups of this Meeting. We do not believe that our proposal replaces what is being considered. Rather it supplements it by opening up new opportunities. Latin America needs various sources of support to finance its exports.

For its part, Panama is coping with the economic difficulties we all face by vigorous measures designed to launch 12 large-scale infrastructure and production projects valued at over \$1 billion which will enable us to increase and diversify exports of goods and services for the next ten years by more fully exploiting the resource of our geographical position, our natural resources and our agricultural potential. They include, among others, transportation projects like the trans-isthmus oil pipeline, the new international airport, the container port and expansion of the free trade and industry zone, as well as the exploitation of copper resources, a fishing port, sugar production and hydroelectric projects. Moreover, the Panamanian revolution is going forward and making the necessary reforms so that the marginal population will be integrated in the development process and the benefits of growth will be better distributed.

I cite this example of a national response to a difficult international situation because, by increasing growth efforts, promoting exports and distributing the benefits of development, a nation tends to put strong pressure on its balance of payments and its fiscal situation. Fortunately, in the case of Panama, the production projects I mentioned will begin to generate additional foreign exchange beginning in 1978 and from then on will enable us steadily to strengthen our balance of payments and our growth rate.

But countries like ours, which are five or ten years from final economic takeoff, must be helped with financing on reasonable terms and with a sufficient percentage of contributions from international agencies to the projects being financed so that they can meet their goals within the expected deadlines. I should therefore like to stress the dynamic nature of a reasonably brief period of five or ten years, in which some of our countries can finish consolidating growth and distribution opportunities which would place them at another level of self-management.

Future Needs of Latin America

A couple of years ago we had a clear consensus on external cooperation needs for the long-term development of Latin America in the fields of financing, trade and the transfer of technology. All the projections, based on different methodologies, indicated growing needs for financing and the transfer of technology, as well as the importance of broader intrazonal and

inter-regional trade, supplemented by the efforts of each country to promote its exports. These growing needs were evident for the whole of the next decade before it would be possible to reduce external cooperation as we attained, through our own efforts, the degree of self-sufficiency we would need to pursue the task into the following decade.

For five years the region had achieved sustained dynamic growth; exports were increasing at a very rapid pace and world prices continued to be favorable; there was a growing inflow of external financing, although it was not enough, and we were able to secure access to world capital markets on favorable terms. We still had not found satisfactory formulas and mechanisms for the transfer of technology or solutions which satisfied everybody for dealing with foreign investment and the multinational corporations, but at least, as regards the items before this Meeting, there was a steady improvement in handling external debts, the repayment terms were increasing on the average worldwide and there was an improvement in debt/budget and debt/export ratios.

We still had much to learn about distributing the benefits of development to the whole of our populations and assimilating large marginal groups within the development process, but in many areas we were making increasing efforts to distribute those benefits, aware as we were of the challenge to our humaneness and sense of justice posed by marginality and poverty, a challenge which had to be met without further delay.

In 1973 Latin America obtained authorizations for external financing from official sources amounting to \$2.916 billion, loans in Eurodollars amounting to \$3.646 billion, and foreign investment and commercial credit from the United States amounting to \$559 million.

However, in 1975, we find ourselves in an economic situation in which the entire panorama has changed and everything we have achieved by sustained effort over the past 15 years is jeopardized.

Although the volume of financing from official sources for the region remained constant when it reached \$2.963 billion in 1974, it has had less impact in real terms because of inflation. Operations on the Eurodollar market have increased, but more in order to cover balance of payments deficits than for development investment, and the repayment periods for this type of debt have been radically shortened.

Except for the oil-exporting countries, there has been a dramatic erosion in international balances of payments in so short a time because of unfavorable changes in the terms of trade, with a rise in the prices of what we import and a drop in the prices of most of what we export.

What would have been a surplus of \$2.973 billion in current accounts and capital of the nonoil-producing countries of Latin America in 1973, became a deficit of \$804 million in 1974 and is likely to be even higher in 1975.

If we do not act now, we may be on the brink of the same situation which prevailed in the region towards the end of the 1950s, when short-

term international debts were engulfing many of our economies, the terms of trade were unfavorable to Latin America's foreign trade, growth rates were low, fiscal capacity to cope with investment needs was insufficient and very little external financing on reasonable terms was available.

Of course, the analogy is not and cannot be total. Today, Latin America is a much more developed and economically viable region than it was in 1958. It has a capacity for action which it did not have earlier. There is financing available. But the 15-year effort to improve the situation and the repayment periods for external debts—to strengthen balance of payments, increase and diversify exports and stabilize trade and prices of raw materials—may deteriorate sharply in the next two years for the nonoil-exporting countries of the region unless they pay the price of sacrificing growth, new jobs and distribution of the benefits of growth in order to stabilize their external sectors, which is also virtually impossible to accept at the political and social level.

The situation is difficult for the nonoil-exporting countries of the region. Most recent analyses show that the economic crisis of 1973 and 1974, sustained by world inflation and recession in the industrialized countries and exacerbated by the rise in oil prices and massive transfers of consumer financial resources to oil exporters, is tending to resolve itself by the recycling of funds towards traditional capital markets and by trade between the industrialized countries and the oil exporters.

The increase in the income of the oil countries is generating a very substantial demand for goods produced in the industrialized countries, thus helping the latter to solve their balance of payments problems in the medium term through additional exports. But in the nonoil-exporting developing countries, which includes most of Latin America, the readjustment necessary to regain the advantages we are losing because of the deterioration in the terms of trade is not happening as quickly.

As a result, we may lose much of the ground so arduously gained since 1958, *if there is no improvement in our terms of trade and conditions of available financing* for development. Our long-term needs in international trade, financing and technology, which were known two years ago, are still valid, but now they are intensified by these sharp distortions in international trade and in the money markets.

This is not the place to expound the ideas put forward as solutions of the present crisis, as, for example, the special fund established within the International Monetary Fund, or regional arrangements like the agreement between Venezuela and the Central American countries, which are helping to soften the impact of the crisis. Suffice it to say that they do not seem to be sufficient to meet the needs of Latin America and that, as has been said in other forums, we might explore the possibility of establishing a collective security net for the region similar to that recently set up by the OECD countries. The Bank can be one of the institutions helping to explore that idea.

While we fully appreciate the implications of this situation, we feel that the idea under study by the Development Committee to create a third window which would offer additional financing only to the poor countries of Africa and Asia is incomplete. To ignore the real problem of a possible setback in the real achievements of most Latin American countries over 15 years is to put off the time when this region can contribute more fully to the growth and economic and social stability of the world, and even help other countries of the third world, as Europe is doing now.

Otherwise, on the medium range, we will have a situation where the industrialized countries have solved their problem through trade, the oil-exporting countries have solved theirs by increasing their real income, the poorest are being helped in a wholly exceptional way by the third window and those in the middle, hopeful but powerless, remain alone with their traditional formulas, losing ground in their long-standing development efforts.

Contribution of the Bank

This is not the place to discuss the efforts which we can and should make to strengthen our international trade, given the present situation. I merely wish to point out that, in addition to efforts to stabilize markets and prices of raw materials, we must, even more urgently than before, promote and diversify nontraditional exports and increase intrazonal trade in those goods to try to place each country's balance of payments on a sounder basis in the next ten years.

We should approach consideration of the agenda of this Meeting of the Bank in the light of these considerations.

1. We must, as soon as possible, bring about an increase in the ordinary and special resources of the Bank, since the financing of the Bank is one of the greatest sources for improving the debt structure of the member countries.
2. We must implement the idea put forward in past years by President Ortiz Mena that the Bank should act as an intermediary in obtaining additional financing for the Latin American countries in the capital markets either with mixed funds for specific projects or by partial guarantees enabling countries to obtain more favorable terms in world capital markets; that the Bank should increase resources obtained from private markets in order to make loans at commercial interest but on more reasonable terms and other intermediate formulas.
3. We attribute great importance, in particular, to the approaches being made by the President of the Bank to the Arab countries with a view to working out formulas for investing funds of those countries in Latin America through the Bank.
4. The region requires more emphasis than ever on the financing of exportable commodity projects to increase and diversify its exports.
5. There should be an increase in the financing of preinvestment funds,

since past experience shows that good projects always find adequate sources of financing.

6. It might be a good temporary measure for loans granted in the next few years to non-oil-exporting countries to cover a greater proportion of local costs so as to help solve the balance of payments problem in the medium term.
7. We also envisage the possibility of the IDB assisting in the formation of Latin American international corporations as a significant and pragmatic step towards integration.

Other Bank Initiatives

We should also like to commend the Bank's initiative in channeling a substantial volume of financial aid to regional agricultural technology centers in order to increase their capacity to serve the growing needs of the region, and we would encourage it to continue and expand this activity. In addition, we regard the establishment of the Consultant Group for Investment and Food Production in Latin America as an initiative showing great vision. It is to be hoped that it will prove a flexible instrument for the coordination and orientation of the various programs and mechanisms in this field.

We would also be happy to see the IDB support multinational schemes which would bring about a massive increase in the production of fertilizers at more reasonable prices, so that the region could enjoy a real comparative advantage as regards food exports and a high enough level of productivity to provide cheap food for the marginal groups.

We should like to request the Bank to continue its studies and action to develop more efficient machinery for distributing the benefits of development to the whole population of each country. Commendable progress has been made in expanding operations in the fields of education, sanitation, urban development, integrated rural development, support of cooperatives, etc. But action by itself is not enough. More comprehensive studies have to be made of the problem which will shed new light on new methods of financing to be used by the Bank and new policy instruments to be used by countries.

Once again we should like to congratulate the President of the Bank and his staff for outstanding work in 1974 and encourage them to redouble their efforts next year, for the Bank is one of the institutions best suited to helping Latin America to emerge from a very difficult situation and resume its forward progress.

With the entry of 12 such important countries in the Bank, we have created a world forum focused on the development of Latin America which did not exist in such a comprehensive form before. We therefore believe that the Bank must strengthen and expand its services to member countries so that the achievements of 15 years of sustained effort will not be lost or weakened in this transitional period.

**Address by Mr. Roberto Keil Rojas,
Alternate Governor for Peru
and Director of the Ministry of Economy and Finance**

On behalf of Brig. Gen. Amilcar Vargas Gavilano, Governor for Peru, I am most pleased to represent the Revolutionary Government of Peru at this Sixteenth Annual Meeting of the Board of Governors.

I join the previous speakers in conveying my warmest greetings to the Government and people of the Dominican Republic. In times such as these, the epic journey of Columbus 482 years ago, ever-present in the minds of those who tread American soil, invokes the glories of an unforgettable past and stimulates us in the New World to give other lands the example of complete, workable harmony between true liberal humanism and an equally true feeling for social justice.

The hospitality we have enjoyed since we first arrived on this beautiful island merits our special appreciation to the officials of the host country, whom we congratulate on the great success of this important event.

Activities of the Bank in 1974

In the words of the Annual Report, 1974 was "a year of decisive achievement" in the annals of the Bank's history. The address by President Ortiz Mena to this Meeting of the Board of Governors bears out that statement and demonstrates precisely his success in building up and sustaining a rapid pace of operations, an achievement that justifies the confidence shown in him when he was appointed.

As regards financing, the volume of lending and disbursements reached record figures; the preliminary terms and conditions were established for the entry of nonregional countries; the Venezuelan Trust Fund was set up with an amount of \$100 million annually for a period of five years, and a significant volume of funds was mobilized in public and private capital markets within and outside the region.

In operations, we have been informed regarding efforts to achieve a better proportional distribution of the loan portfolio; intensification of technical cooperation with emphasis on the less developed countries of the region; the execution of an important training program in virtually all member countries; the creation of a fund for immediate action in emergency situations; the decision on exceptions to the rules for the system of international public bidding; the authorization given the Fund for Special Operations to make exceptions to the rules on financing shipping of goods on vessels of nonmember countries of the Bank, and the authorization to adjust the first four repayment installments in cases

where disbursements in dollar equivalents of those installments are greater than they would have been if the disbursement had been made in dollars. The new system of charging commitment fees (now called loan commissions) is not altogether what was called for at previous meetings of the Board; however, because it is experimental, its effectiveness can be better evaluated in 1976.

In administrative matters, outstanding achievements include the adoption of measures for improving the Bank's organization and the application of operating policy recommendations suggested by the Group of Controllers, which is a dependency of the Board of Executive Directors.

In other areas, the Board of Executive Directors carried out its mandate to prepare the necessary amendments to provide for the admission of the Bahamas and Guyana to membership in the Bank. Peru is pleased to have been able to secure speedy legislative action, which enabled my country to vote in favor of those admissions. It is to be hoped that they will be finalized soon as, no doubt, will Grenada's application.

Outstanding Business

On the other side of the coin, that of outstanding tasks, once again—though it begins to sound repetitious—we must make note of the disappointment caused by the reluctance of the largest subscriber to fulfill its commitment to increase its participation in the Fund for Special Operations. To quote your own observation, Mr. President, from a well-remembered address, “this procedure creates uncertainties and makes it impossible for the international agencies and the member countries to formulate the necessary programs to bring about a rational distribution of available resources. This attitude on the part of the industrialized countries, notably the United States, brings about a distorted image of the role of the international agencies.” We must wait to see whether in 1976 the United States Congress makes good on the word its country gave in 1969.

The proposed amendment to the Agreement Establishing the Bank, providing for the admission of nonregional countries, involves certain procedural considerations that have not yet been worked out. The creation of “inter-regional capital” entails modifications in the election of Executive Directors, in the rules for the admission of other countries, in the requirements for capital expansion and, above all, in the percentages of future participations of member countries in the Bank's capital, none of which can be done blindly. We should make it clear that Peru not only does not oppose the entry of nonregional countries into the Bank, but in fact supports it. The participation of industrialized nations in the Inter-American Bank should be considered a positive factor for the financing of the region. But we should also make it equally clear at this time that

this entry, if approved without prior debate of the above aspects, can lead Latin America to assume that it has definitely lost a decisive voice in the region's only financial organization. To prevent this, we need a formal decision from the Board of Governors covering every term and condition needing to be amended in the present Agreement Establishing the Bank. Peru shares the opinion of those who feel that the matter should not be settled by correspondence, but by a resolution adopted at a special meeting.

In operations, some of the specific requests made by the Board to the Executive Directors have not yet been acted upon. We wish to refer especially to the export financing program, which was the subject of Resolution AG-5/74, approved in Santiago April 3, 1974. That resolution requested the Board of Executive Directors to report to the Committee of the Board of Governors "no later than September 30, 1974," on additional measures for the export financing program and on the question of whether their implementation might involve amending the Agreement Establishing the Bank.

We find on this matter that the Sixteenth Annual Meeting has before it for consideration "different alternatives that could be adopted, depending on the decision reached on this point to amend or interpret the Agreement Establishing the Bank," without it involving "any decision by the Board of Executive Directors." This does not seem to us the best way to comply with a specific charge from the Governors, since it shows little enthusiasm for arriving quickly at decisions on export financing. Clearly, it is absolutely unnecessary at this juncture to explain the great importance of nontraditional exports in regional development planning. At a time when the costs of raw materials and imported manufactures are changing constantly, within a climate of world recession, anything that contributes to a growth in exports of the member countries must merit priority treatment by the Bank. This is a subject much debated in previous meetings of the Board of Governors, and the Bank is perfectly aware of the various facets of the problem. For this reason it is regrettable that there now seems to be a kind of throwing back of responsibility, a delaying process that could later become the rationale for having to make new studies. It is precisely this kind of delay that contributes unjustly to distortion of the Bank's image in the eyes of our peoples. Let us hope that a formal decision on this matter can be reached in 1975.

We could make a similar comment about the absence of a decision by the Board of Executive Directors on the study it was requested to carry out on financing program loans.

Another important mission entrusted to the Board of Executive Directors, contained in Resolution AG-7/74, was the study of the possibility of expanding the Bank's resources by increasing its ordinary capital and the Fund for Special Operations. The document presented to the

consideration of this Meeting of the Board of Governors contains, as we understand it, an adequate evaluation of the Bank's needs for additional resources and an analysis of the level of contributions that the member countries could be called upon to make, with special emphasis on soft funds. Peru would like to place on the record its willingness to contribute to the increases that are agreed to by this Meeting of the Board of Governors and indeed reiterates its desire to increase its present percentage to put it in line with those of other member countries in analogous positions, provided that increase is acceptable under the pertinent procedures of the Agreement Establishing the Bank.

Venezuela's special situation, of which we are all aware, has allowed it to become an active participant in the programs to attract capital and to float bond issues not secured exclusively by the callable capital of the principal subscriber. As we have stated on previous occasions, we are concerned over the short-term financial outlook of the Bank. We hope that soon countries within the region that are in a position to do so—as well as nonregional countries—will contribute to the ordinary capital resources as well as to the Fund for Special Operations.

In operations, we have noted the special severity with which contracts are being cancelled upon the expiration of the deadline agreed upon for the last disbursement. The difficulties in obtaining enough financial resources justifies the establishment of realistic priorities whereby loans are awarded to those best able to show efficient utilization in a given time period; this is the one way to encourage speedy project execution. Although there is nothing objectionable in this worthy proposal, it should be noted that, on the other side of the coin, there are the criteria of project evaluation and the requirements for disbursements. In countries such as ours, to use the rate of economic return as an excluding factor in awarding a loan, or the expiration of a time limit as sufficient reason to deny the extension of a contract, is to act in ignorance of the irrefutable reality of everyday practices. It is the general opinion, which the Bank would do well to note objectively, that the Bank continues to apply theoretical criteria in evaluating certain kinds of projects that would be more suited to a university classroom than to a regional development bank. This eventually translates into a long list of highly detailed contractual requirements that hinder, obstruct and finally discourage the executing agencies, who assume that behind so many demands there must lie other motives. Any announcement that the Bank makes about a change of approach in these matters will be most welcome.

The issue of increasing costs in projects financed by the Bank seems to have been sidestepped for the moment, in spite of its great importance in the case of loans granted during the last three years. The fact is that many loan recipients are facing an unforeseen upswing in costs as a direct consequence of world inflation. There is more than one example of half-

executed projects in which the practical choice is to grant complementary loans or scrap everything done to date. This is another challenge to the effectiveness of Latin America's development bank.

As for the present classification by countries for granting loans from the Fund for Special Operations, we find that the closest thing to reality is the method used by LAFTA: countries that are economically greater developed, countries of insufficient market, and countries that are economically less developed. The inclusion of other intermediate categories tends to confuse the pragmatic approach to the problem. On the other hand, it should be understood that this is a temporary classification, subject to periodic review by the Board of Executive Directors itself and which needs to be applied with due flexibility. It is the situation of a country that should receive top consideration in the allocation of resources, rather than the immediate significance of any single project. Within this context we support the request of Costa Rica and other countries that this matter be revised.

Institutional aid to integration can no longer figure in the vanguard of the Bank's activities, as it would seem to have been when it prided itself on being "the Bank of Integration." It is true that there are large-scale multinational projects, such as the Acaray and Salto Grande hydroelectric projects, both financed with recent loans. But as regards the basic problems of integration and aid to regional and subregional integration institutions, there is evident timidity in seeking immediate solutions. The case of INTAL is a sufficient example. Peru has announced its intention to increase its annual contribution in view of the withdrawal of support by one of the member countries of the Bank. We must start from the point of view that the Andean Development Corporation, the Commission of the Cartagena Agreement, and the Latin American Free Trade Association—to mention only three groups with which Peru is associated—are autonomous bodies, as multilateral in nature as the Bank itself. It is unjustifiable to attempt to place upon them the same indebtedness requirements, or local currency requirements, or the same procedural standards as those usual to a national development agency. The increased channeling of resources for integration through subregional organizations would help overcome many of the present-day bottlenecks.

As for administrative matters, all indications are that it might be well to consider re-establishing in the Bank the special office previously responsible exclusively for disbursements. While it is not suggested that this specialization be carried to the ultimate degree, with a total separation of management functions between lending and disbursements, experience in recent years shows that the question merits re-examination. Something similar has occurred in connection with the delegation of functions to the Bank's offices in the member countries. With few exceptions, these offices have not gone beyond a limited role of a

"transmittal" office without the powers of a true field agency of the headquarters office.

The Inter-American Bank and Peru

The development policy and strategy of the Revolutionary Government are based on activities directed at bringing about substantial changes in the traditional socio-economic order and in achieving an adequate economic growth while maintaining stability, ensuring that the benefits of the structural changes will be permanent and irreversible. The activities undertaken in these fields in the last six years have resulted in a continuous improvement in the distribution of income and national wealth, together with the creation of new job opportunities and sharing of the people in the ownership and administration of the major economic activities.

The far-reaching changes wrought in the structures of ownership and management of the means of production and in the distribution of their benefits constitute the vehicle for expansion and in many cases the creation of Peru's capacity to mobilize its human, physical, technological and capital resources.

It is against this background, as Gen. Amilcar Vargas Gavalano, Peru's Minister of Economy and Finance, stated at the last meeting of the Consultative Group for Peru, that Peru's development policy and strategy can be properly perceived. And within this context we would stress particularly both the country's domestic effort in behalf of its own development and the supplementary external support needed to expand its capital formation and the productivity of its overall economy.

In spite of the restrictions generated in 1974 by the serious worldwide economic and financial problems, which resulted basically in supply difficulties and in sharp increases in the prices of imported inputs, food products and equipment, Peru was able to sustain a satisfactory rate of economic growth within a framework of far-reaching structural change, reflected in a real GDP growth rate of 6.6 per cent.

It must be stressed that this expansion of economic activity has been achieved in a situation of manageable inflation, in spite of the high prices of the food products and basic products that we import, through the application of a selective subsidies policy.

The 1974 balance of payments showed a surplus of \$287 million, largely as a result of long-term capital inflows that were channeled to the financing of our main investment projects within a prudent external debt policy. As a result, the country's financial position strengthened and international reserves rose to \$702 million by the end of 1974.

The year 1974 also witnessed an increase in the Bank's financial assistance to Peru, both from its ordinary capital resources and the Fund

for Special Operations. The tourism development project for Cuzco and Puno, known as the COPESCO Plan, will have an enormous multiplier effect in that area.

The rate of annual loan disbursements is still not keeping pace with the volume of lending received, often for reasons connected largely with the conditions of the loan contract. The Bank should look into the reasons for this anomaly.

A varied program of technical cooperation has been made available to Peru. Its full implementation over the next two years will result in positive progress.

In export financing, a new line of credit for fishing vessels was opened which will help to stimulate the fishing industry.

The Inter-American Development Bank participated actively in the recent meeting in Paris of the Consultative Group for Peru. The report of the meeting indicated the very active interest of the international financing agencies and the participating countries in collaborating in the financing of the projects that Peru submitted to the meeting. After analyzing Peru's economic and financial situation and prospects, the participating countries and agencies acknowledged their appreciation of the substantial progress achieved in transforming the country's socio-economic structures while maintaining a satisfactory growth rate and expressed their support for the Government's development policies and strategy.

The support of the international community has been feasible thanks to the fact that a State now exists in Peru with independent powers of decision which, in exercise of full sovereignty, has taken decisions aimed at, duly protecting and preserving the rights of the national majorities previously on the fringes, at best, of the national life.

In Peru we have launched a frontal assault on illiteracy, disease and malnutrition, and are engaged in actions to bring about profound changes aimed at achieving a more equitable income distribution. To this end, appropriate financial policies are being implemented and continuously improved that are bringing about an ever increasingly mobilization of domestic resources. These, supplemented by the external resources that we hope to obtain from official, multilateral and private financing sources, will enable us to carry forward the process to which I have referred and the progress which was acknowledged by the Consultative Group.

We should like to pay special tribute to the Bank's present representative in Peru who, with commendable zeal, has established that true image which the Bank should be conveying in all of our countries, without exception. We hear that he is soon to be transferred to another post in the Bank and wish him every success in his new duties.

Special mention is due also of the sincere and very valuable collaboration we have received from our sister republic of Colombia in the representation of Peru's interests on the Board of Executive Directors.

Every negotiation conducted by the Colombian representative over the last three years with the Bank in matters affecting Peru's interests has been conducted with truly exemplary efficiency. This cooperation between the two countries cements an historic and ancient bond that is finding renewed affirmation in the planning activities of the Andean Group.

Latin America and the Bank

Before concluding I should like to touch briefly on some of the major aspects of the Bank's relations with Latin America. I trust that you will receive these remarks by Peru as a contribution by a country which has a deep faith in the cause of the integral development of the region.

1. Looked at from the point of view of strict principle, the 15 years of operation of the Bank do not present a picture in which the multilateral nature of the Inter-American Development Bank is particularly evident. It is clear that the Agreement Establishing the Bank, which has the force of law in all its member countries, prescribed for certain situations a system of decision by two-thirds of the valid votes, in the knowledge that a power of decision was being conferred on the member with more than one-third of the votes. But it is clear also that this was done in the understanding that it was meant to be a system for use in exceptional circumstances, not as a general rule, and in particular that it would never be used on the basis of unrelated considerations.

Within the rules of the game then prevailing it was believed that what we were establishing was an agency of an essentially multinational nature, in which there would be no place for bilateral situations between member countries, and that the Bank was not in any circumstances going to become a forum for the evaluation of projects on any basis other than their intrinsic merits. This emerges clearly in the textual words of the constitutive proceedings and the inaugural speeches.

As time went by, the validity of the original rules began to fade. Neither does the majority member show interest in continuing to make contributions on a regular basis, nor is multilaterality the undisputed rule, nor even does the basically inter-American scheme of a financing agency of the region and for the region exist.

The entry of nonregional countries provides an excellent opportunity to redefine and clarify the battered concept of multilaterality. If the animus is a fundamental prerequisite in any society, it is logical to reaffirm it in this case by updating the provision of the Agreement Establishing the Bank so that no one shall be misled about the reason that Latin America regards it as frustrating and even illegal that the legislative branch of one member country should impose political conditions on Bank lending.

2. Nor can we accept the time lag in the replenishment of resources. The financing of Latin America's development calls for permanent and continuing expansion of its capital resources. A percentage of this increase must be earmarked for lending on concessional terms and conditions. No member country should ever be considered as exempt from this category of contributions.

The announcement of the replenishment of the Canadian Fund with nonreimbursable resources is particularly gratifying to Latin America. We earnestly hope this example will stimulate other countries that have the capacity to provide resources.

3. As we approach the end of the decade of the 1970s, the claims to priority of four conditioning factors in the struggle to escape from underdevelopment are becoming ever stronger and clearer:

- Control of natural resources;
- Expansion of food production;
- Rationalization of urban development;
- Regional and subregional integration.

In its operational policy the Bank should take the lead in fostering Latin American enterprises that are capable of receiving technology and absorbing resources under conditions of total respect for the free determination of peoples.

The establishment within the Bank of the Consultative Group on Agricultural Development referred to in the Inaugural Session is likely to yield real benefits for the region. Peru now offers its support and its collaboration for this initiative.

Loans and technical assistance are two correlative instruments of the regional development banking system which can never be based on the concept of a *quid pro quo* of supply of goods and services that is not accompanied by a vocation of service to expand the markets of the underdeveloped world.

At this Sixteenth Annual Meeting, we shall be electing a new Board of Directors and extending good wishes to the outgoing members. We should like to express a wish to those about to take office: That we finally have an end to the habit at these Meetings of holding an annual reunion at the Wailing Wall. That we do not have to listen every year to the same complaining comments. That there shall be no more dialogues of the deaf between Governors and Executive Directors or between contributing countries and borrowing countries. That, on the contrary, we shall be able at some time, guided by a sense of historic challenge, to speak in our various tongues the same language of friendship, of solidarity and of identity of basic objectives so that the Bank may become a true and effective instrument of the social and economic development of the region.

**Address by Mr. César Romeo Acosta,
Alternate Governor for Paraguay
and President of the Central Bank**

The Delegation of Paraguay wishes to thank the Government of the Dominican Republic for the magnificent opportunity it has given us to hold this Sixteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank in its beautiful city of Santo Domingo.

My delegation, on behalf of President Stroessner, would also like to express its appreciation for the warm hospitality shown to us and to congratulate the Dominican authorities on the efforts they have made to receive us in a warm atmosphere of cordiality and sincere friendship.

Gen. César Barrientos, our Minister of Finance, has asked me to convey to the delegates his sincere regret that he is unable to attend this Meeting.

May I also congratulate Mr. Antonio Ortiz Mena, on behalf of President Stroessner, for his fruitful work at the Bank during the past year, in which he has demonstrated a sure grasp of the problems of our hemisphere and to which he has brought dedication, energy and creativity.

International economic and political relations have undergone profound changes during the past year as a result of situations that have affected the entire world. The rise in the price of oil and oil-based products has been a decisive factor in the increase in the prices of imports, which has favored the oil-producing countries to the detriment of the economies of the others. The higher oil prices have resulted in substantial drains on foreign exchange and have raised agricultural and industrial production costs, weakening the competitiveness of our exports. This situation has resulted in great sacrifices for those of the less developed countries that do not produce oil: (1) by largely neutralizing export receipts, and (2) by reducing our ability to maintain the level of public investment required by the economic development process.

In the case of Paraguay, the \$33 million current account deficit for the year 1974 is more than double the 1973 figure of \$15.9 million. However, thanks to private capital inflows and disbursements on foreign loans, mainly from international financial institutions, the balance of payments showed a surplus of \$38.6 million.

Paraguay has not so far used the oil financing facility established by the International Monetary Fund, since its export receipts and external capital inflow have sufficed its oil and oil byproducts payments as well as the increases in the costs of other imports.

The Paraguayan economy has also been affected by the behavior of the industrialized countries in regard to Paraguay's exports. Two factors

in particular have markedly influenced the foreign market for our raw materials: (1) administrative restrictions and direct bans on imports, as in the case of meat, and (2) a decline in foreign demand as a result of the economic recession affecting the industrialized countries.

The administrative restrictions have been primarily at the regional level, where exports are frequently hampered by new regulatory restrictions imposed by the importing countries, such as import permit requirements, import quotas, long drawn-out procedures, clearance imports and other bureaucratic obstacles. Many of our exports have encountered obstacles of this kind, including wood and citrus fruits. The ban on imports of meat has seriously affected this important item in Paraguay's exports. The volume of meat exports in 1974 was 47 per cent lower than in 1973.

Paraguay is facing the problem of a considerable meat surplus; at the beginning of 1975, cattle slaughtering was down sharply owing to the continuing restriction by the importing countries.

The economic recession in these countries moreover caused a sharp decline in the raw materials demand, with international market quotations falling rapidly. Cotton, essential oils, hides, soybeans and tanning were only some of the products that encountered serious problems. In brief, although the volume of Paraguayan exports for 1974 was higher than that for the preceding year, many traditional types of exports were adversely affected by worldwide inflation, economic recession and unemployment, plus problems connected with administrative controls and regulations imposed by a number of Latin American countries. To remedy this situation, the Government of Paraguay introduced special incentives, providing assistance for producers and industrialists, insofar as possible, in an effort to counteract the unfavorable foreign market situation. It is essential that, in this emergency situation, the member countries of the Inter-American Development Bank receive strong support, particularly in the form of concessional loans on reasonable terms to help them overcome their present problems.

We therefore note with satisfaction the announced soft loan by Venezuela to the Latin American countries, through the Bank, to stimulate their economic development.

Salient features of the general scheme of Paraguay's economy at this time include the harnessing of the country's energy resources and the joint projects to be carried out in the future with friendly neighboring countries such as Argentina and Brazil. The Bank has firmly supported Paraguay's energy programs, and I should like on behalf of the Paraguayan Government to express our deep appreciation.

We should like to stress the need, in view of the worldwide inflation, for the Bank to provide supplementary loans to finance cost overruns of investment projects affected by inflation. There is a very pressing need for

such loans, which should be based on the terms prescribed in the original loan operation or more lenient conditions so as to avoid any imbalance in the financial position of the borrowing country.

Before closing, I should like to add that in our view the IDB should liberalize the terms of lending from the Fund for Special Operations in this emergency situation.

Paraguay is making every possible effort to promote the progress of its people through sound economic policies. Savings can be suitably mobilized and channeled toward productive investment through both the National Development Bank and the private banks.

The Government is trying to ensure a balanced economic growth even under the pressures of inflation. In 1974 the Finance Ministry substantially reduced its financial obligations to the Central Bank, thereby helping to moderate the expansion of the aggregate money supply and to slow down the rate of inflation.

Despite the generally difficult economic conditions in the world, we are confident that these same circumstances will meet with an understanding reception among the Governors present here today.

For us, private investment is essential, and we are firmly convinced that the stimulation of investment is vital to the development of the hemisphere in general and of Paraguay in particular. In Paraguay we have been working toward political and social stability through appropriate social and economic reforms introduced by the Government.

Development can be authentic and comprehensive when its purpose is the development of man, without separation of the economic and the human aspects. "What counts is man, each man, each group of men, and all humanity."

Guided by this thinking, we are instilling a profound human content into our development, not as a simple theoretical enumeration but as a practical recognition of the right of every man to live, to eat, to be educated, to receive health care, and to be able to establish and maintain his family—all elements that help to strengthen the fabric of freedom.

My purpose in addressing you has been to draw attention to existing situations that call for new policies—policies to which we have the duty to contribute fully in order that they may be translated into greater economic progress for our peoples and into peaceful, nonviolent development.

In once again expressing Paraguay's appreciation for the cordial hospitality of the people and Government of the Dominican Republic in this beautiful city of Santo Domingo, I wish to reiterate our firm determination to pursue together the battle for a united America, vigorous, developed and respected, and in which we join our efforts to fight poverty and backwardness.

Address by Mr. Víctor Castillo Suárez, Governor for Bolivia and Minister of Finance

Let me begin by saying how happy I am to be in this hospitable land and by conveying the cordial greetings of the Government and people of Bolivia to those of the Dominican Republic. I should also like to express our deep appreciation for the many kindnesses extended to us, which place in evidence once again the graciousness of the Dominican people, as well as the unity and solidarity that increasingly link the destinies of all Latin Americans.

Tempted though I am by the charm of this tropical land to dwell to length on her history and traditional hospitality, the need for brevity compels me to put temptation aside and take up the task of discussing our problems. So, much to my regret, I must cease my praise of this land and her people and get to the specific job that brings us together here.

We have carefully reviewed the operations of the Bank in 1974. The volume of loan approvals—again a new record—is eloquent proof of the strength of the Bank's performance last year and naturally fills us with pride in the Bank's lending capacity, although, as I said last year, I do not regard this as the best yardstick for measuring the development of our Bank and indeed a better measure of success at this stage would be the projects completed in the borrowing countries and their effects on the country economies.

This point takes on singular importance now with the effects of inflation. If the Board of Governors does not provide immediate solutions like the policy proposed by Uruguay, Paraguay and Bolivia of permitting supplemental loans to be made by the Board of Executive Directors, on the same terms as the original loan, for projects left short of financing as a result of cost overruns, the small countries will have to face the dilemma of either making a serious fiscal sacrifice to provide the additional internal finance, with the attendant problem of spurring domestic inflation, or of leaving a project uncompleted and yet having a debt to pay.

We must keep our loan policy under careful scrutiny, for I very much fear that, because of the reasons I have noted and the lack of balance in the use of the Fund for Special Operations, the gap between the countries that are developed or industrialized and those that are not will continue to grow, as indeed it seems to be doing. We note, for instance, that in cumulative terms the Bank's loans to the entire URUPABOL group (Uruguay, Paraguay and Bolivia) is only 32 per cent of the amount granted to one single other country, when in fact the Bank should be mainly at the service of the less developed countries, the others having a wide range of possibilities for obtaining external financing. It would seem,

then, that the industrialized countries are becoming even more industrialized with the help of the Bank and that the gaps which the Bank should be helping to close are becoming even wider.

This subject, referred to more than once, assumes, I believe, particular relevance when considered along with the ever-increasing demands for building up the capital of our institution, demands which even the countries with most resources are finding it hard to meet, and along with the constant and widespread price escalation that erodes the loan funds. Both these factors require us to exercise greater care both in determining the volume of our loans, which should obviously be greater for the reasons I have given, and in deciding on their allocation. While this is doubtless a difficult matter, it goes to the very essence of what the Inter-American Development Bank is all about. Continued growth of the gaps between the countries of the hemisphere would be a setback for the Bank's integration policy.

My country is basically a country of integration, a "land of contacts" as a Bolivian statesman felicitously called it, a land in the very heart of America. Our territory embraces part of the Amazon basin and part of the River Plate basin and is oriented toward the Pacific Ocean, the natural outlet for the products of our industrialized highlands. The continent's trade routes must of necessity cross our territory.

Speaking in Santiago last year I said that one of the elements placing us in the group of economically less developed countries and setting us apart from other countries is our lack of a coast. And we noted that the solution cannot come about through our own unaided efforts but only through a complete grasp of the problem and the application of the principle of hemisphere solidarity.

We repeat this firm belief and our conviction, stronger now than ever before, that only constructive dialogue can lead to definitive results. This conviction is strengthened by the response of our neighboring country, a response we consider both straightforward and honorable and which bolsters our hope that in the very near future our window to the sea will afford the American nations a view of what mutual understanding between two neighbors working in a spirit of American solidarity can accomplish.

But when we speak of integration, what we have in mind is not the interest of a single country but the broader interest of the areas grouped into subregional integration schemes. Success depends on being able to work together to develop integration industries and assure consumer markets for them.

The Bank's Report is not encouraging in this respect from either the numerical point of view or from the standpoint of approach, for we note that some of the projects cited under the heading of integration are not really effective vehicles for integration. An effective way of promoting

integration, to our way of thinking, is strengthening agencies like the Andean Development Corporation which were specifically established for that purpose.

On new resources, we agree that a study should be made on a further increase in the Bank's resources of both types so that our organization will remain financially able to accomplish its aims.

We have carefully studied Document FN-31-3 on this question and note with satisfaction that the capital has grown from an initial \$1 billion to more than \$10 billion through successive increases subscribed by the member countries, additions of new members, and maintenance-of-value adjustments.

In making the study of the new increase in the ordinary capital, we believe the Board of Executive Directors should be more aware of the active role that can be played by the callable portion of the capital stock subscribed by the Latin American countries and Canada. This callable capital of nearly \$3 billion, not being used as backing or security for bond issues or other obligations, is performing no effective role in the capital structure. It will be increased as part of the new increment in the ordinary capital stock, but unless a suitable solution is found it will continue to be simply a figure on the books. Nor are we persuaded by the argument in Document CA-82 of May 12 that the issuance of bonds backed by it would have serious legal consequences.

In regard to the Fund for Special Operations, we share the concern expressed by the President in his opening address over the fact that the initial 1970 exercise has yet to be completed and over the conditions being put on its use. These would truly do "irreparable harm to the multilateral nature of the Bank."

In the new submission of documents and figures about the structure of the Fund for Special Operations, we see that its components have not been finally identified and clarified. We therefore regard the presentation as tentative. We are genuinely disquieted by the figure of more than \$325 million pending receipt from the member countries for maintenance of value of currencies held by the Bank, \$124 million of which is referred to as being in currencies that can only be determined as loan repayments are made at maturity. If maturities run to the year 2000 we can readily imagine the uncertainty involved as to the currencies of payment, their management and even the real value of loans, since a loan can have maturities payable in currencies some of which, but not all, are subject to adjustment, depending on when disbursements were made. In other words the financial composition of the ordinary capital and that of the Fund for Special Operations, which was similarly conceived, has been radically changed by the application of different criteria. Because of this, countries which initially made similar contributions now have very different ones within a scale in which no two countries have identical contributions.

Outstanding loan amounts repayable in one currency or another at the borrower's option are causing a basic distortion in the structure of contributions. This problem, we believe, should be carefully studied with a view to final decision.

We mentioned this problem last year at the Santiago meeting and said that because of its complexity we thought it should be referred to a special committee of Governors which would examine the situation with the Bank's Financial Department and propose equitable final solutions. We have learned nothing about any results this request of ours may have had.

This same concern over the need for more funds for the Bank leads us to look with favor on the admission of nonregional countries. This will give the Bank greater financial strength without distorting its Latin American character or to any significant extent reducing our relative participation. We should like to state for the record that we hope this occurs in the near future.

Our thanks go out once again to the Government of Venezuela for establishing the Trust Fund, a highly significant gesture of cooperation with the other borrowing members of the Bank. However, we must also refer to the need for a parallel Venezuelan concessionary fund providing real benefits to the economically less developed countries.

Moreover, we again suggest that the Management of the Bank give early consideration to setting up an emergency fund for taking prompt action when natural disasters strike a member country, a hazard to which we are all subject.

As an aid to understanding member country requirements, we suggest it would be useful to keep a sort of continuing inventory of statements made in speeches such as this, statements not always translated into specific resolutions but nonetheless often containing helpful and constructive suggestions that should not be forgotten. This would help in converting spoken dialogue into concrete action guides. In Santiago my country requested that La Paz be considered as the site for the Board of Governors meeting in 1976. We later deferred to the request of a sister republic. Now I should like to repeat our invitation but change the year to 1977, when we devoutly hope we shall have the privilege and pleasure of receiving you all with open arms.

Thank you, Mr. Chairman, for giving us this opportunity to work in your country. Santo Domingo, regarded by historians as the city where Spanish-American culture in its various manifestations first began to take shape, is the last we will ever forget because of the generous hospitality of her people and the many courtesies received from her authorities.

**Address by Mr. Ricardo A. Cairoli,
Alternate Governor for Argentina and President of the
Central Bank of the Argentine Republic**

The Governor for Argentina, Alfredo Gómez Morales, has instructed me to convey to the distinguished participants in this Meeting of the Board of Governors his fervent wish that these deliberations be successful and that the decisions herein adopted enhance the social and economic benefits of the countries of the Americas, in accordance with the harmonious and continuing progress of the peoples of Latin America.

The policy of the Government of Argentina is based on the concept that only the unity of our countries will help to accelerate their economic development and, by means of that integration process, achieve the greatest potential for all our peoples.

In that context, we believe that meaningful action on the part of international credit and financial agencies—specifically that of the Inter-American Development Bank—will encourage and promote such decisions as are necessary for the rapid realization of those objectives.

The Argentine delegation would like to comment and reflect on some items that have been brought to the attention of this Meeting.

Our delegations in various international forums and particularly during these Meetings have repeatedly said that one of the questions that most concerns us is the present operating policy of the Bank relating to the financing of Latin American exports. Because of this concern we have indicated that such policies must be adapted to contemporary economic reality in accordance with the economic models and goals which member countries are pursuing or intend to pursue.

It cannot be denied that the economic growth of a modern nation is contingent upon the performance of its external sector. The characteristics of this dependence are a function of each country's special conditions and of the different economic circumstances that may arise. But in all cases overall economic performance is affected by the vulnerability of the external sector.

The slow growth of Latin American exports is the major factor restricting its industrial development. This situation has been brought about by the stagnation of exportable surpluses of traditional commodities, the lack of industrial manufactures in the export structure of most of our countries and the inelasticity of the imports required by our productive base in those countries that have achieved a measure of industrial growth. These are the causes triggering our successive balance of payments crises, which are made even more serious by the current differential and

discriminatory behavior of some developed countries in international trade, directly jeopardizing our own exports.

Our trade balances will be favorably affected by a dynamic process in agricultural exports and by a greater participation of the industrial production sectors.

It is therefore necessary to have adequate mechanisms of export financing that are truly effective, so that they can contribute to the development of intraregional trade. In this context, exports of capital goods, manufactures and some intermediate products should have priority in financing. The integration of the economy of the hemisphere within the framework of larger and more competitive markets—subregional or multi-regional—will tend to reshape the import replacement policy, promote industrial growth and, more importantly, benefit from the competitive advantages of the less developed countries and give rise to productive activities that can consolidate economies of scale and the benefits of specialized production.

This will put no obstacles in the way of external trade of the region's industrialized nations. To the contrary, enlargement of the output of developing countries will assure the placement of increasing orders for capital goods and more sophisticated technological services, which only those nations are able to provide. Therefore, a larger export volume for the Latin American countries should not be viewed with concern by the region's developed countries, as such an increase in the volume of exports will be mutually beneficial.

For that reason my delegation insists on the imperative for an aggressive Bank policy of financing exports from the member countries and holds that the technical document to expand the export program, submitted by the Management for the consideration of this Board, should be approved, despite its imperfections. In addition, we understand that it fits within the framework of the Agreement Establishing the Bank and have therefore submitted a proposed resolution for your consideration that, given the Board of Governors' role as the highest interpretative body for that Agreement, also bears out the fact that the Bank's participation in the expanded program of export financing conforms to the provisions of the Agreement.

Gentlemen: My delegation would like to make special note of and congratulate Mr. Antonio Ortiz Mena and the Board of Executive Directors and employees of the Bank for the work that has been done to secure increased resources for the organization, especially through the admission of nonregional countries.

Nevertheless, the entry of these countries poses a series of needed changes in the Agreement Establishing the Bank, which because of their magnitude and legal and operational complexity calls for special, careful consideration by the member countries. For example, the "Caribbean

League," which now holds 1.3 per cent of subscriptions, has been excluded from the voting power, an oversight that must obviously be corrected. Likewise, the participation of nonregional members will be required to form a quorum even when the topics being dealt with are of exclusive interest to the regional members.

Consequently, my delegation feels it is necessary that the Board of Executive Directors convoke a special meeting of the Board of Governors to consider this very important matter, in the understanding that this would not invalidate the bilateral negotiations already concluded.

Given the fact that the Committee of the Board of Governors was established to analyze the various alternatives for obtaining additional resources, we also propose that an in-depth study be made of the documents produced under the guidance of experts and technicians, including legal specialists, of the different member countries so that they as a group will supply that special meeting of the Board of Governors with the most complete possible bases for decision.

In the matter of the initiative to increase the Bank's resources, my delegation has carefully examined the document prepared by the Board of Executive Directors, in compliance with the mandate on this subject approved by the Meeting of the Board of Governors held in Santiago, Chile.

The study emphasizes concern about the region's development trends and prospects, and includes a projection of Latin America's external funding requirements for the 1976-78 period.

It analyzes the possible available sources to provide that financing and states that it has been impossible to carry out a country-by-country study because of limited information.

This criteria of making a global analysis is not followed when the time comes to determine the external income needs of each country. The study reveals the trends of overall external assistance in earlier periods and shows the external financing gap that must be bridged in each country.

In this sense, the report does not touch upon the manner in which the margin for no financing which is foreseen is to be covered, since it seems to confuse the needs of the Inter-American Development Bank with those of Latin America. The solution offered is to increase the contributions of the member countries so that the Bank can maintain its present relative participation in the external financing requirements of the region. In principle, this results in an increase in the Latin American debt and creates a wider gap between the countries' resources and needs, especially since, as we all know, contributions (including foreign exchange) follow a different timetable than do loan disbursements.

As we understand it, the Bank should try to generate offers of lendable funds through mechanisms other than the contributions of its

own borrowers. One must remember, for example, that there are countries which, because of the rapid and significant growth of their earnings, have financial surpluses that could be attracted for this purpose.

In this sense, there should be no slackening of efforts to set up a mechanism leading to the utilization of a market of bankers' acceptances. It should be noted that the use made by the Bank of the existing machinery for credit from countries supplying goods under parallel operations is another legitimate means of assisting in the financing of our projects. We believe that finding dynamic means to obtain additional sources and resources other than the traditional ones will facilitate the adoption of financial policies more desirable to management of the Bank.

Along this line of thought, I should point out that my country understands that the contributions of the member countries cannot be subject to any condition not found in the provisions of the Agreement Establishing the Bank. No one can exercise rights over the use of Bank resources, which falls within its exclusive competence.

I would like to take advantage of this opportunity to make note of the financial assistance provided to the Bank by the Government of Venezuela, which is a reconfirmation of the close ties that sister country has with the Latin American nations.

We also feel it necessary to underline the multilateral character of the Bank. Consequently, in approving operations, technical considerations should take precedence over all others. Any other procedure would have the effect of changing the basic and fundamental principle of the institution. We believe, therefore, that there should be no selective criteria in determining the eligibility of the projects submitted by some countries which are based on the use of global economic indicators. Those indicators are not themselves sufficient to determine financial needs when there are projects which, by their nature, require financing with resources on favorable terms as to period of repayment and cost, chiefly projects designed to accelerate the relative economic structuring of very backward areas which are anxious to bring their level of development up to national average.

I should like to express the wish of my delegation that we initiate a thorough evaluation of the Bank's operational procedures and policies. If our regional agency is to have a positive impact in resolving our countries' economic problems, we must re-order and amend the guidelines we have followed to date. We must adopt degrees of flexibility and efficiency more in line with the realities of our countries and not cling to rigid systems of restricted interpretations. It is our hope that the Bank, for its part, will make the effort at economy required in the circumstances by greater streamlining of the present structure and a larger measure of decentralization in its relations with borrower countries. We need more speed in decision-making and we should like to point out that the local field offices

will fulfill their commitments satisfactorily once they have been given real powers and responsibilities in the operational area, particularly with respect to the execution of projects.

Finally, I should like to tell my fellow Governors that the Governor for Argentina strongly supports the process of Latin American integration and reaffirms his desire to strengthen the Institute for Latin American Integration (*INTAL*) established by resolution of the Board of Governors of the Inter-American Development Bank in 1964.

The recent discussions in the Bank's Board of Executive Directors and at the Advisory Board of *INTAL* in Washington have demonstrated the usefulness of the Institute in the process of regional integration and the soundness of continuing its existence on terms that will enable it to perform its functions. At that time we said that the Institute should become a body financially capable of performing its services and should enjoy institutional independence and autonomy in the technical, administrative and financial fields, maintaining a permanent legal link with the Inter-American Development Bank. My delegation has accordingly submitted for your consideration a proposed resolution calling upon the Bank to continue to assign the highest importance to the process of Latin American integration and, to that end, to support *INTAL*'s activities, and calling upon the Board of Executive Directors to take the necessary steps to bring about greater autonomy for *INTAL* within the legal framework of the Inter-American Development Bank.

Mr. Chairman, the Inter-American Development Bank should be one of the bulwarks maintaining the inter-American system within a context of cooperation and integration contributing to the sustained and harmonious development of the entire Latin American community.

"In the year 2000 either we will be united or we will be subjugated." That warning, issued over 20 years ago by Juan Domingo Perón, becomes more timely with each passing day in view of the persistent clamor for social justice and the right to live in a more equitable international economic order.

With those convictions, we came to this meeting believing strongly that the Bank should continue to be the model institution for the indigenous development of Latin America within a profoundly humanistic society, in an America in which the vast majority of people can fulfill their aspirations in a meaningful way.

We are very pleased that this beautiful and hospitable Dominican Republic is serving as host country for the fulfillment of these objectives, for it was here, historically, that we witnessed the birth of our continent and its first steps toward a new world of progress, peace and justice.

Address by Mr. Carlos Sáenz de Santamaría, Temporary Alternate Governor for Colombia

Rodrigo Botero, Governor of the Inter-American Development Bank and Minister of Finance, was unable to attend this Meeting. He has asked all the members of his delegation to express the satisfaction of the Colombian Government with the excellent work carried out during the past year by the Management and staff of the Bank, and particularly by its President, Antonio Ortiz Mena. The report which we have reviewed here and the analysis of the publications and news received by the Bank throughout the year indicate substantive progress in a number of different fields, some of which have been discussed at this Meeting.

The results of the efforts made by Mr. Ortiz Mena and his assistants to secure contributions of funds from countries on other continents to be used in expanding the important development tasks which the Bank is studying, promoting and financing directly, or whose financing it is coordinating, have been remarkable. In Latin America, aside from obtaining additional funds from countries in a position to make such contributions that have demonstrated a true American spirit by helping the most needy in their development, such efforts have been most successful. Furthermore, the Bank has been extremely active in providing technical assistance.

This year has also marked the culmination of tasks first studied long ago which are now a vibrant reality. I refer to programs in the arid and semi-arid zones of certain countries of the hemisphere and to the top priority assigned to the agricultural sectors which are in today's world essential areas for countries in need of food and hold promise for the region's exports and its own consumption. The good news announced by the President concerning establishment of the Consultative Group on Agricultural Development was enthusiastically received by the Colombian delegation.

All of this progress has been made without forgetting the Bank's continual involvement in other traditional fields and its efforts to increase its collaboration in the expansion of intrazonal and nonregional exports.

The Minister of Finance has requested that our delegation take this opportunity to outline briefly the progress made by the administration of Dr. Alfonso López Michelsen in fulfilling his election promises. The Government is fully aware that the overwhelming majority of votes which Dr. López Michelsen received in last year's April election signifies not only extraordinary support and encouragement but also a larger responsibility to speed up the country's progress and to expedite the redistribution of

national income within the climate of democratic freedom that characterizes Colombia.

The Government has had to surmount many problems, some of which, like inflation, are world-wide in scope. For this very reason control measures are even more difficult to evolve. Nevertheless, the strategy adopted by the Government is beginning to show results and, without being overly optimistic, I can safely say that it will help to improve the lot of the underprivileged classes through intensive income redistribution and a price, income and wage policy which will eventually be consolidated into a permanent instrument in our country.

The principal tool of income redistribution used by the present administration has of course been a thorough-going and complete tax reform involving almost every major component of the taxation system. This reform, according to a very recent World Bank study, has a coherent internal structure along with innovative concepts and goals.

The situation confronting the Government is linked to clear signs of a recession in the industrialized countries that purchase our major exports, a recession which will undoubtedly have a serious effect on our trade balance. The Government believed it necessary to take emergency action centered around tax reform with several different goals including the following:

1. To reduce the fiscal deficit and reform the financial sector, which has in the past generated the highest rates of increase in transferable savings. This has permitted a strict monetary policy reducing recent annual growth rates of the exchange media without unnecessarily restricting the production sector through limited lending or incurring heavy social costs in terms of unemployment and the provision of basic services which could have been provoked by too steep a decline in public spending.

This reduction in the fiscal deficit was possible through an increase in sales revenue, a reduction in tax credit certificates (CAT), elimination of the wheat subsidy and the creation of new sources of revenue to be used for export financing.

2. To restructure domestic demand, which, together with the wage policy in force, has served to re-establish suitable levels of effective domestic demand for mass consumer goods, thereby helping to alleviate the problems of some of the sectors most seriously affected—in terms of exports—by the international crisis. The restructuring of demand was accomplished through the reclassification and reform of sales taxes and the redistribution of tax burdens with regard to income, and property and inheritance taxes.

The positive effects of tax reform, financial reform and foreign trade policy changes implemented by the present administration on Colombian development will lead to stable and more rapid economic growth.

Already the country itself, as well as national and international studies, has confirmed a similar process with the success of the monetary stabilization program implemented pursuant to Decree 444 of 1967, and that of the domestic stabilization policies promoted during the Lleras Restrepo administration.

Stabilization has been attained gradually through technical know-how and a higher sales tax, which, because it is a tax on value added and is collected immediately, is universally recognized as the automatic stabilizer *par excellence*, within the context of economic policy instruments at the government's disposal. Stability will also be fostered by the greater elasticity of direct revenue that will be brought about by the changes in income and supplementary taxes mentioned above.

Two aspects of the tax on income, presumptive income and capital gains that represent substantive progress in terms of income distribution and a fair tax on high incomes deserve mention. The first assumes all capital to be at least 8 per cent productive, a concept under which idle capital can be taxed. The second heavily taxes capital gains derived from national development, inflation or any number of sources particularly concentrated on urban property and rural property relatively near the city, involving no risks and contributing to higher urban and farm costs. With these two forms of taxation the Colombian Government confidently believes that it has taken an important step towards tax equity and fair income distribution.

According to the recent World Bank report cited, the revised tax structure is not only a clear improvement over the old system but, by retaining the principal elements of the new measures without significant changes in the near future, this tax reform will serve as a landmark in the recent history of this type of measure in both developed and developing countries. These ideas are evolved in the World Bank study.

Most of the reform involves elements taken from previous studies specially prepared by groups of specialists, most of them Colombian. One of these was headed by Professor Taylor during the Valencia administration and the other by Professor Musgrave during the administration of President Lleras Restrepo. The reform instituted by President López not only contains many of the recommendations presented in these reports but in many cases supplements them with entirely original measures.

The fiscal problems of recent years were underscored by the needs of a country undergoing considerable growth that is seeking development with dynamic force and eager to modernize its structures so as to attain one of the most vital and deeply humanist ambitions: to redistribute national income so as to bridge as quickly as possible the gap that exists even today between the rich or comparatively rich and the underprivileged.

It is a fact that to date the world's best economists have not been able to discover either a preventive vaccine or a miracle drug to cure inflation

resulting from the economics of international trade, monetary or budgetary imbalances or even political causes which often force governments to tolerate this situation in an effort to prevent unemployment or counteract reductions in exports.

In a free country a victory over inflation demands huge collective sacrifices, decision and steadfastness and sometimes a long-range process. It is never an instantaneous or miraculous cure.

Another factor affecting the entire world whose full extent was first perceived only two or three years ago is the fuel shortage, which has placed the Western World and particularly the oil-importing nations in a serious position.

At this time we cannot even begin to evaluate the results of the transfer of gold and foreign exchange to the Arab nations and other oil-exporting countries. Nor can we guess the future implications of the new international monetary system, which fortunately will some day replace the Bretton Woods agreements. Under present circumstances, it is difficult to predict the events of the years ahead or even in the next few months.

For all these reasons and in view of these unpredictable circumstances, the Government of Colombia, after due deliberation, has foresightedly adopted those measures which it considers appropriate.

The new labor, credit, health and housing policies in particular, which are being implemented by the new administration of President López Michelsen, are all designed to prevent a decline in real wages. Little by little they are increasing the participation of the labor sector.

The Inter-American Bank has raised its lending capacity to more than \$10 billion. This calls to mind not only the admirable growth recorded but also the different stages undertaken by the Bank with a view to attaining short-term objectives in a given interval and how, after providing certain sectors with sufficient momentum, it focuses on new priority needs of the hemisphere. As one of these needs, the Bank at one time placed special emphasis on regional integration. Out of these efforts by the countries and Bank collaboration there evolved fully operational organizations, as for example INTAL.

I should like to point out here that my Government still believes in the need for Latin American economic integration, and is hopeful that the obstacles encountered in the course of this long and arduous process can be surmounted and that the goal of a Latin American common market can be achieved. Colombia has faith in the Andean Group and is making every effort to ensure that this important integration model will become strong and profitable. We believe that the Bank can continue to collaborate in increasing measure in these development processes.

Subsequently, the Bank initiated a stage of collaboration with the universities and with the field of education in general. It also sought to

solve the problem of housing, a very complex matter in America, and it has consistently included among its aims the development of farming and stock-raising but has in recent years justifiably intensified its efforts in this direction.

We believe that the time has come for the Bank to expand its export financing programs, in terms of both amount and category of goods so as to provide financing not only for capital goods, but also for manufactures and semi-manufactures to help increase regional production. The relationship between export volume and Latin American economic development makes it essential for the Bank to take upon itself the responsibility for export promotion and financing. But first it must adapt its by-laws and regulations to this end.

There are new areas which, in the opinion of the delegation, must be taken into consideration by the Bank in the immediate future. Past experience has made Latin America fully aware of the fact that it is not advisable to imitate models from other regions; that it is necessary to undertake in-depth studies to analyze, in solutions adopted by the governments, not only the stock of national wealth but also the atmosphere of each nation and the temperament and capabilities of its people. The Bank would do well in the future to emphasize financing and technical assistance for research activities.

It is preferable for the countries of Latin America to conduct these studies locally, with whatever international cooperation is required rather than to continue the current practices of many international agencies that undertake research and adapt technologies by sending abroad the best specialists to be found in each country. In our opinion the opposite policy would be more beneficial.

As noted, my country's policy is directed toward bettering the welfare of the low-income strata. This criterion should be the foremost consideration in operations of the Bank. I would like to ask my friends here from the United States Congress to voice my country's concern to their colleagues in Washington about the conditions recently imposed by Congress on the use of part of the resources appropriated by that great country to fulfill its commitments to capitalize the Bank. The use of the Bank's resources is a matter that its Establishing Agreement leaves up to this Board of Governors and to the Board of Executives Directors. I am certain that the respect of the United States for international legal order will guarantee strict compliance with those provisions.

As Chairman of the Bogotá Development Plan Committee, I have studied the countless numbers of people who flow constantly into the cities of Colombia seeking jobs, education for their children and a future for their family that they could not find in the countryside. The Inter-American Bank should give strong support to exploring urban problems over the next few years.

I am referring to the problems of modern urbanism and of deterioration of the environment. The United Nations, through its Commission on Human Settlements, has already begun in-depth studies of these problems.

If the environment is not protected in time, the costs of correcting the errors at some later date will be very high in terms of natural resources, especially land and water.

While it is true that individual housing projects have in the past been financed by international agencies, today activities in this field must be considered within the context of total urban planning.

Another aspect of the Bank's policies I wish to emphasize is its making financial resources available to the Caribbean Development Bank—to which my country has the honor of belonging—for the socio-economic advancement of a region made up of Colombia and other nations with which it maintains close bands of brotherhood.

It is with true satisfaction that I have returned to the Dominican Republic, a country with which I have so many ties. In the past I held until just over a year ago I always enjoyed the best relations with the government and people of this nation. I became intimately acquainted with the country, making some contribution toward helping the good and hard-working Dominican people to progress toward their goal of economic and social development. Among my gratifications as Chairman of CIAP was the experience of cooperating with the founders of the Coffee Growers Cooperative of Baní. These things heighten my pleasure in being in Santo Domingo once more and in having an opportunity to express, in the name of my fellow delegates and myself, our gratitude to the Dominican Government and people, who have as always welcomed their brothers from all parts of the Americas with generous spontaneity.

The Government of Colombia wishes to restate its satisfaction with the agreement we have reached with Peru. We have therefore enthusiastically supported Mr. Armando Prugue for Executive Director of the Bank. In addition to his considerable executive abilities and his thorough knowledge of the Bank, Mr. Prugue's friendship with our country is a guarantee that Colombia and Peru will continue their joint efforts in the Bank's Board of Executive Directors to further the development of Latin America.

In closing, I would here like to recall with special affection the initial efforts undertaken by Felipe Herrera and the impetus that Antonio Ortiz Mena and his associates have continued to provide to this important pillar of economic progress and social betterment in Latin America.

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

I should like first of all to congratulate you on your election to preside over this Sixteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank. This is the second annual meeting to be held in the Caribbean, and my Delegation, coming as it does from a country which has so much in common with your own, is particularly appreciative of the warmth and generosity of the hospitality afforded us in this beautiful city of Santo Domingo, the cradle of the Americas.

Since our last meeting in Santiago a year ago, there have been a number of very important developments in the relations between Latin American countries. To begin with, the Mexican proposal for a Charter of Economic Rights and Duties of States, which was overwhelmingly adopted by the UN General Assembly at its 29th session, reaffirmed the urgency for the establishment of norms that may be universally applied to the development of inter-American economic relations on a just and equitable basis. No one can deny the fundamental need for a new world economic order based on equity, sovereign equality and interdependence among all states, developed as well as developing.

We have long been exposed to the grim realities of the present conditions. We recognize that in order to improve the quality of life of our people living at a subsistence level, it is imperative that we strive to create and foster a new economic order. We pursue these objectives in consonance with other Latin American countries. To this end, a number of important steps have recently been taken towards increasing intra-regional cooperation. These include frequent consultations among heads of government in Latin America to solve common problems, the plans for the creation of a Latin American Parliament, the establishment of a Latin American Economic System (SELA) as a permanent mechanism for economic consultation and cooperation, and the formation of a Caribbean multinational shipping company. Further, the meetings of raw material producing countries aimed at coordinating the marketing of their exports augur well for prospects of inter-American unity. We must not forget too the generous programs of financial cooperation initiated by the Governments of Venezuela and Trinidad and Tobago to assist their less fortunate sister nations. We feel that these manifestations of cooperative action are important for the integration process which is indispensable to our development as a region.

Mr. Chairman, my Government considers that this new sense of purpose and cohesion which is now so evident in the activities of the Latin

American countries has been of major importance in the approach to the question of the admission of non-regional countries into the Bank. We look forward to the early completion of the pending formalities so that the Bank can inaugurate a new chapter of its history in its expanded relations with the developed countries. At the same time, the terms and conditions of entry of these countries reflect the realities of the emerging new international economic order. In all the discussions about the need for such an order, the developing countries have stressed the vital importance of institutional reform as a basic ingredient for the radical restructuring of the relations between states. It is therefore a particular source of satisfaction to my Government that a formula acceptable to all parties has been devised which augments the resources of the Bank without compromising the essentially regional character of the institution. This model is one which we feel could be especially appropriate in other similar cases where regional institutions serving developing countries need to attract financial and technical assistance from the more developed world.

I should like to refer to the document presented by the Government of Costa Rica in which the Bank is requested to give immediate attention to the interpretation and application of Resolution AG-11/72: Fund for Special Operations—New Policy Guidelines for Preferential Treatment for the Less Developed Countries and the Countries of Insufficient Market. The esteemed President of the Dominican Republic, Dr. Joaquín Balaguer, in his stimulating address on Monday, vividly described the severe problems which the countries of the Third World face as a result of the adverse developments in the international economy. These problems are magnified in the case of the countries to which Resolution AG-11/72 refers by the very fragile nature of their economies and the lack of a diversified resource base. The critical situation facing such countries makes the present policies of the Administration with respect to the classification of countries for preferential treatment increasingly irrelevant. While we agree with the point made by President Ortiz Mena in his address, about the need to ensure adequate aid flows to all borrowing countries, we feel it to be of particular importance that the terms and conditions attached to such aid should reflect the realities of the situation in the different countries. We would therefore join with our colleagues in strong support of the resolution before the Board of Governors urging that the administration of the Bank review its policy in this area to ensure that those countries which are currently denied the most preferential treatment in respect of the use of the Bank's resources are relieved of the burdens which the present terms and conditions impose on them.

Mr. Chairman, I turn now to the question of the implementation of Resolution AG-3/74 dealing with the admission of the Bahamas and Guyana to membership in the Bank and on lending by the Inter-American Bank to the Caribbean Development Bank. My Government is on record

at successive meetings of this Board as strongly supporting both these measures. It is therefore with a deep sense of regret that we note that one year after the passage of this historic resolution, implementation of the necessary amendments continues to be frustrated in a number of ways. Further delays in resolving these issues can only be to the disadvantage of the people of these countries which the Bank as the major financing institution of this region has a clear responsibility to assist. We are, however, heartened by indications of support which the resolution received at this meeting on the basis of which we leave Santo Domingo assured that the way is now clear for its early ratification.

Finally, I would like to commend the President of the Bank for the notable achievements registered during the past year as set out in the Annual Report. Of particular note is the fact that in 1974 the Bank set records for the level of both commitments and disbursements especially to the less developed countries and those of limited market. The outgoing Board of Directors are deserving of high praise for their contribution to the success of the Bank's operations. I should like also to place on record the gratitude of the Government of Barbados for the effective representation rendered to my country by our retiring Executive Director and his Alternate.

The strength of the Bank lies not only in the number of projects approved and the quantum of funds disbursed, but also in its willingness to respond positively to the challenges of the diverse problems that we all face. The new Board of Directors will be charged with this onerous and challenging responsibility, and we are confident that the Bank under their directions will continue to live up to the expectations of the people of the Americas.

**Address by Mr. Raúl Sáez Sáez,
Governor for Chile
and Minister of Economic Coordination.**

I think we all understand that the main purpose of the addresses of the Governors at this Meeting is not to analyze the accomplishments of the previous financial year but to determine appropriate policy guidelines and new lines of activity for the Bank in the economic and social circumstances now prevailing and likely to develop in the medium range in a world subject to more or less violent changes.

The validity of this is exemplified by the case of the United States, a country whose importance within the world economy is so great that the behavior of its economy is to a very large extent echoed in economic behavior in other countries, at least those of the western world. According to Dr. Geoffrey H. Moore of the National Office of Economic Research, the United States experienced five periods of economic recession between 1948 and 1970 to which of course must now be added the present recession.

The Inter-American Development Bank has lived through only one recession period, 1969-70, having been established toward the end of the previous recession (1960-61). I should like you to look at the graph on page 10 of the Bank publication "Fifteen Years of Operations." By a curious coincidence the graph of annual volume of loans approved, showing a generally rising trend, is horizontal over the three years 1969-71.

The recession of 1969-70 shows an unemployment rate of 3 per cent. This is very much lower than today's figure of 8.5 per cent, which compares only with those of the recessions preceding the Second World War (1937-38, 9 per cent) and following the First World War (1920-21, 10.2 per cent). I therefore think we are right to be concerned about our Inter-American Development Bank, since the present recession is much more severe than the previous ones and will probably not be as short. This situation can have an adverse effect on the resources of the Bank at the very time that the commitments already entered into call for a substantial increase in resources and when we are certain that, because of the crisis situation through which many countries of the continent are passing, they stand in need of increased external financial support.

These assertions would be even more pertinent if a Third Window in the World Bank is created and decision criteria are modified in such a way as to exclude the majority of the Latin American countries from the institution's normal field of operations.

It is not for nothing that the President of the Bank and the Governors who have preceded me have repeatedly referred in this Meeting to the fundamental fluctuations in the oil economy and its inevitable corollary of an energy crisis and the need for a policy in that field; crises in food and fertilizers; spectacular fluctuations, many of them unfavorable, in the prices of a wide range of raw materials, an essential part of the foreign trade of many of our countries; monetary disorder; and increased layoffs and inflation. I have listened with deep interest to the various proposals made by the Governors to adapt the Bank's operations to the difficult conditions ahead and to alleviate in part the adverse effects of the present situation in many of its member countries.

I am afraid, therefore, that I have nothing new to add to the ideas already put forward. I should like, however, to offer some comments that can perhaps facilitate the study of the decisions that the Bank's Management is going to have to take.

I should like to take as my starting point the concept that the conditions precedent to economic and social development include the perfecting and continuous expansion of the means of production of goods and services—both processes that fall precisely within the Bank's sphere of operations.

To move up from one level of development to another requires a corresponding move up from one technological level to a higher one. This is achieved through greater general and specialized education and through technology transfers. Both processes constitute investments in human capital to which the development agencies should devote the same attention that they give to physical investments. Yet of the Bank's total lending over the 15 years it has been in operation only 4.1 per cent has gone directly to education—a proportion that is clearly inadequate to cover the sector's needs. Consider, for example, the problem of hunger and malnutrition and the fabulous results achieved in the "Green Revolution" through "wonder seeds," increased fertilization and continuous improvement of farming methods. These have doubled and even quadrupled the productivity obtained with the old methods. It is clear from this how much can be accomplished in education and the true transfer of technology.

On this technology-transfer aspect, which forms an integral part of the education process in the developing countries, the Bank, like many other international agencies, has taken an active part in the discussions that have taken place. But as in so many other fields—nothing really dramatic and positive has been done. We have not, I believe, progressed even in a matter of such extreme importance as evaluation of appropriate technology. In countries as advanced as the United States, it was not until 1972 that an Office of Technology Evaluation was set up to advise

Congress on legislative aspects of the new technology and its probable effects. We have only to remember that the national crises in energy, the exhaustion of nonrenewable natural resources, and air, water, sea and soil pollution are interwoven with the world crisis in armaments, in population and in food. This technology evaluation is an extremely complex matter since systems analysis and cost-benefit calculations, although they include social cost, generally tend to overlook the time dimension of technology evaluation. What do I mean by this? A factual, if extreme, example will make this clearer. Between 1150 and 1167 the most celebrated medical school of the time—the School of Salerno—succeeded in distilling alcohol, or more precisely spirits, from wine. Pharmaceutically, this was regarded as a considerable technological advance, as is attested by medieval documents which extol the “beneficial effects of alcohol on facial tic, chronic headache, stomach complaints, falling or greying hair, tape-worms, epilepsy, cancer, sterility, sciatica, arthritis, and bad breath.” To what point could a medieval futurologist who was a good evaluator have foreseen the situation today, in which half of all traffic accidents in the world involve drunken drivers or pedestrians?

I hope you will forgive what may sound like a rather humorous digression on a very serious matter. But it is indeed very closely linked to the present topic of technology transfer. For while there is a great deal of discussion about what is the most suitable technology for transfer from the superdeveloped to the underdeveloped countries, no one, so far as I am aware, has yet paused to examine in depth on what criteria we should base this judgment. Some people believe that a priori the underdeveloped world should use the penultimate or the antepenultimate technology to produce a given product. Some assert the advantages of the highly labor-intensive technologies, without discrimination, over the capital-intensive methods, or try to push low-pollution, high-cost technologies in ecological and social conditions totally different from those existing in the countries that developed them. To learn to evaluate technology is, it seems to me, a necessary stage prior to its transfer to others.

On this latter topic I am going to offer a judgment which, though venturesome, might well merit study by the Bank's Management. It seems to me that the true and effective transfer of technology, to the point converting the artificial, one-way process of transfer from the transmitting to the receiving country into a natural and permanent process of two-way transfer, can be accomplished only through two clearly defined methods, both costly but both offering a high economic and social return.

One of these methods is to apply new technology in toto in an underdeveloped country and in a production sector for a sufficiently long period and on a full-production rather than an experimentation scale. In Chile, for example, during the application of the Point Four Program,

every known modern farming technique was applied, agricultural experimentation stations were set up, and a faculty of agronomy was even established in an entire province, under the "Chillán Plan." Results were impressive for as long as the effort lasted. But policy changes, national and international, prevented the plan from having the necessary continuity in time for the creation of the conditions needed to raise the artificial one-way transfer process into a natural process of two-way transfer. Progress is consolidated over longer time spans than a mere human lifetime, and thus over considerably longer periods than "the few years of political life" of those who take decisions which according to them should bear fruit in that brief span. This explains why so many good initiatives fail to yield results. But institutions endure beyond these human time limitations and are therefore well fitted to accomplishing these tasks. However, an integral program like the one described will call for far greater expenditure than the total spent nowadays in any country on technology transfer.

As for the second method, my own country Chile has just introduced it, as a first experiment. It is characteristic of the great multinational enterprises to spend enormous sums on the creation and development of new technologies related to the goods and services they produce or that concern them in the future as they see it. For this purpose, they set up their research centers in the developed countries where they have their headquarters or subsidiaries and where a suitable human and physical infrastructure already exists in the form of universities, laboratories, scientific centers, libraries and information media. This means that it is only the rich countries that create technology, with the result that the flow is always in one direction. In Chile we believe that the multinational enterprises, if they wish to continue to operate as such, must understand that they have certain obligations to the underdeveloped world that go beyond the purely economic activity that they generate when they set up business. One of the most important of these obligations is to create technology locally. Creating technology, forming an active part of the creative process, it is easy to move forward to the degree of natural continuity that will resolve the problem. This being so, Chile has set up a research center which in the initial stage will have two departments—Nutrition and Electronics—associated with the entire chain of research centers of a large multinational corporation and with substantial financial support from it.

If this is felt to be the right approach, I venture to suggest that the Bank study the financial resources that could be mobilized in support of initiatives of this kind, which it seems to my humble understanding would be much more effective than the approach that has been taken so far to the vital problems of education and technology.

This confirms once again the old saying of the Chinese poet Kuantzu which though often repeated seems destined to be always forgotten:

*"If you plan for a year, sow grain,
If for ten years, plant a tree,
But if for a hundred, educate the people.
If you sow a crop of grain, you will reap once,
If you plant a tree, you will reap ten times,
But if you educate the people,
you will reap a hundred times over."*

In banking terms, this wise saying might mean that if our concept of development is confined to the immediate future, we will spend everything; if we want material growth, we will make investments, but if we want to create a more humane society, education will be our primary concern. Bankers should not forget the words of Julian Green to the effect that the great sin of the modern world is to reject what it cannot see.

This is not to suggest, Mr. Chairman, that great importance is not attached to the problems which current conditions are creating in regard to financing of the material projects that constitute our most immediate needs.

Obviously, prevailing conditions have created means of financing particularly difficult, large-scale or long-term projects. The inflation affecting the entire world and especially in this case the capital-goods producing countries makes necessary very large budget estimates which may make the yield of a good project problematical and lead to its rejection or to continuing adjustments in the volume of credit required. Such adjustments generate "unwritten" difficulties and commitments for the finance institution. Failure to recognize that fact deliberately disregards the current situation. In Chile, a hydroelectric plant like Antuco, financed by a Bank loan, will require payment for its import component of an amount from 25 to 35 per cent higher than originally contracted. We cannot easily arrange to supplement the project by that amount, since we in turn are confronted by a difficult balance of payments position. It might be worthwhile to sum up the reason for this phenomenon as a specific example of how prevailing modalities represent an extreme crisis for some countries in our hemisphere.

The average current price so far in 1975 for our major export product, copper, is 58 U.S. cents a pound. The average price over the past 12 years, expressed in today's currency, should be 108 U.S. cents a pound. If the average price for the last 12 years is defined as normal, the volume of our exports this year would have declined under this heading by \$1 billion, a sum equal to 55 per cent of earnings from the exports of goods and services shown by our revised balance of payments for this year.

To grasp the exceptional negative position of copper suffice it to examine the information contained in Chapter III and the Statistical Appendix to the useful Bank study distributed at this Meeting under the title of *Latin America in the World Economy*. If we add to the copper problem the higher costs of our necessary and irreplaceable imports, deriving from rising prices for various commodities in the world market, even allowing for price deterioration and the substantial 40 per cent increase over the last 20 months in our farm production, our position has been weakened by an additional \$300 million as a result of that heavier outlay on imports. In addition to all of the foregoing circumstances, during the previous administration the country lost all of its surplus international reserves of nearly \$400 million, thus starting 1974 with a negative reserve of \$700 million.

For this reason, Chile feels that the Bank Management should regulate definitively and exactly the partially implemented system of two-step loans. One step is based on realistic estimate of project costs at the time of their presentation for decision by the Board of Directors with a normal margin for contingencies, while a second step consists of a supplementary loan whose amount would be established following contracting of the major capital goods in whose financing the Bank participates, with adjustments consistent with the procurement terms.

I believe that such a formula is realistic and mandatory under present circumstances, even though it may be eliminated later when price fluctuations and inflation reach a point that can be considered normal.

Obviously, in a case like that of Chile and I am sure in many other Latin American countries as well, the difficult balance of payments position also affects fiscal income in current currency, limiting local public financing for large-scale economic and social infrastructure projects and imposing an inefficient and expensive rate of works progress. It is difficult for the Bank to increase its contribution in local currency, since the loan of the Bank's own funds in such currency entails an additional obligation on the very public sector of the country that is in trouble. We all know that the Bank has for years sought a solution to this problem. Perhaps in some cases the issue of bonds with the Bank's guarantee in the local market could constitute an agreeable solution to this problem, particularly if, through some plan which has been sought on earlier occasions it were possible to attract Latin American capital that could be committed abroad.

It seems only fair to point out here the formula evolved by Venezuela in the Central American area, where local financing can be assured through partial payment in foreign exchange of the oil which that nation exports to a given country. The rest of the price is paid in national currency which Venezuela lends at long term for use in local financing, provided that the projects have been approved and are financed in foreign

exchange by an international agency. This formula, which seems to be imaginative, is of great interest. I believe that the Bank could bring its experience to bear on this search for new directions like what I have described.

Along this same line of thought, though on a completely different subject—the financing of exports by developing countries in the area—it is of interest to note the proposal discussed at the meeting of central banks held last week in Panama City. This proposal consists of the establishment of a common fund for those banks—unofficially an amount of \$300 million was mentioned—to support the discount of documents for export sales in the most important commercial banks of the Western World, which could thus finance a much larger volume of operations, perhaps ten times the amount of the guarantee.

The particular case of exports generally signifies a rapid turn over of money up to three years. Its importance relates not only to the development of countries in the area but very particularly to the various integration processes of which there are at present at least four in operation; involving more and more active production and trade. These four organized processes are independent of what naturally occurs in the border zones or between countries with common borders, which in some cases has more reality and consistency than some of the integrationist concepts current today.

Perhaps the great gap at this Sixteenth Meeting has been integration. Little or almost nothing has been cited as special achievements or contributions of the Bank in this area. I believe that from the standpoint of Chile's firm integrationist commitment I could not fail to note my country's wish for more active, direct and indirect participation by the Bank projects that are truly significant in this regard. Still generally apparent is the obstacle to intraregional integration trade posed by the fact that countries belonging to the same plan have a similar degree of industrial development, in terms of the sectors and products involved and their level of technology, which provides no particular incentive to trade.

Since most of countries in the area are primarily raw material producers, the financing of activities of this type is especially important. Furthermore, in this case as in many others, the special meaning of the Trust Agreement between Venezuela and the Bank must be emphasized. In fact, Section 3, Article II, in defining the utilization of resources of the fund, says that it will: "(a) Finance, through loans, projects or programs of national or regional importance, which contribute to the development of nonrenewable natural resources, hydroelectric resources, and to promotion of industry or agroindustry, including agroforestry activities."

Reserves of nonrenewable raw materials, especially minerals, are extraordinarily more abundant than those who are constantly predicting catastrophe care to recognize. Aside from the wealth to be found in the

seabed, it is a fact that the earth's crust contains enormous amounts of minerals and materials formed from mineral substances. No one knows what the future cost of mining those minerals will be. But historically, the real cost, that is the inputs of capital, materials and labor per unit of products obtained, has dropped dramatically as substantial progress has been made in exploration, mining, transportation and treatment processes as compared to the gradual exhaustion of reserves with a higher mineral content. A U.S. study for 1870-1957 showed that the real costs of mineral production fell from an index of 210 to 47, the year 1929 representing an index of 100. These results explain why at the 1855 Paris Exposition a bar of aluminum was exhibited next to the crown jewels and why at that time this metal was often used in making jewelry.

The major concern is not the fact that reserves are insufficient. Of the nine metals most commonly used today only one really important one has known reserves of commercial value at current prices below the level of world demand projected to the year 2000. That metal is copper. But the limitation of copper, as well as of other metals, I repeat, are not the reserves but the investments required to place the minerals as finished products on the market. Therefore, the possibility of providing the developing countries with access to significant sources of capital to finance the huge investments required is a factor of the greatest interest. This makes them less dependent in their relations with the foreign companies that can also provide financing, know-how and markets as long as they are secured on the basis of more equitable treatment in terms of benefits deriving from the development of these nonrenewable resources.

My comments have gone beyond the bounds of the courtesy I owe the Governors. Allow me to cite as my excuse my interest in the Inter-American Development Bank and our ample opportunity to meet to discuss the problems that concern us.

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

The reality which faces us in this Meeting is that the gap in living standards between the industrialized countries and the developing countries has widened considerably with each passing year. This has been true in times of boom as well as of recession. It is a consequence inherent in the existing economic order. This is the principal motivation in the search for a new economic order, one which would ensure that the developing countries receive a better share of the world's wealth and income and so narrow the inexorably widening gap in standards of living between developed and developing countries. The Inter-American Development Bank must continue to gear itself to be one of the foremost instruments of this change. This is the challenge that faces our Bank in 1975.

The countries represented in this Meeting have recently participated in the Sixteenth Session of ECLA held in Port of Spain. There we declared our determination to take the steps required to make this new economic order a reality. We examined a wide variety of measures required for the purpose, including the economic intergration of the developing countries, the promotion of producer associations and complementation agreements in Latin American countries, the transfer of technology and the development of an indigenous technology, the harnessing of potential of the trans-national enterprises, the conclusion of acceptable commodity arrangements with indexation, and the mobilization and transfer of resources for financing development in the developing countries of the world. In all of this a positive and constructive role is clearly anticipated for the Inter-American Development Bank. For since its inception, this Bank has been a principal instrument for the mobilization and efficient allocation of resources to assist in improving living standards in this region. In this regard we entirely agree with the policy pursued by the Bank of supporting sub-regional financial institutions, and I sincerely applaud the decision which the Governors have taken to uphold the Santiago decision that the Bank should lend to the Caribbean Development Bank for on-lending to its members. In this way the Inter-American Development Bank will assist more countries of the region in satisfying the demands of their peoples for a substantial improvement in the quality of life and social justice for all.

It is extremely encouraging to read the record of performance of the Bank during this past year, a year which has been significant in the annals of the Bank for the establishment of the Trust Fund by the Government of Venezuela. It is a mark of the capable direction which the

institution has had that the disbursement of funds for productive employment among its borrowing members reached record levels. But it is not only because of the quantum of funds that the record for 1974 has been outstanding; it is also in the widening areas of its lending program, in the fields of health, education and urbanization. Indeed the Bank's principal preoccupation can be described as the development of the human personality in Latin America and the Caribbean. This must continue to provide its inspiration in future years.

I therefore warmly congratulate the President, Mr. Ortiz Mena, and his capable staff for the efforts which they exerted on our behalf during this past year.

Given the challenges that lie ahead, this institution must re-examine some of its policies and make the necessary changes. The prospect of an increasing world shortage of food allows no room for withholding support to any form of agriculture, be it for export or domestic consumption, be it on large holdings or small. And the Bank, in its operations, must have regard to the effects of inflation on cost overruns and assist its burdened members in meeting these charges.

The Inter-American Development Bank owes a large measure of its success over the past years to an extraordinary capacity, achieved by few institutions and exceeded by none, to adapt its procedures and policies and to modify its structure and operations to meet the challenges of the times. It is in this context that I address a few remarks to the distinguished Governors, particularly with regard to the position of certain Caribbean members of this Bank. To be specific, I urge that this meeting take definitive steps to culminate the long process of consideration and provide a clear opportunity for these members of this Bank who are involved in the Caribbean integration movement to have their own voice in the Executive Board of this institution.

Let me assure the fellow Governors that, in presenting a case for full representation of these Caribbean countries on the Board of Directors of the Bank, I am not unmindful of legitimate claims of other member countries of the region for an enhancement of their position. The proposal which I have submitted to the Governors seeks to satisfy the legitimate claims of the Caribbean in a manner which should not require the dismemberment of any group or cause any other forms of dislocation.

Mr. Chairman, it is my submission that the need to provide representation of the countries of the Caribbean has been accepted without question for at least eight years; that the mechanisms required have been studied in depth for at least five years; and that the substantive issue has been explicitly recognized in certain concrete decisions which the Bank has taken. Let us examine the facts.

At the eighth meeting of the Board of Governors which the Bank held in Washington, D.C. in 1967, the distinguished Governor for Uruguay,

noting the prospective entry of new Caribbean members into the Bank—and Trinidad and Tobago was being considered for membership at that time—proposed “that the number of Directors elected pursuant to paragraph (d) of Annex C of the Agreement Establishing the Bank be increased by one, when at least two other countries have joined the Bank.”

The underlying philosophy of this proposal, which was aimed at providing equitable representation based on group interest rather than voting strength, was given specific effect in the case of Central American countries and of Uruguay, Paraguay and Bolivia.

But the Bank went further. At its Eleventh Meeting held in Punta del Este, Uruguay, in 1970, the Board of Governors unanimously agreed in Resolution AG-3/70.

The Board of Governors *resolves*:

To instruct the Board of Executive Directors that it study the amendment of Article VIII, Section 3, of Annex C of the Agreement Establishing the Inter-American Development Bank for the purpose of permitting the number of Executive Directors elected pursuant to paragraph (d) of the said Annex to be increased by one whenever three or more countries belonging to the same geographical area are admitted to membership in the Bank.

This was in April, 1970. I merely state for the record that the Executive Directors, in their study, found no specific problem to giving effect to the decision of the Board of Governors to provide representation to groups of three or more countries.

What is left for us at this Meeting therefore is to take the final steps to apply decisions taken in principle and in substance a long time ago by this Board.

Three CARICOM member countries of the Caribbean—Trinidad and Tobago, Barbados and Jamaica—are now members of this Bank. We urge that the procedures for the admission of Guyana and the Bahamas be completed rapidly. Further, Grenada, as a member of the OAS, has applied for membership in the Bank and we expect that its application will be speedily accepted. These countries, Trinidad and Tobago, Barbados, Jamaica, the Bahamas, Guyana and Grenada, form part of a sub-regional group and participate in an effective sub-regional integration. They are linked together either in CARICOM or the Caribbean Development Bank and in the other institutions of the Caribbean Community—in the Conference of Heads of Governments, in the institutions of the Standing Committees of Ministers responsible for Finance, Agriculture, Education, Labor, Health, Foreign Affairs and Natural Resources; and in their joint support for regional institutions—the University of the West Indies, the Caribbean Meteorological Service, the Caribbean Epidemiolog-

ical Service, the West Indies Shipping Corporation and the Caribbean Investment Corporation, merely to name a few.

This functional integration, surpassed by no other similar movement in this hemisphere, is recognized by other international organizations which treat the countries as a group—PAHO, WLO, ILO, ECLA and the European Economic Community.

The Inter-American Development Bank has been in the forefront in recognizing and supporting regional integration movements. Indeed, the Bank, discharging the mandate of its founding fathers to promote the economic development of its member countries individually and collectively, has taken conscious decisions to promote such integration movements. This is clear, not only in the special position accorded to Central American and the URUPABOL countries, but also in the establishment of INTAL, which has been the subject of our consideration at this meeting. It is logical therefore to expect the Bank to extend similar support and recognition to this group of countries.

The evidence is clear that the Bank intends to discharge its commitment to assure these countries of adequate and balanced representation. I am reassured in this by the decisions taken in connection with the agreement on the entry of non-regional countries in the Bank. That agreement provides that hemispheric members can increase the Board by two without the prior approval of the non-regional members. I am sure that one of these seats was intended for the Caribbean countries of which I speak.

I repeat, the proposal which Trinidad and Tobago has put before the distinguished Governors merely seeks to translate into positive action decisions taken over a long period of time by this august body designed to fulfill the legitimate aspirations of these countries.

I conclude, Mr. Chairman, by congratulating you on your election as Chairman of the Sixteenth Meeting of the Board of Governors of the Inter-American Development Bank, and I sincerely request that you convey to the Government and people of the Dominican Republic our gratitude for the facilities they have provided for this Meeting, for the cordiality of the welcome they have accorded us and for the excellent arrangements they have made for us to do our work.

ADDRESSES

FIFTH PLENARY SESSION

May 21, 1975

CLOSING SESSION

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

The Sixteenth Meeting of the Board of Governors is drawing to a close amid the cordial hospitality of the people and Government of the Dominican Republic. The proposals made in the general statements, the content of the discussions and the significance of the agreements reached at this Meeting open up new horizons for the Bank's future activities.

The admission of nonregional countries establishes a new multilateral link which will benefit both the Latin American countries and the nations joining the Bank. That is why I am confident that the countries which did not sign the Declaration of Madrid will want to do so within the period stipulated in that document. They will then be able to establish or intensify their participation in the development projects which the Bank helps to finance.

In the resolution adopted on this subject, the Board of Governors expressed the wish that the Agreement Establishing the Bank be amended at an early date so as to enable the nonregional countries to become full members of the Bank by the time we meet next year in San Salvador. That means that they should immediately initiate the necessary internal procedures so that their entry into the Bank can take effect as soon as the Agreement is amended.

The increasing number of large-scale projects for the development of energy and the exploitation of nonrenewable natural resources opens up new channels of collaboration for the Bank. In many cases they represent initiatives which promote economic integration of the region. Our institution recognizes that reality and is prepared to give the most careful consideration to initiatives in this field, employing its own resources and acting as a coordinating body when countries so request. The presence of the Bank, as an impartial technical agency, may be especially important to the economically less developed countries. The Venezuelan Trust Fund makes it possible to provide such cooperation to those countries.

Latin America has substantially increased its capacity to absorb development resources. The financing of large-scale undertakings often exceeds the possibilities of international finance agencies, which is why the Bank has undertaken studies and exploratory talks to intensify and systematize the mobilization of resources from external private sources on more favorable terms than countries can obtain in bilateral negotiations.

The Bank will continue its policy of channeling increasing proportions of loan funds to the relatively less developed countries. The balance of payments problem, which is especially serious for most of those countries in the present situation, is another reason for intensifying the application

of this policy. That is why it gives me great pleasure to note the attitude of the larger countries, which have collaborated by reducing their use of soft funds as shown by the fact that in the last three years participation of the smaller countries in the Fund for Special Operations has trebled—from 21 per cent in 1971 to 62 per cent in 1974.

In my statement at the beginning of this Meeting I pointed out that the larger countries are providing technical and financial cooperation to other nations of the region—particularly the smaller ones—cooperation which has reached very large amounts. That cooperation which is little known, often includes concessional aid as well.

The present crisis which we are experiencing has underscored even more forcefully the need for most Latin American countries to expand and diversify their exports. That implies a considerable effort to increase intra-regional trade and Latin America's trade with the rest of the world. In regard to the financing of exports, this Meeting has recommended that the Board of Executive Directors decide how to broaden the Bank's program in order to include manufactured and semimanufactured goods and other nontraditional exports. The decisions which might be taken in this matter do not lessen the importance of other efforts toward the same end. I have already referred to the progress achieved in establishing a Latin American bankers' acceptances market in the United States. Now I should like to say that we are following with special interest the study being conducted on setting up a fund for the financing of exports supplied by resources from the central banks of Latin America.

Some Governors referred to the need for the Bank to use the resources it has committed more rapidly. The fact is that, in the beginning, some member countries were unable to make rapid use of loans granted by the Bank mainly because of the weakness of the agencies responsible for executing projects and the lack of appropriate financial programming to ensure that the necessary counterpart funds were available in time. In most cases the countries managed to resolve the problem, often with the Bank's technical cooperation. It is also pertinent to note here that as long as three years ago the Bank started to implement a policy which greatly reduced the coverage of Bank operations, promoting better use of resources. In addition, the borrowing countries and the Bank have continued their efforts to speed up the disbursement of loans by more efficient administration of those funds. The progress made in that area can be clearly inferred from the statistics for the last ten years, in which the ratio between disbursements and loans rose from an average of 43 per cent for 1965-67 to 58 per cent in the 1972-74 three-year period. This ratio is comparable to the results obtained in similar institutions.

Another question on which this Meeting focused attention was the review of criteria for differentiating between member countries in the use of the resources of the Fund for Special Operations. The Board of Executive Directors should make its recommendations to the Governors in the

next four months. This is a very complex question that also involves analysis of a process of change in which a country's situation can fluctuate with time.

I am particularly pleased by the unanimous support this Meeting has given to the proposal for establishing a Consultant Group for Investment and Food Production for Latin America. We shall press forward with this initiative with renewed vigor. I should also like to express my special gratification for the support the Governors have given to INTAL in a resolution transmitting specific instructions to the Board of Executive Directors.

But the predominant concern of this Meeting has undoubtedly been the imperative need to increase the Bank's resources without further delay. The pertinent resolution establishes a working group which is to initiate its activities not later than July 15. Considering that most member countries in the group will be represented at the meeting of the Development Committee to be held in Paris June 12 and 13, I will take advantage of that occasion to convene its first meeting. That will enable us to gain time, which is very important in view of the very serious situation which would arise if the Bank did not have additional ordinary capital resources by the end of this year.

Before closing, I should like to reaffirm our deep satisfaction with the Board acceptance of the offer made by the Government of El Salvador to hold its next meeting in the capital of that country. I am confident that its decision can be implemented in terms that will ensure the success of the Seventeenth Meeting of this Board.

I wish to end my remarks by restating my profound faith in the capacity of our institution to be of service, and in the future of a Latin America that can reconcile the demands of economic growth with the attainment of social justice. Let us combine our efforts to encourage progress towards a more equitable distribution of income through policies and programs that provide adequate consideration for forms of land tenure which eliminate the dwarf holdings that condemn the rural dweller to life at subsistence levels, as well as for employment, education and health. In that way, we can gradually advance towards the ideal of equality among men, which is as old as mankind itself and which in this generous land was espoused with missionary zeal by Montesinos and Las Casas.

**Remarks by Mr. Diógenes H. Fernández,
Governor for the Dominican Republic
and Chairman of the Board of Governors**

In this, our last event of the Sixteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank, I should like to express our profound pleasure in having reached the closing session after three days of arduous labor during which we had an opportunity to discuss fully the problems with the greatest impact on the economic and social development of our countries and ways in which the Bank can help to solve them.

It has been a great honor and a source of deep gratification for the Dominican Republic to have served as the site of the discussions of this Board, for this has given us an opportunity to offer the warmth and hospitality of the Dominican people to our colleagues and friends representing the countries attending this Meeting in the hope that they will feel at ease during their stay here in this land of Columbus, as our dear friend José López Portillo, the Secretary of Finance and Public Credit of Mexico, called our country in his address.

The intense activity of the Bank officers during 1974, aimed at promoting the economic and social development of the member countries, deserves the highest praise because once again the Bank has managed to exceed the estimated volume of its loans and the limits of the technical cooperation expected of it. To that we would have to add the important and decisive progress made in its efforts to increase the inflow of financial resources so that it can continue to perform its excellent work of financial and technical assistance in the months to come. This substantial increase in the loan activities of the Bank is clearly shown by comparing the figures given in the well prepared report on the Bank's activities presented to us at the inaugural session by its President, Antonio Ortiz Mena.

The assurances given by the Governor for the United States, William E. Simon, that his Government will contribute \$1.8 billion in the next three years to the Bank's programs; the additional financial resources that will be forthcoming with the entry of the new nonregional contributing members, whose contribution will amount to \$745.4 million in the three years following their admission; the negotiations with the Venezuelan Government, which will place \$500 million in the Trust Fund to be administered by the Bank—all this leaves no doubt that enough resources will flow into the Bank's coffers to relieve the anticipated deficit in operations over the next few years.

Nevertheless, we feel, and should like to stress, that it is highly possible that the demand of the member countries for additional resources

to cover the import component of their economic and social development projects eligible for financing will increase substantially in the next few years if the prices of imported equipment and machinery remain at present levels while prices of their primary commodity exports continue downward. If what we foresee happens as we have suggested, we will have to agree with the gloomy and alarming picture so skillfully painted by President Balaguer in his masterly address inaugurating this Sixteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

That is why, while we congratulate the officials of the Bank for their commendable work designed to secure new sources of funds to meet part of the demand of the member countries, we should also like to encourage them to continue those efforts, and we would urge the Governors and other representatives of countries present here to seek the most viable and appropriate mechanisms and formulas to avert the disaster which may strike us, for, as we said in our address in Santiago, Chile, that would drag us all down into economic chaos, with tragic social consequences.

At this Meeting, the various ad hoc groups which met to discuss important questions like the resource position of the Bank and its projected loans for the 1976-78 three-year period, as well as the expansion of export financing, made considerable progress in defining the most basic aspects of those problems, but we believe that their work should be concluded as soon as possible so that the next special meeting of the Governors to be convened in September in Washington might work out initiatives and special financing programs for the development of the region.

Moreover, the President of the Inter-American Development Bank is to be commended for his decision to promote the establishment of an International Cooperation Group for Agricultural Development and Food Production in Latin America, reflecting the sense of the World Food Conference held in Rome in November 1974. We are fully convinced that the Bank's participation in the promotion and financing of the agricultural sector will be the most important backstop for development of the sector and will enable the region to meet its own needs and cope with the serious nutrition problems of Latin America.

Among the questions discussed at this Meeting of the Board, special note should be taken of the problem of financing exports, which is still a matter of concern for many of our countries because exports are their main source of foreign exchange. It is even more serious because, instead of a trend towards eliminating the obstacles to liberalization of trade, we note a trend towards a revival of protectionism, which restricts our hopes of increasing the share of our countries in world exports. We are therefore gratified by the decision of the Board to subject this important topic to an in-depth analysis with a view to recommending specific measures for

consideration by the Governors not later than October 31 of this year. We regard the expansion of the export financing program as of the highest importance for the Latin American countries because the economic development of our countries depends largely on the dynamism of our foreign trade. We must therefore rapidly expand the programs for financing this important balance of payments component so that our products can reach international consumer markets.

We should also note the importance of the strong support by the members of the Inter-American Development Bank for the idea of strengthening regional machinery for integration of the hemisphere, which will help to give even greater impetus to the integrated development of Latin America. Along those lines, the efforts to adapt the Agreement Establishing the Bank so that the Bank's resources will reach subregional financing agencies like the Caribbean Development Bank will benefit a large number of countries in the Caribbean zone.

We do not want to close without expressing our sincerest congratulations to the new Executive Directors elected during this Meeting and wishing them the greatest success in the new and important functions they must discharge in their high position. At the same time it is only fair to acknowledge the commendable work done by the outgoing Executive Directors, and I think I correctly interpret the sense of this meeting when I extend to them the appreciation of all the Governors and officers of the Bank for their special assistance during these difficult times.

I should also like once again to express to all the Governors my deepest gratitude for the high honor conferred upon me by my election as Chairman of this Board, and to thank the high officials of the Bank, particularly Mr. Ortiz Mena and the Secretariat, for their valuable help in bringing these deliberations to a successful conclusion. May I express my sincere appreciation as well to the employees, the secretarial staff and all those who were involved in one way or another in the preparation and conduct of this Meeting, for thanks to their generous assistance the work of this Meeting was made more tolerable and was conducted in a spirit of great cordiality.

Finally, I should like to say to my distinguished colleagues once again that we must pursue our work and the initiatives agreed upon at this Meeting with renewed energy because the urgency of finding solutions for the problems besetting the Americas is such that the action decisions to be taken cannot and must not be deferred. The work ahead, aimed at initiating new financing programs and special measures to provide more efficient and adequate assistance to the economic and social development of our peoples, must be brought to a close in the next few months so that at its next special meeting, the Board can adopt the measures which our peoples are demanding more and more insistently.

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

Resolution Ag-9/74

Remuneration of Executive Directors

The Board of Governors

Taking into account the recommendation presented by the Chairman of the Board of Governors and the Committee of two Governors acting pursuant to Resolution AG-2/72,

RESOLVES:

1. That, pursuant to Article VIII, Section 2(b) (v) of the Agreement Establishing the Bank, the Executive Directors and their Alternates shall receive, for the time they devote to the service of the Bank, a remuneration computed at the rate of US\$37,000 per year for an Executive Director and of US\$29,000 per year for an Alternate Executive Director, net of national taxes in both cases, effective as from June 1, 1974.

2. That the Chairman of the Board of Governors shall convoke a Committee of two Governors on the occasions he considers appropriate, to propose such further adjustments in the remuneration of the Executive Directors when there shall be a significant imbalance in the salaries of the Executive Directors and Alternates and those of similar authorities of other organizations, owing to cost-of-living or other important factors.

(Approved July 11, 1974)

Resolution AG-10/74

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 1975, 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 November 25, 1974)

Resolution AG-1/75

Recommendation to Amend the Regulations of the Board of Governors

The Board of Governors

RESOLVES:

That the text of Section 1 (a) of the Regulations of the Board of Governors be modified to read as follows:

"Section 1. *Meetings*

(a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action."

(Approved February 14, 1975)

**RESOLUTIONS APPROVED AT THE
SIXTEENTH MEETING OF THE
BOARD OF GOVERNORS**

Resolution AG-2/75

Regulations for the Election of Executive Directors

The Board of Governors

RESOLVES:

1. To amend the Regulations for the Election of Executive Directors, approved by Resolution AG-6/72 and amended by Resolution AG-7/72, in order to include the rules of procedure for conducting the general election of Executive Directors and partial elections in the event of a vacancy on the Board, pursuant to the terms appearing in document AB-415.

2. To amend Section 7 of the By-Laws of the Bank to read as follows:

"Section 7. *Vacancies on the Board of Executive Directors*

When a new Executive Director must be elected because of a vacancy requiring an election, the procedure established in the Regulations for the Election of Executive Directors shall be followed."

(Approved May 18, 1975)

Resolution AG-3/75

Financial Statement of the Ordinary Capital Resources (1974)

WHEREAS:

The outside auditors of the Bank, selected in accordance with Article VIII, Section 2 (b) (x), of the Agreement Establishing the Bank, have certified the general balance sheet and the statement of profit and loss of the Bank,

The Board of Governors

RESOLVES:

That the financial statement of the Bank with respect to the ordinary capital resources for the fiscal year ended December 31, 1974, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 20, 1975)

Resolution AG-4/75

Financial Statement of the Fund for Special Operations (1974)

WHEREAS:

The outside auditors of the Bank, selected in accordance with Article VIII, Section 2 (b) (x), of the Agreement Establishing the Bank, have certified the general balance sheet and the statement of profit and loss of the Bank,

The Board of Governors

RESOLVES:

That the financial statement of the Fund for Special Operations for the fiscal year ended December 31, 1974, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 20, 1975)

Resolution AG-5/75

Lending to the Caribbean Development Bank

WHEREAS:

Resolution AG-3/74 requested the Board of Executive Directors to study and propose amendments to 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;

The Board of Executive Directors presented a proposed resolution to the Board of Governors for a vote without a meeting, in which it recommended changes in the Agreement Establishing the Bank with respect to lending to the Caribbean Development Bank, and

A number of Governors expressed the opinion that the matter should be dealt with at a new meeting of the Board of Governors, which has been done at this meeting,

The Board of Governors

RESOLVES:

To recommend to the member countries that they take the necessary measures for approval and ratification of the amendments to Article III, Sections 1, 4 and 6(b) of the Agreement Establishing the Bank submitted for consideration by the member countries in document AB-409.

(Approved May 21, 1975)

Resolution AG-6/75

Criteria for Differentiation among Countries in the Use of the Resources of the Fund for Special Operations

WHEREAS:

The Board of Governors at the Thirteenth Annual Meeting adopted Resolution AG-11/72 "Fund for Special Operations: New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market";

There have been questions raised with regard to the implementation of that resolution and it has been suggested that in differentiating among countries, consideration be given to such factors as availability of natural resources, balance of payments position and prospects, the progress of the lowest income groups, and the desirability of according reasonably balanced treatment to relatively less developed countries participating in economic integration schemes, and

It is necessary, in light of changing economic conditions, to examine the system of differentiation among countries in relation to the Bank's lending operations,

The Board of Governors

RESOLVES:

1. To recommend that the Board of Executive Directors examine and adopt criteria for differentiating among borrower countries in the use of the resources of the Fund for Special Operations, including as part of such examination the appropriateness of the present classification system for use of such resources. In its examination the Board of Executive Directors shall take into consideration the observations made by the Governors on this matter during the Sixteenth Annual Meeting.

2. To request the Board of Executive Directors to inform the Committee of the Board of Governors not later than September 1, 1975 on the measures it may have adopted so that the Committee may consider them at its meeting to be held in Washington on the occasion of the next annual meetings of the International Bank for Reconstruction and Development and the International Monetary Fund.

(Approved May 21, 1975)

Resolution AG-7/75

Status of Bank Resources

WHEREAS:

The replenishment of the resources of the Bank is of fundamental importance for the future of the Bank's operations and it is therefore urgent to reach agreement on such replenishment in order to avoid any interruption in the Bank's activities in support of the economic and social development of the region;

It is of primary importance for the member countries that the Bank continue to perform, and, to the extent possible, strengthen its role as a multilateral instrument for channeling the transfer of real resources for development purposes, and

Due to the complex and technical nature of the subject, it is necessary that a working group be created to study alternative formulas for funding for the period 1976 through 1978,

The Board of Governors

RESOLVES:

1. That a working group be established to study the status of the resources of the Bank and submit recommendations on measures to be taken for an increase in the Bank's capital and in the Fund for Special Operations.

2. That such group shall consist of representatives of Argentina, Brazil, Canada, Colombia, Mexico, Nicaragua, the United States and Venezuela, to which would be added representatives of other member countries that prior to June 1, 1975 express to the Management of the Bank their interest in participating in the consideration of this matter.

3. That the Board of Executive Directors is requested to exercise continuing supervision over the efforts of the Management to support the prompt completion of the group's work and that the Executive Directors shall keep the countries they represent duly informed.

4. That the President of the Bank is asked to convene the meetings of the working group, with the first meeting to be held not later than July 15, 1975.

5. That the working group is requested to meet thereafter as often as necessary in order to be able to present a final report and recommendations not later than September 1, 1975, with a view to its consideration by the Board of Governors at a special meeting to take place at the headquarters of the Bank not later than September 8, 1975.

(Approved May 21, 1975)

Resolution AG-8/75

International Cooperation Group for Agricultural Development and Food Production in Latin America

WHEREAS:

In November 1974, the nations meeting at the World Food Conference in Rome reaffirmed their willingness to help the developing countries increase their production of food and develop their agriculture in order to bring about permanent solutions to the problem of hunger and malnutrition which affects wide sectors of humanity;

Latin America, while having greater agricultural potential than the other developing regions and while most of its countries are net exporters of agricultural products, has not been able thus far to contribute significantly towards improving the world food situation, and the region as a whole must import increasing quantities of food to meet its needs and overcome serious problems of malnutrition;

In view of this situation, and given the priority which the Bank has established for cooperation with its member countries to increase their production of food, to accelerate their agricultural development, and to improve their foreign exchange earnings, the initiative of the President of the Bank to organize a Group which will seek to reach these goals in Latin America has been received favorably, it being understood that such Group would operate in coordination with the Consultative Group whose creation with similar objectives on a world-wide scale was recommended by the Rome Conference, and

The association in this Group of Latin American governments as well as governmental, inter-governmental and private agencies which are active in technical and financial cooperation with the agricultural sector in the region, can contribute effectively to bring about an increase in the flow of external funds and improve the quality of assistance made available through the establishment of a coordinated mechanism,

The Board of Governors

RESOLVES:

To express its satisfaction on the initiative of the President of the Bank in encouraging the establishment of an International Cooperation Group for Agricultural Development and Food Production in Latin America, and to instruct the Bank to participate actively in the Group and continue its leadership in this field which is of great significance for the betterment of socio-economic conditions in the Hemisphere.

(Approved May 21, 1975)

Resolution AG-9/75

Expansion of the Export Financing Program

WHEREAS:

In fulfillment of Resolution AG-5/74, the Board of Executive Directors presented to the Board of Governors at the Sixteenth Annual Meeting a study by the Bank Management on measures and resolutions that may be necessary to expand the Program for the Financing of Exports which considers 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;

Pursuant to that resolution, the Board of Executive Directors also presented a legal opinion, in which independent legal consultants participated, on 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, indicating that presentation of that study entailed no pronouncement on the matter by the Board of Executive Directors, and

The developing member countries have reiterated their wish to have the Bank expand its export financing activities because of the importance to those countries of the exportation of all kinds of manufactures and nontraditional exports to a larger area than Latin America,

The Board of Governors

RESOLVES:

1. That the Program for the Financing of Exports should be expanded to include not only capital goods but also manufactures, semi-manufactures and other exports of a non-traditional character that contribute directly to production increases in the exporting as well as in the importing country, thereby contributing to the economic and social betterment of the developing member countries.

2. That the Board of Executive Directors is requested to take all necessary steps to carry out paragraph 1 of this resolution before August 31, 1975, and report through the Secretariat on that date to the Board of Governors on the measures adopted to that effect.

3. That the Board of Executive Directors is further requested to complete its study of all the matters raised in Resolution AG-5/74, and adopt or propose appropriate measures to the Governors no later than October 31, 1975.

(Approved May 21, 1975)

Resolution AG-10/75

Measures to Facilitate the Entry of Nonregional Countries

WHEREAS:

The Board of Governors by Resolution AG-3/73 requested the President of the Bank that, under the guidance of the Committee of Governors appointed pursuant to Resolution AG-5/70, he continue the negotiations for the entry of nonregional countries into the Bank and instructed the Board of Executive Directors to study and propose such changes as might be necessary in the Agreement Establishing the Bank as a result of these negotiations, and

These negotiations have been successfully concluded with the signing of the Declaration of Madrid on December 17, 1974, and the proposal for amendments to the Agreement Establishing the Bank submitted to the Board of Governors on March 18, 1975 (Document AB-414),

The Board of Governors

RESOLVES:

1. To commend the President of the Bank and the Committee of the Board of Governors for the successful conclusion of the task entrusted to them in connection with the entry of nonregional countries as members of the Bank.

2. To record its agreement with the action taken by the Board of Executive Directors, by Resolution DE-27/75, in providing for the President of the Bank to transmit to the Governors the amendments to the Agreement Establishing the Bank and other measures which it is recommended be adopted.

3. To record the desirability that there be concluded as soon as possible the steps leading to the entry of nonregional countries in the Bank for which purpose the member countries should accelerate their decision in accordance with the procedure referred to in paragraph 2.

4. To recommend to the nonregional countries that are signatories of the Declaration of Madrid that as soon as the Agreement Establishing the Bank has been amended they adopt the measures necessary for its prompt acceptance and their entry into the Bank.

5. To express the hope that other nonregional countries that did not sign the Declaration of Madrid accede to membership in the Bank during the period provided in the measures for nonregional membership.

(Approved May 21, 1975)

Resolution AG-11/75

Place and Date of the Seventeenth Annual Meeting of the Board of Governors

The Board of Governors

RESOLVES:

That the Seventeenth Annual Meeting of the Board of Governors, which the President of the Bank shall convene at the appropriate time, shall be held in the city of San Salvador, in the month of May 1976.

(Approved May 21, 1975)

Resolution AG-12/75

Remuneration of the Executive Directors

WHEREAS:

The Committee of the Board of Governors appointed pursuant to Resolution AG-2/72 has reviewed the remuneration of the Executive Directors and presented recommendations pertaining thereto,

The Board of Governors

RESOLVES:

1. To accept the recommendations of the Committee and to determine that, with effect from June 1, 1975, a non-pensionable annual allowance shall be paid of US\$5,000 for Executive Directors and US\$4,000 for Alternate Executive Directors, in addition to the annual remuneration fixed pursuant to Resolution AG-9/74.

2. To review the level of the allowance specified in paragraph 1 above at the times prescribed in paragraph 2 of Resolution AG-2/72.

(Approved May 21, 1975)

**DECISIONS ADOPTED BY
THE BOARD OF GOVERNORS
DURING THE SIXTEENTH ANNUAL MEETING**

Decisions Adopted by the Board of Governors during the Sixteenth Annual Meeting

Presented below is an account of the decisions adopted by the Board of Governors during the Meeting. The results of the sixth general election of Executive Directors are included, together with other decisions reached without approval of a resolution.

Regulations for the Election of Executive Directors

At the Preliminary Session the Board of Governors considered the proposed regulations for the election of Executive Directors presented to it by the Board of Executive Directors with a view to their application to the sixth general election, held during the Meeting. This proposal contains the regulations used in conducting election of Executive Directors in Quito in 1972, as well as a new section on the rules of procedure for conducting elections of Executive Directors and another on provisions applicable to partial elections to fill vacancies as set forth in Section 7 of the By-Laws of the Bank, to which an amendment was also proposed.

Also at the Preliminary Session the Board approved the regulations and the amendment to the Bank By-Laws pursuant to the terms appearing in Resolution AG-2/75. The text of the regulations is given on page 183.

Subsequently, the Governor for Trinidad and Tobago presented a proposal to amend the regulations in order to permit the election of an Executive Director by the Caribbean member countries and an additional Director by the Latin American member countries. At the request of the Governor for Trinidad and Tobago the proposed resolution was transmitted to the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 for study in due course. The proposal appears on page 187.

Election of Executive Directors

The sixth general election of Executive Directors, who would serve from July 1, 1975, to June 30, 1978, was held during the Second Plenary Session. The following persons were elected by the countries listed:

David B. Laughton	Canada
Hernán Aldabe	Argentina Chile
Raúl Barbosa	Brazil Ecuador
Jesús Rodríguez y Rodríguez	Dominican Republic Jamaica Mexico Panama
Juan Pablo Pérez Castillo	Barbados Trinidad and Tobago Venezuela
Armando Prugue	Colombia Peru
Rodolfo Martínez Ferraté	Costa Rica El Salvador Guatemala Haiti Honduras Nicaragua
Julio C. Gutiérrez	Bolivia Paraguay Uruguay

Pursuant to Article VIII, Section 3(b) of the Agreement Establishing the Bank, Mr. John M. Porges serves as Executive Director for the United States by appointment of the government of that country.

Fifteenth Annual Report of the Bank

At the Inaugural Session of the Meeting the President of the Bank presented to the Board the report on IDB activities in 1974. At the Second Plenary Session the Board of Governors approved the financial statements for the ordinary capital resources and the Fund for Special Operations covering the fiscal period ending December 31, 1974, by Resolutions AG-3/75 and AG-4/75, respectively.

Lending to the Caribbean Development Bank

It was reported at the Preliminary Session that, pursuant to Resolution AG-3/74, approved in Santiago, the Board of Executive Directors had, on May 30, 1974, submitted to the Board of Governors for consideration the proposed amendment to the Agreement Establishing the Bank to provide for the admission of the Bahamas and Guyana and lending to the Caribbean Development Bank (Document AB-409). It was recalled that the examination of the replies by the Governors had shown that eight of them, accounting for 30.89% of the total voting power, believed that the matter should again be discussed at a meeting of the Board of Governors. Accordingly, the Board of Executive Directors considered it advisable to include this point on the agenda for the Sixteenth Meeting.

At the Preliminary Session the Board of Governors agreed that the Committee of Governors would study the matter, taking into account also the proposal by the Governor for Guatemala, contained in Document AB-418-1.

The report presented by the Committee to the Board of Governors stated that there was a consensus that it would be desirable to recommend to the member countries that they accept and ratify the proposal by the Board of Executive Directors contained in Document AB-409. To this end it was proposed that the Board of Governors adopt the proposed resolution appearing in Document AB-418-2.

At the Third Plenary Session the Board of Governors approved the proposal in the terms appearing in Resolution AG-5/75.

The Governor for Guatemala voted against the resolution. The text of the Governor's observations on that occasion is given on page 189. The Governors for Argentina, Bolivia, El Salvador and Nicaragua expressed their agreement with the position of the Governor for Guatemala.

Criteria for Differentiation among Countries in the Use of Resources of the Fund for Special Operations

At the Preliminary Session the Board agreed to include in the agenda of the Meeting the Costa Rican proposal that the Board issue an opinion on the interpretation and application of Resolution AG-11/72 concerning new policy guidelines and preferential treatment for less developed countries and those of insufficient markets and requested the Committee of Governors to study the topic (Document AB-421). The proposed resolution submitted by the Governor for Costa Rica appears on page 190.

The Committee presented to the Board a proposed resolution recommending (i) that the Board of Executive Directors examine and adopt criteria for differentiation among borrower countries in the use of the resources of the Fund for Special Operations, and (ii) that the Board of

Executive Directors report to the Committee of Governors not later than September 1, 1975, on the measures adopted so the Committee could consider them at the meeting expected to be held in Washington on the occasion of the forthcoming annual meetings of the World Bank and the International Monetary Fund.

At the Third Plenary Session the Board of Governors took note of the Committee's report, accepted its views on the matter and approved Resolution AG-6/75.

Status of Bank Resources

In accordance with the provisions of Resolution AG-7/74, approved in Santiago, the Board of Executive Directors studied a possible increase in Bank resources by enlarging the authorized capital and the resources of the Fund for Special Operations and presented to the Committee of Governors a preliminary report on the matter which was received by the Committee at its Twelfth Meeting, held in Washington on June 11, 1974. At that time the Committee recommended that the Board continue to study the matter in order to decide in the near future on the amount and composition of the increase in resources. Subsequently, in April 1975, the Board of Executive Directors presented to the Committee a revised version of its preliminary report, prepared by the Management of the Bank.

At its Fifteenth Meeting, held in Santo Domingo, the Committee appointed at its first session a working group consisting of representatives of Brazil, Colombia, Mexico, Nicaragua and the United States to recommend the action to be taken in order to implement an increase in the Bank's resources.

At the Preliminary Session the Board of Governors took note of the establishment of that working group and requested that the Committee, in considering the topic, take into account the calculations prepared by the Management as set forth in Document FN-31-3 and the proposal of the United States representative on possible contributions by his country during the next exercise of replenishment of resources, amounting to US\$1.2 billion for capital and US\$600 million for the Fund for Special Operations.

In its report to the Board of Governors the Committee emphasized the basic importance of this exercise to the Bank and observed that, since the matter was complex, a study of alternative financing formulas was necessary. To this end the Committee recommended the formation of a working group of the Board of Governors to study the matter and present its recommendations as soon as possible.

At the Third Plenary Session the Board approved the proposal of the Committee pursuant to the terms appearing in Resolution AG-7/75.

Group for International Cooperation in Agricultural Development and Food Production in Latin America

At the Inaugural Session the President of the Bank gave an account of the steps being taken to set up the Group for International Cooperation in Agricultural Development and Food Production in Latin America with a view to coordinated action in the field of rural development and food production in the region. This initiative was set forth in a proposed resolution submitted by the Governor for Peru expressing the satisfaction of the Board of Governors and instructing the Bank to participate actively in formation of the group and in its future activities.

The Board accepted the proposal of the Third Plenary Session and adopted Resolution AG-8/75.

The Deputy Director General of the United Nations Food and Agriculture Organization (FAO) made a presentation on this matter at a special session held on Tuesday, May 20. His statement appears on page 197.

Expansion of the Export Financing Program

At the Santiago Meeting the Governors instructed the Board of Executive Directors, through Resolution AG-5/74, to study such measures and resolutions that might be necessary to expand the export financing program. To this end the inclusion of other goods for which financing might be appropriate in accordance with international practices might be considered, as well as enlargement of the geographic area of destination of such exports. That resolution also requested the Board of Executive Directors, in considering that matter, to examine the question of whether the Establishing Agreement permits the Bank to cooperate with the member countries in financing exports which are not necessarily capital goods and which may be destined to an area extending beyond Latin America. In addition, the Board of Executive Directors was asked to report to the Committee of Governors regarding implementation of that resolution.

At its Fifteenth Meeting, held in Santo Domingo, the Committee of Governors took note of the documents forwarded to it by the Board of Executive Directors in compliance with instructions received at the Santiago Meeting, together with the paper presented by the Governor for Argentina on expansion of the export financing program (Document CA-85). The Argentine proposed resolution appears on page 191.

During consideration of this matter by the Committee the consensus of the developing member countries was that, in view of the importance of this program to the region, the policy aim of moving ahead in expanding the export financing program should be clearly stated. To this end it was decided to recommend that the program include not only capital goods

but also manufactures and semi-manufactures and other nontraditional exports, provided such goods contributed to increased production in both the exporting and importing countries. The Committee also agreed to recommend that the Board of Executive Directors be asked to complete the studies of all aspects covered by Resolution AG-5/74 and to adopt or propose to the Governors such measures as might be appropriate by October 31, 1975.

At the Fourth Plenary Session the Governors approved the Committee's proposal pursuant to the terms appearing in Resolution AG-9/75.

The Governor for El Salvador, in expressing his satisfaction with the decisions made by the Board, clarified the fact that this measure should be considered as an amplification rather than a limitation of Resolution AG-8/63 and interpreted by the Board of Executive Directors as broadly as possible in terms of the direct contribution made by the exported goods to increased production in both the importing and exporting countries.

Measures to Facilitate the Entry of Non-Regional Countries

At the Third Plenary Session the Chairman of the Committee of Governors reported to the Board on the negotiations undertaken by the President of the Bank with nonregional countries leading to signature of the Declaration of Madrid. He also gave an account of action taken by the Board of Executive Directors in providing, under Resolution DE-27/75, that the President of the Bank should send the member countries the proposal for amendment of the Agreement Establishing the Bank and for the adoption of such other measures as might be necessary in order to permit the admission of nonregional countries to the Bank.

At the Fourth Plenary Session the Board of Governors approved Resolution AG-10/75 on this matter.

In the same connection, the Deputy Assistant Secretary of the Ministry of Economic Cooperation of the Federal Republic of Germany spoke on behalf of the nonregional countries. His statement appears on page 99.

Place and Date of the Seventeenth Meeting

In response to an invitation from the Republic of El Salvador, the Board of Governors, at the Closing Session, approved Resolution AG-11/75 providing that the Seventeenth Annual Meeting, to be convoked by the President of the Bank in due course, be held in the city of San Salvador in May 1976.

The Governor for Mexico, in supporting the selection of San Salvador, offered his country as an alternative site in the event that it should not be possible for any reason to hold this meeting in that city.

Remuneration of Executive Directors

The Committee of the Board of Governors appointed pursuant to Resolution AG-2/72, consisting of the Governors for Colombia and Brazil, met on Sunday, May 18, to study the remuneration of Executive Directors. The Committee's report was considered by the Chiefs of Delegations on Wednesday, May 21, following the Third Plenary Session, at which time Resolution AG-12/75 was adopted.

Credit Commission

At the Preliminary Session the Board of Governors took note of Document AB-416 containing a report presented by the Board of Executive Directors on the new structure of the commitment fee, henceforth to be known as the credit commission. This report was presented as agreed upon at the Fifteenth Annual Meeting of the Board of Governors during consideration of the topic on adaptation of the Agreement Establishing the Bank to prevailing general conditions.

Supplementary Financing for Cost Escalation

At the Preliminary Session the Board agreed to include in the agenda of its meeting the proposal by the Governors for Bolivia, Paraguay and Uruguay to examine supplementary financing for cost escalation under the new policy guidelines and preferential treatment for less developed countries and those of insufficient market. It also provided for the proposal, contained in Document AB-426, to be analyzed by the Committee of Governors.

At the Third Plenary Session the Committee Chairman reported that, during examination of that matter, it had been ascertained that the Board of Executive Directors had already adopted measures designed to cover similar situations. For this reason it was agreed to forward to the Board of Executive Directors the paper presented by the Governors for Bolivia, Paraguay and Uruguay to be borne in mind during the consideration of policy on this point, which should be applicable to all member countries regardless of whether or not they received preferential treatment. The Board expressed its agreement with this decision. The proposal referred to appears on page 000.

INTAL: Future Organization

At the Preliminary Session the Governor for Argentina submitted a proposal concerning the future organization of the Institute for Latin American Integration which was sent to the Committee of Governors for study. The proposed resolution of Argentina appears on page 193.

At the Third Plenary Session the Committee Chairman reported that, in taking note of the study being conducted by the Board of Executive Directors on the future organization of INTAL, the Committee felt it was desirable for the study to continue and in this connection the proposal submitted by the Governor for Argentina should also be considered. The Board expressed its agreement with this proposed course of action.

Rules of Procedure of the Committee of Governors

At the Preliminary Session the Chairman of the Committee of Governors reported that, pursuant to Resolution AG-4/74, extending indefinitely and broadening the mandate of the Committee, the proposed rules of procedure prepared by the Board of Executive Directors had been studied. These rules contained provisions concerning the organization and operation of the Committee but not its membership. On the latter point he said that the Committee had felt it proper to obtain an opinion by the Board of Governors.

The Board responded to the inquiry by the Committee, ruling in favor of retaining the procedure employed to date with regard to membership of the Committee, pursuant to Resolution AG-5/70.

At the meeting on May 20, the Committee approved its rules of procedures as set forth on page 195.

Regulations for the Election of Executive Directors

I. Election of Executive Directors

1. The Governors eligible to vote in accordance with Article VIII, Section 3(b) (ii), of the Agreement Establishing the Bank shall elect eight Executive Directors.
2. The Governor for Canada shall elect one Executive Director with the votes of his country.
3. Each Governor for a borrowing country shall, for his part, cast in favor of a single person all the votes to which the member country he represents is entitled under Article VIII, Section 4(a), of the Agreement. For the purposes of these Regulations, Sections 3 to 5 shall apply exclusively to the Latin American member countries and the total voting power of those countries shall be counted as 100 per cent.
4. In the first place, as many ballots as are necessary shall be taken until five persons have been elected Executive Directors in the following manner:
 - (a) Each of two candidates has received a number of votes constituting not less than the sum of the votes appertaining to the country with the greatest voting power and to the country with the least voting power.
 - (b) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the third greatest voting power and to the two countries with the least voting power.
 - (c) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fourth greatest voting power and to the two countries with the least voting power.
 - (d) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fifth greatest voting power and to the three countries with the least voting power.
5. In the second place, Governors whose votes have not been cast in favor of any of the Directors elected under paragraph 3 of these Regulations shall elect two Executive Directors on the basis that only countries individually having not more than two and one-half per cent (2-1/2%) of the total voting power shall be eligible to present candidates and to vote. The two candidates who receive the greatest number of votes shall be deemed elected, provided that in each case these

votes have been cast by three or more countries, and as many ballots shall be taken as are necessary to reach this result.

6. After the balloting has been completed, each Governor who did not vote for any of the candidates elected shall assign his votes to one of them. The number of votes appertaining under Article VIII, Section 4(a) of the Agreement to each Governor who has voted for or assigned his vote to a candidate elected under these Regulations shall be deemed for the purposes of Article VIII, Section 4(c) (ii) to have counted toward the election of such candidate.

II. Rules of Procedures for the Election

7. *Notice of the Election*

At least ninety days before the annual meeting at which a general election of Executive Directors is to be held, the Secretary shall so notify the Governors and invite them to nominate candidates.

8. *Supervision of the Election*

The Chairman of the Board of Governors shall supervise the election, shall appoint two tellers to supervise the balloting and count the votes and shall take such other action as he deems necessary for the conduct of the election.

9. *Nominations*

- (a) The election shall take place among the candidates nominated in accordance with these rules of procedure.
- (b) The Executive Directors shall be persons of recognized competence and wide experience in economic and financial matters and shall not be Governors (Article VIII, Section 3(b) (i) of the Agreement).
- (c) A Governor may not nominate more than one person.
- (d) Nominations shall be submitted to the Secretary.
- (e) Each nomination shall be made in writing and shall be signed by the Governor making the nomination.
- (f) The Secretary shall distribute to the Governors a list of the persons nominated.
- (g) The period for nominating candidates shall end at 10:00 a.m. of the first day of the annual meeting of the Board of Governors at which the election is to be held.

10. *Election*

- (a) The election will consist of three separate stages. The Director referred to in Section 2 of these By-Laws will be elected in the first stage, the five Directors referred to in paragraph 4 of the By-Laws

in the second and the two Directors mentioned in Section 5 thereof in the third stage.

- (b) The Governors may participate in only one stage of voting.
- (c) For each stage of the voting the Secretary will announce the names of the official candidates and of the countries eligible to vote.

11. *Balloting*

Each ballot shall be taken as follows:

- (a) Votes shall be cast on forms which the Secretary shall furnish before the beginning of the ballot to each Governor entitled to vote. On each ballot, only those votes shall be counted which have been cast on the forms distributed for that ballot.
- (b) The Secretary shall announce the names of the candidates and of the countries entitled to participate in the ballot. As each country is named, the Governor therefor shall deposit his signed vote in the ballot box.
- (c) When a ballot has been completed, the tellers shall check the number of votes and proceed to a count of the ballots cast.
- (d) If the tellers are of the opinion that any particular vote needs clarification or has not been properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before completing the tally; and such vote, if so corrected, shall be deemed to be valid.
- (e) As many ballots as are necessary shall be taken until all the Executive Directors to be elected in the separate elections provided for in Article 4 and in Article 5 of the Regulations for the Election of Executive Directors have been elected, in each case in a single ballot.
- (f) The Chairman shall state whether or not an election has been effected and if it has, he shall announce the names of the persons elected and of the member countries which elected them.

12. *Elimination of Nominees*

In any ballot, the Governor or Governors who have nominated a candidate may advise the Secretary that he will not participate in succeeding ballots, in which case his name shall be removed from the list of candidates.

13. *Settlement of Differences*

Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever

possible, questions shall be put without identifying the member country or Governor concerned.

III. Vacancy in the Board of Executive Directors

14. Directors shall continue in office until their successors are appointed or elected. If the office of an elected Director becomes vacant more than 180 days before the end of his term, a successor shall be elected for the remainder of the term (Article VIII, Section 3(d) of the Agreement).
15. When a new Executive Director must be elected because of a vacancy requiring an election, the President of the Bank shall immediately notify the member countries which elected the former Director of the existence of the vacancy and request that candidates be nominated.
16. The President may convene a meeting of the Governors of such countries for the exclusive purpose of electing a new director or he may conduct the election by mail or telegraph. Successive ballots shall be cast until one of the candidates receives an absolute majority of the votes cast.

IV. Amendment of the Regulations

17. The Board of Governors may amend these Regulations at any of its meetings, or by vote without calling a meeting by a two-thirds majority of the total number of Governors representing not less than three-fourths of the total voting power of the member countries.

Proposed Resolution

Regulations for the Election of Executive Directors. Amendment of the Regulations to Provide for an Increase in the Membership of the Board of Executive Directors

(Proposal submitted by the Governor for Trinidad and Tobago)

The Board of Governors

NOTING that the purpose of the Bank as specified in Article I, Section 1 of the Agreement Establishing the Bank "shall be to contribute to the acceleration of the process of economic development of the member countries *individually and collectively*";

RECALLING that pursuant thereto the Bank has traditionally promoted and supported Latin American integration;

RECOGNIZING further that the Bank has taken positive steps to accelerate the process of integration and for that purpose created INTAL and charged it with that specific role;

RECALLING also that the Bank has manifestly demonstrated its recognition and acceptance of and commitment to regional groupings by making provision in the membership of the Board of Executive Directors for two groups of lesser developed countries, namely Central America and URUPABOL;

REAFFIRMING its commitment to the principles of equitable representation and group interest which are enshrined in Resolution AG-3/70 which was unanimously approved at the Eleventh Annual Meeting of the Board of Governors in Punta del Este, Uruguay: "To instruct the Board of Executive Directors that it study the amendment of Article VIII, Section 3, and Annex C of the Agreement Establishing the Inter-American Development Bank, for the purpose of permitting the number of Executive Directors elected pursuant to paragraph (d) of said Annex to be increased by one whenever three or more countries belonging to the same geographical area are admitted to membership in the Bank;"

NOTING that the conditions referred to in Resolution AG-3/70 have been fully met by the entry into the Bank of Trinidad and Tobago, Barbados and Jamaica;

CONSIDERING that the fulfilment of these conditions will be further reinforced by the admission of the Bahamas, Guyana and Grenada as members of the Bank and that these countries, Trinidad and Tobago, Barbados, Jamaica, the Bahamas, Guyana and Grenada form part of a meaningful subregional integration movement;

RECOGNIZING also the need to take steps to ensure balanced

representation of other Latin American member countries of the Bank on the Board of Executive Directors,

RESOLVES:

- (a) to amend the Regulations governing the Election of Executive Directors of the Bank in order to permit the election of
 - (i) one Executive Director for the Caribbean countries heretofore mentioned and any new member country forming part of the Caribbean integration movement; and
 - (ii) one additional Executive Director for the Latin American countries.
- (b) to implement the Regulations as amended at (a) above prior to the admission of the nonregional member countries into the Bank or on January 1, 1976, whichever occurs earlier.

Lending to the Caribbean Development Bank

Observations Made by the Governor for Guatemala at the Third Plenary Session on May 21, 1975

We would like to express our thanks to the Chairman of the Committee that studied this point and to its members for having listened to the statement of position made for the record by the Delegation of Guatemala. We deeply regret the fact that it has not been possible to include the sub-amendment suggested by us. As presented for consideration by the Board of Governors this resolution would specifically allow resources of the Bank to which Guatemala has contributed to be channeled to the territory of Belize. It is not that Guatemala does not believe that the inhabitants of that territory have as much right as any inhabitants of our countries to a better life, but Guatemala has repeatedly stated very clearly its views on this problem. Recently, at the beginning of the year, in the Declaration of Puerto Ordaz, the Presidents of Venezuela, Panama and the four sister Central American republics of Honduras, Nicaragua, El Salvador and Costa Rica publicly supported on the international level Guatemala's stand in the case of Belize. We consider this resolution to be most worthwhile and would very much like to be able to support it because we have our own Central American Bank for Economic Integration and we understand the Caribbean Bank's need for funds. But we cannot support this resolution knowing that we would be approving the use of very scarce resources vital to all our countries to replace resources which Great Britain could grant that territory which it continues to hold illegally. Therefore, Mr. Chairman, I should like to state for the record Guatemala's position and its vote against the resolution presented.

Proposed Resolution

Interpretation and Application of Resolution AG-11/72 Fund for Special Operations: New Policy Guidelines and Preferential Treatment for Less Developed Countries and Countries of Insufficient Market

(Proposal submitted by the Delegation of Costa Rica)

WHEREAS:

The Board of Governors, meeting in May 1972, adopted Resolution AG-11/72, "Fund for Special Operations: New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market";

The scope of that Resolution needs to be interpreted so as to define the less developed countries;

It is necessary that all the countries of insufficient market be treated as a single group,

The Board of Governors

RESOLVES:

1. For the purposes of application of Resolution AG-11/72, the following countries shall be considered as economically less developed or as having an insufficient market and shall receive equal preferential treatment: Barbados, Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Trinidad and Tobago, and Uruguay.

2. The Board of Executive Directors may add to this group any new country that joins the Bank and has a level of economic development similar to that of any of the countries mentioned at 1 above. In addition, it shall recommend to the Board of Governors any changes it considers necessary to make in this category when circumstances so warrant.

Proposed Resolution

Expansion of the Program for Financing of Exports

(Proposal submitted by the Delegation of Argentina)

WHEREAS:

The Committee of the Board of Governors has received through the Board of Executive Directors a report prepared by the Management of the Bank on changes in regulations and operations that might result from the expansion of the program for the financing of exports;

That report also includes a legal analysis of the Agreement Establishing the Bank with a view to determining whether its provisions allow the Bank to cooperate with member countries in the financing of exports which are not necessarily capital goods and may be destined for broader area than Latin America;

The report concludes, *inter alia*, that:

- a. It is necessary and advisable to promote exports of industrial manufactures and to establish appropriate financing machinery for that purpose, and
- b. Nevertheless, the provisions of the Establishing Agreement do not permit the Bank's participation in a program for the financing of exports such as those proposed; and

The Board of Governors is empowered by Article XIII of the Agreement Establishing the Bank to interpret its provisions,

The Board of Governors

RESOLVES:

1. To extend the present system of promotion of exports to the financing of such exports without restriction as to their destination, in view of the fact that the main beneficiary of that system, through its financing, is the exporting country.

2. To affirm that the principles contained in Resolution AG-8/63 correctly interpret the Agreement Establishing the Bank and consequently permit the extension of the program for the financing of exports to manufactures, semi-manufactures and capital goods destined for countries that are not members of the Bank.

3. To entrust the Board of Executive Directors the drafting of regulations governing the expanded program in accordance with the above provision before September 30, 1975.

Proposed Resolution

Supplementary Financing for Cost Escalation

(Proposal submitted by the Governors for Bolivia, Paraguay and Uruguay)

WHEREAS:

The sharp rise in the prices of goods and services currently affecting the world economy has hampered the smooth execution of development projects in the Bank's member countries by substantially reducing the purchasing power of the loans made to finance them;

The resulting financing shortfall places the borrowing country in the situation of having to choose between halting execution of the project, with serious consequences for its economy, or contributing additional financing to cover the incremental cost;

The result is usually to disrupt the plans for financing the balanced growth of the Bank's member countries, the effect being particularly serious in the cases of the economically less developed countries and those of insufficient market, because of the relative weakness of their financial structures and balance of payments position;

The rise in the prices of the imported content of project inputs is totally beyond the control of the country executing the project,

The Board of Governors

RESOLVES:

1. To recommend to the Board of Executive Directors that the policy of preferential treatment for the economically less developed countries and those of insufficient market should be extended to include the granting of supplementary financing where it is reliably demonstrated that the cost of a project has increased for reasons beyond the control of the borrower.

2. The supplementary loan shall be granted on the same terms as the original operation and for an amount such that the original percentage of project financing remains unchanged.

Proposed Resolution

Institute for Latin American Integration: Future Organization

(Proposal submitted by the Governor for Argentina)

WHEREAS:

By Resolution AG-3/71, approved on May 12, 1971, the Board of Governors expressed its satisfaction with the activities carried out by the Institute for Latin American Integration and recommended that the Board of Executive Directors take the necessary steps with regard to its future;

By Resolution DE-72/72, approved on July 6, 1972, the Board of Executive Directors authorized the President of the Bank to take necessary steps to ensure continuation of the activities of the Institute for a period of six years and empowered the Bank and INTAL to implement institutional measures during that period which would make the Institute independent of the Bank, particularly as regards the latter's contribution to its basic budget, ensuring the Institute of greater autonomy within the framework of the IDB;

Pursuant to the above-mentioned Resolution DE-72/72, the President of the Bank signed an agreement with the Central Bank of Argentina, representing the Government of Argentina, calling for the continuation of INTAL activities during 1973-1978.

The Administrative Board of INTAL, at its Fifteenth Meeting held in Washington, D.C., on March 24 and 25, 1975, considered that, by virtue of Resolution DE-72/72, the Bank had committed itself to maintaining the present operational organization of INTAL up to the end of the six-year period provided for in the Resolution, and that after that period the Institution should assure greater independence and institutional autonomy in the technical, administrative and financial fields, while retaining its permanent ties with the Bank;

The Bank continues to assign the utmost importance to the process of Latin American integration and should accordingly continue to support the integration efforts of its member countries;

To date, the Institute has performed its task in support of the process of Latin American integration to the full satisfaction of the member countries and the regional and subregional integration organizations; and

In 1975, the host country of the Institute and the Bank reaffirmed the importance of INTAL and expressed their readiness to maintain and increase their contribution to the support of INTAL during the cited period.

The Board of Governors

RESOLVES:

1. To express its satisfaction with the activities carried out by the Institute for Latin American Integration in behalf of the integration of its member countries.

2. To recommend to the Board of Executive Directors that it continue to take the necessary steps to ensure financial support for INTAL from the Bank and the member countries.

3. To instruct the Board of Executive Directors to submit, in coordination with the Management of INTAL to the next meeting of the Board of Governors a proposal concerning the future organization of the Institute which should provide a larger measure of technical, administrative and financial autonomy within the institutional framework of the IDB.

4. To recommend to the Board of Executive Directors and the Bank Management that they utilize INTAL primarily as an executing agency for technical assistance projects relating to Latin American integration that be within the Institute's area of competence, establishing permanent machinery for the identification and allocation of such projects.

**Rules of Procedure of the Committee of
the Board of Governors
Appointed Pursuant to Resolution AG-5/70**

1. *Definition and Purpose*

The Committee of Governors established pursuant to Resolution AG-5/70 is a Working Group of the Board of Governors and as such performs the work entrusted to it by that Board and submits the pertinent recommendations and reports to it.

2. *Organization*

- a. In accordance with Resolution AG-5/70, the number of members of the Committee shall be the same as the number of Executive Directors who are appointed or elected in the Bank.
- b. At their first meeting following the Annual Meeting of the Board Governors, the members of the Committee shall select a Governor to act as Chairman, who shall serve for a one-year term, or until his successor is selected. The Chairman shall preside at all meetings of the Committee. In the absence or incapacity of the Chairman the Committee shall select another member to act as Chairman at that meeting.
- c. Any member of the Board of Governors may participate in meetings of the Committee.
- d. The Committee may draw, as it deems necessary, upon the resources of the Board of Executive Directors and the staff of the Bank.
- e. The Secretary of the Board of Governors shall act as Secretary of the Committee and shall be responsible for the custody of its records.

3. *Meetings of the Committee*

- a. The Committee shall meet as often as is necessary to complete its work. Meetings shall be convened by the Chairman at such times and places as he shall decide in consultation with its members and he shall instruct the Secretary to send notice of each meeting to all Governors. Such notice shall be sent not less than ten days prior to the date established for the meeting, except in the case of meetings held in conjunction with a Meeting of the Board of Governors when notice may be given at any plenary session of the meeting.
- b. The quorum for any meeting of the Committee shall be a two-thirds majority of its members.

- c. The President of the Bank, the Executive Vice President and the Executive Directors may participate in meetings of the Committee. Such other officials as the President of the Bank considers appropriate may also attend.
- d. The Chairman of the Committee shall prepare an agenda for each meeting, which shall be sent by the Secretary, with all pertinent documents, to each member of the Board of Governors at least fifteen days prior to the date established for the meeting, except in the case of meetings held in conjunction with a Meeting of the Board of Governors.
- e. In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified. Reports of the Committee shall be made available to all members of the Board of Governors and the Board of Executive Directors.
- f. The Committee may invite other persons to attend meetings.

**ESTABLISHMENT OF A
GROUP FOR INTERNATIONAL COOPERATION
IN AGRICULTURAL DEVELOPMENT
AND FOOD PRODUCTION IN LATIN AMERICA**

Remarks by Juan Felipe Yriart

Remarks by Juan Felipe Yriart, Deputy Director General of the United Nations Food and Agriculture Organization (FAO) on the Establishment of a Group for International Cooperation in Agricultural Development and Food Production in Latin America

Tuesday, May 20, 1975

First of all I should like to express to the representatives of the Governors and other participants my appreciation of the honor conferred upon me by President Ortiz Mena by requesting my help in setting up this group. I should also like to say that it was also for Dr. Boerman, Director General of the FAO, a great satisfaction to make possible my collaboration.

Many of you know my background. I am a native of the region and up to six years ago represented one of our governments. After that I served as FAO Regional Representative for Latin America and for the last three years I have been assigned to our headquarters in Rome, absent, not physically, but at least functionally, from the region. Consequently, it is a very special pleasure for me to have this opportunity of making a contribution to Latin America.

Concerning the topic of this meeting, an information document was circulated under the number AB-433 which not all of you may have read. I will attempt to provide a concise explanation in the hope that those with a special interest in the matter will consult the document.

The immediate precedent for this group can be found in the World Food Conference held last November in Rome during a very severe food crisis. For almost all of the past farm year it was doubtful whether an adequate supply of food would be available. When we speak of food in a starvation situation we are speaking mainly of grains in sufficient supply to prevent widespread hunger, especially in Asia. Fortunately, while the situation is very difficult, it has been possible, with the assistance of the governments mainly involved as producers and donors, to prevent a major crisis. But now the problem of hunger in the world and of insufficient food production in the developing countries, while not an emergency as it was last year, may be even more serious since we run the risk of lulling the most needy countries into false sense of security and complacency.

The fact is that we know the danger of starvation recurs regularly and that it will do so until such time as production in the developing countries can evolve to meet their needs. The Rome conference advocated a number of measures. In my opinion, those measures are as valid and as necessary today as they were last November. One of the decisions of the Rome conference was to set up a Consultant Group for Food Production

and Investment in the developing countries. That world-wide group is being organized, as the conference indicated, under the sponsorship of the World Bank, the United Nations Development Program and the FAO. It will begin work next July, after the meeting of the FAO Council beginning June 9 appoints as members 10 developing countries to represent the five world regions, that is, two countries per region.

During the Rome conference, the IDB President, Mr. Ortiz Mena, spoke very much to the point, making a wise and perceptive analysis of the problems of farm development in Latin America. He made it quite clear that the situation in Latin America is a very special one, in terms of both farm development and food production.

In brief, our region occupies what might be called an intermediate position, having attained an intermediate level of development and food production. Some of its countries are very sizable food producers while others suffer serious shortages. In world food trade Latin America accounts for 11 per cent of the value of exports.

But Latin America is in turn a food-importing region. In 1973 the regional nations imported \$2.5 billion in food products.

This creates a paradox, for Latin America has the productive capacity and the natural resources needed to make a relevant contribution to solution of the world food problem. But its first step should be to try to reduce its dependence on imports. This is the problem we face. However, the problems of Latin America in terms of food production are ultimately problems of development of the agricultural sector.

In organizing the world consultant group it became very clear that, without ignoring its jurisdiction or its interest in situations throughout the world, the group will have to operate on a basis of very narrow priorities in order to deal with the very serious conditions existing in Asia and some African countries. In view of that priority it will be difficult, at least at the beginning, to give the special attention necessary because of the particular circumstances in our hemisphere to the problems of Latin America.

Based on this realization and with reference to the analysis made by Mr. Ortiz Mena in Rome, the U.S. Secretary of State, Mr. Kissinger, proposed in his speech on Latin America delivered in Houston last March 1, in referring to agriculture, that the Inter-American Bank take the initiative in setting up a consultant group for agricultural development and food production in our hemisphere, which would in turn assist the world group that should in the beginning devote itself essentially to the problems of Asia and Africa.

This is the very task we are now undertaking and on which I am collaborating with the Bank. Generally speaking, the purpose of my task is to draft a document for presentation to the governments, containing the terms of reference for the group and its rules of procedure. To date, in addition to the support given me by the Inter-American Bank, I have

consulted very closely with the major technical and financial assistance agencies operating in the agricultural sector in Latin America. It is my hope that during the coming weeks we can make the necessary adaptations in the proposals I am preparing.

The aims of the group will be to promote a larger flow of financial resources and technical assistance to the Latin American agricultural sector and to endeavor to improve both the caliber and the volume of technical assistance received by the Latin American countries. To this end, a permanent but informal coordination mechanism would be set up.

Many problems of the farm sector will have to be studied. To mention only a few and to give a better idea of the great scope of the task ahead, I should like to say that the bottlenecks in the agricultural sector are formed by such activities as extension and marketing which must be strengthened; the farm credit systems, which will have to be improved, and the varied and highly complex problems of transportation and storage. Secretary Kissinger referred to the enormous food losses recorded by farm products in general, in some cases after the harvest, because of inadequate storage and poor transportation. Some long-standing problems have never been solved, including seed improvement, reproduction and certification. There is also the problem of fertilizers and other inputs, which instead of improving, have been made worse by the crisis because of shortages and higher prices. There is the problem of irrigation and of the use of new lands. We should not think that the use of new lands can be a major factor in increased production. Instead we must rely on better production. Another problem consists of setting up a suitable agro-industrial base. Again, there is the very serious problem of farm research. It is essential to strengthen national research capacity, and the ties between national and international research must be improved so as to make use of the great efforts being made on the world level. And as if this were not enough, we are still beset by very serious unsolved problems regarding the transfer of the new technology to the producer. Furthermore, we in America must establish and in some cases drastically improve information services with regard to both technology and markets.

All these problems should be approached in such a way that in seeking their solution we also promote the incorporation of great rural masses within the development process, as a means of ensuring its self-sufficiency over the long range. We will never be rid of these food crises until we develop the sector and the producer becomes a part of that development process. We must also set up goals with regard to nutrition which will have a significant impact on farm production policies in the countries and make very sizable efforts to invest in education and training.

The group, currently known as the Group for International Cooperation in Agricultural Development and Food Production in Latin

America, will not constitute a new international organization, and its secretariat will not entail another international bureaucracy. It will have at most two or three persons working to serve its needs. The group's efficiency will depend on the willingness of its participants to work sincerely and to support the recommendations of the group as if they were their own policy.

The group will be a mixed one. It will include representatives of governments, and we hope that all the governments that so wish will be represented. There will be representatives of the international technical and financial assistance agencies, national investment or technical assistance agencies working in the farm sector in our countries and even private agencies, as for example the farm research foundations. This is obviously a heterogeneous group all lumped together, including governments and the agencies they operate, and sitting at the same table as the equals which they are not. However, it is essential in order to achieve such coordination of effort to establish this dialogue on a basis of equality in which each participant contributes what it can.

This of course means that the group must be informal and flexible. No one will be committed to any particular course by the group; because of the legal inequality of its members no decisions compromising any one member can be taken. The normal processes of governments and the international agencies will not be superseded; instead they will continue to work with their jurisdictions as before. But it will provide a possibility for the governments, together with the international and national agencies wishing to serve them, to develop in this informal way coherent solutions that can later be applied to government-agency or intergovernment relations by offering a complete view of the solution to problems with reference to either a single matter or the general problems of the farm sector in a given country.

We believe for the time being that in the interest of efficiency we cannot plan on very large or very frequent meetings of the group. Consequently, we are thinking in terms of an annual consultative meeting. To avoid new administrative mechanisms and additional expenditures we could ask existing agencies that hold annual meetings to reserve two or three days for the group when they organize their own conferences. One example would be the use of our Meeting of Governors. Instead of having a secretariat incur costs and organize a special meeting, the Inter-American Bank, on the occasion of its Meeting, would be asked to negotiate with the host government services for the group's meetings. That consultative meeting would draw up the work program for the group for the year, dividing the tasks by topics. For example, who would be interested in the problem of seed? All of the governments obviously, but some more than others, and perhaps some can contribute more because of their experience or greater need. Then those governments, plus such

technical and financial agencies as can cooperate, will meet and study a coherent solution to the problems to be offered subsequently as a master solution to the governments, knowing that the agencies can collaborate with them. The same approach would be used to study, for example, the problems of research or marketing, or, to fantasize a bit, we might some day think about better solutions for financing intraregional food trade.

This is one type of activity for the group. Another activity could be in response to a request by the countries to examine the status of their agricultural sectors. To cite one example, a joint sectoral study is being conducted in the Central American countries by the IDB, the World Bank and AID. It is to be expected that the new Group can in the future encourage the international agencies to make many such studies for such reasons as obvious savings in expenditures and efforts. We can no longer continue to duplicate efforts. We must combine forces in an attempt to develop criteria valid for all the agencies. If we can do this the governments might afterwards want to request the group to serve as a forum for studying the measures that can be employed as a result of that study. At that broad forum, attended by the aid and financial agencies, it might be possible to seek solutions to be negotiated later by the governments with each of the competent agencies.

The other possibility for action by the group lies in coordinating pre-investment and technical assistance with the investment needs of the countries. I do not believe I am revealing any secrets when I say that there is very serious concern for the difficulties encountered in preparing and approving sound investment projects for the agricultural sector in the Latin American countries. The IDB and the World Bank have investment goals that seem to me difficult to attain because of the scant supply of projects ready for approval. We in the FAO who work in the field of technical assistance and in preparing investment projects find a great lack of coordination in the utilization of resources. When the governments seek within their national plans to make a national investment or to secure an international investment in the agricultural sector, a number of institutional and technical problems must sometimes be solved first. The same governments, when they need assistance in solving those problems, have available sizable resources for technical assistance from various sources—the United Nations, the inter-American system, the banks, the IDB itself, agencies such as AID or the Canadian CIDA, etc. However, those resources are being utilized for technical assistance with no view to subsequent investment needs. There is a certain lack of focus on this point. It is also my impression that the agencies furnishing technical or financial assistance could, for their part, through improved coordination, provide better assistance to the governments, solving the technical and institutional problems and thus securing investments.

We believe that the group would be a great help in this area. An

initial step in its action would be to ensure that existing resources now available for the agricultural sector provide a much better yield and be more efficient than they are at present. We might find, if we are successful along these lines, that in the not very distant future we would have to seek additional external resources for the agricultural sector.

Please do not confuse these observations I am making with the actual situation in the Inter-American Bank or the World Bank. These are personal observations. I believe that it is at this time difficult to speak of a shortage of resources because we are not yet making optimum use of the ones we have. What we must strive for in ensuring such optimum utilization is to establish the climate and the conditions for later attracting new resources, although this is perhaps too general a statement to be entirely correct. Also the international climate would suggest that, where good projects exist, where there is an appropriate climate for collaboration by the governments in solving problems in the agricultural sector, such new resources could be derived from various sources, through banks, private investment, etc. That is in fact one of the aims of the group. Possibly in coordinating existing resources in behalf of the governments the group can at the beginning point the governments to greater efficiency while it learns to work with them.

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United Nations

Economic Commission for Latin America

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International Labour Organization

Antonio Venturelli E.
Director
Regional Office in Mexico

**United Nations Conference on Trade and
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A. Fuentes-Mohr
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Division for Expansion of Trade and
Economic Integration

United Nations Children's Fund

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Javier Toro
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Programme for Promotion of Food and
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United Nations Development Programme

Enrique Ezcurra
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**United Nations Food and Agriculture
Organization**

Juan Felipe Yriart
Deputy Director General
Commissioned by the President of the
Inter-American Development Bank to
establish an inter-agency group on
agriculture

Anacleto G. Apodaca
Coordinator
FAO/IDB Cooperative Program

World Bank Group

International Development Association

**International Bank for Reconstruction
and Development**

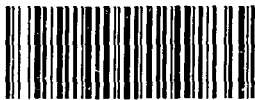
International Finance Corporation

Luis Escobar
Special Representative for Inter-American
Organizations
International Bank for Reconstruction
and Development
International Development Association

Gordon F. McClure
Investment Director for Central America,
Mexico and Europe
International Finance Corporation

Special Guests

The Sixteenth Annual Meeting of the Board of Governors was attended by 962 special guests from 40 countries.



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Santo Domingo, Dominican Republic 197

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