

OPMENT BANK

Annual Proceedings

Meeting Board 1976-1976

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Proceedings

Seventeenth Meeting of the Board of Governors

Cancun, Mexico, May 1976

INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Seventeenth Meeting of the Board of Governors

Cancun, Mexico, May 1976

PREFACE

The Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in Cancun, State of Quintana Roo, Mexico, from May 17 to 19, 1976. The plenary sessions, as well as the meetings of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 and of the working groups formed during the Meeting, took place in the Cancun Convention Center.

The inaugural session was attended by Mr. Luis Echeverría Alvarez, President of the United States of Mexico, who officially opened the Meeting. Also present were Mr. Jesús Martínez Ross, Governor of the State of Quintana Roo, and Mr. Alfonso Alarcón, Municipal President of Cancun. At that session Mr. Mario Ramón Beteta, Governor for Mexico and Secretary of Finance and Public Credit, was elected Chairman of the Board of Governors to preside over the work of the Meeting.

This publication contains the addresses delivered at the Meeting and the resolutions approved between the Sixteenth and Seventeenth Meetings, as well as those adopted in the course of the latter. It also includes the report of the Chairman of the Committee of the Board of Governors, an account of the decisions reached by the Meeting and the list of delegations of the member countries and observers from countries and international agencies in attendance.

The first Meeting of Consultation of the International Group for Agricultural Development in Latin America (*GIDA/AL*) was held immediately prior to the Annual Meeting, from May 14 to 16. A summary of the topics discussed at that Meeting is included.

Jorge Hazera
Secretary

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AGENDA

1. Election of the Chairman of the Board of Governors
2. Sixteenth Annual Report of the Bank, 1975
 - a. Financial report, ordinary capital resources
 - b. Financial report, Fund for Special Operations
3. Amendment of the By-Laws of the Bank: appointment of Temporary Alternate Executive Directors
4. Place and date of the Annual Meetings of the Board of Governors in 1977, 1978 and 1979

SCHEDULE OF SESSIONS

Saturday, May 15, 1976

9:30 a.m. Sixteenth Meeting of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70

Sunday, May 16, 1976

5:00 p.m. Preliminary session (chiefs of delegations)

Monday, May 17, 1976

10:00 a.m. Inaugural session (first plenary session)

1. Address by Mr. Diógenes H. Fernández, Chairman of the Board of Governors and Governor for the Dominican Republic
2. Approval of the agenda of the Meeting
3. Election of the Chairman of the Board of Governors
4. Address by Mr. Mario Ramón Beteta, Chairman of the Board of Governors and Governor for Mexico
5. Address by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
6. Address by Mr. Luis Echeverría Alvarez, President of Mexico
7. Sixteenth Annual Report of the Bank, 1975
 - a. Financial report, ordinary capital resources
 - b. Financial report, Fund for Special Operations

Tuesday, May 18, 1976

9:00 a.m. Second plenary session

1. Address by Mr. Roberto Keil Rojas, Alternate Governor for Peru
2. Address by Mr. Sergio de Castro S., Governor for Chile
3. Address by Mr. José Alfredo Martínez de Hoz, Governor for Argentina
4. Address by Mr. P. M. Greaves, Governor for Barbados

5. Address by Mr. Mario Henrique Simonsen, Governor for Brazil
6. Address by Mr. Gerald L. Parsky, Temporary Alternate Governor for the United States
7. Address by Mr. Mitchell Sharp, Temporary Alternate Governor for Canada
8. Address by Mr. David H. Coore, Governor for Jamaica
9. Address by Mr. Héctor Hurtado, Governor for Venezuela

Wednesday, May 19, 1976

10:00 a.m. Third plenary session

1. Address by Mr. Carlos Sanz de Santamaría, Temporary Alternate Governor for Colombia
2. Address by Mr. Jorge Lamport Rodil, Governor for Guatemala, on behalf of the Central American countries
3. Address by Mr. Nicolás Ardito Barletta, Governor for Panama
4. Address by Mr. César Robalino Gonzaga, Governor for Ecuador
5. Address by Mr. Carlos Calvo, Governor for Bolivia
6. Address by Mr. César Barrientos, Governor for Paraguay
7. Address by Mr. Victor McIntyre, Temporary Alternate Governor for Trinidad and Tobago

5:00 p.m. Fourth plenary session (closing session)

1. Study of Bank operating policies
2. Place and date of the Annual Meetings of the Board of Governors in 1977, 1978 and 1979
3. Remarks by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
4. Address by Mr. Mario Ramón Beteta, Chairman of the Board of Governors and Governor for Mexico

ADDRESSES

FIRST PLENARY SESSION

May 17, 1976

INAUGURAL SESSION

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

Cancun, this beautiful and modern tourism center, which provides us today with a magnificent setting for the Annual Meeting of the Board of Governors of the Inter-American Development Bank, which I have had the honor to preside over the past year, is not only endowed with natural beauty but was also the cradle of one of the most advanced civilizations of the precolonial period. The Mexican authorities, who have always been keenly aware of this historical fact, have demonstrated this awareness once again in the effort they have made on behalf of universal culture by constructing facilities to make it possible for us to come here and contemplate this remarkable combination of nature's beauty and man-made monuments. We would therefore like to express our gratitude and heartfelt good wishes to Mexico's distinguished President, Luis Echeverría Alvarez, for bringing to light values unperceived by modern man, who is perhaps too attached to material possessions.

I also have the honor of representing my colleagues in extending to President Echeverría our most cordial welcome to this inaugural session, and in asking him to convey our fraternal greetings from our peoples and governments to the Mexican people and to the Government which he heads.

As Chairman of the Board of Governors over the past year, I had the satisfying privilege of presiding over a series of regular and special meetings which produced highly significant results, mainly due to the unremitting, successful and effective work of our Bank President, Antonio Ortiz Mena, and of the officials and administrative personnel of this institution, without whose efforts such achievements would have been impossible.

In the year just ended great progress was made toward attaining the goals which occupied our agenda at the Sixteenth Annual Meeting. I do not intend to discuss here the revealing figures contained in the Bank's Report, which speak for themselves. We shall have the privilege of hearing them analyzed by the President of the Bank when he addresses this session. I should like, however, briefly to mention the most salient highlights of the period, such as the negotiations conducted to bring non-regional countries into the Bank; the increase in the ordinary capital resources and in the concessional resources of the Fund for Special Operations and our good fortune in being able to continue with a President

who has shown exceptional talent and ability in imparting to the Bank the flexibility and energy required for it to continue to meet the development needs of the region. Relative to the first of these, sufficient progress has been made to justify optimism, but an even greater effort is needed in order to prompt the nonmember countries which have still not completed the requisite legal procedures to do so with dispatch, so that this goal may be successfully achieved.

On the other hand, the constant efforts of the Bank to increase its ordinary capital resources and the concessional resources of the Fund for Special Operations, so vital to those of our countries which are relatively less developed and with limited markets, have been crowned with success. The importance of this achievement is seen in the fact that without the substantial financial support given by the Bank to its member countries during this period, the growth rate of the area would have suffered unpredictable repercussions from the unforeseen events that shook the world economy.

High praise should be accorded to the domestic effort made by many of our countries to maintain their rapid pace of development, without which their overall growth rate could not have averaged 7 per cent per annum during the 1971-74 period. We would like to take this opportunity to urge them through the Governors here present to heighten and continue this noble effort, which has brought the nations of this region into the middle class of the world community.

In 1975, 82 per cent of the loans approved by the Bank went to agriculture, industry, mining, electric power, transportation and communications. This simple listing points up the close link which exists between the proper policy for the use of the resources available to the Bank and the member countries' requirements for financing key projects for their economic and social development. Beyond any doubt, this close cooperation on the part of the Bank with its member countries, in a joint attack on the ills that undermine the very bases of the region's economic structure, has been a major factor in staving off any further weakening of the Latin American economies. This has not been a chance achievement. It has been due in large measure to the frequent contacts maintained by the executive officers of the Bank with the highest decision-making authorities of the member countries, through which new and beneficial channels have been created to make the Bank's assistance increasingly effective in its impact on the economic and social development of our peoples.

This Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank opening today is being held at a crucial moment for the economies of our member countries. For although the developed world is showing unmistakable signs of coming out of the economic crisis that has beset it in recent years, some negative factors

still persist that are obstacles to higher growth rates for the nations of the Third World.

Most of the countries that are not oil producers must continue bending every effort to overcome the hindrances to their growth deriving from the deficit situation of their external accounts. Accordingly, we must give greater attention to the need for adequate mechanisms to stabilize the prices of our exports in foreign markets, and we must see that our Bank assumes a more vigorous leadership role so that studies to provide solutions to existing problems in the fields of communications and transportation among the member countries may be carried out as soon as possible. In short, we must carry out a more clearly defined effort to help remove the obstacles to a wider opening of the vast Latin American consumer market for commodities and for human interchange in the region.

It remains our hope that this meeting will give impetus to action aimed at stepping up the export-financing program, whose study was recommended at the Sixteenth Annual Meeting held last year in Santo Domingo, so that this major source of the foreign exchange so essential for our economies may become more dynamic. In this connection, we have been requested by the Meeting of Governors of the Latin American Central Banks just held in San Salvador, to inform this meeting of their agreement to seek nonreimbursable technical cooperation for a study of an additional financial mechanism which, if feasible, its backers believe, would benefit the exports of the region.

I wish to take this opportunity to express the deep gratitude of the people and Government of the Dominican Republic for the generous financial and technical cooperation my country has received from the Inter-American Bank during the presidency of Antonio Ortiz Mena. We hope that this cooperation will continue, since—for reasons known to all of you—the growth rate of the Dominican economy has slowed considerably in the last two years.

Finally, I wish to reiterate my thanks to the entire executive, technical and administrative staff of the Bank for the understanding they have shown and the sacrifices and efforts they have made to ensure the success of the meetings of the Board of Governors held during my term as Chairman. I also take this opportunity to wish the greatest success to our new Chairman, so that the Bank will continue providing its abundant and vital support for the economic and social development of the region.

**Address by Mr. Mario Ramón Beteta,
Chairman of the Board of Governors,
Governor for Mexico and Secretary
of Finance and Public Credit**

In the splendid setting of this peninsula, which was the site of one of the most delicate civilizations of the pre-Hispanic era and which today bears witness to the ongoing transformation of Mexican society, we welcome the Governors of the Inter-American Development Bank and the distinguished members of the international financial community, at this Seventeenth Annual Meeting. Their presence here is an honor and a mark of distinction for us and affords us an opportunity to underscore the efforts we Latin Americans must make to develop better forms of cooperation and to accelerate the economic and social development of our nations.

The presence here of the Chief of State of Mexico attests to the fact that the people and Government of Mexico are aware of the importance of this meeting and wish to ensure that its work is carried forward in an atmosphere of genuine hospitality and well-founded optimism.

We Mexicans want to see the Inter-American Development Bank strengthened because we are convinced that it is a key instrument for crystallizing the aspirations of our countries to conquer backwardness, discontent and poverty, opening up new horizons of prosperity shared under the aegis of law, freedom, independence and mutual cooperation.

Meetings such as this one are part of the long historical process through which we have sought to convert the many affinities of the countries of our hemisphere into concrete agreements and coordinated action aimed at raising standards of living and affirming the dignity of all our peoples. We still face the challenge of achieving unity in diversity and of hastening the advent of general well-being.

The present situation of international financing for developing countries is marked by serious deterioration and limitations resulting from the international monetary crisis of the early 1970s, the rapid rise in the price of petroleum and industrial products and the widespread shortage of food. The situation has been further complicated by structural imbalances characteristic of developing countries such as accelerated population growth, inequitable income distribution and insufficient domestic savings.

Furthermore, the recession that has beset the developed countries in recent years is sharpening our countries' difficulties by causing a decline in their exports. This combination of factors has had an adverse effect on the balance of payments position of the developing countries and has increased their need for external credit to cover their current account deficits.

That is why it has been repeatedly stated in various forums that the industrialized countries, the members of the Organization of Petroleum Exporting Countries (OPEC) and the international lending agencies must channel increasing volumes of financing to the developing economies to enable them to meet minimum short-term growth targets, a *sine qua non* for generating domestic savings and broadening their export potential.

We are aware that some industrialized nations and other members of OPEC will need more resources to cope with the needs arising from their external economic situation. Nevertheless, it is vital that the financing of those needs not cause a reduction in the net transfer of resources to the developing countries, since such a cutback would hamper their growth and bring about serious social and political consequences.

That being the situation, the international financing agencies of which we are members are assuming ever greater importance because of the type of resources with which they support the development programs of their member countries. Those agencies are an expression of the interdependent world of today and an appropriate instrument for stimulating our economies because of the favorable credit terms they offer and the technical cooperation they provide for the preparation of projects and programs to be financed.

Unfortunately, in the international context most of our countries are regarded as relatively more developed than those of other regions of the world. That argument has been used to justify a decrease, in relative terms, in the volume of resources provided by these lending agencies.

We fully agree that support should be given as a matter of priority, to relatively weaker economies. But since all developing countries need increasing amounts of credit on favorable terms, regional financing agencies like the Inter-American Bank must increase their resources sufficiently to meet the requirements of their member countries.

In the next few years our Bank must step up the flexible, imaginative and programmed action it takes to improve its methods for tapping new resources and making loans in its capacity as a leading force for regional integration. No possibility should be overlooked if we are to overcome backwardness and poverty.

Among the policies it can pursue to augment its resources, the Bank should persist in that relative to the admission of countries outside the region. It should also formalize and broaden the agreements adopted at the 1975 Meeting to increase the Bank's ordinary capital resources and Fund for Special Operations. This is the appropriate time to express our confidence that those two measures will be fully implemented, expanding the Inter-American Development Bank's resources and its capacity for service. We support the efforts made in this regard by the Bank's Management and, particularly, by its President, Antonio Ortiz Mena.

The role of catalyst assumed by the Bank to facilitate access by its

member countries to capital markets is also important, particularly to some of them. However, that action should at no time replace or restrict the direct presence of the Bank in financial markets or impair the independent operations of countries that are already seeking resources in those markets.

At the same time, the Bank Management should develop mechanisms for investing the Bank's liquid reserves among the developing member countries with a view to stimulating their domestic capital markets and enabling them to increase the resources allocated to their development programs.

It is also imperative to redefine the Bank's sphere of action, taking into account the variety of activities that it has undertaken throughout its activities and the fact that the funds available to it to meet the development needs of the region are increasingly limited.

Until a few years ago, programming by sectors was not very complicated; it was based on the needs indicated in the countries' loan applications and on the studies and experience of the Bank's Management. Today the problems are more numerous, but it is still desirable that the sectors the borrowing countries want to develop be in line with those programmed by the Bank.

I believe that the government officials responsible for the various economic and social sectors of the member countries have a clearer view of the needs and ways of meeting them. Who but the agencies that program investment within a State fully understand the interrelationships among all its economic sectors?

In this connection, I should like to reiterate that true integrated development is possible only when it is based on the priorities set by the member countries. International aid is by no means a substitute for national sovereignty; rather, it is a way of enriching that sovereignty through respect and solidarity among nations.

I am pleased that this Board of Governors Meeting should be held in the tourism center of Cancun which is being developed with the Bank's support. The results are all around you. Not only will there be an increase in foreign exchange earnings, but, above all, permanent sources of employment have been created and a new center of development established in what was formerly a desert. Cancun is not perfect but it is a triumph of creative imagination, bold nationalism and international understanding.

If the Bank is to play its proper part as a leader in providing financing for our region its operating policies must be clarified and fully defined, taking into increasing account the criteria and proposals of the member countries.

The Bank has adopted so many diverse policies and practices to carry out its operations that it is time now for the Board of Executive Directors

to adapt their design and application more closely to the most informed elements of interpretation, such as those contained in the statements by the Governors, specific instructions received from the countries and arguments put forth by the Directors.

I should like to suggest in particular that the Board of Executive Directors study and re-examine Bank policies on international bidding, project cost, use of currencies, program financing and distribution of exchange risks, taking care in every case to avoid any discrimination among member countries.

With regard to regional integration I should like to congratulate the Bank Management on its efforts not only to consolidate exclusive Latin American instruments but also to secure rapprochement with the new states of the Caribbean, an area bound inseparably by history and geography to our continent. Such efforts include the admission of independent Caribbean nations to the Bank and the support proposed for the Caribbean Development Bank.

Mention should also be made of the Bank's efforts to promote technical cooperation by means of a new mechanism enabling the member countries to share practices and know-how. In addition to helping them to develop closer ties, this will encourage the formation of a regional technology which, as has been well said, will be as large and as encompassing as the countries wish to make it. This idea is similar to those that prompted President Echeverría to call for the establishment of the Institute for Economic and Social Research in the Third World.

Mexico is a firm believer in independence and international cooperation. We know there is nothing more precious to a human society than the freedom to decide its future without outside interference. But we also know that autarchy is an impossible dream and isolation sterile and frustrating. Consequently, Mexico adheres to an international policy militant in favor of peace, self-determination, nonintervention and respectful cooperation.

Within the framework of this straightforward policy the Government of Mexico under the inspired leadership of President Echeverría, has in recent years bent every effort toward persuading the community of nations to overhaul the basis of its economic relations as an essential requisite to launching a new stage of human history in which peace will be founded not on a balance of terror but on the rule of justice and general prosperity.

The President of Mexico has stressed at many international forums that economics and politics cannot be arbitrarily or abstractly separated in dealing with the needs and demands of an ever more interdependent world in which exist marginalized, hungry and backward masses.

During the past few years Mexico has never failed to give its strong support to every initiative aimed at evolving projects of regional integra-

tion and multinational cooperation. Yet at the same time it has proposed that the problems of world economics be couched in terms of reason and law, in contrast to mere good intentions and abstract statements.

Two such proposals have already made considerable headway despite obstacles and misunderstandings. The Charter of Economic Rights and Duties of States is today an international legal decision endorsed by a consensus of more than 120 countries, and the Latin American Economic System (*SELA*), has begun operations with the creation of its principal directing bodies.

Obviously, the Charter will not suddenly and fully solve the complex problems of a highly inequitable and disruptive international economic order, but its precepts afford a solid moral and legal basis for replacing exploitation with justice and confrontation with negotiation. The important point is the gradually better understanding of the fact that the Charter is not a catalogue of complaints or petitions by Third World countries but rather an instrument for making economic relations clearer, more lasting and more equitable, seeking the common good in order to prevent the great gap between affluent and poverty-stricken countries from leading us to a rupture whose consequences would be incalculable and painful.

The objective validity of the Charter is demonstrated in many positive actions that renew our heartfelt optimism. Some of those actions are carried out in our hemisphere by the Inter-American Development Bank. For that reason we are concerned with expanding its resources and capacity for service.

With regard to *SELA*, allow me to repeat here this new agency has not been developed in order to replace others that can and should continue to act to faster understanding among our peoples and general progress in the hemisphere. Nor has *SELA* been conceived as a mechanism to fight against certain economies. Rather, it is designed to prevent the fragmentation of efforts, the unplanned use of resources, isolation in external trade practices and delay in the handling of economic problems. *SELA* fights against the problems of underdevelopment and for more flexible and fairer relations between its members and other countries or groups of countries whose right of association has never been questioned.

In short, jealous of our independence we are working optimistically for a new world economic order. This is the higher purpose of Mexico's active participation in all forums where the fate of mankind is studied and discussed. This is our aim in endeavoring to ensure that the Inter-American Bank will effectively perform its function of furthering economic growth and social justice in the hemisphere of Bolívar, Lincoln and Juárez.

Finally, I ask that you accept my deepest thanks for the distinction

you have honored me with in electing me to preside over our Annual Meeting. I realize that this is your way of expressing your cordial friendship for Mexico and for that reason I should also like to convey the appreciation of my Government.

It is my sincere wish that the agreements reached here will contribute to understanding, cooperation, progress and peace in our hemisphere and in our world so sorely in need of hope.

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

With my first words I would like to express my deepest appreciation to the authorities of the Federal Government, the State of Quintana Roo and the Municipality of Cancun for having made it possible for the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank to be held in Mexico in a region of extraordinary natural beauty whose archeological monuments stand as eloquent symbols of our ancient civilizations.

For me it is a source of particular satisfaction and pride that the site of this important financial conclave should, for the first time, be a new center of activity launched with the direct participation of the institution I am honored to head. The loan authorized by the Bank for this project in 1971 was also the first in a given area earmarked exclusively for the comprehensive development of tourism infrastructure and represented an innovative step in its credit policy.

Only eight years ago this was virgin land inhabited by some 200 persons. In a very short time an undertaking has been carried out which, without disturbing the harmony of the landscape, has transformed the region, creating an additional source of wellbeing and progress for the Mexican people. Suffice it to note that a center of tourist attraction at the international level has been established, supported by a new city with a population of more than 20,000. Along with fine hotels and a modern transportation system, a community of workers has been established in which, in addition to fulfilling all daily needs, schools and training centers have been set up for continued improvement of the human potential of its inhabitants. Development of agricultural production in the zone has also been stressed in order to add new sources of income.

In the face of this reality, I cannot fail to recall my statement to this Board in 1966, when as Governor for Mexico I said: “. . . in the evaluation of integral programs, extreme care has to be taken, especially by borrowers, but also by the Bank as the lender, to weigh the real degree of the need for an integral approach to projects against the national economic and social opportunity of these investments.”

Before turning to a consideration of other topics, I should like to refer to the tragic aftermath of the earthquake that occurred in Guatemala in the early morning of February 4, 1976, and the ensuing tremors which resulted in the loss of many lives and heavy material damages in various urban and rural areas.

The people and the authorities of that sister country have responded

magnificently to this adversity, facing up to the enormous task of rebuilding the devastated areas. The external cooperation of countries and international organizations has been offered promptly and generously, but such aid can only supplement the labors and the spirit of sacrifice of the afflicted country.

The Inter-American Bank stood ready from the very first to offer immediate help. A special mission visited the country to evaluate the damage and the socioeconomic consequences of the earthquake, making it possible to draw up an action program consistent with the priorities established by the authorities of Guatemala.

Following up an immediate assistance extended for the installation of four field hospitals, the Board of Executive Directors approved, first, the rechanneling of \$34 million in previously authorized loans to provide for the repair of highways and roads, water and sewage systems, university buildings, hotels and housing. It then granted a loan for \$28 million for a program of health centers and clinics whose original intent was revised and expanded to take the effects of the earthquake into account. Finally, the Executive Directors authorized a new loan for \$20 million, financed with the national currencies of Argentina, Brazil, Colombia, Mexico, Peru and Venezuela, representing a mobilization of intraregional cooperation on behalf of Guatemala. That loan will be used for the reconstruction of housing in rural areas and for the provision of basic infrastructure services.

The frequency and periodic nature of these and other natural phenomena affecting various countries of Latin America in recent years make it necessary to deal with these disasters, no longer as occasional emergencies but as recurring situations that should be resolved by organic and coordinated action.

To this end we are preparing a policy document which will enable us to act without delay and to deal with such emergencies in an organized manner.

Bank Activities in 1975

I am pleased to inform the Governors that in the 1975 Fiscal Year the Bank attained an unprecedented level of lending and technical cooperation. Also during 1975 the Bank raised the highest amount of resources since it began operations through the sale of its securities on the capital markets and through other financial operations.

The 1975 Annual Report presented by the Board of Executive Directors and transmitted by me to the Governors contains a detailed description of the activities carried out by the Bank. For that reason, I will confine myself to mentioning only the most important aspects.

Loans and Disbursements

During the year the Bank authorized 70 loans totaling \$1,375 million consisting of \$1,280 million from its own resources (\$646 million from the ordinary capital and \$634 million from the Fund for Special Operations) and some \$95 million from other funds administered by the Bank. These loans are helping to finance projects for a total cost of \$4 billion, contributed mainly by the countries benefited.

The amount disbursed on previously authorized loans totaled \$712 million, more than \$80 million over the figure of \$628 million recorded in 1974. Of the funds disbursed, \$328 million came from the ordinary capital, \$371 million from the Fund for Special Operations and \$13 million from other sources.

Sectoral Distribution of Loans

An analysis of Bank activities by sector corroborates the preferential attention given to the rural development of the region during 1975. Agriculture accounted for 24 per cent of the credit portfolio authorized in the year, followed in order of importance by electric power, 22 per cent; transportation and communications, 22 per cent; industry and mining, 14 per cent; sanitation, 8 per cent; education, 5 per cent, and urban development, 3 per cent. The remaining 2 per cent was devoted to export financing, preinvestment and tourism.

The agricultural sector loans totaling \$332 million benefited 13 countries and were used to support the development of small and intermediate agriculture and rural cooperatives (\$111 million), rural modernization and supervised credit programs (\$90 million), comprehensive rural development and reforestation programs (\$70 million), national animal health programs (\$37 million), increased fishery or hog production (\$16 million) and support for national savings and loan cooperative programs (\$8 million).

The electric power loans amounting to \$304 million went to four countries to help build three large hydroelectric plants and install transmission lines (\$278 million) and to finance rural electrification programs (\$26 million).

Loans totaling \$303 million in the transportation and communications sector benefited 13 countries. Those loans are designed to build highways and roads (\$182 million), install and improve telecommunications systems (\$78 million) and expand and modernize port facilities (\$43 million).

The industrial sector loans aggregated \$185 million and went to eight countries, helping to expand a steel mill (\$70 million), develop small and

intermediate enterprises (\$47.4 million), grant credits to private corporations (\$30 million), develop basic manufacturing industries (\$15 million), construct a cement plant (\$12.6 million) and rehabilitate companies (\$10 million).

In the health and environmental sanitation sector, loans totaling \$108 million benefited eight countries, helping to finance water supply or sewage systems in rural communities and urban centers (\$68 million) and to construct hospitals, dispensaries and rural health centers (\$40 million).

In education the Bank authorized three loans for the \$70.8 million to three countries. They financed a program for the reform and improvement of higher education (\$50 million) and the improvement of vocational and technical education and basic cycle schools (\$20.8 million).

In the urban development sector the Bank committed a total of \$38.2 million in two countries to be used to build social infrastructure in low-income communities (\$25.2 million) and to construct urban streets (\$13 million).

Under the program to promote the financing of intraregional exports, the Bank granted lines of credit to three countries (\$25.8 million). In the preinvestment sector the Bank approved an operation on behalf of two countries to finance an agricultural project in their border areas (\$5.2 million). Finally, the Bank granted two loans for tourism development in one country (\$2.5 million).

Preferential Treatment for Less Developed and Limited Market Countries

During 1975 the Bank stepped up its support for the 15 member countries classified as less developed or of limited markets. Those nations obtained \$562 million in loans, 44 per cent above the level authorized in 1974, and nearly 41 per cent of all loans approved during the year.

Of concessionary loans, mostly extended from the Fund for Special Operations, approximately 65 per cent of the loans authorized in 1975, that is, \$412 million, were allocated to those countries. As another favorable factor, 80 per cent of all resources authorized from the Fund were allocated in foreign exchange.

Seven of those countries—Barbados, Bolivia, El Salvador, Guatemala, Haiti, Panama and Uruguay—received during 1975 the highest volume of loans ever extended to them by the Bank.

Interest Rate on Ordinary Loans

The annual rate of interest applied by the Bank to loans from the ordinary capital resources remained at 8 per cent during 1975 and to date, a

situation that has benefited all borrower member countries at a time when they have had to confront difficult problems stemming from the worldwide economic crisis.

Technical Cooperation

The technical cooperation provided by the Bank during the year helped mainly to promote the study of new projects eligible for international financing, to strengthen development agencies in the Latin American countries, to support the three international agricultural research centers with headquarters in the region, to foster programs for training experts and to reinforce the economic integration process in Latin America.

A total of \$24.6 million in technical cooperation of a nonreimbursable or contingent recovery basis was approved. That amount was the highest annual figure recorded to date. Of that sum \$10.8 million was committed from the net income of the Fund for Special Operations, \$13.1 million from the Social Progress Trust Fund and \$700,000 from the Canadian Project Preparation Fund. The Bank also authorized \$1.6 million as part of investment loans or credits for technical cooperation.

The 15 less developed member countries received \$15.4 million in technical cooperation on a nonreimbursable or contingent recovery basis and also benefited indirectly from \$8.2 million being used to finance programs for all member countries in the region.

Mobilization of Financial Resources

In 1975 the Bank obtained record borrowings in international capital markets. Short, medium, and long-term securities were sold and loans arranged for a total of \$365 million, compared to the previous peak figure of \$187 million set in 1970.

A total of \$225 million was sold in the United States market, which the Bank had not tapped since 1970. Financial operations in nonmember countries totaled \$84.6 million and included two loans for \$37 million obtained in Italy, one for \$25 million in Japan, a bond issue of \$22 million in Switzerland and credits of \$600,000 in Finland. In Latin America the Bank sold its tenth short-term bond issue for \$55.6 million to central banks and other government organizations in 16 countries.

In 1975 the Bank substantially increased the volume of resources which it administers on behalf of various member and nonmember countries and other organizations. Through an agreement signed with the Bank in February 1975, the Government of Venezuela placed under its admin-

istration a trust fund for \$500 million. An additional contribution of 7.5 million Canadian dollars was made by Canada to the fund it established in 1974 to finance the preparation of development projects in Latin American member countries.

Financial Results

Receipts from Bank operations in 1975 were higher than those recorded in any other year. Gross income from the ordinary capital resources and the Fund for Special Operations totaled \$282 million, compared with \$240 million in 1974, while net income amounted to \$101 and \$93 million, respectively.

This served to increase total Bank reserves from \$441 million at the end of 1974 to \$557 million at the close of 1975. Cumulative reserves of ordinary capital resources, at the end of the fiscal year, totaled \$380 million and those of the Fund for Special Operations \$177 million.

Administration

During 1975 strict control of administrative costs was achieved by the application of economy measures and by a constant concern for improving staff performance. In its first year of operation the computer installed at Bank headquarters furthered the automation of loan and technical cooperation administration and handling of the Bank's investment portfolio. At the suggestion of the Board of Executive Directors the Management began a study of additional steps designed to strengthen Bank offices in the member countries and rotate their staff.

Highlights of the Last Five Years

My report to the Governors ends the five-year period during which I have been honored to preside over our institution. Thus, it is appropriate for me to present a summary of highlights of Bank activities over the past five years.

The results obtained in the mobilization of external resources for development reveal an important part of the history of our institution. At the time the Bank began operations in 1960 its authorized resources amounted to \$1 billion, while in 1970 they totaled nearly \$5.7 billion, including trust funds. Over the past five years the volume of resources has more than doubled, exceeding \$11.5 billion by the end of 1975. To that

figure must be added the increase in resources approved by the Board of Governors in July 1975, amounting to \$6.3 billion, raising the total of authorized resources, including trust funds, to a sum of nearly \$18 billion. The process involving the most recent increase in resources is in the final stage of implementation.

The significance of the Venezuelan Trust Fund, established last year for \$500 million, can be gauged not only by the amount involved but also by the fact that it enables the Bank to extend operations into fields it cannot cover with its own resources.

The increase in the number of countries associated with the Bank has been another important milestone. In 1972 Canada was admitted into membership after several years of cooperation in Latin American development. Three other countries of the region—Bahamas, Grenada and Guyana—have also presented applications for membership in the Bank. As you know, 12 countries from outside the hemisphere signed the Declaration of Madrid in December 1974, thereby signifying their intention of joining the Bank as full members. The association of these countries with our institution will considerably strengthen its multilateral nature without changing its status as a truly regional entity. Moreover, their entry will represent a contribution of \$745 million to the Bank's capital over an initial period of three years. The callable part of these new resources will provide the Bank with broader and more flexible access to the financial markets of those countries.

The technical cooperation provided by the Bank over the past five years and its impact on our operations also deserve special comment. Technical cooperation approved over the past five years on both a non-reimbursable and contingent recovery basis amounted to more than \$65 million, more than double the total authorized during the previous decade. The comparison is still more impressive if it is confined to the group of 15 countries classified as less developed or with limited markets, which over the past five years have benefited from a volume of technical cooperation almost four times as large as that received during the preceding 10 years.

The larger volume of the technical cooperation channeled to Latin America and the notable improvement of the local institutions responsible for preparing and implementing development projects are responsible for the rapid expansion of our countries' capacity to absorb external resources. In the past five years the Bank's lending amounted to more than \$4.6 billion, exceeding the total volume of loans authorized during the preceding decade. In the case of 15 smaller countries of the region, to which I referred previously, loans granted over the past five years were almost double the amount approved during the 10 previous years. If the latter comparison is confined to loans granted on concessionary terms, the results are even more favorable to those countries.

The Bank and Latin America: Outlook for the Future

The change which has occurred in Latin America's relations with the rest of the world and the strengthening of the ties of economic cooperation among the countries of the region open up new perspectives for development that justify a re-examination of certain aspects of the Bank's activities.

Trends in Latin American Relations with Industrial Centers

The economic and social evolution of our countries, especially over the past 15 years, places Latin America in quite a different position from that of other developing regions because it has reached a level of development midway between the latter and the industrial centers. This situation has been reflected in a gradual, yet highly significant, change in Latin America's relations with the industrial countries, based on close ties of interdependence which produce mutually beneficial results.

In the foreign trade field, the acceleration of the region's economic growth was accompanied by a still more rapid expansion of imports. This is because our countries, especially those with the largest economies, are embarked on a stage of development that involves increasing requirements of capital goods and intermediate products, the bulk of which must still be imported. Consequently, in the past seven years, the imports of the region, valued at constant prices, rose by an average annual rate of more than 10 per cent, while the gross domestic product increased by 7 per cent a year.

This trend illustrates the close relationship that exists between the exports of the industrial centers and the growth of the Latin American economy. Let us look at a few figures. Latin American imports from OECD member countries quadrupled over the past 10 years, rising from \$7.4 billion in 1965 to \$32 billion in 1974. More than 80 per cent of this trade represented capital goods and intermediate products.

Trade relations between Latin America and the United States are even closer. In 1975 the Latin American market absorbed exports amounting to \$16.3 billion from that country, a figure significantly higher than aggregate United States exports to the developing countries in Africa and the Far East. Over the past six years United States exports to Latin America more than tripled, while during 1973 and 1974, when the United States was experiencing a serious economic recession, its exports to Latin America recorded an extraordinary expansion, averaging 50 per cent a year.

In the financial field, the relations of the region with the industrial centers have also undergone a substantial change because of the growing

participation of private credit. The net flow of financing from private sources with maturities of more than one year increased five-fold in real terms, going from an annual average of \$600 million in 1961-63 to \$3.4 billion in 1972-74. Thus, private credit has become a key factor in the financing of the imports needed for regional economic expansion. This situation, as I already noted, is also of considerable benefit to the industrial centers.

With regard to direct investment, foreign private capital also developed in such a way as to give Latin America a special place among the developing regions of the world. The net flow of external capital received by the region increased steadily over the past 15 years by an average annual rate of nearly 12 per cent. Most of these resources came from the United States. This explains why in 1974 nearly 70 per cent of United States private investment in the developing world was concentrated in our countries. Statistics of the United States Department of Commerce show that the cumulative value of direct investment by that country in Latin America amounted to \$19.6 billion in 1974, compared with \$8.9 billion in the other developing countries.

The mutual benefit derived from these economic relations demonstrates that the financial cooperation extended to Latin America does not impair aid for other developing regions of the world. On the contrary, it could help increase it insofar as it stimulates greater economic activity in the industrial centers.

The foregoing considerations have become particularly important in recent years when steps have been taken to concentrate an increasing share of international official financing in the least developed parts of the world, from which a majority of the Latin American countries are excluded. We are fully aware of the need for assisting the countries and regions with the lowest incomes. Even more, we believe that nations that have attained an intermediate level of development—like some Latin American countries—should also contribute to those efforts. However, this approach should not lead to a reduction of the cooperation Latin America needs in order to continue its development effort. For such action, as noted, would also adversely affect the industrial centers, themselves and, consequently, the other developing regions. These considerations lead me to request the support of the Governors for presentations which the Bank will continue to make at international forums with a view to securing understanding and acceptance of our views.

Latin America Today

The significant economic and social progress made by Latin America over the past decade has not blunted the sharp differences which exist

among our countries. These may even have become accentuated in recent years. This highlights the existence in the region of two groups of nations with very different characteristics in terms of economic potential and development possibilities.

Fifteen countries account for barely 16 per cent of the population and 11 per cent of the gross domestic product of the 22 Latin American member countries of the Bank. This situation, which reveals the extent of differences in the regional economy, will probably tend to heighten as the territories previously associated with European nations achieve full independence. The narrowness of the domestic market, together with the lower level of economic development and institutional organization in most of these countries make difficult a full realization of their economic potential, particularly with regard to the exploitation and the industrial processing of their most important natural resources.

Although the inventory of natural resources in the region is still incomplete, particularly in the less developed countries, the presence of such valuable raw materials as oil, aluminum, copper, nickel and iron, in addition to vast forest reserves, has been established. Economic development of those resources generally requires very heavy investments and the existence of companies with considerable technical capacity and organization, in order to handle production and sales, primarily in the international markets. These conditions can scarcely be met by the smaller nations, a situation which forces solutions that deprive the host country of equitable participation in the benefits derived from the development of its most valuable natural resources.

The other face of Latin America is quite different. The countries with the largest economies—Argentina, Brazil, Mexico and Venezuela and, to a lesser extent, Chile, Colombia and Peru—encompass the vast majority of the population and productive activities of the region. Their greater economic potential and their attainment of a higher level of technical and financial development have enabled these nations to make very considerable progress in building their physical infrastructure, developing their productive sectors and setting up a more fully developed institutional network that includes mechanisms for trade and financial negotiation with foreign countries. Suffice it to recall, for example, that some of our countries have national development agencies handling a volume of operations that exceeds that of the Bank; that they maintain very strong institutions responsible for promoting the development of transportation, electric power and oil and communications; that they have developed large-scale industries in such important branches as production of basic metals, chemical and petrochemical products and electromechanical and automotive industries; that the region already has some commercial banks that are among the largest in the world, with many branches

abroad, and that there are engineering and consulting firms with high technical capacity, which compete successfully in international bidding.

The coexistence in Latin America of countries with different economic potential and levels of development has negative ramifications but it also offers favorable opportunities that we should utilize. Obviously, the existence of an acute imbalance in the development possibilities of our countries makes more difficult and tends to delay the progress of regional economic integration, as well as the organization of a joint commercial and financial capability for negotiating with foreign countries. However, we must also recognize that these differences create conditions favoring the establishment of closer cooperation between the more and less developed countries, particularly when they are neighbors or share major geoeconomic areas.

The economic cooperation among Latin American countries has been specifically expressed in the execution of large-scale physical infrastructure works and in the joint development of bordering natural resources. However, this cooperation must broaden in scope in order to promote effective utilization of the most important natural resources, particularly in the less developed countries. These projects, which are usually large scale and highly complex operations, should be carried out with the participation of the Latin American companies most advanced in the activity concerned so as to facilitate the study, financing and execution of works, and the negotiation of contributions of technology and capital on terms that will harmonize the interests of Latin America with those of the foreign investor.

The presence of the less developed countries in this type of arrangement makes it necessary to secure the cooperation of agencies with a demonstrated technical and financial capacity that can, because of their independent position, help to ensure an equitable distribution of benefits. Performance of this function opens up a new field of activities for international agencies and especially for our institution. It is a complex and delicate task that the Bank has already initiated through programs to which I will refer later on.

External Cooperation and IDB Action

At the current stage of its development Latin America requires sizable external financial assistance. In the case of the economically most advanced countries this contribution is critical in reducing the period of transition toward a more autonomous stage of growth. As for the other nations, external cooperation is an essential factor in achieving more rapid development, permitting better utilization of their natural resources. Moreover, the growing interdependence of the Latin American economies

generates new opportunities to extend and deepen regional economic integration, creating additional needs for external resources.

The wide variety of conditions prevailing in Latin America demand that external financial cooperation—if it is to be utilized effectively—should be very flexible in regard to the type and terms of utilization. To achieve this goal we must, on the one hand, secure official and private external resources that can be combined in different proportions so that loans can be adapted to requirements derived from the nature of the projects and the payment capacity of the borrowing countries. On the other hand, the organization of large Latin American companies requires external funds that can be used for risk capital investments and in working capital loans.

Within the framework of these considerations the Bank's role is of critical importance in mobilizing external resources for the region. It should be clearly stated here that the Bank, as a regional development agency, is cooperating actively with all the Latin American member countries regardless of their degree of progress. Our relationship with each one is ongoing, changing only in accordance with the extent of economic and social evolution achieved. In this way our mission entails a continuing adaptation to the real development needs and possibilities of each country and of the region as a whole, helping to secure the supplementary external resources required while at the same time encouraging their cooperation with each other.

Official Development Assistance

Official financing is the key to attaining the flexibility that the external financing received by the region should have. Its impact is determined by the volume of public resources allocated to the region and their subsidy component.

Unfortunately, the participation of the Latin American countries in the geographic distribution of official development assistance has declined considerably in recent years, dropping from about 10 per cent at the end of the 1960s to only 6 per cent in 1974. The grant element of the external financing flow received by the Latin American public sector has also deteriorated. In 1965–66 the share of aid amounted to 41 per cent of nominal value while in 1970–71 it dropped to 27 per cent and in 1972 to 23 per cent. Although this trend was widespread throughout the developing world, the reduced grant element in the case of Latin America was much more pronounced.

This background explains the drastic cutback in official financing within the total flow of external resources received by Latin America. This calls for more selective use of public financial cooperation, striving

for the maximum catalytic effect to mobilize private resources on conditions compatible with development financing for the region.

The Bank member countries have made a very substantial contribution to expanding official resources channeled through our institution. This effort will be intensified by the admission to the Bank of a number of nations from outside the hemisphere. It has been a most praiseworthy effort which we must intensify in the future in an attempt to mitigate the negative effects of the deterioration of official financing received by Latin America.

Private External Credit

For the reasons already cited, the Latin American countries have had to resort increasingly to private external credit to finance their development. Consequently, this source of funds has become the major item of external financing in the region. Its incidence rose from 40 per cent in 1961-65 to 60 per cent in 1966-70 and to 73 per cent in 1971-74. In the last period net disbursements of bank credits nearly tripled, reaching \$2.5 billion in 1974. Much of this increase originated in the Euro-dollar market.

The extraordinary increase in private financing and the fact that the terms are comparatively harder than those involving official financing make it necessary to examine briefly its impact on the external indebtedness of our countries. There has been a significant change in the structure of the public external debt, with commitments maturing within the first 10 years increasing from 68 per cent in 1970-71 to 79 per cent in 1974. In turn, payment of interest and amortization more than doubled between 1970 and 1974, from \$2.5 to \$5.3 billion. These data underline the need for improving policies and procedures for external debt management in our countries. Among other measures, we must also seek ways of widening and improving access to international capital markets and strengthening our bargaining power in those markets.

The Bank has been performing an important role in mobilizing international private capital and making it available to finance development in the region. As you know, we have for some time employed two financial mechanisms to mobilize such resources: parallel financing in the form of loans contracted directly by the borrower from suppliers of imported equipment and machinery and the acquisition by private banks of participations in loans granted by the Bank.

Following studies and negotiations in October of last year we initiated a new financing scheme known as "complementary financing." According to this scheme the Bank finances development projects through two loan contracts. One is granted on regular conditions involving opera-

tions out of its own resources, while the other, the "complementary loan," is negotiated with private banks interested in a share in the financing. Both loans are signed between the borrower and the Bank, but the interested private banks cover the entire financing of the second loan through participations that do not carry the Bank's guarantee.

In this fashion, the commercial banks may participate in our lending on very advantageous terms, since the Bank not only conducts studies to verify the soundness of a project but also serves as disbursement and collection agent, supervises execution of the project and administers both loans until final repayment. Moreover, the "complementary loan," since it is authorized by the Bank, is guaranteed by the borrowing country, adding a safety factor of the greatest importance to participating commercial banks.

Consequently, "complementary financing" can be granted on significantly more favorable conditions than those the borrower could obtain through direct negotiations. This has provided significant access to private credit that will make it possible to mobilize additional resources, primarily to finance major projects whose profitability permits the use of this type of credit.

To date two operations including "complementary financing" have been arranged. The first, in Argentina, will expand a private steel company; the second, in Guatemala, calls for building a large hydroelectric plant. In both cases the financing provided by private banks is most satisfactory compared with similar operations negotiated directly by countries in the region.

The participation of commercial banks in "complementary financing" restricts this type of credit to terms not exceeding eight years. In an effort to obtain credit from private sources on longer terms, we are undertaking studies and steps to devise financing mechanisms involving the participation of consortia of insurance companies and pension funds, which are the major sources of private capital for medium- and long-term financing, say, up to 15 or even 18 years. I trust these efforts will be successful, thereby expanding the range of private resources that contribute to the external financing of the region.

We have also labored diligently in international forums to solve the problem of the limited access of developing countries to world capital markets. In the Development Committee operating under World Bank and International Monetary Fund auspices and at meetings of the Conference on International Economic Cooperation in Paris, we have stated the need for the industrial countries to set up a guarantee mechanism to enable the developing nations to expand their access to international capital markets, permitting the mobilization of resources on conditions compatible with the requirements of development financing. In the particular case of Latin America we have suggested that the countries of the region

might use this instrument to mobilize external resources supplementing the financing of projects evaluated and participated in by the Bank.

Intraregional Cooperation and Private Foreign Investment

The strengthening of the external sector of the Latin American economies is one of the highest priority aims in the development of the region. We have already noted that exports have not, generally speaking, shown the dynamic development necessary to meet the requirements of steady growth of our economies without excessive recourse to external financial cooperation. The structure of our exports is still dominated by raw materials and agricultural commodities, most of which continue to be affected by instability of demand and prices in international markets. While non-traditional exports, mainly manufactures and agroindustrial products, have risen considerably over the last decade, especially in intraregional trade, their share of total regional exports is still small.

That is why the Latin American countries remain determined to strengthen the external sector of their economies. In this connection I should like to restate my observation to this Board in Santo Domingo last year concerning certain cooperative programs among countries of the region, especially those involving bilateral relationships between the more developed and less developed countries. At that time I pointed out the significance of the cooperation provided by Venezuela, the increasing importance of Argentina and Brazil as factors in the development of the Southern Cone countries, and the execution of large-scale projects in Central America and the Caribbean with the participation of other Latin American countries.

These and similar initiatives have been carried forward steadily and successfully and, in my opinion, they provide a framework that calls for reexamination of certain development models of the region that were drawn up without adequately considering the impact of economic relations between our countries. I am speaking not of an esoteric concept but of a process that is evolving day by day through the execution of physical works that are of enormous importance, primarily to the smallest nations of the region.

Cooperation among regional countries is most vital in the area of extraction and processing of natural resources, chiefly for export. Latin America has a long and instructive history that demonstrates the inability of most of our countries to secure a fair share of the benefits derived from the exploitation of their basic products. This has restricted the utilization of the comparative advantages of our economies and a proper international division of labor, thus diluting the regional development potential and curbing the expansion possibilities of those industrial produc-

tion items best able to compete in international markets. The result has been to undermine at the grassroots itself the process of expansion and diversification of manufactured and agroindustrial exports, particularly in the less developed countries of the region.

One specific example will illustrate how cooperation among countries of the region operates when problems of this type must be solved, particularly in the smallest countries. For some time the Government of Honduras has been endeavoring to develop its forest resources. This has been a lengthy process of experimentation with various solutions, including the participation of foreign partners with international experience contributing technology and managerial skills. This undertaking was unable to prosper because the country lacked institutions experienced in the implementation of programs of such a scale and failed to receive cooperation from other Latin American countries that would have enabled it to correct that shortcoming.

Now agreements have been entered into that will permit Honduras to take full advantage of those resources. With the strong support of Venezuela and interest shown by other Latin American countries the Honduran authorities have requested the Bank to serve as program financial coordinator, to grant assistance for the execution of industrial projects and infrastructure works, and to advise the Government of Honduras on negotiations leading to the organization of companies that can assume responsibility for the agroindustrial complex. The Bank will provide financial cooperation from its own resources and the Venezuelan Trust Fund.

As agreed, Honduras will receive all lumber production proceeds and a majority share of profits from the sale of pulp, paper and cardboard. The countries of the Central American isthmus and other Latin American nations—possibly Argentina, Ecuador, Mexico and Venezuela—will purchase part of the latter output for their internal market and contribute a minority share of risk capital to the company. In addition, the participation of a technical partner as minority shareholder will be negotiated utilizing its experience in the management of production and sales, primarily in nonregional markets.

Execution of the forestry program in Honduras will require an investment of more than \$400 million and will create a new agroindustrial activity of such importance that it will change the direction of the country's economy.

I have described this project in detail because I believe it is a striking example of the broad and complex gamut of activities involved in cooperation among the Latin American countries. The Bank's participation in programs of this type has been strengthened largely through the Venezuelan Trust Fund, whose resources, as I noted, can be used to subscribe to capital stock and to grant working capital loans. This efficient instrument, together with our own technical and financial capacity, guarantees

that the Bank can play a key role in the development and industrialization of natural resources in Latin America.

However, we should keep in mind that the resources of the Venezuelan Trust Fund amount to no more than the equivalent of \$500 million. Consequently, only a few programs like that of Honduras, will serve to commit those funds in their entirety.

These considerations prompt me to suggest to the Governors the advisability of setting up a more permanent financial mechanism enabling us to provide continuity for and expand the work begun with the trust funds contributed by Venezuela. I believe the time has come to update and re-examine the studies presented to this Board a few years ago when a Latin American Finance Corporation (*COFIAL*) was proposed. The Bank's participation in the Honduran program and similar efforts will enable us to acquire experience and train personnel, forming a nucleus that will serve as a permanent basis for an activity of outstanding importance to our countries. I will duly submit this matter to the Board of Executive Directors for consideration and, if applicable, to the Board of Governors for such decisions as may be necessary.

In closing, I should like to refer to two matters of great importance to regional development: food production and rural development, and the financing of higher education.

Food Production and Rural Development

In recent decades most Latin American countries have concentrated their economic development on a process of industrialization that has often entailed neglect of the rural sector. For this reason agricultural production has lagged, and much of the labor force emigrates from the countryside to the city, intensifying the uneven growth of urban population. The crisis in food supply apparent at the world level has emphasized the need to act promptly and decisively to reverse that trend by providing a strong incentive to agricultural production and rural development.

At the World Food Conference held in Rome in November 1974, I proposed the establishment of an autonomous group composed of the various international agencies which cooperate with our countries in the development of the agricultural sector. In fulfillment of the resolution adopted at the last session of this Board in Santo Domingo, we have encouraged the formation of that coordinating mechanism, a step which was very favorably received by the international agencies. In carrying out the preparatory work for the organization of the group, we received the valuable cooperation of Mr. Juan Felipe Yriart, Deputy Director General of the UN Food and Agriculture Organization (FAO), who unfortunately was obliged to leave us to take up again the duties of his high position.

To continue in this important task I appointed, in agreement with the participating institutions, Mr. Julián Rodríguez Adame, a highly regarded professional who has served as Secretary of Agriculture in his native land, Mexico, in addition to having acquired broad experience with international agencies and in the execution of rural development and agrarian reform programs.

The preparatory work done by the group in Washington culminated in its first annual meeting of consultation, held here on the eve of this meeting, with the participation of the Ministers of Agriculture of the Latin American member countries of the Bank and the interested agencies. Accordingly, the International Group of Agricultural Development in Latin America (*GIDA/AL*) was formally constituted with a membership that includes, in addition to the Bank and the World Bank, agencies of the United States Government and Canada, the United Nations Development Programme, the Organization of American States, the U.N. Economic Commission for Latin America, the Inter-American Institute of Agricultural Sciences, the Consultative Group for Food Production and Investment and the Ford and Rockefeller Foundations.

At this first meeting, the Ministers of Agriculture gave their unanimous support to the *GIDA/AL* initiative, establishing guidelines for its future activities and identifying fields and specific projects for initial action. Creation of the group, it was stressed, should not contribute in any manner to the proliferation of the international bureaucracy but should be an effective instrument of coordination among participating agencies. Among other matters, the Ministers and agency representatives agreed on the need to promote technical assistance and training, especially among the countries of the region, paying special attention to sectoral planning and project preparation; to intensify research activities and programs to eradicate foot-and-mouth disease, and foster the expansion of storage and distribution facilities of agricultural products.

In its capacity as instrument of consultation and coordination, the group will promote systematic action by external agencies with a view to increasing food production, improving the level of public nutrition and promoting exports of agricultural surpluses within the region and to other countries of the world. Prospective courses of immediate action have been identified, including training programs for farm extension personnel, promotion of research at the regional and national levels and investment programs to strengthen infrastructure, particularly in connection with the marketing of agricultural commodities and past harvest losses.

It is important to point out that the group confronts a very difficult task, considering that Latin America as a whole is one of the regions with the greatest agricultural resource potential in the world suitable for rapid and effective development. A few countries of the region export agricultural commodities in a very considerable volume that is expanding

year by year, while most of the others are net food importers whose position has been deteriorating in recent years. In an effort to harmonize the prospects and needs of the region's agriculture, I am confident that *GIDA/AL* will make a most valuable contribution to our countries.

Financing of Higher Education

The Latin American countries have been making a determined effort to transform their national budgets into effective tools of economic development and order. Demographic growth, rapid development of basic and intermediate education and expectations of higher incomes have led to a sharp increase in the demand for higher education that is absorbing a growing share of national budget resources. This calls for a review of how effectively those resources are used and of the extent to which higher education is actually satisfying development requirements.

Faced by this problem some of the Latin American countries have launched a number of studies in cooperation with the Bank that culminated or will culminate in meetings with local authorities and experts of international standing. For example, last February a seminar was held in Bogotá to examine the application of new management techniques to university organization. A conference was held in Belo Horizonte, Brazil, to examine aspects of higher education financing and the connection between such education and the development process. Education authorities in Venezuela and Colombia are organizing a meeting to be held in September in Caracas to explore major innovations in higher education employing modern communications techniques, with special emphasis on open learning systems. At the initiative of the Government of Bolivia, the Bank is sponsoring the organization of a seminar to be held in Washington this November that will analyze areas of education financing, the potential of prospective sources of external financing and the role of international agencies in mobilizing such resources. And, under the program of Joint Studies on Latin American Economic Integration (*ECIEL*), a cost survey is being made of the education system in various Latin American countries.

Within the context of these ideas Bank cooperation has been requested to study problems posed by the financing of higher education, in an effort to devise solutions that will achieve the following goals:

- To program higher, professional and technical education to adapt it to economic and social development demands and enable students who do not complete the full curriculum to receive paraprofessional degrees.
- To recognize that higher education is expensive and should be paid for

at real value in order to prevent a distortion of demand and a decline in the caliber of instruction.

- To make the system of higher education more democratic so that students will be selected on the basis of merit and personal qualifications, regardless of their family income level. To this end funding would be provided to cover, to the extent of student requirements, the real value of studies, including student living costs and, in extreme cases, a contribution to the family budget.
- To accept the fact that education is part of the social welfare system, with the understanding that the costs enumerated in the previous point would be covered by a family allotment in the case of students from the lowest income families. For students from higher income families, those costs would be funded, insofar as necessary, by loans repayable at real value accruing interest at progressive rates pegged to income levels.
- To mobilize resources to launch the system and provide for its expansion through payroll taxes to be paid by employers.

We realize that this is a highly complex matter. However, since study of the matter will be conducted in Latin American countries where there is already the political intention of establishing a system to finance higher education like the one outlined and the process would be a gradual one, we are optimistic about obtaining practical results for the solution of a problem that is of the utmost importance to our countries.

Address by His Excellency Luis Echeverría Alvarez, President of the Republic of Mexico

I request that the Governors of the Inter-American Development Bank and their closest advisors, the distinguished representatives of the financial world who have come not only from other nations of this hemisphere but from every other continent and the students of the critical economic problems facing the world accept the gratitude of the people and Government of Mexico for choosing this lovely section of our country to hold discussions which are bound to be of great value.

We in Mexico are engaged in an intensive search for better forms of liberty and justice for our people. That is why we find this work and these contributions of the Inter-American Development Bank to be a way of working together in cooperation.

It often occurs to us that this is a foreshadowing, in the financial area, of what 120 nations decided upon at the end of 1974 when they approved the Charter of Economic Rights and Duties of States. The purpose of that instrument is to seek better ways of bringing about a more balanced international order.

In Mexico, in tourism centers such as this one in full development; in the growth of cities and industrial areas which evade the serious problems which we face in the Third World, with the concentration of modern forms of industry in a few urban centers, in basic aspects of irrigation, for agriculture—in all these areas we have seen a growing understanding within the Bank, which bears witness to what can be achieved with a little more solidarity in our international life.

We are convinced that it would be dehumanizing for international officials to be severed from their countries, for no one worthy of the name of citizen can ever forget his homeland.

We know that Antonio Ortiz Mena serves loyally in the office of President of the Bank, and that he has been re-elected for that reason. But we are also moved to see that a Mexican as distinguished as Antonio Ortiz Mena is serving Mexico with devotion in the assurance that he is also serving all the countries of Latin America and the Caribbean.

When we in Mexico prepare projects for the Bank or for other international lending agencies, we must resolve certain problems you Governors undoubtedly face in your own countries as well: How should we draw up the programs? What is the best development model for us?

In our countries, all of us are or should be proud of our historical origins, for we know that in one way or another all of us come from great indigenous civilizations; that we have received contributions from Africa

of which we are equally proud; that we have Iberian origins that link us with the western world, and that in our nations, which we proudly proclaim to be Indo-Ibero-Afro-American, we must look to our origins and to our true social makeup to find the right development models, and not passively imitate great industrial societies—however successful they may have been because of their particular circumstances. And when we draw up development programs we must look also to our ethnic and social structure, our history and our historical space and time if we would be successful.

In short, it is not just funds for programs devised by technicians with a western outlook transplanted to our countries that we need. We need a constant awareness of our own social truth, recognizing it, valuing it and accepting it within a policy of authentic development, combining economic, democratic, social and cultural development, all suffused with humanism.

Within the context of these efforts and ideas, the Government of Mexico, in collaboration with the United Nations, has planned a Center for Third World Economic and Social Studies, which will be inaugurated in mid-September.

Its activities will include programs for agriculture, stockraising and fishing that can be carried out with limited funds and a more intensive use of labor, because we know that unemployment causes social unrest.

They will also include programs aimed at more equitable trade; all Latin Americans know that in the cases of sugar and coffee, for example, having put aside our temporary differences we now present a solid front in defense of our prices on world markets.

The Center will design programs on intermediate technologies. In our technical universities and institutes we have been trained to use the heavy machinery, the means of transport, patterns of urban development, and so on and so forth, that have been successful in countries with higher incomes or different ways of thinking. How can we achieve genuine development taking into account the particular circumstances of each country? Which tools will be appropriate to our economies and our labor resources, suitable for our agriculture, for all the forms of industry, even for the development of programs to train our future technicians?

In programs concerned with the sociology of culture and education, how can we avoid offending the dignity of the Indian and Negro peoples in our mestizo countries, for we were born out of a democratic ideal, and the fathers of our independence sprang from democratic aspirations? How can we avoid violating the mental, intellectual and moral integrity of all the groups in our countries and to respect the dignity inherent in every human being?

The programs we draw up for development and the loans and finan-

cial support we need should increasingly take account of our real social composition, our ethnic groups, and our actual intellectual possibilities for development, using our own and not imported models. I consider this fundamental and I believe that in Mexico, as a member country of the Bank, we are striving to perfect a development model in the universities and technical institutes, with the workers, the farmers and the middle class.

I believe that if this Center, which will be a contribution of Mexico and the United Nations, yields positive results in the next few years, not only the Inter-American Bank but also the African and Asian Development Banks will have a broader field of action in development programs that are ever more carefully designed to reflect the realities of our countries and the specific goals that can be reached in the poor countries of the world.

Ladies and Gentlemen, we hope that your discussions will help bring about the independent growth of our countries within a context of interdependence, and that you will have a pleasant stay in Mexico.

Today, May 17, 1976, I declare open the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank, and I wish it great success.

ADDRESSES

SECOND PLENARY SESSION

May 18, 1976

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

I am honored to appear before you on behalf of the Governor for Peru, Dr. Luis Barúa Castañeda. Because of the change of site, the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank is being held in the pleasing setting of new urban development that will unquestionably become a center of international tourism. The Cancún meeting, in a development financed in part by the Inter-American Bank, thus brings from the outset, together with the hospitality of the Government and people of Mexico, the fresh message of an impetuous and dynamic Latin America which, above the unfriendly foliage of foreign interests, is seeking new paths to integrated development. Special mention should be made of the message delivered here yesterday by His Excellency the President of Mexico which will undoubtedly prompt the appropriate response on the part of all member countries.

We who have spent several years seeking to obtain international financing for our national development programs are not surprised by what we have found in the Annual Report of the Bank. In 1975 the volume of loans and technical assistance grew, the rate of disbursements was speeded up, the world's capital markets were decisively utilized, institutional decentralization continued to be gradually carried out with a view to improving administration and a modern computer system was put into service which rapidly makes available the most up-to-date information on Bank operations. Finally, the adaptation of loan contracts to the conditions prevailing in the region as of this decade was taken under consideration. Two recent realistic adjustments made by the Board of Executive Directors to bring Bank practices into line with real price levels in the world market are the setting of new ceilings for public bidding requirement, and the provision for granting additional loans, in exceptional cases, when there is unforeseen cost escalation.

The advance sale of participations, under the mechanism known as "complementary financing" through commercial banks opens up new possibilities of financing in unprecedented amounts. At a time when agencies for financing development appear to be about to raise interest rates, we are pleased to note this significant move, which also means that the Bank offers the international banking system the chance to participate in its loans at the world market rates.

The rapid and effective aid extended to Guatemala when it was devastated by an earthquake some months ago, has given proof of the abil-

ity of the Bank to cope with the emergency situations that so often afflict our continent. Peru has been pleased to authorize use of the sol to pay for Peruvian exports intended for Guatemala's reconstruction program.

Special mention should be made of the efforts made by the Bank Management to secure the votes of each member country for increasing the Bank's resources and for amending the Establishing Agreement to implement the resolutions of the Board of Governors on the entry into the Bank of nonmember countries and on lending to the Caribbean Development Bank. It is to be hoped that the exercises underway can shortly be brought to a satisfactory conclusion in order to provide the Bank with new sources of financial resources.

Peru has taken the legal measures called for to cast its vote on the various occasions that vote was required, including the vote on the requirements for the selection of sites for future meetings. Peru has done so in a renewed expression of its continued confidence in President Antonio Ortiz Mena, whose re-election demonstrates the unanimous support he enjoys among the member countries.

Peru in the Bank

In the 16 years since the Bank was set up, Peru has received the equivalent of \$425 million, of which \$225 million had been disbursed by March 31, 1976.

An objective analysis of this portfolio leads us to a consideration of all the aspects of the contribution of the Bank to the external financing of our national development programs. Of the principal events of the last five-year period we recall the prompt action taken by the Bank after the Huaraz earthquake, the global loans to the Industrial and Agrarian Banks, the various projects for higher education, transportation, irrigation, potable water and electric power, as well as the important project to promote tourism known as the "COPESCO Plan," and the starting of the no less important binational project for integration of the Puyango-Tumbes frontier region between Peru and Ecuador. To the foregoing we must add the uninterrupted work of technical assistance both in implementation of specific projects and in the training at the university level of experts in project preparation and evaluation. To complete the list mention should be made of the active participation of the Bank in the meetings of the Consultative Group sponsored by the World Bank in Paris.

Study of a cost-benefit ratio showing on the one hand what Peru has contributed to the Bank in capital and loan repayments and what Peru has received from the Bank in cash disbursements on the other reveals that the Inter-American Bank has been an important catalyst in financing the development of Peru.

But the same objective analysis also confirms the occasional national frustrations and disappointments engendered basically by situations in which the Bank loses its multilateral character. Nonetheless rather than go over past injustices, we prefer to trust in the promise of an immediate future in which Peru will be able to take full advantage of the opportunities provided to it as a member country.

Peru hopes that the prompt consideration of the national Majes and Bayóvar projects, as well as the binational Ilo-Desaguadero-La Paz highway project and the Puyango-Tumbes irrigation project, which have been under study by the Bank, will reflect something of what the country expects from the financial aid of the Inter-American Bank.

Within its generally cordial relations with all the member countries, Peru would like to extend a fraternal greeting to its sister republic Colombia, with whom we have the honor of sharing a representative on the Board of Executive Directors. Let this relationship be the seed of similar joint undertakings in other international forums within the context of our history and geography.

The IDB and Contemporary Regional Development

The governments of the member countries have in recent years, as never before, heard declarations by agencies specialized in regional development, which have published comparative statistics and studies with recommendations and conclusions specific enough to generate joint activities over given periods of time.

In the light of these recommendations, we consider that the operative policy of the Bank has its short-term reference points clearly indicated:

1. In the first place, no amount would be excessive in financing the food sector. Production growth, improved productivity, and expanded marketing facilities are now the three pillars of the government policy of all the member countries. In the words of the UN Economic Commission for Latin America (ECLA), "the greatest poverty of the region is concentrated in Latin American agriculture. Moreover, this is where there is undoubtedly a great potential for expanding production and growing food for popular consumption."

Agriculture therefore should be given first priority by the Bank in the creation of new mechanisms and in the training of specialized personnel.

Meanwhile, the creation of the International Group for the Agricultural Development of Latin America (GIDA/AL) under the sponsorship of the Bank and with the cooperation of other international agencies, which is headed by a distinguished Latin American professional, augurs well for effective short-term measures. The presence of a representative of our Minister of Food at the inaugural session a few days ago here in Can-

cún reflects Peru's expectations for this attempt at the regional level, always provided that objectives, structure and procedures are defined, without the characteristics of another new agency.

The technical assistance provided by the Bank to the three international agricultural centers in Latin America is sure to have a positive impact on the agricultural sector of the region and it is to be hoped that it will serve to encourage cooperation among the national centers of agriculture. In this area, Peru urges the Bank to continue its so-called "horizontal technical cooperation" based on the needs and requirements of the countries, according to the priorities set in their own development plans and programs and, as far as possible, using what can be supplied by other developing countries.

2. The Bank's support for regional integration should not be limited to physical infrastructure. In the industrial sector, the Bank is conspicuous by its absence in financing a larger number of regional programming projects. In the Andean Group, for example, there is not yet a single Bank-financed project for the automobile industry, heavy engineering, petrochemical or fertilizers. Such programs, designed for regional markets, have already been shown beyond a doubt to be feasible, but they cannot be implemented through the usual commercial credit channels or supplier credit. This situation is all the more contradictory in that the Bank already has at its disposal the resources of the Venezuelan Trust Fund, which was created to allow for such programs. The presence of the Bank in technical cooperation efforts for the financing of regional programs would provide another suitable response to cases such as the Bolivian one, referred to in Decision 98 of the Board of the Cartagena Agreement, which created the Special Support Program for Bolivia.

With regard to the Andean Group countries, we wish to express our concern at the undeniable discrimination against Colombia, Chile and Peru, the three countries classified as of intermediate development. We have been the first to advocate a better regional distribution of Bank loans. We have always considered it unfair that the relatively less developed countries should be assigned much lower percentages than the others. We are happy to note that there has been a healthy improvement in the situation and that this should lead to greater short-term growth. But we do feel it is unacceptable that any increase in loans for countries that are less developed economically and those of insufficient market should be made solely at the expense of the intermediate development countries. As if we were dealing with three member countries who were so privileged as not to require further external financing from the Bank. With the same conviction that we advocated a review in the already arbitrary classification of countries, we now wish to ask for a review, in the annual programming of loans, of this situation which is detrimental to the three countries I have just mentioned.

On this same question of regional integration, it would also appear that the time has come for the Bank to reconsider its reluctance to support the Andean Development Corporation. The Corporation is, for the countries of the Andean Group, an important source for the channeling of resources under both ordinary and concessionary terms and it certainly deserves the support of the Bank. Peru would like to see a change in the Bank's approach to relations between our two institutions so as to allow for the activation of suitable financial mechanisms for furthering sub-regional integration.

Continuing our discussion on regional matters, we must also mention the promotion of nontraditional exports. We are under the impression that, perhaps reflecting the protectionist trend in the Congress of our major partner which has led to that Government's reluctance to truly encourage Latin American exports, the action taken by Board of Executive Directors of the Bank in this field has followed the letter but not the spirit of the Board's mandate.

It is true that the list of commodities eligible for financing has been expanded and it is also true that regulations have been drawn up for utilization of the resources of the Venezuelan Trust Fund that provide for short- and long-term financing of intra- and extraregional exports. But until the Board of Executive Directors formally resolves the apparent dilemma of institutional incapability arising from the Establishing Agreement—according to strictly legalistic interpretations—and until it agrees to devote more ordinary resources to such financing, for a wider range of manufactures, for clearly extraregional markets and for longer terms, it will not have fully implemented the Board's instructions regarding exports.

We hope that the Annual Report to be submitted to the Board in 1977 will contain more encouraging information on new achievements in this area, particularly since the system for bank acceptances, the study of which was financed by the Bank, is expected to enter into effect.

Peru supports the request made by the outgoing Chairman of this Board, Mr. Diógenes Fernández, to the effect that the Bank should grant nonreimbursable technical assistance for a study of the new financial mechanism approved at the Twenty-Second Meeting of Governors of the Central Banks of Latin America.

3. Urban development should have a larger share of the Bank's loan portfolio. We are all aware of the fact that every year a large number of projects commonly called "lots with services," "urban infrastructure" or "new urbanizations"—depending on the country concerned—are left out of both program and financing arrangements. The United Nations "Habitat" conference will be held in Vancouver in a few weeks. The Bank will not have much moral authority to attend that conference unless it is able to justify its presence with undisputable figures on urban development

loans to be granted. Until that happens, Latin America will remain helpless in the face of a situation that threatens to become terrifying, under the impact of unchecked population growth.

4. The continued presence of the Bank in specialized international forums is most useful for the region. The history of the Inter-American Development Bank is one of valuable contributions to development financing in Latin America. This justifies the attendance of the Bank, even as an observer, at specialized conferences and meetings. The Inter-American Bank is "our" regional Bank and every member country is duty-bound to demand that the Bank's voice be heard in financial deliberations that affect the region. Peru would like to see the Bank being granted the position of privilege it is entitled to hold in order to protect the legitimate interests of the region.

In response to such collective backing, the Bank's Management must maintain a policy of independence, wisdom and professional efficiency. By avoiding confused and bureaucratic procedures, having at its disposal modern decentralized systems for mechanization and computerization, supported by sound technical knowledge gleaned not from texts translated into Spanish but from the exciting and changing reality of our own countries and, above all, having a true sense of service, the Management of the Inter-American Development Bank will be able to continue to meet its responsibilities in dealing with contemporary circumstances.

The Board of Executive Directors has the same collective responsibility. Because it is the statutory representative of the Board of Governors, the Board of Executive Directors has the important duty of faithfully reflecting the views of the Board, as it has the date. Within a clear-cut framework of responsibilities involving the statement and implementation of policies set forth in the Establishing Agreement, the Board of Executive Directors must resist the natural temptation to administer in detail while at the same time rejecting all outside interference into its proper sphere of action. The essentially multilateral character of the Bank makes it imperative that, as has been stated so often, the Board of Executive Directors must not manage and the Management must not direct. In order to avoid any confusion along such lines, the decisions of the Board of Executive Directors must be absolutely concise, clear and relevant, so that each one contains the fundamental parameters for the granting of a loan without entering into pseudo-farsighted theorizing nor being subject to constant revisions which require the Executive Directors to waste their time on matters that should be within the competence of a well-organized management and which, above all, distort the borrowers' image of the Bank.

Peru applauds without reservation any efforts that may be made to give greater flexibility to the Bank's action, whether in the decisions of the Executive Directors, in the clauses of loan agreements or in the powers

delegated to the Bank's offices in member countries. In this regard, Peru endorses the suggestion made by the Chairman of this Seventeenth Annual Meeting, Mr. Mario Ramón Beteta, and formally proposes that the Board of Executive Directors should be instructed to review the operating policies of the institution, as soon as possible and in the light of the latest amendments to the Establishing Agreement. It would seem that the time has come to update such policies, particularly as regards to use of currencies, local counterpart funds and international bidding, as well as the strengthening of the offices of the Bank's Representatives and the investment of the Bank's liquid assets in its member countries.

Mr. President, on this occasion when the Inter-American Development Bank once again submits its report, Peru wishes to reassure you and your staff, the Board of Executive Directors and the Management, of our full confidence in the success of your efforts. At the beginning of a new stage in which the institution will have twice the financial resources it has had up to now, my country wishes to express once again its faith in the destinies of a united America whose prosperity is based on the solidary independence of its sovereign decisions, the self-determination of its peoples and the undying force of an order characterized by the prevalence of social justice.

**Address by Mr. Sergio de Castro S.,
Alternate Governor for Chile and Minister
of Economy, Development and Reconstruction**

Chile is currently emerging from its worst economic crisis since 1930.

The worldwide crisis in 1930 had very harsh repercussions on Chile, whose economy was open to world trade and depended on exports, primarily ore and farm commodities, whereas most industrial products had to be imported.

The Depression brought about a drop of nearly 90 per cent in Chilean exports, generating a serious balance of payments deficit. This had a strong impact on political and economic thinking of the period and impelled the country toward the “import replacement” economic system chosen by Chile after the mid-1930s. Import replacement—with variations in emphasis but not in fundamental direction—was the prevailing policy until September 1973 and led to a process of “forced” industrialization with serious implications for the country’s economic development.

The process described above was based on expanding state intervention aimed at “pushing” development at a pace that became increasingly difficult to maintain.

The formula operated at an artificially low rate of exchange in order to allow for the importation of capital goods and inputs required for the industrialization that was presumed to be the magic key to accelerated economic development.

In order to keep the cost of living relatively low, a wide range of basic commodities was also imported—at the undervalued exchange rate. That such an exchange policy would create a balance of payments crisis was inevitable. To avoid such a crisis and prevent the “squandering” of foreign exchange, the government resorted to prohibitions and high tariffs on certain imports, sharply raising domestic prices for such goods. Naturally, the goods so taxed or prohibited were luxury, or at least nonessential items, since the governments did not usually care if those measures raised the domestic prices for such goods and did not want to spend their foreign exchange to import them.

The import replacement scheme was reinforced by a policy of direct control aimed at holding down price increases in order to keep salaries at reasonable levels and reduce production costs for national industry.

The combination of undervalued exchange rates, import prohibitions or high tariffs and direct general price controls produced an extraordinarily distorted price structure. In effect, all basic commodities—particularly agricultural commodities—were held artificially low. On the other hand,

the prices of luxury and nonessential goods were kept at comparatively high levels.

Return on investments obviously followed the same pattern; consequently, national productive resources were diverted from basic commodities to concentrate on the production of luxury and nonessential goods. This resulted in what we have called "forced" industrialization of the country.

This concentration of productive resources was unsound because, in view of the mechanism on which it was based, domestic prices for goods produced were relatively high. Therefore they could only be purchased by groups with relatively high average incomes; that is, a fairly small segment of the population. Consequently, those productive sectors had only a limited domestic market and no access to modern mass production technology, which reduces costs but requires large markets. The obvious solution would have been exportation, but that was not possible because the chronically undervalued rate of exchange seriously affected exports in general. This was the origin of our well-known position as a country with one export—copper—which, because of its high efficiency and profitability, was immune to wild fluctuations of the exchange rate. Over 80 per cent of our foreign exchange earnings have traditionally been derived from copper exports.

Another tragic effect of the policy of undervaluing the exchange rate was to foster replacement of the labor factor, which was displayed by capital goods that could be imported cheaply. This process was further encouraged by an inefficient and very costly social welfare system tantamount to a tax on labor.

The interest rate is another important factor that has generally been controlled in Chile. The effect of such control was to maintain a negative real interest rate for prolonged periods, given Chile's perennial inflation. As a result, national savings were distributed among investors, not on a basis of most efficient use, but for reasons of friendship, economic capacity or political influence, considerations that do not always lead to the most economically viable social distribution of a country's productive resources.

This, in brief outline, is how Chile's economic development plan based on import replacement—has operated in the past 40 years or so.

Over that long period there were of course administrations which sought to minimize the distortions I have described and managed to establish reasonable import replacements. You must not think that the entire course of Chilean industrialization has been inefficient. What we should recognize, in drawing up an overall long-term balance sheet, is that the plan was incapable of releasing Chile's potential for economic development, which was imperative for a fair and equitable solution of the country's social problems.

The drain of resources from the essential goods-producing sectors—particularly agriculture—and their concentration on the production of luxury and nonessential goods for very small domestic markets led to a disappointingly low average rate of economic development.

This inadequate development rate hampered efforts to redistribute income in behalf of the poorer classes and created growing social frustration even among the groups it was supposed to benefit. Since Chile is essentially a middle-class country, the sector was also frustrated because it was being asked to sacrifice its standard of living in exchange for only a slight improvement of the most disadvantaged groups. This generalized frustration, actually the product of the low rate of economic development, was undoubtedly one of the cardinal factors in the political change that took place in 1970. Unfortunately, the new administration made no fundamental change in the existing economic plan, but instead, exacerbated its most damaging features in order to bring about rapid total state control of the national economy.

Whereas a 30 per cent devaluation would have been sufficient before to correct the exchange rate, in October 1973 the currency had to be devalued by more than 1000 per cent over August of the same year in order to achieve a realistic exchange rate. Before, price controls had reduced profits to very low levels, yet as early as 1972, most fixed prices could not even cover operating costs. In addition, the take-over of businesses and the mass occupation of farms, without any subsequent organization to maintain output, led to a large-scale economic crisis. Agricultural production fell by 33 per cent in two years, making it necessary to import five times as much food, so that food imports amounted to \$600 million in 1973. Stocks of raw materials and spare parts were used up and foreign exchange reserves were exhausted. Black markets mushroomed and lines of people trying to buy the most essential goods formed everywhere. The country was really bankrupt, having consumed over a million dollars a day over and above the national income in the form of net loans and reserve losses. Inflation was rife, and as early as mid-1972 there were clear signals of potential superinflation as prices began to rise faster than money in circulation. The period 1970-73 is sufficiently familiar to you and I need not dwell on it. That was the situation when, with overwhelming support from the Chilean people the armed services and the forces of order intervened and assumed power.

This account of the present administration's diagnosis of the causes of Chile's slow economic development over the years, makes it easy to understand why it was quick to take the steps it did after September 1973. The main steps were:

- A sharp devaluation in real terms by frequent minidevaluations averaging 1000 per cent in relation to the exchange rate prevailing in August 1973. That soon led to a unification of the foreign exchange mar-

ket. Most affected was the food sector—and therefore the agricultural sector—since the food that was being imported when the dollar was at 12 escudos was now imported with the dollar at 280 escudos, over 20 times higher.

- Decontrol of prices with the sole exception of monopoly-produced commodities. Price control was retained for not more than 25 products, on contrast to the previous situation when over 3,000 items were controlled.

Those two measures produced a sharp change in relative prices and revealed the real comparative advantages of the country.

- Successive and substantial tariff reductions and the removal of import restrictions. Now the highest tariff is 80 per cent, whereas before many tariffs exceeded 200 per cent and advance deposits of 10,000 per cent were required, virtually prohibiting imports. This measure has forced the producing sectors to improve efficiency or change their production lines.

- Decontrol of interest rates. This measure has helped to allocate limited national savings among potential investors efficiently because interest rates now ensure a fair return. The subsidy paid out by the banks to the most influential economic and political sectors of the country has been eliminated.

The rise in the price of crude oil and the substantial drop in the price of copper soon afterwards had a very strong impact on our recovering economy.

In 1975 Chile suffered a loss of over 12 per cent in national income due to the decline in copper prices. This created a potential balance of payments deficit of \$800 million on the assumption—made towards the end of 1974—that the price of copper would not go below 65 cents a pound. In actual fact, the average price Chile received in 1975 was no more than 55 cents a pound, so that another \$200 million would have to be added to the potential deficit for 1975.

Given this critical situation, drastic steps had to be taken to prevent the collapse of our balance of payments. Fiscal expenditure in national currency was cut by 15 per cent and foreign exchange expenditure by 25 per cent. In addition, there was an actual devaluation of about 24 per cent during 1975. Those measures made it possible for 1975 to close with a balance of payments deficit of only \$261 million because they gave strong impetus to nontraditional exports, which increased sixfold between 1973 and 1975. Imports, on the other hand, declined, owing to the reduction in domestic activity and the expansion of agricultural output. It is interesting to note that food imports, which reached a value of \$600 million in 1973, declined to \$470 million in 1974 and to \$360 million in 1975. Food imports are expected to amount to \$225 million for 1976.

That measure of success has not and could not have been achieved

without sacrifices. The domestic effort has been tremendous and has resulted in a high unemployment rate—about 18 per cent in December 1975—and in continued high inflation. To ensure a fair distribution of the burden of sacrifice, the government adopted the following measures:

- Family allowances for blue-collar workers were brought into line with those for white-collar employees; the effect was to increase such allowances far above prices.

- Increases in minimum wages exceeding price increases were granted.

- A flat-sum allowance was introduced for meals and transportation proportionately more favorable to low-income groups.

- The Minimum Employment Program was introduced, guaranteeing a job at the wage of about 80 per cent of the minimum wage to anyone looking for work. There are now about 150,000 people covered by this program.

- The hiring of additional labor by the private sector was subsidized. The subsidy is a fixed amount so that proportionately it is much more favorable to low-paid workers.

- Unemployment benefits were extended to workers for up to six months, which can be stretched to one year in special cases.

- There was a substantial increase in social outlays, with special emphasis on assistance to the poorest classes through maternal and infant nutrition programs, school breakfasts and lunches and health and housing programs. Basic education spending has also been significantly increased.

- Workers' training was introduced to improve technical qualifications.

- A tax reform was undertaken that has considerably increased the progressive nature of taxes and at the same time eliminated privileges and exemptions that facilitated tax evasion. Chile must now be one of the countries with the highest progressive taxes in the world. As a result of that effort, the tax deficit in national currency is now virtually nonexistent.

As I have said, the national effort has been prodigious, but it was necessary to be commensurate with the country's real economic situation. Even with relatively modest future copper prices, Chile will have no difficulty in adjusting its balance of payments position and complying with its international obligations, which will require it to commit about 36 per cent of its total exports in 1976.

Fortunately, the world recession is coming to an end, and the price of copper has begun to show signs of returning to more reasonable levels. Domestic industrial activity—which declined by more than 25 per cent in 1975—has been recovering since the last quarter of 1975 and has been stepped up in the first few months of 1976, so we can say that the worst is over and that from now on Chile's economic development will be satisfactory.

There are two major components of economic development. The first is to employ efficient, rational and coherent economic policies. We are confident that we have fulfilled that requirement. The second is to be able to generate a high level of investment. In this area we are deficient because we are unable to generate the level of investment we should like through domestic savings. Consequently, foreign investment—on favorable terms for both parties—is welcome in Chile. For the same reason we need the support of international and private financing agencies like the Bank.

Chile has taken and will continue to take the economic policy steps required by the situation, which clearly bears out Chile's belief that the domestic or national effort is the essential basis for our economic recovery and development. That being so, the external assistance we seek will supplement our national effort and must be adapted to the aims and purposes of our economic policy.

In its 16 years of existence, the Bank has given strong support to the country's efforts to expand its economic infrastructure in such areas as power, industry, agriculture and highways, as well as education and health. Assistance in those areas must continue and must be adapted to the conditions we have described.

The restoration of economic stability requires that in some sectors there not only be an expansion of installed capacity but an improvement in existing capacity. The Bank should therefore direct its attention not only to the implementation of new projects but to supplementing our national endeavor to achieve the desired aims by granting global loans for that purpose.

The Bank's valuable assistance to Chile in implementing infrastructure projects has, owing to the nature of those projects, led to the development of a sound capacity for generating projects in important branches of the public sector. The need to lay the foundation for greater responsibility and participation by the private sector in the country's productive process prompts us to hope that the Bank will cooperate with the country's efforts to develop a capacity to generate projects and attract resources in that sector as well.

In recognition of our need to open our economy to external inputs, we hope the Bank will help us, not only by participating in the financing of projects in the export sector but also by responding to the common concern of many countries in the region to develop the financial and marketing mechanisms required by those activities.

The mistaken approaches underlying certain economic policies in the past have had the inevitable adverse effect of preventing the economy from developing a capital market, without which our present economic development plan cannot function. We are firmly convinced that external assistance in this field cannot be productive if domestic financial and ex-

change policies and interest rates, particularly, do not create the basic prerequisites for such assistance. As I have pointed out, Chile has adopted basic policies which make development of a capital market viable. We should therefore like for the Bank to assign high priority to providing the external assistance necessary to strengthen that market by channeling resources towards the intermediary finance agencies of the sector.

I have summarized very briefly some of the central ideas which we feel are entirely in keeping with our valuable experience of 16 years of collaboration between Chile and the Bank. In conclusion, we should like to express our appreciation for the Bank's activities in support of regional development, an area in which it has distinguished itself and continues to distinguish itself by its technical competence and objectivity in fulfilling the purposes for which it was established.

**Address by Mr. José Alfredo Martínez de Hoz,
Governor for Argentina and Minister of Economy**

Allow me first of all to express my appreciation and that of my delegation for the cordial welcome and noble hospitality extended to us by the Mexican authorities.

I have read the Annual Report of the Bank for 1975 with satisfaction and cannot but express my own and my country's recognition of the excellent work done during this period by the President of the Bank, Mr. Antonio Ortiz Mena, who has not only expanded the volume of operations of the Bank during a year of disturbing international financial difficulties but has also opened the way to new avenues of financial assistance to the countries of the hemisphere, thus consolidating the Bank's role as the leading regional financial institution. But such outstanding accomplishments do not entitle us to cease striving and we must only take them as one more step on the long road to economic and social development being followed by the American peoples.

Our profound humanistic calling reminds us in every act of government that man is the ultimate goal of our efforts. That calling also leads us to make an appeal that we not rest on our achievements—no matter how important they may be—but rather that we forge ahead with quickened pace and greater imagination so as to achieve as soon as possible our people's legitimate hopes for a more dignified standard of living materially and a more satisfying life spiritually.

For over a generation, many of the Latin American countries have been requiring their people to make a great effort in order to diversify their economies and thus be able to increase their product while reducing the impact of recurring fluctuations in exports of raw materials. This sacrifice has brought results and we note with justified satisfaction that an increasing number of Latin American countries have reached an acceptable degree of modernization in their economies. But despite such progress, we are still only halfway along the road and the stretch ahead will be even more difficult. Many of us have practically completed the stage of industrialization based on the substitution of imports of manufactures and to continue our development we must open up our economies to an international market where we will not only be faced with the problems common to beginners but will also have to overcome increasingly discriminatory attitudes which cannot always be removed in bilateral negotiations.

Those of us who are at this point in our development need as much

or more understanding from the industrial countries than the countries that are just beginning their development. In our case, sacrifice on the domestic front is not enough to achieve the integration of our economies into the world market of processed goods. We must also ensure that the rules of the game are clearly established as that is the only way we can gain constant and fair access to the markets of the wealthier nations.

Fortunately, we can already discern the beginnings of certain encouraging signs of international understanding. The Government of my country has noted with satisfaction the concepts expressed by the United States Secretary of State on his recent trip to Latin America, when he stressed that it was the duty of industrialized countries to help the countries that are in the more advanced stages of development to become fully integrated into the world economy. Along these same lines, the Argentine authorities view as highly positive the steps taken by the Inter-American Bank to expand its export financing program. We feel that, once institutional misgivings are fully and finally overcome, the Bank during 1976 must seek the necessary funds and mechanisms to enable the Latin American countries to enter into the world market of manufactures on terms of financial parity with the industrialized countries.

The Bank has been one of the most effective promoters of expanded intraregional economic relations. In this regard, it is worthwhile mentioning the important role played by the Institute for Latin American Integration (*INTAL*) over a decade of fruitful activity. But the uncertainty that has been raised regarding its future as an institution does not help its development and my Government is most concerned about the matter. I feel that the institutional position of *INTAL* must be settled once and for all during 1976 and its role as an advisory body concerned with the major economic and social problems of Latin America must be strengthened. Argentina will continue offering ample moral and material support to *INTAL*.

At the beginning of this address I mentioned my Government's satisfaction at the new operating methods that will mean an expansion of the Bank's financing capabilities. In this regard, we view as highly significant the first complementary financing or cofinancing operations entered into during 1975. The Bank has now gained the prestige and has the technical capabilities necessary to guarantee, *vis à vis* the private banks, the soundness of investment projects whose profitability make them amenable to financing on market terms. This financing system has thus become increasingly important and has not only helped extend the Bank's lending capabilities above and beyond its own capital but has also made it possible to organize with the commercial banks a specialized international financial market. International private capital can thus operate with greater security in placements, with greater flexibility and lower operating costs. This in turn brings to borrowers the benefits of

more alternative sources of financing, better amortization periods and lower interest rates.

Argentina also views in a positive light the fact that the Bank's financing may be oriented, in agreement with the governments concerned, to enhance a balanced development of the public and private sectors of their economies.

We also note with satisfaction that it will soon be possible to establish the Latin American Financial Corporation (*COFIAL*) which would assist in the financing and capitalization of private enterprise.

We also wish to express our support for the suggestions already made by other countries to the effect that the Board of Executive Directors should be asked to review the operating policies of the Bank and that the policies regarding local counterpart funds, use of currencies, international bidding and placement of its liquid assets in the member countries be updated realistically.

The Situation in Argentina

The Armed Forces of my country have, without wanting it, assumed political power in order to fill an obvious power vacuum which was disrupting social harmony.

The absence of an authority commanding respect had led to a social confrontation that went beyond the limits of reason in a quest for greater participation in the distribution of income, thus unleashing an inflationary process almost unprecedented in the economic history of the world. The power vacuum also encouraged social disorder, bringing about a sharp decline in productivity which also aggravated the inflationary process. To this must be added the corrosive activities of those who sought to undermine the foundations of our political and institutional system.

The assumption of power by the Armed Forces restored the principle of authority and purified the moral climate of the country. Basic objectives for the leadership of the country were proclaimed which meant, essentially, the return of justice and law in the regulation of collective behavior.

It is not surprising, therefore, that under such unfavorable conditions the Argentine economy should have recently shown high monthly inflation rates, a drop in the gross product and in investments and a growing deficit in the balance of payments.

In strictly economic terms, the significant political change I have mentioned brought about an immediate resumption of normal levels of productivity while at the same time helping to restore external confidence in the country.

The economic program adopted by the Armed Forces Government is

an overall one, with all its components coherent and inseparable. In the past, many attempts at economic and financial reorganization and recovery have failed because they only dealt with partial aspects of the problem or were not maintained continuously for a sufficient length of time. *In the same way, therefore, if one or all of the measures proposed in this program were taken alone, isolated from the whole, they would lose all their effectiveness and run the risk of meeting the same fate as previous attempts.*

Only a global, integral and continuous approach can make success in achieving the desired objectives possible. These may be summarized as follows:

1) To achieve the monetary and financial security that are fundamental to the modernization and expansion of the productive machinery of the country, in every sector, thus guaranteeing a noninflationary growth of the economy.

2) To speed up the rate of economic growth.

3) To achieve a reasonable distribution of income, preserving wage levels to the extent necessary to make the economy productive. Just as there cannot be distribution without growth, there cannot be growth without distribution.

Starting from here, our short-term priority is the fight against inflation, since we feel that the rate at which the value of the currency is falling is incompatible with a fair and productive collective existence. Indeed, if there is not a reversal of the trend that was apparent during the months just before the Armed Forces took over, in 1976 Argentina would have been faced with a four-digit inflation, that is, we would have been edging close to a hyperinflation situation that would have meant the destruction of the monetary system and thus of the economic and social order. This is the reason, therefore, for the priority we assign to checking inflation.

Budgetary Policy

Although it cannot be said that inflation in Argentina was due to a single cause—there are always several causes—it can be said, on the other hand, that its prime mover was the fiscal deficit, in other words, the deficit in the national budget and in the provincial and municipal budgets throughout the country.

The magnitude of the deficit in the national budget has reached completely uncontrollable limits. The expenditures of the national, provincial and municipal governments have grown to such an extent that most of them can no longer be covered with genuine resources—those provided by taxes—or even with the addition of public credit such as issues of bonds

and public securities sold on the financial market. Rather, in addition to the above, it is necessary to resort to a greater extent to a simple printing of money. This then is the major immediate cause for our inflation.

The complex nature of modern economics makes it necessary to clarify the functions of the State and of private enterprise. If we accept the basic premise that the latter—private enterprise—is the true force that moves the entire social and economic process, that does not mean that the State must limit its functions to merely maintaining law and order. But its activities in controlling, orienting and moving the economy must be coordinated with those of private enterprise so as not to disturb the positive action of the latter. The State and private enterprise must each develop in its own sphere in order to achieve maximum benefit for all.

In order to correct the serious financial situation of my country, the public sector must rescale State activities, acting or attacking simultaneously in four areas, namely: (1) the rationalization of the central national administration; (2) the elimination of the deficit of state corporations; (3) the gradual reduction and elimination of federal funds to cover the deficits of provincial budgets, and (4) the organization of public works within the maximum limits allowed by genuine noninflationary financing.

With regard to public works, our country has in many cases failed to make use of international credit resources for long-term financing. Such a solution makes it possible for the works to start producing economic benefits that can be used to pay for the financing in question, thus avoiding short-term indebtedness or simple printing of money to pay for works that will benefit several generations and whose cost cannot be met within a short time span.

The country needs to carry out many very important public works, on large, medium and small scales, relating to energy, roads, ports, communications and many more. But it is essential that they be approached and carried out in accordance with sound noninflationary financial principles.

With regard to tax resources, a series of immediately applicable measures have already been applied, including the indexing of debts due to the State in order to prevent debtors of the State from benefiting, through inflation from their delinquency. In addition, the entire tax system will be reformed, taking into account not only the fiscal purpose of covering budgetary requirements but also based on the view that taxes should be an instrument for orienting production and the economy.

The general purpose of the reform will be to increase tax revenues through the establishment of a system for expanding collection or, in other words, for broadening the tax base without unduly increasing fiscal pressure, while at the same time simplifying the tax system in order to facilitate and reduce the cost of collection, thus avoiding the currently

high evasion rate which is due to a lack of administrative capability and checks and the complexity of the system.

The new system should prove to encourage rather than discourage increased production. It will not discourage capitalization of the productive sectors and will take into account the taxpayer's ability to pay in order to achieve the fairest possible taxation system.

Income Policy

An important factor in this inflationary process has been the price-wage race. The strategy for correcting this necessarily involved slackening of the rate of increase of prices and wages, which had been mounting alarmingly, to the extent that major wage increases were lasting only two months.

At the same time prices were decontrolled, to re-establish their relative structure, with consequent positive effects on investment and production and simultaneous disappearance of the black market, shortages and the administrative corruption inevitable to the controls system.

There was also another basic reason for decontrolling prices, namely that in contemporary economies which recognize private ownership of the means of production, enterprises use their profits to effect new investments. If there are no profits because price controls make them out of the question, new investments cease and without them there is no growth nor possibility of increased consumption, nor, as a result, the human wellbeing hoped for as the final objective.

Exchange Policy and External Debt

Another economic priority of the Government is improving the balance of payments situation, whose equilibrium has suffered mainly on account of the lack of incentives for exports and the subsidizing of imports and, as a subsidiary factor, the reduction or loss of access for our exports to certain markets. To turn the situation of the external sector around, a realistic exchange policy has been put into effect, i.e. one which considers the international market situation for the respective products and also the domestic growth of the production costs.

A solid recovery of the external sector will not be achieved, however, without a proper restructuring of the country's external debt. Such restructuring is an achievable goal under the present circumstances, with the existence of a stable government with political authority along with the adoption of the just described economic program.

Monetary Policy

The monetary policy should be directed toward regaining for the Argentine peso the prestige and solidity essential for it once again to be representative of the country's productive capacity, both at home and abroad.

This topic is obviously bound up with reduction of the budget deficit and cessation of the printing of money to cover it. With this inflation-furthering factor removed from the scene the currency will be able to regain stability and perform its function as a stable means of exchange for the normal conduct of economic activity, in relation to the production of goods in the country.

In this way the public sector will gradually cease to be a factor furthering monetary expansion, while that generated by the external sector through the increase in exports will be compensated by the possibility of achieving a level of imports adequate for the development of Argentine industry and economic activity in general.

An adequate volume of international reserves will be essential to maintain the policy just outlined.

To achieve the monetary policy aims it will be essential to restore the flexibility and efficiency of the banking and financial system, doing away with the system of centralized deposits, which is inoperable from the angle of official credit control while holding back development and restricting bank financing.

The economic program is not, of course, limited to consideration of the difficult situation we have to face; on the contrary, this short-term treatment ties in harmoniously with a policy of wider scope designed to bring about the full consolidation of a modern Argentina, capable of achievement in the scientific and technical sphere, respectful of the basic freedoms of mankind and where social justice prevails.

Industrial Policy

This policy has the following basic features, as regards the main sectors of economic activity. In the industrial sphere the aim is to strengthen national industry and stimulate its growth in terms of quantity, quality, efficiency and earnings and promote the basic industries so as to supply the greatest possible proportion of local requirements of critical products. This will moreover have a multiplier effect on the rest of economic activity. Integration and application of industries considered to be in the national interest will be supported. Special encouragement will be given to industries with potential for development at reasonable cost, not only for the home market but also as regards possible exports, either because

raw materials or labor are available or cheap. Industrial capitalization will be fostered by reforms of the fiscal and credit policy through which decentralization and regional or sectoral promotion will be furthered, in particular.

A normal competitive situation will also be assured in the domestic market, together with incentives for a free market and adoption of technology suited to Argentina's economic and social scene, while at the same time national technology-oriented research will be promoted.

Agricultural Policy

The importance of the agriculture sector as the main supplier of our exportable goods must be stressed. Furthermore, when considering the world food shortage which will be one of the chief problems to be faced by humanity in the years ahead, one must emphasize the privileged position of Argentina, whose food-production capacity can still be substantially increased.

However, the introduction of new technology in agricultural production—modern equipment, machinery and chemical products—is governed by whether farmers are in a position to invest, for which, of course, they must have obtained a sufficiently good return on their production. There is no getting around the cost-price factor. If farm prices are not sufficiently remunerative to pay for the modernization and equipping of the sector, this will not take place as rapidly or as thoroughly as it should and crop and livestock yields will be much lower than is needed.

The return of the grain trade to the private sector, as recently decreed by the Government, is one of the means for giving farmers better prices, since it will make it possible for them to earn more than the official price while at the same time taking some of the burden of crop financing from the official credit system.

Foreign Trade Policy

Chief priority in this sphere will be given to promotion of all exportable production, as regards both traditional exports, such as agricultural products, which presently provide the largest volumes and are capable of immediate, large-scale expansion, and as regards exports of nontraditional items—manufactures and semimanufactures—which will of course grow more slowly. However, it should be noted in this connection that over the past 15 years an important policy of diversifying our exportable products and our markets has been implemented, with the result that industrial products already make up a third of our total exports.

The principles of multilateral trade appear in general to be more ad-

vantageous for Argentina than bilateral arrangements. Nevertheless, a certain consistency is called for with the countries with which our imports and exports are more closely linked and there may be cases in which conclusion and maintaining of bilateral agreements will be justified.

The policy of seeking out new export markets should be pursued without any ideological restrictions, with the proviso that trade must not be used as an instrument for furthering political ideologies contrary to our political and institutional system.

Energy Policy

As regards energy policy the goals sought are the following:

- 1) Provision of an adequate electric power supply to meet the needs of the economic expansion envisaged in this program.
- 2) An urgent stepping up of petroleum production to achieve selfsufficiency as soon as possible.
- 3) Energy conservation and rationalization of consumption.
- 4) Replacement over the longer term of certain fossil fuels by the use of renewable and practically everlasting energy sources.

Policy on Foreign Investments

The contribution of foreign investments in complementing local investment, coupled with the technology transfers entailed, can be used by the country without any fear that its sovereignty or national decision-making power will be impaired, provided that the rules set by law are clear and just, since the modern State has such powerful instruments at its disposal that no enterprise or individual, of whatever nationality, could act counter to it within the law.

Labor Policy

A particularly important aspect for the Government and for the process of national reorganization is that relating to the role of labor unions in the life of the country. We are aware of the importance of labor organizations. What we do not want is unionism which is master of the State and arrogates all the power to itself. We do, however, want a union movement and unions which fulfill their role of defenders of professional and social interests of their members, and which also have a say and exert influence in major national decisions.

Following this approach, amendments have been introduced to the

Labor Contract Law that will eliminate provisions contrary to healthy labor relations.

In the same way, the changes called for in the law on professional associations are being studied to make this law compatible with the role of labor organizations in the life of the nation.

As a measure of direct economic relevance, all clauses in labor contracts which constitute a hindrance to increased productivity will be studied with a view to cancellation, but without prejudice to the legitimate rights of the workers.

Regarding income distribution, the Government will assure that the fruits of an economic expansion program as put forward here reach all strata of society, to which end it will employ all appropriate policy instruments.

Production Economy

As will be evident from the foregoing, we are aspiring to an economy which we can define as a production economy, in other words an economy based on the creative capacity of private enterprise, that is not hostile to business profits; however, it must also be quite clear that we also wish this production economy to form part of a larger whole that is nothing less than an overall policy which seeks the common good of the Argentine people.

Latin American Cooperation

As regards the specifically Latin American sphere, despite our opening of relations with all the nations of the world Argentina affirms here that it belongs to and forms part of the group of countries of the region. This common origin then leads us to reaffirm our commitment to Latin American integration, a process which calls for urgent rethinking in order to find the routes that will promote closer links between our countries while at the same time enabling us to achieve higher levels of efficiency in the economic field. We also reaffirm our commitment to the aim of creating binational or multinational Latin American enterprises, for which purpose it appears vital to us that the Bank should finance appropriate studies.

In conclusion, we are firmly persuaded that the nations of Latin America, acting jointly and severally, will not only contribute to the resolving of the common problems affecting them, in a spirit of cooperation and not confrontation, but that this same attitude will have favorable repercussions on their own growth process.

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

Two world wars and the reality of nuclear power as an instrument of destruction helped to commit the nations of this world to the acceptance of international cooperation as a solution to its economic and political problems. Cooperation quickly became, not just a way of regulating the affairs of the richer and more powerful nations, but of influencing relations between rich and poor countries as well. The international community became a reality and international cooperation the cornerstone of attempts to achieve harmonious survival for the free world.

In perhaps every sphere of international cooperation, results have not matched expectations. Development assistance schemes are no exception to this rule. Not the least of the difficulties was, of course, that the development process was imperfectly understood. As a result, the techniques and methods for delivering such assistance were noted for their weaknesses than their strengths.

For example, the desirability of multinationalizing development assistance was soon recognized. The advantages of blending official and private assistance were also recognized. The need to tackle, directly, the social and not just the economic features of poverty was also recognized.

The creation and functioning of this Bank has met these objectives for Latin America, and that quite well.

But its existence has done something of even greater importance and significance for this Hemisphere. The Bank has provided the region with a development assistance institution which could respond adequately to its peculiar features and needs. One that could do so while attracting increasing amounts of assistance.

But what of the future?

Future Prospects

In order to consider the future prospects of development assistance for Latin America in general and this Bank in particular, one must of course take a wider view of the matter.

Today, much is known about the complexities of the development process that was not known or understood 20 years ago, or even 15 years ago. Today, there is greater understanding of the likely effectiveness of the various techniques for transforming resources from the rich to the

poor. More important, after 20 years of effort, a complex machinery has been put in place for the disbursement of such assistance.

These are considerable achievements. Ironically, these achievements are threatened by the rapidly growing inadequacy of such assistance. Some seek to justify this growing scarcity by pointing to past failures, presumably intending to infer that all development assistance is ineffective. But this Bank is irrefutable evidence, and not the only evidence, that development assistance programs can and do work. And yet, looking ahead, inadequacy of resources is a prospect that confronts us at a time when the absorptive capacity of member countries is showing encouraging and healthy signs of growth. One is forced to ask, why is this so?

The fact is that poverty still afflicts many in this region, and the achievements of many of our countries are tenuously based and are so threatened by current and past developments, that though they can no longer be described as desperately poor, much remains to be done.

It is for this reason that I view with alarm and sadness the attitude, increasingly evident in some donor circles, that increasing needs should be met by decreasing assistance flows, on harder terms. My own country, with little by way of resources both in absolute and relative terms (except for the resourcefulness of its people) is a victim of this trend.

Barbados became a full member of the international community less than ten years ago. We believed in, and practiced, self-help even prior to such membership. One of our achievements has been to contain our birth rate to very low levels in an island with one of the highest population densities in the world. An inevitable consequence of this restraint, if you will, is that gains in output show up automatically and inexorably as higher per capita incomes. As a consequence it is now being suggested in some quarters that we qualify for assistance, if at all, only on the hardest terms. Even our extremely small size and limited resources are considered irrelevant here. We ponder these notions and look to the future with consternation.

It is clear to us that our case provides an instructive example of the seriousness of the prospect of increasingly inadequate aid flows. For as scarcity reaches more critical levels, so will disbursement criteria become more preposterous in their implications and in their consequences.

The Bank and the Caribbean

Our collective efforts as a region are now even more necessary if we are to successfully meet and overcome these trends and difficulties. Whatever the illogic of current trends in disbursement criteria, we must strive for increasing efficiency in the use of development assistance. Experience has shown that this is a long and sometimes painful task, involving as it does fundamental adjustments in the way our societies organize themselves.

Our host country in general and Cancún in particular are examples of success well worth study and analysis. As one who happens to be from the Caribbean, my hosts will forgive me if I regard Cancún as essentially a Caribbean success story. In any event, the example demonstrates the extent to which these distinctions can be misleading, if we allow them to be.

We must strive, too, to strengthen arrangements for assistance within the region. Admirable examples exist in the region as a whole, and within the Caribbean sub-region, of mutual assistance schemes.

In the English-speaking Caribbean, we have just completed and signed agreements for two important schemes:

1. A scheme (Safety Net) for the utilization of regional reserves to make possible mutual balance of payments assistance within the Caribbean Community (CARICOM).

2. A Special Fund to give emergency financial assistance to the least developed of the CARICOM countries.

The efforts of the Caribbean Community Secretariat and the Caribbean Development Bank have been a key factor in the success of both these agreements.

Much has been done at the level of agreement to prepare the way for the integration of the English-speaking Caribbean into this Bank. The admission of Guyana and the Bahamas and on-lending to the Caribbean Development Bank were agreed to at previous meetings of the Board of Governors. We would urge member countries and the Bank to strive for the earliest possible implementation of these measures so that the entire package of proposals for the widening of the membership of the Bank, both within and without the region might be realized. For what purpose would be served if we sought to integrate ourselves more firmly with the international community, if the integration of the region itself is neglected?

I should mention here that the President of the Bank, Antonio Ortiz Mena, has shown much foresight and courage in all these matters. His sympathy and understanding, as well as sense of commitment, bespeak the qualities of the true leader.

I would like to say in closing that this Bank, this region, this Hemisphere is indeed fortunate. This Bank because it is ably managed and ably led. This region because it has attained a level of development which, however imperfect, is by international standards, commendable. This Hemisphere, because of its human and material endowments. We can either allow ourselves to be embarrassed by the charge that we are too well off, or we can strive to be an example that others might follow.

Finally, it is my pleasure and privilege to thank our gracious hosts, the Government and people of Mexico. My admiration of Cancún I have already expressed. For my part, it has been a source of some satisfaction

that it has been possible to arrive in Latin America without leaving the Caribbean. One day, I trust, it will be possible to arrive in the Caribbean without leaving Latin America.

Address by Mr. Mario Henrique Simonsen, Governor for Brazil and Minister of Finance

To begin I should like to express my thanks and that of the Brazilian delegation for the hospitality with which we have been received by the Government and people of Mexico at this beautiful tourism center of Cancún. Brazil and Mexico are nations traditionally bound by ties of friendship and affinity. Brazilians will never forget the affection shown us by the Mexican people in 1970 when we won the Jules Rimet Cup in this country. Equally strong bonds unite us in the economic sphere, with the mounting flow of trade between our nations and the desire to modernize our societies through development and the distribution of its fruits to all strata of the population.

On the occasion of this Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank, we should first of all acknowledge the splendid contribution made by the Bank, in the little more than a decade and a half of existence, to the progress of Latin America. And so, let my opening words of praise be addressed to those who have managed this institution so well, first under the leadership of Felipe Herrera and since 1971 under the dynamic administration of Antonio Ortiz Mena, who has been re-elected with good reason by acclamation. Notwithstanding the success achieved by the Bank thus far, we should recognize here and now that the new world economic situation has greatly increase the financing needs of the developing countries as a whole and those of the Latin American nations in particular.

As everyone knows, until 1973 the current account balances of the developing and developed nations followed an iron rule: the industrialized countries, in their natural position as exporters of capital, showed surpluses on current account; the developing countries, importers of capital, accounted for the counterpart deficit. The figures for 1973 can be considered normal: the industrialized countries posted a current account surplus of \$10.7 billion, while the less developed nations had a deficit of \$9.1 billion.

In 1974, with the sudden rise in oil prices, the natural order of the current account balances was abruptly overturned. From 1973 to 1974 the Organization of Petroleum Exporting Countries (OPEC) increased their surplus from \$5.6 billion to \$67.6 billion. As a result, the traditional surplus of the industrialized countries turned into a deficit of \$10.7 billion, and the deficit of the less developed countries tripled from \$9.1 billion to \$27.5 billion.

Thanks to adjustment measures which led the countries of the Organization for Economic Cooperation and Development (OECD) into the

most serious recession of the postwar period, the developed nations were able quickly to correct the imbalance on their current account, moving from the \$10.7 billion deficit of 1974 to a \$16 billion surplus in 1975. This was achieved largely through a reduction in the surplus of the oil-exporting countries, from \$67.6 billion to \$35 billion. However, the world recession caused an even greater increase in the current account deficit of the developing countries, swelling it to \$35 billion.

We might well ask why the less developed countries were unable to adjust their balance of payments to the oil crisis, as the industrialized nations did. There are at least three answers: first, the import demand of the developing countries is usually less elastic than that of the developed countries; second, the recession in the industrialized countries meant a fall in the exports of their less developed suppliers; third, the developing countries are politically much less tolerant of restrictive measures than the rich nations.

The last point warrants further comment. The principle of decreasing marginal utility suggests that a recession is more tolerable, the higher the level of per capita income. Furthermore, the population grows at a much faster rate in developing countries, which often suffer from problems of structural unemployment, and this obliges their governments to pay special heed to the creation of jobs. Finally, the developed countries have instruments to neutralize the social effects of recession—such as unemployment insurance—which are inaccessible to the poorer nations.

In short, all of the oil-importing countries had to pay a price for the cost adjustment that took place at the end of 1973. The industrialized countries were wealthy enough to pay this price on demand. But the developing nations had no alternative but to pay it by borrowing.

The natural consequence of the massive current deficits was an unprecedented increase in the external debt of the developing countries that are importers of oil. Some of these countries will surely be obliged in time to reduce their current account deficits to normal levels, where foreign exchange payments represent a reasonable percentage of foreign exchange earnings and the rate of increase of the total debt is compatible with that of exports. This adjustment effort will have to be firmly backed by national policies of import containment and substitution and export promotion. It is to be hoped that the recovery of the developed economies will open up a new era of stimulus to the exports of the developing nations. Nonetheless, this adjustment will take some time because of the structural factors already noted. It is essential that during this transition phase, the international financing agencies and private capital markets be in a position to cover the current account deficits of the developing countries in the required amounts.

In a number of international forums, such as the Interim Committee on International Monetary Reform, the Development Committee and the

International Conference on Economic Cooperation, the Brazilian Government has called for the improvement of present financial mechanisms and better terms for development financing, as well as greater access by the Latin American countries to the world's capital markets. Some positive steps were taken in January at the Jamaica meeting of the Interim Committee on International Monetary Reform, such as the restitution of one-sixth of the gold held by the International Monetary Fund, the establishment of a trust fund to aid the most seriously affected nations, the provisional 45 per cent increase in the countries' *tranches*, and the revision of Fund quotas. But I should point out that while qualitatively these decisions represent an effort of international cooperation, in quantitative terms they are limited to a small fraction of the financing needs of the developing countries in general and those of Latin America in particular. I hope that in the near future a satisfactory decision—already approved by the Executive Directors—will be made on the World Bank's lending program; and that new institutional sources, in addition to greater access to capital markets, will be created to meet the needs of the developing countries.

Brazil, which supported the presence of the Inter-American Bank as an active observer in international forums where these matters have been discussed, commends the Bank for the positions taken, and is confident that the inter-American financing agency will become increasingly active as an advocate of this cause of such great importance to the countries of our region.

Clearly, the new world structure of the balance of payments will require this Bank to play a much larger role in the financing of Latin America's development. In this regard, I would like first to congratulate the Bank upon the progress it has made in tapping external resources—in some cases through parallel financing—which have a true multiplier effect in its financing operations with the Latin American and Caribbean countries. Special mention should be made here of the imaginative and fruitful work done by the Bank's Management in seeking new sources of financing, making it possible to channel funds from institutional investors and Arab sources to our countries; on terms compatible with their development needs.

Furthermore, I should like to stress the urgent need for all the member countries to approve the increases in the Bank's ordinary capital resources and in the Fund for Special Operations. Twenty-one of those countries, representing 58.69 per cent of the total voting power, have already taken the legal action necessary to put these increases into effect and have sent the corresponding subscription and contribution commitments to the Bank. We call upon the other countries to complete the procedures necessary for this purpose as quickly as possible. In this connection, I should like to point out that the four relatively more developed

Latin American countries have not only taken this action, but have agreed to give convertibility to 25 per cent of their contributions for the increase in the Fund for Special Operations. Furthermore, they have agreed that the convertible currencies made available in this increase will be used exclusively for loans to the relatively less developed countries, those with limited markets and those at an intermediate level of development. This was a clear demonstration of their political will to strengthen the Bank and progressively to eliminate inequalities among the countries of the region.

I believe that in the near future the Bank's potential will be strengthened still further with the entry of countries from outside the region as members. I view the presence of these new members as a starting point for the ever growing participation of Europe and Japan in Latin America's development. But I insist that the Bank must remain an essentially inter-American organization and that the admission of members from outside the region must not diminish the presence of Latin American personnel in the high-level management and advisory posts of the Inter-American Bank.

I realize that in the expansion of the Bank's operations there must be a pragmatic balancing of the allocation of resources between the more developed and less developed countries of Latin America. The situation of the countries with the lowest per capita incomes—above all those most seriously affected by the world economic crisis, should continue to receive priority attention under the principles of inter-American solidarity, particularly in the case of loans made at special favorable interest rates. But we must not underestimate the resource needs of the relatively more developed countries. Some of these nations are in an arduous period of balance of payments adjustment, requiring large sums to cover their current account deficits during the transition phase. They need to carry on investment programs which if suspended would lead to terrible social frustration. Even as a matter of international equity, they are entitled to compensation for the heavy losses they have suffered in their terms of trade since 1973. It should also be kept in mind that while these countries have attained an intermediate level of per capita income, they still have pockets of poverty requiring special attention.

The continuous change in the international economic situation makes it advisable that the Inter-American Development Bank add new lists of priorities to the sectors it has traditionally served. In Santo Domingo the Governor for Brazil suggested the opening of four new priority areas for the Bank's activities: regional economic integration, agriculture, urban development and export financing. I believe that the reasons cited then remain just as cogent in 1976. The Government of Brazil is pleased to note the establishment by the Bank of the International Group for Agricultural Development in Latin America (*GIDA/AL*) and is confident

of the perfect meshing of *GIDA/AL* with the other world organizations working in this sector. It also supports the establishment, within the Bank, of a similar group for the study of urban development problems, in view of the grave economic and social consequences of inordinate growth of the great metropolitan areas of Latin America.

As regards regional economic integration, the Government of Brazil believes in pragmatic progress along two lines: first, through support for binational and multinational projects within the region; second, through the transfer of technology and the use of Latin American consulting services, as recommended at the consulting services meeting held in Mexico. To get this pragmatic integration program under way, the Bank already has and should continue to have a competent technical agency: the Institute for Latin American Integration (*INTAL*).

I believe that the detachment of *INTAL* from the Bank, transforming it into a new international agency or a mere consulting service, would confuse its objectives and create an unwarranted duplication of functions at the international level.

The Government of Brazil notes with equal satisfaction the measures taken by the Bank to broaden its activities in the field of export financing, initially through the allocation of short and medium credits for intraregional exports of goods and services, as well as capital goods. It is also mindful of the Bank's intention to keep this matter under continuous study, as recently stated, explicitly by the Management. Furthermore, it takes note of the provision made for the use of resources of the Venezuelan Fund for short- and medium-term financing of intra- and extraregional manufactured and semimanufactured goods and nontraditional exports. On this occasion, special mention should be made once again of the spirit of inter-American solidarity shown by Venezuela in making resources available to the Bank to finance the development of other Latin American and Caribbean countries.

However, it is not inappropriate to insist on the need for even more support for programs to increase the exports of these countries, within and outside the region. With large current account deficits and a mounting external debt, most of the oil importing countries of the developing world have only one means of solving their balance of payments problems: expansion of their exports as rapidly as possible. Import control or substitution can bring current account deficits down to acceptable levels, but will not generate the funds needed to pay the external debt. In this regard, a dollar more of exports is always preferable to a dollar less of imports. On one hand, it is essential for the inter-American community to be fully aware of this priority, avoiding obstacles to the expansion of intraregional trade. On the other hand, I would like to see the Bank involved in this export expansion effort, which for many countries is the highest priority of economic policy.

In the decade and a half of its existence the Bank has done much to help bring about progress in the Latin American and Caribbean nations. The continuing change in the world economic scene obliges us to find new spheres of action and to broaden the scope of international cooperation. I am sure that in our Hemisphere, the Bank, following a policy of enlightened pragmatism, will remain in the vanguard of these new actions for the benefit of the inter-American community.

**Address by Mr. Gerald L. Parsky,
Temporary Alternate Governor for the United States
and Assistant Secretary of the Treasury
for International Affairs**

The Inter-American Development Bank is about to enter a vital new period in its history. The last 18 to 24 months have been a period of uncertainty and hesitation for the world economy, for the economies of most member countries and for the Bank. This period of great uncertainty for both the world economy and the Bank now appears to be over. The economies of most developed countries have been expanding rapidly for several quarters and the effects of this expansion on world trade and developing country exports are already being seen. With exports again growing rapidly, most developing countries should be able to reduce their unusually large payments deficits of the last couple of years and at the same time increase growth rates. Nevertheless, as a result of the events of the past two years, the world has undergone basic change. With the development of natural resources by some countries and with the transfer of financial resources to others, the world today is truly interdependent. We need not fear this fact. Instead, as the proper response to interdependence, we must build a worldwide framework of cooperation. Development problems remain; but they too can be overcome if we approach them together—seeking realistic solutions that will benefit all countries.

The period of great uncertainty is also over for the Inter-American Development Bank as final action on the replenishment of its resources and the entry of the nonregional members is clearly in sight. I am pleased to say that we expect the Congress of the United States to complete action this week on the bill authorizing a U.S. vote for the replenishment as well as for the amendments permitting nonregional membership. President Ford will then sign the bill into law and Governor Simon will vote promptly. Everyone in the Bank, especially President Ortiz Mena, deserves a great deal of credit for facilitating the agreement on the replenishment in record time. Negotiations were initiated at our annual meeting last year, and only formal steps now remain to place it into effect by the end of this month.

Another major development of great significance to the Bank's future is the expansion of the membership to include countries from outside this Hemisphere. We have all worked hard to make it possible for these countries to join the Bank. I hope the nonregional countries which have not yet completed their formal processes will move forward as

quickly as possible so that we may be able to welcome them as active participants in this institution. Moreover, I would hope that the non-regional countries which have not yet indicated an interest in joining the Bank will soon do so with contributions appropriate to their economic potential.

This Annual Meeting gives us a unique opportunity to demonstrate to the representatives of these countries which are about to become full members what the Bank does. We are meeting here in an impressive new city sponsored by the Government of Mexico, with the assistance of loans from the Bank for such infrastructure as water supply, worker housing and roads. Thus, we can all see at first hand how the Bank helps member countries even in an area where there was previously virtually no economic activity or population. On behalf of the United States, I want to thank the Government of Mexico for hosting this Seventeenth Annual Meeting of the Inter-American Development Bank.

International Economic Outlook

The hopes for rapid economic development of each member country depend in large measure on participation in an international economy which itself is growing rapidly. Fortunately the world is now well on the way to recovering from the most severe economic recession since the 1930s. Industrial production in the major industrial countries has been on the rise for several months. For the larger developed countries as a group, the rate of real growth in 1976 seems likely to exceed 5 per cent. At the same time, however, inflation and unemployment are still unacceptably high in many countries, including the United States. We must increase our efforts to solve these problems through the pursuit of fiscal and monetary policies aimed at achieving a balanced expansion.

During the past two years, the non-oil exporting developing countries have experienced abnormally large balance of payments deficits as a result of increased oil prices and the accompanying recession in the industrial countries. These deficits on current account were about \$28 billion in 1974, and an estimated \$35 to \$37 billion in 1975. Normal long-term financing covered only \$20 to \$25 billion of the gaps in 1974 and 1975, and developing countries have increased their short- and medium-term borrowings from commercial banks. A continuation of such borrowing would increase debt service payments in future years in a way which might create major problems. Fortunately, we are beginning to see a turnaround in the payments positions of many of the developing countries. Just as last year's recession and inventory adjustment had an amplified adverse impact on primary products and development had an amplified adverse impact on primary products and developing countries, the strong

economic recovery underway in the industrial countries will have an amplified beneficial impact. Our latest estimates are that the deficits of the non-oil developing countries will be reduced to about \$28 billion in 1976 with further improvement continuing in 1977.

Recognizing that the adjustment process is not as rapid for all countries, the United States has made a series of constructive proposals to assist the developing countries. Agreements reached four months ago in Jamaica are specifically aimed at the balance of payments needs of developed and developing countries alike. Already it is clear that there will be increased use of International Monetary Fund resources—especially compensatory financing—in 1976.

Despite the many strains of the past year, I believe we can all take pride in the fact that most countries have maintained their commitment to open trading arrangements and relatively free international flows of funds. I am particularly impressed by the fact that developing countries have relied heavily on aggregate monetary, fiscal and exchange policies in adjusting to recent difficulties. They have also made excellent efforts to maintain relatively open markets for imports. These policies suggest that most developing countries are increasingly recognizing the advantages to their development of more intensive participation in an interdependent world. We must continue our efforts to increase trade and financial flows directed by market forces.

There is no question that the international economic system can be improved. We in the United States will continue to suggest changes in the monetary, trade, commodities and technology areas which are aimed at strengthening the functioning of market forces. We do not believe that a new institutional framework to deal with developing countries' economic concerns would be practical or helpful. Instead, we feel that we can bring about effective action within the existing international institutions such as the IMF and the international development banks. We will certainly do our part.

The United States fully recognizes the concerns of Latin American exporters over the wide fluctuations in some commodity export prices and the impact such fluctuations have on their export earnings. We believe progress on raw material problems can be achieved in several ways: through commodity by commodity dialogues between interested producers and consumers; through strengthening the market mechanism and through adequate investment in raw materials production to assure availability of supplies. We have put forward proposals to accomplish these objectives. Further, as part of our efforts to liberalize access to the United States market for developing country exports, the United States introduced a generalized system of preferences on January 1, 1976. This system covers more than 2,700 products of which our imports were approximately \$ 2.6 billion from eligible developing countries in 1974.

At the same time, the most significant contribution the United States can make to international economic progress is to sustain rapid growth in our domestic economy while keeping open our markets for growing imports of the products of other countries. Fortunately, the American economy is experiencing a strong recovery. Real output will grow by more than 6 per cent in 1976. Given our close trade ties with Latin America and the end of our inventory adjustment, an acceleration of imports by the United States will contribute to general recovery in Latin America.

For the economic recovery to be sustained, world trade must continue to expand. The benefits of expanding trade are familiar: greater efficiency, more and higher quality jobs, and lower consumer prices. We are hopeful that the new round of multilateral trade negotiations will reduce trade barriers on a broad scale, provide for the special trade needs of the developing nations, and preserve equitable access to supplies at reasonable prices.

U.S. Commitment to Latin America

The Americas have had a unique history of cooperation in the peaceful management of intra-regional relationships for the mutual benefit of all countries in the Hemisphere. We support Latin American economic integration efforts and are ready to consider proposals for strengthening intra-regional cooperation.

The United States has a vital national interest in our long and close association with Latin America and we continue to give high priority to the development of the economies of all the Bank's member countries. Thus, our support for the work of the Inter-American Development Bank is unwavering.

Joining us here today are several distinguished representatives from the United States Congress. Their presence here, and visiting the Bank's projects, evidences the continued interest of the United States Government and our people in the economic development of Latin America.

Economic development in Latin America is succeeding because of the talent, hard work and perseverance of people throughout the Hemisphere. While external assistance makes an important contribution to development, a country's ultimate achievement depends upon the efforts of the nation itself. Many of the development success stories of the past quarter century are in Latin America. Latin American countries, as a whole, have been growing at a very impressive rate of almost 7 per cent per annum in real terms. Since 1960, value added in manufacturing in the region and installed electrical capacity have tripled while primary school enrollment has quadrupled. Adult literacy increased from about 52

per cent in 1950 to about 73 per cent in 1970, and the number of rural families with access to potable water has tripled. The Bank has been a major factor contributing to most of these accomplishments.

Although the development task in Latin America is well underway, much remains to be done. In particular, Latin America requires an expanded flow of external capital over the next several years to maintain its development momentum.

My fellow delegates will appreciate the fact that, like many Latin American countries, the United States is faced in the next decade with the task of finding enough capital to meet the need for urban renewal, to revitalize our transportation systems, to expand our energy resources and to modernize our industrial plants. The shortage of capital is a problem in your countries as it is in mine. Capital is an important and scarce resource. Nevertheless, my country is committed to continue to supply substantial amounts of capital to Latin America as long as capital continues to be used efficiently to expand living standards in Latin America.

In connection with the shortage of capital, it seems to me highly appropriate that greater efforts be made to take advantage of light capital or intermediate technologies.

The productive use of idle labor with new methods and less costly tools should allow more effective utilization of scarce capital resources. The Bank has begun to take advantage of intermediate technologies in some of its agriculture projects. We hope to see extension of this approach to other projects and other sectors.

The Bank's Role in Latin America

Turning to the Bank's record and its policies for the future, I want to commend the Bank for its achievements over the past year under the impressive leadership of its President, Mr. Antonio Ortiz Mena:

- Agreement was reached on increasing the Bank's total resources by \$6.3 billion—\$5.3 billion in capital and \$1 billion in the Fund for Special Operations.
- Arrangements have recently been completed to permit 12 or more countries from outside the region to become donor members.
- The Bank began development lending from the \$500 million fund entrusted to it by the Government of Venezuela.
- The Bank initiated a program of complementary financing to increase the flow of private financial resources to development projects in Latin America.
- The Group of Controllers has continued to make objective and astute evaluation of the Bank's programs and operations. We look forward to the Group's being used more actively to assist the Board of Directors.

In 1975 the Banks authorized some \$1.4 billion in 70 loans, the highest annual volume of lending in the Bank's 15-year history. New commitments in 1975 were three times the 1968 level. While this is impressive, it is important to remember that the level of new loan commitments is not in itself an adequate measure of the Bank's performance. The key measure of a development bank's success is the extent of the development that actually takes place as a result of its efforts.

We believe that the Bank should devote more attention to the implementation aspects of its lending operations. Both Management and the Board of Directors should concentrate on improving the quality of loans, improving estimates and control of project costs and increasing supervision of projects underway. The time lag between approval of loans and their implementation could be reduced if the Board of Directors were to insist that projects be sufficiently well prepared before they are brought forward for approval. The Board should also consider cancelling balances in old loans which have not been properly used in order to free up scarce resources.

While more attention to improved procedures and administration is important, we do not believe that more decentralization of the Bank's functions is the answer. Management controls and clear procedures have to be worked out by the management and the Executive Directors. Many important policies, including those dealing with procurement, need continuous review, as Mexican Finance Minister Mario Ramón Beteta properly pointed out yesterday. As we undertake such a review, we should bear in mind that foreign exchange disbursements should be generally for procurement outside the borrowing country. I also urge the Bank to pursue *ex post* project evaluation studies to determine where improvements in project implementation can be made.

We continue to believe that the limited resources of the Fund for Special Operations should be reserved for countries that have a genuine pressing need for concessional assistance and have demonstrated by their own self-help efforts that such assistance is justified. It is a sign of basic economic strength that some member countries agreed to discontinue borrowing convertible currencies from the Fund. We applaud their intention to make a portion of their new contributions to the Fund in convertible currencies.

While these are important steps in the right direction, more can be done to concentrate the Bank's concessional resources where they are most needed over the next few years. We believe that the middle income countries should increasingly switch their borrowing to the ordinary capital resources and the Venezuelan Trust Fund. In addition more ordinary capital loans should be made to the poorest countries for income generating projects. The use of convertible currencies to meet local cost financing needs in the wealthier countries should continue to decline as their

ability to mobilize internal resources increases. These measures will free scarce concessional convertible currencies for the use of the poorest members of the Bank.

We strongly support the Bank's efforts to expand its lending for agriculture and commend the Bank for directing the largest share of its 1975 lending to the agricultural sector. It is also gratifying to note that the International Group for Agricultural Development in Latin America, established at the initiative of the Bank, concluded its first formal meeting here in Cancún this past weekend. We look forward to a very useful role for this group in coordinating efforts to increase agricultural productivity and improve nutrition in the region.

While increased production should remain the chief objective of agriculture loans, we believe the Bank should place special emphasis on projects which ensure that benefits will be widely shared among rural populations. We are pleased that the Bank has increased its lending to agricultural coöperatives. In addition, the Bank has made significant advances in financing projects for potable water supply, rural electricity, education and health, of which maternal pre- and post-natal care are key elements. We urge the Bank to continue its efforts in these areas. It is these rural development projects and loans to cooperatives and rural credit unions which tend to have the greatest direct benefit to the quality of life of lower income groups.

The Bank's loan commitments financed by borrowings backed by its capital have increased sharply in recent years and further increases are projected for the replenishment period. These commitments will result in a sharp rise in the annual level of disbursements and borrowing. Thus it is more important now than ever before to ensure that the Bank's creditworthiness in international capital markets is enhanced. Accordingly, consideration should be given to structuring the Bank's lending rate so that it moves automatically with the cost of capital to the Bank and with a sufficient spread above borrowing costs to cover administrative and liquidity costs. This would have the added benefit of removing the setting of the Bank's interest rate from the political arena and of providing substantial profits to add to reserves as the Bank grows. Assured income and increasing reserves will make it possible for the Bank to sell its bonds at the most favorable rate and thereby itself lend at the lowest cost to developing countries.

Although we are focusing in this meeting on intergovernmental relationships and the affairs of an official lending institution, we should not lose sight of the overwhelming importance of the private sector to Latin American development. Most Latin American countries have a dynamic private sector. We believe that market forces are instrumental in effectively allocating resources and producing a climate which favors individual initiative. A healthy private sector is the most effective means

of allocating resources, speeding economic development, and distributing the fruits of economic growth among all the people. The International Finance Corporation, which supports private sector activities in developing countries, lends more in Latin America than any other region. Earlier this month the IFC's Board of Directors approved a major capital increase for the organization. The United States strongly supports this increase because we believe that the IFC is making a notable contribution to the pace of development. For the same reason we believe that the Bank should increase its support to the private sector, through greater lending to productive enterprises outside the public sphere and to domestic development finance companies, which both raise additional domestic capital and relend to local industry, commerce and agribusiness. The Bank should also support the growth of savings and loan institutions which can be effective in increasing the mobilization of domestic savings.

While we believe the Bank should support the private sector through its lending operations, we do not think it appropriate for the Bank as a development lending institution, to use a significant part of its resources to finance exports. Export financing should be left to the marketplace and to private businessmen and bankers.

The private sector is the most important source of external capital for Latin America. Approximately three-fourths of net capital flows to Latin America came from private sources last year. We applaud the Bank for its initiative in launching a complementary financing program to channel resources from the private sector in developed countries to high priority projects in developing countries. I urge the Bank to give the highest priority to expanding its cooperative arrangements with the private sector in providing development finance. This will help the Bank, with a given amount of its own resources, to contribute more widely to the development of member countries. It will also assist member countries in broadening their access to international capital markets and introduce private institutions not normally active in Latin America to the region.

In closing, I want to reiterate my country's fundamental commitment to building closer economic relations with Latin America. The nations of our Hemisphere share a common history; we are all new world countries settled and developed by colonists and refugees, from across the Atlantic and Pacific Oceans who were both adventuresome and idealistic. In July the United States will celebrate the Two-Hundredth Anniversary of the Declaration of its Independence. Since our shores were first settled we have experienced a major socioeconomic transformation from a pioneer society to an industrial nation. We recognize in the development goals of our Latin American neighbors the same historical imperative which animated our own development. We share your hopes for a better life for all your people and we pledge to continue to assist the economic development of this region.

**Address by Mr. Mitchell Sharp,
Temporary Alternate Governor for Canada
and President of the Privy Council**

I am honored to address this Annual Meeting of the Board of Governors of the Inter-American Development Bank. First, I would like to extend to the Government of Mexico the appreciation of the Canadian Delegation for the warm and generous reception we have been accorded; and the excellence of the arrangements that have been made for this meeting.

The Governor for Canada, Mr. Donald S. MacDonald, has asked me to convey to you his regrets that he is unable to attend this meeting. He is at present deeply involved in the preparation of a budget which he is to deliver next week on May 25. As a former Minister of Finance he has my sympathy. The least I could do was substitute for him at this meeting.

His preoccupation has offered me the opportunity to attend this Annual Meeting for which I am personally grateful. By good fortune I have been able to follow the development of the Inter-American Bank from its establishment through the early years of its operations. As Foreign Minister, I advocated and was involved in Canada's decision to join the Bank. It therefore gives me particular pleasure to be able to renew old acquaintances.

It also gives me an opportunity to congratulate Mr. Antonio Ortiz Mena on his unanimous re-election for another term of office. His dedication and enthusiasm are legendary. His leadership and the hard work of the staff of the Bank have contributed greatly to the particularly successful year enjoyed by the Bank in 1975. They have built well, which is one of the reasons why we, as one of the newer members of the Bank, look ahead to continued progress.

Canada's decision to become a full member of the Bank in 1972 was a deliberate step on the part of the Government of Canada to play a larger role in the affairs of this hemisphere. These last four years of membership have afforded us an excellent opportunity to broaden our knowledge of Latin America and to develop an understanding of its needs and aspirations. Steadily, from year to year, we have attempted to adjust our relationship with the Bank to make it commensurate with our growing interests and available resources. For Canada, the Bank represents a practical and effective form of involvement in the region. Nevertheless, these first few years are just a beginning. We look forward with confidence to an even closer association with our neighbors in the hemisphere.

Building on the close relationships Canada has enjoyed for many years with some of the countries of the hemisphere, the people of Canada are showing an increased interest in Latin America, particularly the busi-

ness and financial communities. Through expanding trade and tourism, they are learning from first hand experience of the impressive efforts made by the people of the area to promote economic and industrial growth. We are, I believe, working towards a partnership which recognizes the distinctive scientific and technological requirements of Latin America. It is the policy of the Canadian Government to encourage such closer relations between Canadian private industry and Latin American industrial enterprises.

Hence, both the private and public sectors have been increasingly interested in a number of regional and subregional institutions. This interest has most recently been demonstrated in the newly created International Group for Agricultural Development in Latin America, which held its first formal meeting in Cancún just a few days ago, and which was attended by my colleague, the Canadian Minister of Agriculture. In these moves towards closer links with Latin America, Canada's main concern is to be an active partner in the search for effective solutions to the problems of the area.

The Government of Canada has been undertaking a reappraisal of its international development policies in order to facilitate the effective transfer of real resources. This reappraisal resulted in the publication last Fall of the Canadian Strategy for International Development. This identified as its first priority the problems of the most disadvantaged countries. We are and shall be applying this priority to the countries of Latin America and the Caribbean.

There has been strong support in Canada for development assistance, which in dollar terms, and in real terms, has been growing from year to year. Now the public is becoming increasingly concerned about the effectiveness of our contributions. As one part of the response to this concern we are directing an increasing proportion of our aid to regional institutions. For that reason, we were happy to lend our support to the recent replenishment exercise of the Bank, since we believe this Bank can make effective use of the scarce resources which it attracts from the private sector and from governments.

You will understand, then, from this brief description of Canadian aid policies, why it is a source of real satisfaction to us that in 1975 the Bank's total lending increased by nearly 14 per cent over 1974, and that an increasing proportion of the loans made from the Fund for Special Operations was directed towards the poorer member countries. We also welcome the higher priority given to projects which have a greater impact on the poorest people of the member countries. This accords with the Canadian view of what is desirable.

With respect to ordinary capital loans, we believe that the Bank, generally speaking, should strive to avoid excessive concentration of its resources in large loans in specific sectors. Our concern is based on the be-

lief that such concentration runs the risk of diminishing the Bank's catalytic role and its ability to help strengthen local institutions. Our support for the Bank in this role of institution-building was one of the reasons which led Canada to establish in 1974 the Canadian Project Preparation Fund. We are convinced that the sound preparation of projects is essential, not only to the Bank's operations, but also to the borrowers, particularly in the less developed member countries.

We congratulate the Bank on its success in developing a new technique of mobilizing resources—complementary financing—exemplified by the steel mill expansion in Argentina and the hydroelectric project in Guatemala. We also look forward to the successful outcome of the development of the Olancho forest reserves in Honduras. This form of cooperation between governments, international development institutions and the private sector opens up impressive possibilities. I am proud that both Canadian technical know-how and Canadian financial support have been instrumental in advancing this project.

Perhaps the most striking tribute to the Bank's management is its excellent credit rating in financial markets and the very favorable terms it has been able to obtain. The continuation of this admirable record and the maintenance of the confidence of capital markets must, in our view, be the essential objective of good financial policy. Nonetheless, we would hope that the lending rate could remain as low as would be consistent with the Bank's ability to borrow adequate funds at reasonable costs in capital markets.

All of us who have the responsibility for financial management in government and in governmental agencies, are conscious of the need to control administrative expenses. The Annual Report for 1975 shows that this Bank is aware of the need. I can only encourage the Administration to continue to struggle towards economy and efficiency.

In 1972 Canada joined the Bank to promote closer ties and cooperation between Canada and the countries of Latin America. In 1976, we are satisfied that through the Bank we are accomplishing this objective. I reiterate Canada's commitment to continue to work with the Bank and to support a growing role for it in this hemisphere.

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

The choice of Cancún as the site of this Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank could hardly be more appropriate. This development is already a shining example of the Bank's pioneering capabilities, its creativity and flexibility and its ability to work with its member countries in finding solutions to development problems. Both the Inter-American Development and Mexico can be justly proud at having created Cancún.

These same qualities of creativity, flexibility and pragmatism which the Bank displayed in assisting development in Cancún continue to be displayed as the Bank carried out its activities in 1975.

- During that year the Bank achieved record high levels of lending both for loans and for technical assistance.
- The six-year process for the admission of 12 nonregional countries as a means of broadening the financial base of the Bank has, for all practical purposes, been completed.
- The replenishment exercise to increase the capital stock of the Bank by \$5.3 billion and the Fund for Special Operations by \$1 billion was completed.
- New mechanisms were successfully employed to secure for the Bank and its members wider access to the world's capital markets.
- All these accomplishments were achieved with a minimum of increase in real administrative costs.

On behalf of my country, may I extend to you, Mr. President, and to your capable staff our hearty congratulations on the outstanding achievements of the Bank during the past year.

I must express some disappointment however at the slow progress that has been made with respect to two matters that directly affect the Caribbean. I refer first to the fact that a sufficient number of countries have not yet ratified the amendment to the articles which will permit IDB to provide the Caribbean Development Bank with resources for on-lending. I express the hope that countries which have not yet done so will rapidly complete the necessary formalities so as to enable this desirable extension of the Bank's activities in the Caribbean to take place.

Secondly, it is regrettable that we are not yet able to welcome Guyana and the Bahamas as members of the Bank; here again the problem has been one of procedural delays by some member countries. I

would strongly urge that the steps necessary to bring this long pending matter to finality be now taken with the utmost expedition.

I know that you realize only too well, Mr. Chairman, that the world in which we live allows us little time for contemplating past achievements. New problems and challenges are continually pressing in upon us. The series of international financial and economic crises through which the world has passed in the last three years have exposed the extreme vulnerability of the economics of developing countries—particularly the oil importing ones.

Exchange rate instability, inflation and recession have had, and continue to have, a serious effect on our development prospects. Inflation, though considerably reduced, is still too high. Trade possibilities have narrowed and commodity prices for many of our exports continue at a depressed level. The overall effect of these developments have been to enlarge our current account deficits with little prospect of significant recovery in the near future. In order to finance continuing development, our countries have been obliged to seek substantial amounts of external capital borrowing at increasing cost.

This search is likely to become increasingly difficult in the immediate future, particularly for the oil importing developing countries. This is due not only to the fact that the reserves of these countries have been run down for the reasons I have just stated, but also because they will be facing increasing competition in the international money markets from the governments and private enterprises of developed countries who are now coming out of the period of recession and are reflatting and expanding their economies. We therefore strongly support the stand taken by the Inter-American Development Bank in favor of industrial countries setting up some kind of guarantee mechanism which will enable the developing nations to expand their access to international capital markets. Jamaica has supported this both in the Development Committee of the World Bank and the International Monetary Fund, and at the Paris Conference on International Economic Cooperation. We urge our fellow members to not only give encouragement to the President of the Bank and his staff in these efforts but also to use every opportunity to give their individual support for this proposal in the international community.

We wish to emphasize that we are not unmindful of the progress that has been made through international cooperation and bilaterally, to alleviate the acute economic problems of the world's poorest countries. However, many of the proposed solutions will bring scant relief to the countries of this hemisphere. For these reasons we believe that the Inter-American Bank, which we have come to regard as the prime source of finance for Latin American development, must direct its policy objectives so as to cater directly to the needs of the countries of this region. In this regard, the completion of the replenishment exercise and the culmina-

tion of the efforts to widen the resource base of the Bank is indeed timely. Our task now is to formulate criteria and create mechanisms to use these additional resources to meet Latin America's needs effectively.

We fully agree with our fellow Governors on the need to place prime emphasis upon agricultural development. We therefore recommend that the Bank continue to give priority to agricultural production and the development of our rural areas. The present unsatisfactory state of the agricultural sector of our countries results either from neglect, inappropriate policies, or appropriate policies poorly administered. In Jamaica, even though agriculture has been given a great deal of attention in recent years, agricultural production remains unsatisfactory. Jamaica has therefore undertaken a wide range of measures on agricultural development. We have introduced legislation designed to compel the bringing of unused land under cultivation, and we have introduced programs for settling landless families, on individual cooperative and community farms which are provided with roads, housing, water, and electricity; in some instances, the settlement has been on a leasehold basis, in others on an ownership basis.

In sugar, which is our largest agricultural crop, we have taken unprecedented steps to increase production and improve the quality of life of our sugar workers by providing guaranteed out-of-crop employment for the sugar worker and by promoting sugar workers' cooperatives to operate large holdings of land. We believe that Jamaica, like other countries in this hemisphere, has barely begun to tackle the problems that we face in agriculture, and we look to our Bank for assistance with infrastructure, institution building, improving our farm methods and our marketing facilities. As an example of the kind of assistance we have already received in this regard, I would mention the loan from the Inter-American Development Bank for a rural electrification program which is designed to bring electricity to some 160 communities over a four-year period at a total cost of \$13.7 million. We very much appreciate the cooperation we have received from the Bank in advising and implementing this program, because we believe it will materially assist in up-grading the quality and attractiveness of rural life, as well as enhancing the economic potential of the areas which will be served by this program.

The objective of growth for the sake of growth has long been outmoded and today we are all united in the search for growth models which place people and their needs, equality and social justice at the heart of the development process. No country has perhaps found the ideal model, but we are all agreed that the development of human resources is a means of achieving these objectives. We firmly believe that investment in human resources unlocks the creative potential and the innovative spirit of the human being and gives him the skill and inspiration to take his rightful place in the economic life of his country.

We note with great pleasure the stress placed on this in the statement of our President and the specific suggestions he has made for mobilizing resources both at the national and international level for education. It is a source of great satisfaction for me to observe that Jamaica has been one of those countries which with the assistance of this Bank has utilized the mechanism of a revolving loan fund for students desiring higher education but who are unable to afford it. This facility has been in operation in Jamaica for some years now, and only yesterday I signed another agreement with the Bank for an extension of this facility in the sum of \$5.9 million. Our success in the operation of this program leads us to commend it to other countries and to strongly support the continuation of this particular program by the Bank.

For a number of years, the financing of exports has been a recurring theme in this forum. Our economies will suffer irreparable, permanent damage if we do not succeed in our efforts to reduce our overdependence upon a few primary export products and if we do not expand the range of manufactured exports. For these reasons, we support fully those efforts made by this Bank in cooperation with Venezuela during the past year to provide additional resources for the financing of exports. We must, however, urge the Bank not only to continue to expand these facilities, but also to introduce greater flexibility in the implementation of the program so as to permit more participation by the less developed countries.

In this connection, we welcome the initiative taken by Panama for a study to be made of ways in which the funds available for export financing can be enlarged by drawing on the resources of the private banking community to supplement those of the Inter-American Development Bank. We therefore support Panama's request to the Bank for nonreimbursable technical assistance to carry out these studies.

Mr. Chairman, the distinguished President of your country, in his address to us yesterday emphasized the principle that development must proceed along lines that reflect the social and cultural realities of our respective countries and that we should seek to devise indigenous solutions to our individual problems. You yourself spoke of the necessity for a New World Economic Order based on the rule of Justice and achieved through cooperation and negotiation.

These sentiments express very clearly the abiding commitment that motivates the Government and people of my country. We see this Bank as one of the functioning instruments for the achievement of these goals. As we begin another year in the life of this great institution, may we express the hope that all its activities will continue to reflect these larger purposes.

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

Throughout their history Mexico and Venezuela have been sister countries whose unity of spirit has been evidenced in their search for appropriate democratic institutions, their zeal to achieve a greater level of wellbeing for their peoples, their determination to achieve rising levels of justice and in the formation of a common Latin American conscience. It is accordingly gratifying for my country that this meeting of the Board of Governors is being held on Mexican soil, in a place inseparably linked with an ancient pre-Columbian culture.

Over recent years, the Governments of Mexico and Venezuela have reaffirmed the common vocation of their peoples. In the formation of the Latin American Economic System (*SELA*), the charter of which was signed in Panama City October 17, 1975, the presidents of Mexico and Venezuela acted jointly to bring about highly positive and objective results shared by all the countries of the region. The establishment of *SELA* underscored the present consensus regarding the need to create new paths for Latin American integration, to open up new possibilities which will not supersede the efforts made, but will rather complement the steps already taken toward a more prosperous and united Latin America.

The case of *SELA*, for its part, is representative of trends which have manifested themselves at international level. The crisis in the old order of things and the inadequacy of old solutions have given rise to new forms of action designed to resolve international economic problems. After a period of uncertainty and mutual recrimination between different countries and groups of countries, the matter has moved—albeit slowly—from the arena of accusations to the search for solutions. The realization that we live in an interdependent world has overtaken the disorder caused by the obsolescence of the old international economic order. Ideas have been proposed; and in some cases put into effect, which are leading to a new order in which the Third World will figure as an effective reality in the final decades of the Twentieth Century. The process of replacement of hegemonies which this entails appears to have entered into a positive stage.

There are still those who regret the passing of economic totalitarianism and take pleasure in predicting the breakdown of the institutions created to strengthen the independence of the Third World, but fortunately their positions are being overtaken by the facts.

Among other steps, the ongoing dialogue being maintained in Paris by the Third World countries and the industrial nations represents

progress toward stable international relations based on greater political and economic equity.

The prerequisite for the success of these efforts, however, is a firm demonstration on the part of those involved of a real will to achieve a new international economic order. The extent of the crisis precipitated by the collapse of the order set up at Bretton Woods is such that while the most pressing aspects have been overcome only the establishment of new formulas for coexistence can restore equilibrium in the world economy.

In this connection it is a cause for concern that there are differences in the degree of will to reach satisfactory solutions. Over the past years the Third World countries have displayed a unity of thinking and action and a readiness to reach understanding which have not always met with an adequate response from the industrial countries. It should be noted that certain developing countries have performed acts of international cooperation which reveal an awareness of the world economic situation rather than a shortsighted concern to satisfy immediate needs.

This is the case as regards the members of the Organization of Petroleum Exporting Countries (OPEC). In addition to their acts of cooperation on a bilateral, subregional and regional scale, mention should be made of their contributions in a worldwide context to the establishment of the International Monetary Fund's oil facility, including the subsidy account set up in this mechanism to ease the situation of the most seriously affected countries, to the United Nations emergency program and to the World Bank's Third Window. These contributions were earmarked in their entirety for facilitating the adjustment of payments and furthering international economic development.

To the foregoing must be added the creation in January of this year, of a Fund for International Cooperation in the amount of \$800 million, half of which is to be formed by the total contribution of the OPEC countries to the International Agricultural Development Fund, provided the developed countries contribute \$600 million to bring this Fund up to the planned \$1 billion.

The ratio of the OPEC countries' contribution to that expected from the industrial countries is explained by the importance assigned to the agriculture sector and to an adequate food supply in the development programs of the Third World countries, but it should not be viewed as a precedent for other international cooperation operations.

As I pointed out in the previous meeting of the Board of Governors, a transitory situation of liquidity cannot hide the fact that most of the world's wealth and productive potential is located in the industrial countries, and the contributions of resources by countries whose wealth is derived from nonrenewable materials means a depletion of capital resources, while those made by industrial countries represent a redistribution of income.

The possibility of moving forward toward the solution of the problems of critical import for international economic relations should not be jeopardized by political conditions resulting from irresponsible power plays, the establishment of areas of influence or the transferring to the international sphere of motivations of a domestic nature. The economic reality of the existence of the Third World is also a political reality in which various forms of social organization coexist. The common achievements reached have been possible thanks to the mutual respect in which these forms of organization hold each other and respect for the people's right to selfdetermination. Attempts at manipulation which seek to change the pattern which each nation selects are foredoomed to failure. However, while efforts to establish new direct or indirect forms of domination cannot succeed, they may jeopardize the establishment of formulas which would otherwise allow progress of the world economy and utilization of the advantages of interdependence.

Fortunately, it is clear that in Latin America there is no scope for areas of influence and divisions of power. The experiments made in bringing our countries together have shown that such steps are only possible and fruitful if they are based on mutual respect and harmonious and balanced development. The efforts in the direction of integration and cooperation between the countries of Latin America have produced novel formulas in which countries of differing degrees of development are combined in serving the common interest and the interest of each of the members. The strengthening of the Andean Subregional Pact and its versatility in handling new situations show that it is possible to arrive at solutions which do not sacrifice the individual interests of each country. The promotion of Latin American multinational enterprises is another demonstration of formulas which combine the resources, potentials and interests of the countries concerned in order to achieve common goals.

In these efforts toward integration the Inter-American Development Bank has to play a role of primary importance. The Latin American multinational enterprises need financing from institutions and countries which recognize the importance of joint development and the utilization of the vast natural resources possessed by Latin America.

One of the essential purposes of the Trust Fund set up in the Inter-American Development Bank by the Government of Venezuela is to underscore the importance of this area of action. From the moment the idea was born it was emphasized that it would be a collective responsibility whose fundamental purpose would be to finance areas and projects which would further the development and integration of the region.

It was stressed that priority fields of action for the Fund would be the financing of projects that would boost the region's production and export capacity rather than the financing of physical infrastructure, for which purpose international sources of finance are already available. We

can state with satisfaction that the Trust Fund is fully operational and has already granted credits to certain member countries. However, we must observe that the nature of its aims and priorities has not yet been plumbed in sufficient detail. We feel that directing its resources to projects which will help bring about greater integration of the region's productive structure, rather than just designating an area of responsibility, is a basic requirement for its development.

One of the difficulties encountered in satisfying the Fund's priorities has been the lack of development projects. Not enough of these have been identified in actually productive areas. In this connection a break must be made with tradition and efforts must be made to formulate projects of common interest that will utilize the region's natural resources. Here it is important to note the function *SELA* will perform as a forum for negotiation and a promoter of new projects. All the same, this collective responsibility must not be allowed to obscure the responsibilities of each country.

In this connection the progress made in promoting the pulp and paper project in Honduras is particularly satisfying, since this project is a fine example of integration and the use of natural resources.

Another of the aims of the Trust Fund established by Venezuela is increasing the resources available for export financing, without the restrictions customarily imposed by the Bank. Despite the formal progress made in expanding the export-financing program, it must be admitted that little advance has been made in the carrying out of operations in this field. The years of discussion which have been devoted to this subject seem to have translated it into an academic sphere where there is no real interest in arriving at basic solutions.

The search for such solutions should not, however, be allowed to result in a proliferation of new institutions as an escape from the inefficiencies of the existing ones.

The problems we have noted should be areas of particular interest for the Bank in the immediate future, bearing in mind that other matters which required its attention appear to have been brought under control. For the increase in its capital and the creation of the inter-regional capital will enable the Bank to satisfactorily continue its operations provided the countries which have made commitments ratify the necessary amendments to the Establishing Agreement.

The efforts made in adopting these resolutions were a demonstration of good will to reach positive solutions. We trust that this good will will be reflected in actions taken by the governments as a consequence of the negotiations carried out. One result which must be stressed as positive insofar as it forms part of a consistent set of commitments is the renunciation by four countries of the use of Fund for Special Operations resources and their contributions of new resources in convertible currency.

The financial guidelines within which the Bank will act in the coming years must be complemented by the important work it can do and has been doing as regards technical assistance and study of the region's economics.

The Institute for Latin American Integration (*INTAL*), which is particularly important to the Latin American countries, must be strengthened. The Bank must also cooperate in the evaluation and identification of economic development projects and expand its sphere of action to include sectors that have belonged to the large multinational enterprises.

The Inter-American Bank has reached the maturity it needs to draw up sound guidelines of action. Having solved problems that required immediate action, it must now deal in depth with certain areas of interest that had unjustly been relegated to second place.

The operation of the institution over the next few years has been planned in a generally satisfactory manner. In this regard, we must emphasize the accomplishments of the Bank's Management and its skill in achieving a balance of interests. This balance means that many countries will have to postpone the achievement of longstanding aspirations and it will be meaningful only if all member countries are truly willing to fulfill the commitments they have undertaken. It would be unfortunate if the imbalance in the will for understanding that is evident at the worldwide level were also to manifest itself at the regional level.

It has taken six years for the decisions to increase the Bank's capital and to allow for the participation of nonregional countries to bear fruit. This achievement is particularly noteworthy at a time when the United Nations Development Programme is virtually bankrupt and the results of changes in the international monetary system have not been proportionate to the time invested in achieving them and the magnitude of the problems to be solved. The meager efforts at cooperation that have been made by the industrialized countries represent the scanty, if not tardy, fruits of a narrow approach to international cooperation.

In view of the discrepancies between promises and accomplishments, between needs and results, it is worthwhile recalling the expression used by the people of the Venezuelan plains for similar situations based on their own environment: "If you wait for the grass to grow, your horse will die."

Through our integration efforts and the protection of our raw materials, Latin America has managed over the past few decades to play a part in pointing toward new directions. The very creation of the Inter-American Development Bank was at the time an innovation in the field of development financing. The goals we had in view in pursuing such joint efforts have not been fully met.

Fundamental problems still remain and they are responsible for the underdevelopment that the institutional innovations were meant to cor-

rect. It is therefore essential that both the Bank and each one of our countries explore new areas of action with a clear awareness of the fact that this will only be possible if we overcome our traditional fears and aim above all at improving the situation of our peoples. Clarity of purpose is a prerequisite and a prime mover for any fruitful action.

ADDRESSES

THIRD PLENARY SESSION
May 19, 1976

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

My pleasure in arriving at Cancún has been contrasted in my mind with the unforgettable sensation I felt on my first visit to the National Museum of Anthropology in Mexico City. I speak of contrast because one of my most vivid memories from that visit long ago was one of pride in being an American when I realized the depth of feeling conveyed by the song of Huexotzingo that is engraved on the walls.

It contains a beautiful phrase that says: "Will nothing remain of my name . . . at least flowers, at least songs."

The thought then struck me that, even in pre-Columbian times, the creativity of the people of this Hemisphere was above all a spiritual one, that our forebears sought the depths of the soul and projected their own sensitivity through their intellect. I recalled the almost pejorative remark often heard in academic circles to the effect that the Latin American genius is more lyric and rhetorical than pragmatic. And though I could not say that I deplored this situation, I did intensely wish that our genius might be complemented with other gifts, other attributes, other characteristics, with an organizing ability that would offer a better life for the poor masses of our countries.

That is why arriving at Cancún—which virtually received its life from the Bank, having been developed with the first large loan granted by the Bank solely for the tourism development—is like seeing that dream come true. Here we may see concrete evidence of our ability to produce in areas other than the spiritual, to program, to use the beauties of nature to strengthen the economy, to seek not only abstract truths but to work also towards the fruitful and well-organized material achievements that are required in order to meet the pressing needs of our peoples.

Cancún is an illustration of the process that has taken place within the walls of the Bank during its 16 years of existence—a process of continuous searching, of re-examination, definition and reordering of the forces behind economic and social development. I remember that during the early discussions on strategies, tourism was not considered an appropriate channel for the Bank's resources. But it was receptive to the new evidence of the ability of tourism to attract international reserves and contribute to the redistribution of income between the regions of the world, the creation of direct and indirect employment and the expansion of markets in the more developed countries. It thus began to finance projects, beginning in Paraguay, Uruguay and Jamaica, which were the immediate predecessors of the great tourism complex we find here today. The Cancún project was so attractive that the Bank's loan was supple-

mented with extensive participation by private banks in the United States, Canada, Japan and Europe.

The Bank's program in fields such as urban development, preinvestment, exports—now being considered under a new modality—economic integration, or university expansion had followed similar processes of development under the able leadership of Antonio Ortiz Mena and his colleagues. The constant analysis of spheres of action and the resulting conclusions have led to almost daily expansion of the Bank's innovative role, not only in regard to the physical aspects of project implementation, but also to the financial aspects of obtaining resources, first through the capital market and then through the inclusion of new countries, which, particularly in the case of Canada, have helped strengthen the institution. Arrangements are now being finalized for the entry of non-regional countries, which will further strengthen the Bank for several reasons, one of which is the financial contribution they will make. It is worth mentioning, in this regard, that the Senate of Colombia has already approved the necessary amendments to the Establishing Agreement and that the House of Representatives will study them during the course of this year. Similar legal procedures are underway with regard to the proposal for the acceptance of Guyana and Bahamas as members of the Bank, in which the Government of Colombia is particularly interested.

The Bank's history shows a constant desire for renewal, for learning the nature of problems, for analysis of alternatives and proposal of new formulas. Antonio Ortiz Mena, unanimously re-elected by the member countries, has played an active part in attracting and channeling external resources and has ably led the Bank's efforts to promote the production of foodstuffs and increase the availability within the region of food reserves, to increase agricultural exports and to improve income, employment and living standards among the rural population. It is fortunate that coordination of the International Group for Agricultural Development in Latin America has been entrusted to Julián Rodríguez Adame; this in itself is a guarantee of its success.

Colombia notes with satisfaction this renewal of the Bank's role as coordinator of other institutions concerned with agriculture. This is the case especially because it emphasizes the importance which my country assigns to agriculture in its current development plan.

“To close the gap” is the title of Colombia's new development plan, which is aimed at narrowing the gap between income levels that always exist in the developing countries. This has led President Alfonso López Michelsen to speak of the two Colombias. We are trying to shorten the economic and social distance between the country and the city, the powerful and the dispossessed, the wealthy and the undernourished, the edu-

cated and the illiterate. Priorities in public expenditures are established with this in mind. Thus, nutrition, rural development and environmental sanitation programs, as well as those aimed at improving the living conditions of the urban and rural poor, are being implemented in conjunction with a difficult but intense effort to achieve monetary stability. The first fruits of this plan were evident in 1975, when the rate of increase in the cost of living was considerably lowered.

The plan emphasizes agriculture not only because of the poor families of the country belong to this sector, but also because it contributes 30 per cent of the gross national product, 50 per cent of raw materials for the manufacturing industry, 80 per cent of the aggregate value of exports and because it is possible in the agricultural sector to create more employment per unit of investment. According to a study made in 1975, each unit generates 80 per cent more employment than modern manufacturing and 40 per cent more than urban construction.

In the near future, after duly meeting their own needs, those countries that are able to produce and export foodstuffs will be the ones that will find effective ways to further their economic and social progress.

Among Colombia's current efforts in this field, it is worth mentioning the Integrated Rural Development Program (*DRI*), which is linked to the National Food and Nutrition Plan. It envisages instruments such as research and dissemination of technology, credit, marketing, and investments in physical and social infrastructure, such as roads, rural electrification, potable water, improvement of housing conditions, health services, education and programs concerned with agroindustry, conservation and exploitation of natural resources.

I have mentioned these matters only as an example to illustrate the common approaches in establishing priorities that are followed by the Bank and by Colombia in considering the importance of the agricultural sector.

The Colombian development plan also intensifies our current manufacturing policies, particularly as regards small- and medium-sized industries; these policies are aimed at industrial decentralization and the integration of intermediate cities. It may be said that exports are given priority in the agricultural production programs and in industry. The purpose of this is, to a large extent, to achieve economic support for social programs designed to favor the poor half of the population. One of these is the national food and nutrition plan which includes nutritional, education and subsidized distribution of foods; others are the health, environmental sanitation, and education programs and those aimed at integration of services and community participation in urban marginal areas.

We have noted with satisfaction the creation of the fund for exports

of manufacturers and semimanufactures, which can help make national export promotion policies more flexible. It is also useful as a means of opening the way to the financing of exports beyond the region.

Both the institution that has brought us together today and the team responsible for directing the national destinies of Colombia have in common the conviction that every major achievement must be preceded by hard work and that a destiny cannot be built through strokes of luck. This has led us to exercise great prudence in managing the bonanza that has come to us as a result of the current prices of coffee. For example, we have established mechanisms for freezing a substantial amount of the additional coffee income, which has not circulated as currency but has instead been invested in securities that can be exchanged for exchange certificates. The coffee growers have supported this stabilization program.

The same may be said of the important policies Colombia is beginning to apply in order to encourage the exploration for and development of oil and other hydrocarbons, as well as to ensure the proper use of petroleum derivatives through a price structure that is realistic for the consumer and fair to the producer. The Government has taken a similar approach to explorations for other mining resources, such as uranium, nickel and carbon.

Another point on which our Government's views are similar to those of the Bank is to be found in the frequent reference, in Bank documents explaining recent administrative improvements, to a policy of austerity. We find such a policy appropriate and also apply it in our own Government. We would like to stress the role played in this matter, as well as in others, by the Group of Controllers of the Board of Executive Directors. As an independent organ, it has already provided valuable services on other occasions.

We also note with satisfaction the Bank's prompt and effective response to the tragic events in Guatemala. The experience gained in the handling of emergency situations such as those faced in Chile, Peru, Nicaragua and Honduras, suggests the need for institutionalizing some form of machinery for channeling resources in order to allow for an immediate response to these devastating tragedies which, unfortunately, are all too familiar to the people of Latin America.

All the above shows the degree of maturity that has been achieved by the Bank. It has performed a timely function in taking advantage of the valuable experiences of a large number of our countries and acting as a channeling agent for intraregional technical cooperation projects. I am sure the results will be positive, as our bonds of brotherhood will be strengthened in technical fields.

The Bank must continue its dynamic transformation in order to keep in step with the new directions required of Latin America, in view of

the far-reaching evolution of the region, the new concepts of nations, and the advances of science and technology in the modern world.

One concrete proposal to this effect, so well stated by the Chairman of the Meeting, is that the Board of Executive Directors should undertake a review of policies concerning local counterpart funds, use of currencies, international bidding, utilization of liquid assets in member countries and, I might add, strengthening of the offices of Bank representatives and rapid decentralization of decision-making.

We have noted with interest the proposal of Panama, supported by the Governors of the Central Banks at their recent meeting in El Salvador, to the effect that the Bank should grant nonreimbursable assistance for a study on additional financing of Latin American exports.

We also applaud the emphasis made by the President of the Bank in his opening address on the financing of major projects for the utilization of renewable and nonrenewable natural resources, rural development and support for new forms of postsecondary education.

The number and the complexity of the Bank's operations are constantly on the increase. It would therefore be wise to utilize subregional financial agencies, to receive global loans and then channel the resources to their particular areas whenever possible.

We also trust that the likelihood of an increase in the Bank's resources will allow it to distribute new loans in a more balanced manner and that it will be able to increase the participation of the countries of intermediate development accordingly, thus correcting a recent downward trend in the financing they receive.

The Government of Colombia wishes to reiterate its satisfaction at the agreement reached with Peru regarding its representation on the Board of Executive Directors.

I have once again been honored to represent the Minister of Finance of Colombia, Dr. Rodrigo Botero, on the Board of Governors of the Bank. I have had the good fortune to devote a considerable part of my life to inter-American causes and I therefore feel deep satisfaction upon hearing that so much progress has been made in the practical, the technical and the theoretical aspects of development.

If we consider the extraordinary feat of uniting the wills of the countries of the Hemisphere which led, more than 15 years ago, to the creation of this Bank; if we consider its achievements between then and now and if we then ask ourselves, regarding the Bank, the same question asked in the Indian poem: What will remain of my name, our answer will be: A vast panorama of achievements, of farms producing a greater variety of crops, of better quality and higher yields, of vigorous enterprises, highways, airports, steel mills, power plants, gas works, gas pipelines, bridges, college campuses, hospitals, water supply and sewage systems, improvements in other systems, strengthened institutions, urban de-

velopment, tourist promotion centers such as Cancún, and the entire range of projects described in the reports prepared by the Bank.

But the fact that the dream I had years ago upon reading the poem of Huexotzingo has come true does not mean that we have lost its deep poetic meaning. On the contrary, there will also be flowers! There will also be songs!

**Address by Mr. Jorge Lamport Rodil,
Governor for Guatemala
and Minister of Public Finance,
on behalf of the Central American Countries**

May I begin by conveying to the people and Government of Mexico the most cordial and fraternal greeting of the Central American countries—on whose behalf I am honored to speak—and who are once again gathered together in this forum.

To meet in Cancún, where the modern contrasts with the pre-Columbian, is to be back with our own tradition and culture; for our common origin, the great Maya civilization, flourished in this part of Mexico. Nothing could be more fitting for us than to hold our Seventeenth Annual Meeting in this historic and beautiful setting.

The meeting of the Board of Governors of the Bank are appropriate occasions for drawing up balance sheets not only of the Bank's activities but also of the development of the economies of its member countries. In this respect, it cannot be said that 1975 was a very satisfactory year for the Central American region. For the second consecutive year, all the countries saw a decline in their growth rates, which in real terms fluctuated from 1 to 3 per cent, signifying a virtual stagnation in per capita income. Also for the second consecutive year, the region suffered a serious deficit of more than \$820 million in the current account of its balance of payments, which can be explained in part by the extreme vulnerability of our countries to the steady rise in the prices of the petroleum derivatives on which we are highly dependent. Furthermore, even though the inflationary pressures observed in 1975 were less, the rate of inflation continued to be between 8 and 16 per cent. In short, Central America was not spared the inflation with recession that characterized the industrialized world.

Moreover, and for the third time in this decade, Central America was the scene of a natural disaster of enormous proportions. I refer, of course, to what the President of the Bank mentioned in his opening address: the earthquake that struck Guatemala barely three months ago and that left in its wake 25,000 dead, 75,000 injured, more than 1 million homeless, plus property losses that may easily top \$1 billion. Leaving for a moment my role as Central American spokesman, I would like to take this opportunity to underscore the noble gesture of solidarity of all the countries here present and, speaking on behalf of my people and their Government, to express our profound and sincere gratitude for the generous and timely cooperation provided by all. I also wish to extend my

thanks to the Inter-American Development Bank which promptly offered its help. At this very Meeting we shall sign two loan contracts for almost \$50 million, to be devoted in large part to the reconstruction work which we have already undertaken with great resolution and determination.

Nonetheless, the Central American picture is not altogether somber; in recent years the countries of the region have shown themselves to be reasonably competent to cope with extremely difficult situations—droughts, problems in the supply of raw materials and strategic products, inflationary pressures, and the energy crisis—without worsening the disequilibria already described and without substantially sacrificing their growth rates. For example, the region managed to absorb a rise of 115 per cent in the cost of its imports between 1972 and 1975 by dint of increasing its exports and mobilizing external resources, in which it was given outstanding and timely help by the Bank. I am pleased to state that even though Central America still faces serious obstacles to its development, the outlook for 1976 points to a modest recovery in growth and economic activity.

The countries I represent on this occasion are still engaged in improving their economic integration. In 1975 a new procedure was introduced for the purpose of discussing at the highest level the problems that confront the Central American Common Market: the Heads of State met three times to consider this and other matters, and to lay down guidelines for restructuring the integration process. Furthermore, in March of this year, there occurred an event of exceptional importance: the governments received from the High Level Committee a draft treaty for setting up the Central American Economic and Social Community. This draft is being carefully studied and we trust that it will facilitate the decision making that will certainly help improve and restructure Central American integration. To appreciate the significance of the integration process, it may be recalled that the value of trade in the region exceeded \$525 million in 1975, which equals roughly one-fourth of our total exports to the rest of the world.

In brief, the long period of economic expansion and change experienced by Central America—with different levels and characteristics in each of the countries—was interrupted in 1973 by the above-mentioned combination of factors, to which should be added the natural catastrophes of recent years. This has compelled us to redouble our efforts and to seek more imaginative solutions aimed at overcoming the myriad obstacles to our development, trusting that the international community will continue to supplement our efforts.

This reliance is justified not only by the long-run external financing requirements of our development but also by the fact that the Central American countries are among the countries of less relative development

in Latin America and are among those most severely affected by the various changes in the world economy. In addition, Central America is adopting a new style of development, based on large-scale projects which just a few years ago would have been considered utopian or unfeasible. This new policy is reflected in projects designed to exploit the natural resources of the region, such as *El Cajón* and the pulp and paper plant in Honduras; the hydroelectric projects of *Cerrón Grande* and *San Lorenzo* in El Salvador; *Copalar* in Nicaragua; *El Arenal* in Costa Rica, and *Chixoy* and *Aguacapa* in Guatemala. These projects are being carried out with the help of extensive external financing.

We are especially gratified over the announcement of the President of the Inter-American Development Bank to the effect that the Government of Honduras will receive the support of the Bank and, in particular, the Venezuelan Investment Fund for the Olancho forestry development program; we are heartened not only because it means that a sister republic has finally realized long-cherished aspirations but also because we believe that this new approach is of major significance for the whole region and especially for the less developed countries.

We are steadfast in our insistence that our natural resources should be exploited by our countries for their own benefit, even though outside technology and capital are needed. And we predict that thanks to this new concept—the Latin American multinational company—the development possibilities of our continent are bound to change for the better.

We certainly believe that the Inter-American Development Bank plays an increasingly important role in this financing and we are pleased to note the ever more significant accomplishments of this our financing agency. The detailed report presented to us by the Board of Executive Directors at this Seventeenth Annual Meeting of the Board of Governors makes clear these accomplishments, not only through the mounting volume of its financial operations but also the flexibility and imagination shown by the Bank in following the guidelines set by the Board of Governors. For instance, we are encouraged when the President of the Bank announces that it is the intention of the Bank's Management to simplify loan contracts and also by the proposal to create a Latin American financing agency.

We realize that in order to fulfill its commitment, the Bank needs the support of the member countries. For this reason, we have not hesitated to endorse and to implement increases in the capital of the Bank and we are gratified to see nonregional members join. Besides expanding the resources available to the Bank, this will establish a new multinational link for the hemisphere.

We have viewed favorably the special attention the Bank is giving to projects submitted by the Government of Haiti, the country with which we share an Executive Director.

Returning to the subject of Central American integration, we repeat that we wish to see the Bank continue supporting the various integration agencies and especially the financing agency for this process, the Central American Bank for Economic Integration, an institution that is broadening and reinforcing its operations in areas that require greater financial support from outside the region. These areas include preinvestment activities, operations of the recently created Social Development Fund and the tourism development programs. The very place of our meeting—Cancún—is an example of the potential of this last sector and of what can be accomplished in tourism by means of special promotion and the cooperation of the Inter-American Development Bank.

Similarly, the Bank can make a significant contribution to strengthening the integration process in three specific areas. Firstly, by financing—in coordination with or through the Central American Bank and the national development corporations—large-scale industrial projects for the region such as bauxite, the iron and steel industry and the fertilizer industry. Again, these are undertakings of a magnitude that go far beyond the investment possibilities of the private enterprise of the region, and makes supplementary external financing essential. Secondly, and with a view to improving the capacity to absorb external resources at the regional level and to contribute to greater interdependence among the countries of the region, the Bank could help establish, through technical cooperation, an advisory group in the region which would work closely with the Central American Bank for Economic Integration to identify and prepare high-priority projects. Thirdly, the Bank could provide either directly or through the Institute for Latin American Integration (*INTAL*) more support for the various integration agencies.

To conclude, there are four additional points related to future Bank operations that are of special interest to Central America. The first one is concerned with the export-financing program, which was largely created with the support of the Central American governments and which has been gradually expanding in size and scope since 1970. We are pleased by the recent innovations in this program, which are sure to be supplemented to make the program more responsive to the needs of the less developed countries of the region. Among the specific steps that might be taken in this respect may be mentioned the setting of more concessionary terms for financing under this program for the less developed and limited market countries and the channeling of nonreimbursable funds into technical cooperation projects designed to improve the ability of these countries to take advantage of this financing. The Central American countries support the granting of nonreimbursable technical assistance by the Bank to the Government of Panama in order to complete the studies for a supplementary mechanism for financing Latin American exports, which was proposed by the National Banking Commission of this sister

republic. This proposal is in an advanced stage and was received with great interest by the meeting of the Governors of the Latin American Central Banks held last week in San Salvador. We believe that the participation of the Bank in drawing up the final project will be extremely useful in promoting an initiative of great value to our countries.

Second: while recognizing the special importance the Bank gives within its operations to the less developed countries of Latin America, I take this occasion to repeat our conviction that the five Central American countries should receive uniform treatment in regard to access to concessionary resources, for the reasons that we have set forth in previous meetings.

Third: we hope that in the future a formula will be found to permit use, in some measure, of the resources of the Social Progress Trust Fund that are in the currencies of the less developed countries of the region, for financing economic and social development programs in the less developed countries.

And fourth: we shall follow attentively the work of the International Group for Agricultural Development in Latin America (*GIDA/AL*), which operates at the Bank's headquarters and which held its first consultative meeting here in Cancún a few days ago, and we trust that it will go on to foster integrated agricultural development in Central America.

I cannot conclude my address without thanking the Government and people of Mexico for their hospitality and repeating the offer, supported by Central America, of our sister republic of El Salvador to be the site of the next meeting, and express our hope that we may all meet together next year in San Salvador, Central America.

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

We wish to extend the warm thanks of all the Governors of the Bank to Mexico and the State of Quintana Roo for their splendid hospitality. We also congratulate the President of the Bank, Antonio Ortiz Mena, and the entire Bank staff for the excellent work accomplished in the past year, and especially for the significant achievements of the Bank over the last five years.

We have listened with great interest to the statements of the Governors here. Without wishing to prolong these discussions, we should like to support some of the recommendations made and to refer in greater detail only to two subjects of special interest to Panama: the financing of Latin American exports and the need to obtain development financing for the region.

Financing of Latin American Exports

A number of my colleagues have already referred to the question of export financing, with particular emphasis on Panama's proposal to the Board of Governors of the Central Banks. A year ago we introduced that proposal in this forum, noting that it had been received with interest by the Governors of the Central Banks. At this meeting, Governor Diógenes Fernández of the Dominican Republic reported that the San Salvador meeting had considered the proposal and had unanimously supported a recommendation for an in-depth and definitive study of the proposed mechanism to be financed from the Bank's nonreimbursable funds.

In the interim, a number of concrete actions have been taken. Panama engaged consultants to study ways of implementing the proposal, with the continued assistance of CEMLA. Last August the Governors of the Central Banks received a progress report and appointed a committee of experts from eight countries to work on the proposal with us. The Banking Association of Panama also appointed a committee of 12 leading international banks for the same purpose.

Since November a series of meetings have been held with both committees to review the progress of the studies and suggest new ways of making the proposed mechanism as useful and viable as possible.

The trial and error method was followed at all times in order to bring us closer to a formula which would satisfy the common interest of the

countries of the region and of the international banking community in Panama. The thrust of our efforts was always to create a mechanism that would complement what we already have.

The results thus far were presented in San Salvador, and the meeting there supported definitive and in-depth studies on how to put the proposed mechanism together in order to determine not only whether it would be useful and viable, but whether it was appropriate for the countries of the region.

The basic elements of the proposal are: 1) to create a market for the rediscounting of 360-day bank acceptances and of an additional instrument with longer maturities; 2) to tap funds over and above those each country is now able to obtain individually or through existing mechanisms; 3) to channel that financing for all kinds of products and to all markets; 4) to create a market in which the risks are shared appropriately by all the participants; 5) to provide a secondary market for the Latin American Banking Acceptances.

The aim, therefore, is to combine the need for more financing of regional exports with the potential source of such financing represented by the international banking community in Panama. That community, which has grown remarkably, already comprises 74 banks, among them no less than 30 of the largest banks in the world from 18 countries of all regions, with deposits exceeding \$7.5 billion. They receive deposits from Latin America and make loans to the countries of the region. Panama is deriving specific benefits from this community; now we should like to place it at the disposal of Latin America in the areas of greatest need.

Up to this point Panama has financed the studies made on the export financing mechanism. For all the reasons I have outlined, we have again applied to the Bank for nonreimbursable assistance to carry out the definitive studies of the mechanism. Our application is supported by the countries of the region.

Financial Operations of the Bank

Several of my colleagues, notably the Governor for Brazil, have analyzed the massive balance of payments requirements of the Latin American countries and the need to increase exports at this critical juncture and in the immediate future. It is also clear that we urgently need social development with a wider distribution of benefits throughout the region in order to achieve greater social justice and stability. Countries in the throes of development like the Latin American nations, which try to solve both of these problems concurrently, still need substantial external financing on favorable terms.

That applies particularly to the 15 smallest countries of the region be-

cause of their limited domestic markets. Consequently, it would be neither logical nor sensible at this point to reduce the availability of such financing and squander the great effort made to develop the region in the past 20 years. Nor would it be logical to waste the opportunity to stabilize the economies of the developed countries afforded by the markets and the growing supply of raw materials and other products of the region.

Without dwelling further on this very interesting and vital subject, which warrants thorough debate in an international forum, I will go on to discuss the Bank's financing operations.

We support the Bank's actions on behalf of Latin America in the forums which discuss and negotiate international development financing, particularly in relation to a guarantee mechanism.

We enthusiastically support the new avenues that the Bank is exploring to tap additional sources of financing such as complementary financing; the combining of resources in varying proportions for projects involving large-scale natural resources, depending on the economic nature of the project and the country's ability to pay, and the further study of mechanisms for achieving greater Latin American participation in capital markets.

We support the Bank's cooperation for the formation of multinational corporations of the Latin American countries.

We suggest that the Bank continue to study mechanisms enabling countries to obtain longer-term loans in commercial financial markets through the Bank's participation in such loans.

We share the views expressed at this meeting on the following questions:

1. Study of systems of international bidding for projects, allocation of the Bank's liquid assets among member countries to support their development, analysis of project costs and determination of counterpart financing more in keeping with the real needs of most Latin American countries at a time when they are suffering massive deficits in their balance of payments because of the world economic crisis.

2. Support for the initiative taken by the International Group for Agricultural Development in Latin America (GIDA/AL) not only as it initiates operations in coordination with the Ministers of Agriculture of the region but also in the priority items of education and training and agricultural research and marketing. We believe there should be frequent and well-informed consultations with the competent ministers of the member governments to establish work priorities.

3. There should be greater emphasis than heretofore in the region on the financing of projects producing exportable goods with a view to increasing and diversifying regional exports.

4. We are pleased to see the progress made in approving increases in the ordinary capital resources and the Fund for Special Operations, and we hope that those countries which have not yet done so will take action

very soon in order to complete the increase in the Bank's financial resources.

5. We share the general satisfaction with the rapid progress made in approving the admission of countries from outside the region. It is no exaggeration to say that by taking that action, the Bank is becoming a world financing institution specializing in the development of Latin America.

6. We support the Bank's effort to step up Latin American integration by identifying integration projects to exploit the region's natural resources, and to undertake studies on problems involved in those projects and on new and imaginative forms of financing for large-scale projects which promote regional integration. In that connection, Panama, jointly with the other countries of the region, has sponsored the establishment of the Latin American Economic System (*SELA*) as an active and flexible instrument capable of supporting regional and subregional integration efforts through a shared effort to identify multinational projects which will strengthen the economies of the participating countries and the formation of multinational corporations for the same purpose. The ideas generated by that mechanism will complement the related action already being taken by the Bank and can be analyzed jointly, receiving the support of the Bank.

7. Moreover, we are delighted to find that increased support will be given to education within the Bank's cooperation programs, with emphasis on the quality of education and the adaptation of the formation of human resources to actual development needs.

We also share the view that rural development should continue to be a priority area of the Bank's activities since increased agricultural output and the provision of basic services to the rural population has a favorable impact on the neediest groups. However, there must be a comprehensive approach to the problem, encompassing projects which promote the development of regional urban centers as poles of urban-rural integration, and special attention should be given to marginal groups in urban centers, who are for the most part recent emigrants from rural areas.

Before concluding, I should like to note that these meetings have often been accompanied by seminars, round tables and symposiums on subjects of special interest to the region. We think this is a useful, effective and stimulating practice in dealing with a complex and changing international situation, which obliges us to update our knowledge continuously for the good of all concerned.

We are confident, Mr. Chairman, that under your leadership the Bank will have an even more productive year in 1977 than in 1976, and we hope that it will continue to find new avenues for financing Latin America's development and will remain a permanent forum for the joint exploration and utilization of those avenues.

**Address by Mr. César Robalino Gonzaga,
Governor for Ecuador and Minister of Finance**

It is an honor for me to convey the friendly greetings of the Ecuadorean people and Government to the people and Government of Mexico:

We admire and share the imperishable human aspects of this hospitable host country, which are reflected in Mexico's tradition of enterprise and cultural authenticity, its firm commitment to social and political change, its dynamic economic development and its profound Latin American spirit.

Gathering at this meeting of the Board of Governors to discuss the Annual Report for the 1975 fiscal year, we are obliged to undertake an analysis of the institutional life of our Bank and, at the same time, to look at the changes for the better and the frustrations that the hemisphere has witnessed in the last 15 years.

The figures presented to us attest to the effective work done by the Bank. The results are truly encouraging and presage a substantial improvement in the living conditions of the Latin American people. Therefore, our Delegation would like to express to the President of the Bank, Antonio Ortiz Mena and to all those who make it the Bank of our region, its satisfaction with the goals and objectives that have been achieved.

Ecuador, like its sister nations, is firmly convinced that the resources of the Bank should be increased as soon as possible so that it can continue to meet the growing requirements of the countries of the inter-American system. This situation is becoming more critical each day, especially in view of our need to make more intensive use of our natural resources and to expand our agricultural production.

The Fourteenth Regional Conference of the UN Food and Agriculture Organization (FAO) on Latin America and the UN Economic Commission for Latin America (ECLA) and FAO Latin American Conference on Food held in Lima stressed the importance of agricultural production that could be used not only to meet the food requirements of our continent but also to supply other regions. An increase in production is so crucial at this time that the Chairman of the World Food Council recommended the establishment of the International Fund for Agricultural Development to be supported mainly by the members of the Organization of Petroleum Exporting Countries (OPEC).

Our Bank cannot remain aloof from this positive action by other agencies and should therefore substantially increase its lending for investment in the agricultural sector, giving special priority to the projects of the relatively less developed countries and those of limited markets; for it appears that the funds earmarked by the Bank to aid the development of

agriculture in the smaller countries do not represent a fair and adequate proportion.

In the case of Ecuador, I should like to state that although in recent years our economy has attained a rapid growth rate, in that short period we have not been able to remedy the serious structural problems that have caused our country to be grouped with the relatively less developed countries with inequitable income distribution and severe regional imbalances in regional development—problems that make it difficult for the people to satisfy their most basic needs. It should be made clear that our Government has followed a policy of planned development in guiding the national economy, with a view to optimizing the growth rate and hastening social change. We have decided to fight to eliminate the marginal situation of large sectors of the Ecuadorean people, especially in the rural areas.

We realize that it is not easy to reconcile economic growth with human development, above all when we look back upon centuries of dependence and social injustice. But we have made progress and although the task is yet unfinished and many of the obstacles still remain, this has not weakened our resolve to follow a policy that will lead to adequate economic and social development in which all social groups participate on an equal footing. The difficult task of solving these problems requires time, massive resources and a profound belief in the need for socioeconomic and cultural change.

Under these circumstances, external financing is becoming a critical factor in the development that is our people's right.

That is why we attach significance to the success achieved in efforts to facilitate the admission to Bank membership of countries outside the region. Not only will they help strengthen the Bank's financial position; they will also broaden the sources of its funds and thereby demonstrate substantial support from the international community to Latin America, within a spirit of economic cooperation.

We have also noted with interest the innovative action that has been taken to mobilize resources by making use of complementary financing in private capital markets.

Nonetheless, we must sadly admit that despite the recovery of the industrialized countries, obstacles still remain to attainment of the objectives and realization of the potential of the Third World countries in the area of trade. In this regard, we take an optimistic view of the possibilities emerging from the meeting of the United Nations Conference on Trade and Development (UNCTAD) in Nairobi, which we hope will lead to the establishment of a new international order in accordance with the philosophy of the Charter of Economic Rights and Duties of States. That instrument conceived by the present Government of Mexico has been supported by Ecuador from the start, and we are pleased that over 120

nations have converted it into reality in the highest forum of the United Nations. In this regard, we are also happy to note that our Government assigns a key role to the Latin American Economic System (*SELA*), which undoubtedly will open up new avenues to our development. For example, we find very encouraging the establishment of action committees which, in our opinion, should be given the highest priority by all the international agencies in order to help ensure their success. We feel that the action committees impart a needed element of pragmatism to our economic and social development horizons and objectives.

We have expressed our congratulations for the work of our Bank and we state our satisfaction with its flexibility in adapting to the development problems of Latin America. But we must also note our dissatisfaction because Ecuador, a member of the group of relatively less developed countries, has witnessed an appreciable decline in the volume of financing received from the Bank in recent years. Even more regrettable, however, is the fact that total loans from the Fund for Special Operations have reached such a low level that we can hardly say we have access to this type of soft funds.

In sum, Ecuador is receiving a smaller volume of financing from the Bank, with a preponderance of loans bearing hard repayment and interest terms. Adding to this is the fact that cost escalation margins are ever increasing—especially with regard to capital goods. We must agree that resources made available for real investment have decreased to dangerous levels, though we trust that this lending will return to adequate levels during the present fiscal year. This situation stands in contrast to the statement made by the President of the Bank at the opening session that the Bank's policy has been to step up its assistance to the 15 member countries that are relatively less developed and have limited markets. Therefore, we would like to believe that the situation in which Ecuador has been placed does not represent an institutional operating policy. On the basis of statements repeated many times in this forum, we are confident that the principle of multilaterality on which our Bank rests will prevail in the face of any attempt by a member country to impose its will unilaterally, impairing the right of any other country or countries to receive assistance from the Bank on concessional terms.

Nevertheless, and with regard to the principle of solidarity, we should like to call attention to the position taken by Venezuela in opening its capital market to Ecuadorean bonds. International solidarity also is strengthened by the actions of countries such as Saudi Arabia, which has decided to jointly finance with the Bank the Paute power transmission project. These examples affirm the position of the member countries of the Organization of Petroleum Exporting Countries (*OPEC*), which have increased their participation in the flows of capital going to the developing countries at the regional and world levels.

Ecuador remains firmly confident in the ability of the Bank to meet the challenges posed by the changing situation of Latin America. We are sure that it will continue to find correct solutions for the multifaceted problems of the region, under the principles that have strengthened Latin American fraternity.

In conclusion, I must say that I am highly pleased to reaffirm our faith in the principle of Latin American solidarity in this land which has become a champion of the true and sound union of the nations of our region, giving constant examples of cooperation and respect in its relations with other sovereign states.

Address by Mr. Carlos Calvo, Governor for Bolivia and Minister of Finance

It is my pleasure to convey to the people and Government of Mexico the cordial greetings of the people and Government of Bolivia, and to express our appreciation for their kind welcome which again demonstrates the generosity of this country and its inhabitants. It is always an uplifting experience to be in Mexico, where one's spirit is strengthened by the wholly Latin American flavor of this part of our continent.

It is yet more moving to be in the homeland of Benito Juarez, that distinguished exponent of Latin American thinking who by his actions affirmed the individual personality of the peoples of the Americas and voiced one of the invariable principles of international law that strengthens the sovereignty of our republics when he proclaimed that "respect for the rights of others is peace." His conduct in the Mexico of years gone by is still a source of inspiration for our nations today.

And with Juarez we would also honor the memory of another great Mexican, José Vasconcelos, who in his day aroused the conscience of the continent by calling for justice for Bolivia in its need for free access to the sea.

Allow me, then, to honor these great men of universal culture and to express our pleasure, as Bolivians, in sensing here the inspiration they left for the generations which followed them.

Bank Policy and Operations

Once again we meet together to consider and approve another year's results on the part of our Inter-American Development Bank, whose Annual Report for 1975 already approved by us shows new and larger statistics on its activities.

At the Santo Domingo Annual Meeting we drew attention to certain aspects connected with the Bank's operating policies, pointing out the need for these suggestions to be studied and put into effect. There are few occasions in which the member countries at their highest political levels can express their concerns and recommendations regarding the course which the Bank's policies and operations should take. That is why we trust that the Executive Directors and Management will give most careful consideration to our recommendations and keep us informed on such steps they take in regard to them.

The Bank's volume of lending in 1975 topped those of previous years: \$1,375 million in approved loans is a significant figure, bearing in

mind that it is some 24 per cent higher than the 1974 total. However, the rate of disbursement increased only 13 per cent over the same period. This is a matter for serious concern, since we are interested in disbursement rates as well as loan approvals.

We also feel that the Bank's successes should be measured in terms of the quality and imagination of the projects rather than the number of operations approved. We trust that the Management will continue informing us of the impact these projects have on the economies and development of the beneficiary countries.

Regarding agricultural policy and the International Group for Agricultural Development in Latin America (*GIDA/AL*), we are greatly pleased that this Group has held its first consultative meeting, the results of which are bound to be valuable for the Bank's future action in this field. We are well aware that our continent is capable of becoming a major source of food at a time when food needs are becoming greater throughout the world. In this way Latin America can help solve this serious problem.

The growing support for the relatively less developed and limited market countries of the region is worthy of note. We hope for a greater increase in the Bank's assistance to these countries, particularly those of the first group, as a vital turn in its policy and an equally vital need for our countries. We should also like to see a greater balance in the Bank's lending, in order to prevent the distortions to which we have drawn attention in the past.

The purpose of the struggle against underdevelopment is to close the gap between the industrial countries and the developing ones. However, it should not be forgotten that there are also marked differences among the latter, as is recognized in the classification used by the Bank for its lending. Nevertheless, the tables setting out the last 16 years show that the greater proportion of the funds (51 per cent) went to the more advanced countries and a much smaller share (31 per cent) to the 15 classified in Groups C and D, which would appear to indicate that the difference between member countries is widening rather than narrowing. The programming for this year shows that four Group A countries (three, really, if we exclude Venezuela) will receive 46 per cent and the rest—18 countries—54 per cent. There is therefore, a distinct imbalance in the lending pattern.

The Bank is the largest and most important source of financing for our region, and just about the only one for some countries. The fact that my country has successfully begun the execution of its development programs does not yet mean that there has been a total change in its structure that would warrant reclassifying it. To be effective, cooperation must not only be timely but must be sustained with a sense of continuity. We accordingly call for faithful observance of the preferential treatment to

which we are entitled under the Fund for Special Operations policy. Precisely because this has not been understood, other institutions have closed off our access to soft resources, thus putting us in the same position as other more developed countries with which we cannot be compared. At this time when we are making a supreme effort to make the takeoff of our development real, we feel it to be a matter of great urgency that this policy should be applied without any restriction whatsoever.

The Bank has been operating for 15 years. It is growing firmly in depth and in extent. From a \$1-billion-capital-bank at its start, it has become an \$18 billion institution with the entry of new members, with a growth of its financial structure on the order of 1,700 per cent. In extent, the original 20 countries are becoming 36, including the nonregional ones we shall shortly be welcoming into our midst. The establishment of the Venezuelan Trust Fund—of \$500 million—is another contribution of great significance and one we should like to emphasize again, even though its conditions are hard for countries such as mine, as I have already pointed out. May this Fund, on which great expectations have been placed, meet the purpose for which it has been set up. The 889 loans granted totaling \$8.7 billion, representing a total investment of nearly \$33 billion with the counterpart funds of the beneficiary countries, serve to illustrate how the Bank is growing.

At the Santo Domingo meeting we, together with other countries, called for complementary loans for projects the countries are unable to finance because of changes in the cost of project components or the limited amount of the local counterpart. Even though this has not been implemented on the scale envisaged, we have been gratified to note the establishment in the Bank of the complementary financing mechanism designed to bring in private bank funds to complete the 100 per cent financing of a given project. Even if the terms for such financing are conventional, we still consider they are more favorable than they would be if each country had to seek this financing directly, while there will also be a saving over what each country would get if it had to carry out its own negotiations with the commercial banking system.

On a previous occasion we proposed that some system of emergency credit should be studied for countries struck by natural disasters, to help them get down to reconstruction right away. We are pleased that the Management is drawing up a policy document on this subject.

We also recall asking for a study on the distortion suffered by the financial structure of the Fund for Special Operations after the exchange adjustments made on a basis other than the Ordinary Capital, since there are not now any two countries with equal contribution quotas; i.e. while there were originally 12 different quotas for 21 countries, there are now 24 totally different quotas for 24 countries, which has the features of a provisional adjustment that bothers us.

Bank Resources

We are greatly concerned that the steps required for increasing the Bank's resources and bringing in nonregional countries have not been completed. We think that our Bank should be, and soon, made stronger in its financial structure. While the greater part of the countries have completed the measures needed for increasing the Bank's resources; others—including the United States—have not yet done so. The latter country has always been slow to move in these matters, in contrast to its repeated professions of cooperation with our region. We understand the complexities of the legal measures involved, but still look forward to firmer and quicker action to meet the obligations voluntarily assumed *vis-à-vis* our region through the Bank.

The Economic Gap

The contradiction between the abundance of real resources in the world and the transfer of these from the regions or countries where they abound, in excess in some cases, to regions such as ours and to the more needy countries in it, is becoming increasingly difficult, costly and subject to conditions.

We recognize the existence of large geographic areas where the people suffer extreme poverty. They have our great sympathy. However, while taking the view that the moral responsibility for helping them lies with the rich nations who used to hold dominion over them, we believe that the assistance of the international agencies should not consist exclusively in channeling resources to these countries to the detriment of those of our region, but rather that our countries should be assisted to produce surpluses that would be acquired by the governments or the international agencies themselves to be used to help these depressed areas.

In any event, if the concessionary financing "windows" in the international organizations are to be closed to our countries, it is legitimate to think in terms of strengthening our Inter-American Development Bank so that it may form the source of concessionary financing that we need to close the gap—profound in many cases—separating one country from another in our region.

The Bank and the Integration Process

As regards integration and regional cooperation, we have faith in the schemes of the Latin American Economic System (*SELA*), the Andean Development Corporation (*CAF*), the River Plate Basin and others. We

believe that even stronger, more imaginative and flexible financial and operating mechanisms should be set up in our Bank to supplement those presently existing, in order to form a financial organ able to give shape to, for example, the programming produced by *SELA* for harmonious and large-scale development in Latin America.

We also believe that *CAF*, among other similar entities, deserves closer cooperation from the Bank to achieve its purposes in the integration of the Andean subregion, where one program alone—the industrial one—will call for financial resources beyond the subregion's own capacity.

Fortunately, at the Fourteenth Annual Meeting of the Board of Governors in 1973, the Management offered to devise operating formulas designed to make the links between the Bank and *CAF* expeditious and flexible in their efforts to cooperate with the Andean Pact, and at the 1971 Special Meeting the need was also stressed of providing extensive support to organizations such as the *CAF* which, with the other subregional organizations, were considered to form highly important elements to help supplement and multiply the Bank's action in support of integration.

With regard to the Institute for Latin American Integration (*INTAL*), we are pleased to note the broad and positive work it has been doing in favor of the integration of our countries. *INTAL* maintains excellent cooperative relations with my country, as shown recently in the assistance it has been giving us in the preparation of our development programs.

We recognize that the Bank's efforts on behalf of integration have been reflected in its support, under different forms and in varying degrees, for regional and subregional schemes. This support will surely be intensified, because that will be necessary for integration. Who better than our own Bank can provide efficient assistance in the setting up of multinational enterprises or the assignment of programs, for example, within the existing integration mechanisms?

During the current year my country has been honored with a visit from the President of the Bank, Mr. Antonio Ortiz Mena, and his distinguished colleagues. He was able to find out personally the high esteem he enjoys in Bolivia, our recognition for the work done by the Bank in the country and, furthermore, the urgent need for greater support for our development programs.

You are aware, fellow Governors, of the fact that my country is going through a period which has created great expectations among the countries that are following its progress. Its political stability and the stability of its currency, the freedom with which foreign capital and currencies are allowed to circulate, its sustained growth, the containment of inflation to a minimum level, in brief, the tremendous potential of its rich territory, has made everyone view my country as a land that

is in the midst of a true process of social and economic development aimed at improving the welfare of our people.

We are at this moment implementing a Five-Year Development Plan, with annual targets, that will be carefully followed through in order to make the necessary adjustments at the appropriate time. We trust we will be able to meet our development goals, with the cooperation of the Bank. Our efforts to rationalize our planning systems and our handling of external financing have been recognized by the Presidents of the Inter-American and the World Bank who, among other international personalities, have recently visited my country.

But we do not deceive ourselves: we are still one of the less developed countries of the area and are struggling to overcome our underdevelopment; this means fighting poverty, illiteracy, the lack of means of communication in an extremely mountainous country. Our dependency on prices of export products, the high cost of imports, as well as inflation and the low standard of living of our masses, continue to pose serious problems for the nation which require a solution at the national level. But we need external cooperation to supplement our own efforts, and this cooperation can be forthcoming from our own region if we are willing to strengthen our mutual understanding. We have created in Latin America several regional and subregional mechanisms for cooperation aimed at achieving development and integration, and we belong to other international bodies where we can act as a region in order better to exercise our rights and demand more just treatment in relations with regions and countries outside our own. We are certain that the Bank can play an important part in ensuring the achievement of a better destiny for Latin America.

Mr. Chairman, fellow Governors: I have tried to state my country's views and reflect its expectations with regard to the Inter-American Development Bank. But it must be borne in mind that no matter how great an effort and a sacrifice my people and my Government might make, our success will be very limited without the financial cooperation of the international agencies among which the Bank plays a leading role.

In conclusion, I wish to express our special appreciation for the talents displayed by the President of the Bank, Mr. Antonio Ortiz Mena, the Board of Executive Directors, and the Management in their efforts to carry out our aspirations, despite the disturbing financial limitations which, in most cases, are beyond their control. We therefore cherish the hope that the countries that are thus engaged in this inter-American task will have the clarity of vision to respond with dignity to the historical challenge they have taken up.

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

The delegation of Paraguay to the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank, held in this city of Cancún, a marvel of nature further embellished by man, wishes to extend its best wishes for the success of these deliberations. It also wishes to reaffirm the sincere friendship of the Republic of Paraguay and to convey the fraternal greetings of his Excellency President Alfredo Stroessner to his Excellency Luis Echeverría, President of Mexico, the cradle of such distinguished patriots as Father Hidalgo, Morelos, Juárez and many other heroes. Its greetings go also to the outstanding leaders of the international financial world, and particularly to the President of our great institution, Antonio Ortiz Mena; the Chairman of the Board of Governors; the Governors, and the distinguished delegations attending this very important event.

We should like once again to express our special appreciation and congratulations to the dynamic President of the Bank, for the significant achievements described in the report summarizing the activities carried out during 1975.

We are confident that our great institution will continue to carry out the effective task as it has over the past 15 years, and to assist in the implementation of plans for financing projects to promote and accelerate the social and economic development of our countries. We fully recognize the effectiveness with which the Executive Directors and the technical and administrative staff of the Bank have collaborated with the President.

To all of them we extend our sincere congratulations for their efforts to fulfill the obligation at this time of rising expectations for our peoples, striving for integral development of Latin America to maintain its economic orbit not just as an oasis of peace, work and progress for our own people but as an example for people from other parts of the world who share those expectations.

We have consistently applauded the Bank's continuing and coherent policy of attracting the cooperation to the region of the highly developed nonregional countries as active participants in our institution. We hope there will be no obstacles to the admission of those countries to active membership in the Bank.

In recent years we have seen the emergence in the financial world of a new source of capital that is ready to assist the progress of the economically less developed countries. I refer to the oil-producing countries, one of which has already made important loans to our countries stemming from the land that produced it, which can accelerate the development

process of needy countries, thereby increasing their farm production and relieving the food shortages in other areas.

The Government of Paraguay is endeavoring to accelerate the process of economic development and to intensify efforts to adapt and modernize its economic, financial and fiscal systems.

As we all know, those systems are interrelated, and their complementarity must be recognized if we are to adopt coordinated decisions which can only be effective on the long range provided the three systems are redefined in rational terms and dealt with as a whole.

The goals attained in 1974-75 indicate fundamental fiscal and financial progress that will enable us to consolidate our program of sustained and integrated economic development, maintain our currency stability and fight inflation, especially that caused by external factors. Those are our principal means of stimulating individual savings and productive business investment.

Endorsed by the vote of 87 per cent of the population and with the cooperation of all its citizens, the Government of President Stroessner is achieving high level economic targets. This support is the basis for the execution of our development plan, whose supreme goal is to improve the wellbeing of the ordinary Paraguayan, upon whom the activities of both the public and private sectors are focused.

I should like to draw special attention to the fact that in the last six months we have had only a very modest increase in the prices of basic commodities.

In the private sector time and savings deposits increased by 24.3 per cent. Restrictions on the exportation of certain products, particularly the decline in our exports of meat and other primary commodities owing to the closing of the European Common Market, have demanded greater sacrifice.

Private investment has expanded in Paraguay, attracted mainly by the hydroelectric enterprises. The new investment law enacted at the end of 1975—establishing a coherent policy of fiscal, credit and price incentives for the services of public corporations—is tending to create more balanced development.

Private capital investment continues to be channeled into the purchase of land, installation of agricultural and industrial establishments and expansion of commercial banking, as well as prospecting and exploring for oil deposits in the Chaco. Currency stability and fair, assured rates of return under a stable policy are helping to stimulate capital formation.

The level of employment is higher and significant changes are being made in the distribution of jobs by both sector and region as a result of new and ongoing projects.

Projections for 1976-78 include activities designed to continue im-

provements in fiscal management and policy. In order to attain that goal, an administrative overhaul, together with other decisions to be adopted, is expected to iron out small problems. We would like to increase the State's financial resources by restructuring the fiscal system, broadening the tax base and rationalizing public investment. The Government is engaged in an intensive campaign to expand exports. Studies on the updating of systems of incentives for development of the capital market and export policy are well advanced. They provide a follow-up to the measures adopted to stimulate private investment, as, for example, the enactment of Law 550/75 to which I referred earlier on investment for economic and social development.

The plan to develop hydroelectric power, the steel industry and highways will continue to go forward, as well as efforts to improve environmental sanitation, drinking water supply and sewage systems. We are well aware of the tremendous impact that the huge Itaipú and Yacyreta hydroelectric complexes will have in the economic and social field.

Public and private specialized agencies in Paraguay have strong government support in their efforts to study and report to business and worker's organizations, by all available means, on all important changes, particularly the government approach to orderly and coherent planning of activities relating to urban economic and social development and the ecology. We are especially concerned about the financial and fiscal consequences of those activities. Undoubtedly this process of change cannot be carried out solely by our own efforts and resources; that is why it is essential for us to continue to rely on the assistance and solidarity of friendly neighboring countries and, especially, the international financial agencies represented in this hall.

We know that you understand our concerns. We would like changes to take place in the most orderly way possible. We will be able to do so thanks to the understanding and assistance of our neighbors and partners in bilateral undertakings by pooling our efforts and enlisting the cooperation of international financial agencies.

On August 11-14, 1975, there was a meeting in Asuncion of URUPABOL, an organization established under the auspices of the Bank and composed of Uruguay, Paraguay and Bolivia. The meeting was very fruitful and URUPABOL is now working effectively to accelerate the development of our three countries. We shall shortly submit to the President of the Bank important projects directly related to improving economic integration among the countries members of URUPABOL.

On behalf of the delegation of Paraguay, I should like to express our warm congratulations to the Chairman of the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank and to reiterate our sincere wishes that the President of the Bank may have even greater success in his work during this new five-year term which

reflects the well placed confidence of the governments of the Latin American countries.

Allow me to express our sincerest thanks to the people and Government of Mexico for their gracious hospitality as we pursue the broad path of peace and social economic progress for all the countries represented here.

**Address by Mr. Victor McIntyre,
Temporary Alternate Governor for Trinidad and Tobago
and Ambassador to the United States**

On behalf of the delegation of Trinidad and Tobago, I would like to record my extreme pleasure at being here in Mexico, at this the Seventeenth Annual Meeting of the Board of Governors of the Bank. Mexico, as we all know, is particularly rich in its history and its culture.

We are particularly pleased that this meeting is being held in beautiful Cancún, the development of which is a sterling example of the foresight, the industry and dynamism of the people of this country, Cancún bears testimony to the willingness of the Bank to cooperate with member countries in the pursuit of their development objectives.

This meeting is also significant, Mr. Chairman, in that it provides us with an opportunity to appraise the progress of the Bank over the first 15 years of its existence, an important milestone in the life of any such institution. In doing this we note with extreme pleasure the tremendous strides made by the Bank over the period.

We have seen the membership of the institution grow from 20 to 24 during this time and have noted the steps being taken to facilitate the entry into the Bank in the near future of two regional and 12 non-regional countries. This is a clear indication of the capacity of the Bank to foster the integration movement in Latin America and the Caribbean and also the participation of the international community in the promotion of the social and economic wellbeing of the peoples of Latin America. In keeping with the spirit of the remarks made by the distinguished President of the Board, we expect that in the process of time, the other regional countries which so qualify, will also be admitted into the Bank.

The Bank has also been able to widen significantly its resource base since its inception. The startling increase in the Bank's financial capacity is borne out by the fact that its total resources are now more than ten times as great as they were 15 years ago. Moreover, the Bank has generated sufficient confidence in its activities to obtain widespread support, not only for a significant future increase in the capital contributions of members, but also for substantial contributions from nonregional countries which are prepared to accept membership on a non-borrowing basis. It is this confidence deriving from the impressive record of the Bank which has also allowed the institution to expand the market for its bonds. In this connection the Government of Trinidad and Tobago has been only too pleased to support the efforts of the Bank in its limited way and it is our intention to continue to do so, as long as the circumstances of the country so permit.

We would be remiss if we did not compliment the Bank on its lending activities over the 15-year period, and particularly during the last five years, when total lending surpassed that of the previous ten years. This reflects not only the improved absorptive capacity of the recipient countries, but also the willingness of the Bank to adjust its policies and procedures to the changing circumstances and the just demands of the peoples of the region.

The acceleration of the Bank's activities must also be viewed in the wider context of developments in the international economic environment. The combination of inflation, unemployment and declining output in the industrial countries has had a severe impact on developing countries. It is against this background that Third World countries in particular have been clamoring for a new international economic order. These are among the thoughts that would be foremost in the minds of participants during the United Nations Conference on Trade and Development now in progress in Nairobi.

It is recognized that efforts have been made by the international community to assist developing countries in this their period of need, but such assistance as has been provided has been inadequate and has mainly directed to the most seriously affected countries. This has meant that a large number of developing countries have been forced to see their development efforts and aspirations frustrated. Similarly, the principle introduced by some international lending institutions of excluding all surplus oil-producing countries from access to their financial resources without due regard for the development needs and efforts of some of those countries, is clearly inconsistent with the off-repeated commitment of the international community to the improvement of the quality of life of the world's population as a whole. It is with pleasure, that I note that the Inter-American Development Bank has not chosen to ignore this fundamental commitment in respect to the peoples of the region.

At this juncture, let me compliment the President of the Bank, Antonio Ortiz Mena, and his staff on their accomplishments during 1975. Let me also record how ably they have assisted and are continuing to assist member countries in availing themselves of the facilities of the Bank. They undoubtedly seem dedicated to the fulfillment of the basic objectives set for them by the founding fathers of the Bank. However, we would be remiss if we did not take the opportunity to indicate some areas of concern to my delegation, if only to spur the institution on to even higher levels of excellence.

Firstly, there is the question of lending by the Bank to the Caribbean Development Bank for on-lending to members of the latter institution. This issue has for various reasons been before the Bank for some time and the speedy finalization of this issue would not only demonstrate the Bank's commitment to support sub-regional institutions, but more im-

portantly, to improve the way of life of the peoples of this sub-region. Let me stress, Mr. Chairman, that this sub-region is firmly committed to the principle of self-help and the Caribbean Development Bank is playing a vital role in this regard. Through this institution greater emphasis is being placed on sub-regional projects in crucial areas such as agriculture, industry and air and sea transportation. Moreover, every effort has been made to mobilize regional resources for these programs. It is the additional thrust which we are requesting the Bank to provide.

Secondly, we note the steps being taken for the admission of newly independent regional countries into the Bank, and we urge the Bank's administration to expedite the necessary measures such as the establishment of quotas for these countries, in order that they might take their seats as early as possible.

Thirdly, the Governor for Trinidad and Tobago in his statement at the Santo Domingo Meeting had presented a case for direct representation on the Board of Executive Directors of the Bank by those members who are involved in the Caribbean Integration movement. The issue is now before the Committee of Governors and it is our hope that this matter will be dealt with in due course.

Mr. Chairman, may I close by congratulating you on your election as Chairman of the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Development Bank, and ask that you convey to the Government and people of Mexico our sincere thanks for the excellent arrangements provided for this meeting and for the exceptional hospitality which we are now enjoying.

ADDRESSES

FOURTH PLENARY SESSION
May 19, 1976

CLOSING SESSION

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

The Seventeenth Annual Meeting of the Board of Governors has proved a brilliant and successful exercise. More than 1,700 persons have gathered in this setting of incomparable beauty, including, in addition to the official delegations of the member countries, distinguished representatives of the financial world, the international agencies and the press. In congratulating the Mexican authorities most sincerely for the efficient organization of our work here, I should like to convey to them our deepest appreciation for the warm and splendid welcome with which we have been received.

It is my pleasure and duty to note at this time the valuable contribution made by Diógenes Fernández, Governor for the Dominican Republic, in his capacity as Chairman of the Board of Governors during the period just ended, and to express our satisfaction with the designation of Mario Ramón Beteta, Governor for Mexico, to preside over the meetings of the Board during the coming year.

The proposals made by the Governors during the course of this Meeting and the results of the work done by the various groups will be kept very much in mind in determining the direction of our activities for the immediate future. I should like to mention at this point certain highlights of the past few days.

- Representatives of the signatory countries of the Declaration of Madrid examined the status of the legal and administrative procedures required to formalize their entry into the Bank's membership. Accordingly, and provided that the prescribed time periods are complied with as expected, it was agreed that signature of the protocol whereby those countries will enter the Bank will take place in Washington next July.
- The strengthening of the Bank's relations with the Caribbean countries is one of our major concerns. As I stated in my opening address, there has been a significant increase in the technical assistance provided to the less developed countries, in order to help them draw up investment programs and identify and prepare high-priority projects. This policy is especially important in the Caribbean area. However, the special conditions in which the development of many of these countries is taking place—and this is particularly true of the smaller ones—make it advisable that a substantial part of this assistance be channeled through the Caribbean Development Bank, an institution that is closer to the real situation of the region and can efficiently and expeditiously manage numerous programs and projects involving smaller sums required for the development of those nations.

In an effort to conduct these operations in accordance with the new guidelines set and without changing the traditional relations of the Bank with the other member countries, we have obtained the cooperation of Misael Pastrana Borrero, the distinguished former President of Colombia, who has long been concerned with forging closer permanent bonds between the Caribbean and the rest of Latin America.

- Several governors have expressed their concern over the lack of more dynamic and positive action in the field of export financing. The unanimous agreement reached at the recent meeting of Central Bank Presidents in San Salvador reaffirms the will of Latin America to set up an efficient mechanism to support the expansion and diversification of non-traditional exports. In accordance with our operating policies, we still give priority consideration to the request for technical cooperation presented by the Governor for Panama to complete the feasibility studies for a specialized agency and, if appropriate, we will provide the technical cooperation needed for the organization of such an agency.

- I have observed with special satisfaction the strong support for the process of regional economic integration voiced by several of the Governors. We fully share those aims and intend to step up our present action in behalf of integration programs and projects, either directly or through the specialized agencies.

- I am pleased to express our gratitude to the special group composed of the Governors for Argentina, Brazil and Jamaica for devising an appropriate solution to the selection of the sites for the next three annual meetings of the Board. It has been decided that the Board will meet in El Salvador in 1977, in Canada in 1978 and in Bolivia in 1979.

Before we return to our daily work, I should like to call your attention to a matter that I regard as most timely and crucial. The crisis that beset the world economy in recent years seems to be easing, and there are already a number of signs that a period of greater prosperity is beginning. Under these circumstances, we should ask ourselves what Latin America's strategy should be to take full advantage of the opportunities afforded us by the revival of the world economy. The correct answer to this question will enable us to regain more rapidly the rate of our economic growth which was interrupted by the world crisis, and to establish more solid bases for its continuation over the long-term.

Experience has taught us how high a price we must pay when economic policy becomes ineffective, permitting a recurrence of fiscal deficits and monetary expansion with their inevitable impact on prices and wages. Added to these is the subsequent balance of payments disequilibrium, which ultimately curtails economic growth. The inflation in the United States economy in recent years was caused by these factors, and was also spurred by the spectacular increase in fuel prices and by the world food crisis resulting from poor harvests and the exhaustion of buf-

fer stocks. The imbalances that this situation caused in international trade and in the flows of financial and capital resources finally overturned the international monetary system and brought about a rapid expansion of the money supply in the European countries and Japan.

Thus, during the second half of the 1960s, a generalized inflation became increasingly acute and was followed by an economic recession that seriously affected growth rates and employment levels. The adoption of stabilization policies has begun to yield positive results in the industrial centers. The situation has apparently been brought under control, although there is always a danger that the economic recovery may lead to new pressure on prices. We trust that the industrial countries, aware of this danger, will adopt prudent policies for economic recovery, even when this initially means less growth and a slower reduction of the unemployment rate.

The developing countries, for their part, suffered from the inflationary impact reaching them from abroad. The greater structural rigidity characteristic of developing economies prevented many of the Latin American nations from making the drastic policy changes demanded by the new situation, as the level of spending was maintained in many cases without any source of adequate real financing. Thus, inflationary pressures were generated, partly offsetting the progress we had made toward the stabilization of our economies. Reflecting this internal disequilibrium, the balance of payments deficits of many countries of the region rose to alarming levels, making it necessary to contract external debt on a large scale, and much of it at short term.

At this time Latin America's prospects *vis-à-vis* the industrial centers give promise of improving significantly. The recovery of the world economy in a framework of greater stability offers the Latin American countries the option of expanding their exports considerably. Yet this favorable opportunity could be wasted if our countries fail to adopt strong policies designed to contain the inflation that is distorting exchange and price relations. Application of those policies would be expedited by the fact that a larger volume of exports generates savings whose rational utilization can contribute to economically stable growth. This would enable us to take advantage of the opportunities that will emerge during the period of prosperity now entered upon by the world economy.

In concluding our discussions, I should like to state my appreciation for the continuing support provided for the work of the Bank. This encourages us to pursue our efforts and to seek new means of cooperation to strengthen our capacity for service to Latin America.

**Remarks by Mr. Mario Ramón Beteta,
Governor for Mexico and Secretary of Finance and Public
Credit, Chairman of the Board of Governors**

As this Seventeenth Annual Meeting of the Board of Governors draws to a close, I should like to thank you once again, personally and on behalf of my country, for the high honor conferred upon us in my election to preside over this important work. I also wish to express once more, to all the Governors and to our many distinguished visitors from all parts of the world, our deep gratitude for their presence in Mexico and our pleasure at meeting them in Cancun. We regard this island as a happy result of the initiative and creative imagination of our people and the support of an institution so much a part of us as the Bank, whose financial cooperation has been complementing the efforts of Mexico.

At this last session I also wish to join my voice with those of the many Governors who have given their approval for the manner in which the Inter-American Development Bank is being managed by Antonio Ortiz Mena and his staff, and of the expanding role the Bank is playing as an effective collaborator in the promotion of all our countries' economic progress. Although Antonio Ortiz Mena is an eminent Latin American whose objectives are never obscured by nationalistic considerations, we Mexicans are proud to see the widespread support that is being given to this outstanding Mexican, our countryman and friend.

Finally, I should like to wish you godspeed, and above all to express my hope that each of you, on leaving Mexico, will cherish the same feeling as that held by each of us who have been your hosts: the certainty that we have made a new friend.

**RESOLUTIONS APPROVED BY THE
BOARD OF GOVERNORS BETWEEN ITS
SIXTEENTH AND SEVENTEENTH MEETINGS**

Resolution AG-13/75

Approval of the Report on the Proposal for an Increase in the Bank's Resources Presented in Compliance with Resolution AG-7/75

WHEREAS:

The final report containing the recommendations of the Working Group appointed pursuant to Resolution AG-7/75 to consider the status of the resources of the Bank has been examined by the Board of Governors at the Special Meeting held today,

The Board of Governors

RESOLVES:

1. To approve the report entitled "Proposal for an Increase in the Resources of the Inter-American Development Bank" issued as Document AB-462 and to recommend that the members take such action as may be necessary and appropriate to give effect to the resolutions contained in said report.

2. To express its appreciation to the President of the Bank, to the Board of Executive Directors and to the Working Group for their work in this matter.

(Approved July 9, 1975)

Resolution AG-14/75

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 1976 to serve as outside auditors to certify to the general balance sheet and the statement of profit-and-loss of the Institution, in accordance with Section 10 of the By-Laws.

(Approved December 11, 1975)

Resolution AG-15/75

Election of the President of the Bank

WHEREAS:

The term of office of the President of the Inter-American Development Bank, Mr. Antonio Ortiz Mena, ends on February 29, 1976;

Accordingly, pursuant to the Regulations for the Election of the President of the Bank, the period for presentation of nominations was opened on November 11, 1975;

Within the period established all of the Governors have submitted or supported the nomination of Mr. Antonio Ortiz Mena, and

During his outstanding leadership of the Bank Mr. Ortiz Mena has offered continuing evidence of his acknowledged ability, efficiency and creative imagination and has at the same time demonstrated his complete dedication to the service of the Bank in pursuit of full development of the peoples of America,

The Board of Governors .

RESOLVES:

1. To re-elect Mr. Antonio Ortiz Mena as President of the Inter-American Development Bank for a term of five years beginning March 1, 1976, pursuant to Article VIII, Section 2 (b) (iii) and Section 5 (a) of the Agreement Establishing the Bank.

2. To authorize the Chairman of the Board of Governors on behalf of the Bank, to sign with Mr. Ortiz Mena a contract of employment pursuant to the terms approved by the Board of Governors.

(Approved December 12, 1975)

Resolution AG-1/76

Procedure for Selecting the Site of Annual Board of Governors Meetings

The Board of Governors

RESOLVES:

That the procedure for selecting the site of annual meetings of the Board of Governors be approved pursuant to the terms appearing in Document AB-476. This procedure will enter into effect beginning with the Nineteenth Annual Meeting.

(Approved April 2, 1976)

**RESOLUTIONS APPROVED AT THE
SEVENTEENTH MEETING OF THE
BOARD OF GOVERNORS**

Resolution AG-2/76

Amendment of the By-Laws of the Bank Appointment of Temporary Alternate Executive Directors

The Board of Governors

RESOLVES:

That Section 3(e) of the By-Laws of the Bank is amended to read as follows:

“Section 3. *Conditions of Service*

- (e) When an Executive Director or his Alternate is unable to attend a meeting of the Board of Directors, the Executive Director may appoint a Temporary Alternate to take his place. When the office of the Executive Director is vacant, the Alternate may appoint a Temporary Alternate. The Temporary Alternate shall receive no salary or compensation for expenses.”

(Approved May 16, 1976)

Resolution AG-3/76

Financial Statement of the Ordinary Capital Resources (1975)

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, 1975, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 17, 1976)

Resolution AG-4/76

**Financial Statement of the Fund
for Special Operations (1975)**

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, 1975, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 17, 1976)

Resolution AG-5/76

Study on the Operating Policies of the Bank

WHEREAS:

It is advisable that, in order to continue fulfilling its purposes, the Bank adopt a systematic body of rules, together with operating policies embodying the experience of the member countries, since ambiguities have arisen in the interpretation and/or application of policies relating to international bidding, to the use of currencies held by the Bank, to the effects of the exchange risk, to the determination of the direct and indirect import component of projects, to the financing of local costs and to the cost of projects;

The adaptation and more accurate definition of those policies should help to ensure that projects in which the Bank participates will benefit the economies of the member countries more effectively, and

It is timely for the Bank to study, examine and define its operating policies in the areas mentioned so as to ensure equitable treatment for all the member countries,

The Board of Governors

RESOLVES:

1. To instruct the Board of Executive Directors to study, examine, define and adopt a systematic body of rules together with operating policies, relating to international bidding, to the use of currencies held by the Bank, to the effects of the exchange risk, to the determination of the direct and indirect import component of projects, to the financing of local costs, and to the cost of projects.

2. To request the Board of Executive Directors to present a progress report to the Committee of the Board of Governors on November 15, 1976, and to complete its work and present a final report to the Committee by February 15, 1977, concerning the measures it has taken and those which it recommends that the Board of Governors adopt.

3. To instruct the Committee of the Board of Governors to present its recommendations in these matters to the Board of Governors so that they may be considered at the Eighteenth Annual Meeting.

(Approved May 19, 1976)

Resolution AG-6/76

Place and Date of the Annual Meetings of the Board of Governors in 1977, 1978 and 1979

WHEREAS:

The Governors for Bolivia, Canada and El Salvador have invited the Board of Governors to hold its annual meetings in their countries (Document AB-4/8), and

The Governor for Bolivia, with due regard for the interests of the region and the Bank, has decided to postpone his invitation until 1979,

The Board of Governors

RESOLVES:

1. To express its appreciation for the invitations extended by the Governors for Bolivia, Canada and El Salvador.
2. To hold its Eighteenth Annual Meeting in San Salvador, El Salvador, during the second half of April or the first half of May 1977.
3. To hold its Nineteenth Annual Meeting in Vancouver, Canada, from April 17 to 19, 1978.
4. To hold its Twentieth Annual Meeting in La Paz, Bolivia, in April 1979.

(Approved May 19, 1976)

**DECISIONS ADOPTED BY
THE BOARD OF GOVERNORS
DURING THE SEVENTEENTH ANNUAL MEETING**

Decisions Adopted by the Board of Governors During the Seventeenth Annual Meeting

Presented below is an account of the decisions adopted by the Board of Governors during the Meeting.

Appointment of Temporary Alternate Executive Directors

At the preliminary session the Board of Governors considered a report by the Board of Executive Directors recommending amendment of Section 3(e) of the By-laws of the Bank to allow a Temporary Alternate Executive Director to be appointed by the Alternate Executive Director when the office of Executive Director is vacant.

At the same session the Board approved amendment of the By-laws of the Bank pursuant to the terms appearing in Resolution AG-2/76.

Sixteenth Annual Report of the Bank

At the inaugural session of the Meeting the President of the Bank presented to the Board of Governors the report on activities of the institution during 1975. Also at that session the Board of Governors approved the financial statements of the ordinary capital resources and the Fund for Special Operations, by means of Resolutions AG-3/76 and AG-4/76, respectively, for the fiscal year ended December 31, 1975.

Study of Bank Operating Policies

During the third plenary session it was reported that the Governors for Argentina, Colombia, the Dominican Republic, Mexico, Peru, the United States and Venezuela had presented a proposed resolution concerning the study of various Bank operating policies, such as those relating to international bidding procedure, the use of currencies held by the Bank in order to minimize the effects of exchange risk and distribute them more equitably, determination of the direct and indirect import component of projects, the financing of local costs and the cost of projects.

To revise that proposed resolution the Chairman of the Board of Governors designated a drafting group composed of representatives of Argentina, Brazil, Canada, Guatemala, Mexico, Peru, Trinidad and Tobago, the United States and Uruguay which was presided over by the representative of Guatemala.

The drafting group revised the text of the proposed resolution and submitted Document AB-503 to the Board of Governors.

The Board considered the matter at the fourth plenary session and approved the proposal pursuant to the terms appearing in Resolution AG-5/76.

Site of Annual Meetings in 1977, 1978 and 1979

At the preliminary session a working group was formed consisting of the representatives of Argentina, Brazil and Jamaica to guide the Board of Governors in selecting the sites of the Annual Meetings in 1977, 1978 and 1979, taking into account the invitations extended by the Governors for Bolivia, Canada and El Salvador to have the Board of Governors meet in their countries.

The group, presided over by the representative of Brazil, met on Tuesday, May 18. It had on hand Documents AB-476-2 containing the procedure for selecting annual meeting sites and Document AB-478 presenting information on the facilities offered by Bolivia, Canada and El Salvador as host countries for Annual Meetings.

During its discussions the group stated for the record that it was advisable for attendance at the Annual Meetings to be as large as possible, for which reason limited attendance meetings should not be held in two consecutive years.

The group presented to the closing session the proposed resolution appearing in Document AB-507, which was approved by the Board as Resolution AG-6/76. It stipulated that the Eighteenth Annual Meeting would be held in San Salvador in 1977, the Nineteenth Annual Meeting in Vancouver in 1978 and the Twentieth Annual Meeting in La Paz in 1979.

**REPORT OF THE COMMITTEE OF
THE BOARD OF GOVERNORS**

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

The Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 is pleased to present to the Board the following report on the results of its Sixteenth Meeting, held in Cancun on May 15, 1976.

Guidelines for Establishing Priorities for Access to Resources of the Fund for Special Operations

At the Meeting held in Santo Domingo, the Board of Governors approved Resolution AG-6/75 recommending that the Board of Executive Directors study and adopt guidelines for differentiation among the borrowing countries in the use of resources of the Fund for Special Operations, including within this study the present classification system for the use of those resources.

The Board of Executive Directors was also instructed to report to the Committee of the Board of Governors on the measures it had adopted.

In discharging this responsibility, the Board of Executive Directors presented a report to the Committee on the approved guidelines for setting priorities for access by the member countries to the resources of the Fund for Special Operations. In this report the Board of Executive Directors also expresses its intention of reviewing periodically the conditions of economic and social development in all the countries with a view to determining whether adjustments should be made in the priority of access by any country to the resources of the Fund for Special Operations or whether special conditions in a given country justify ad-hoc treatment on a temporary basis. The Committee took note of the report and considered that its presentation had complied with Resolution AG-6/75.¹

Admission of New Countries of the Region to the Bank

The Committee took note of a progress report on the admission of new countries of the region to the Bank. The report, contained in Document CA-92, states that the proposal to amend the Agreement Establishing the Bank submitted by the Board of Executive Directors to the member countries in March 1975, for the purpose of facilitating the admission

¹ The Governor for Costa Rica did not attend the Committee Meeting. After hearing the presentation of this report at the Preliminary Session, he made a statement concerning Resolution AG-6/75 which follows the text of the report.

to membership of countries outside the region, included the pending amendments relative to the admission of the Bahamas and Guyana; this procedure would be subject to the results of the voting on the admission to membership of countries outside the region.

In this connection it was noted that, as of April 30, 1976, the number of countries voting in favor of the amendment exceeded the required minimum of 16 but still fell short of the minimum of 75% of the total voting power needed to put the amendment into effect. The measures are expected to be approved within the period prescribed for voting.

The Committee also took note of the status in the member countries of the measures proposed to authorize the Bank to lend funds to the Caribbean Development Bank, which the latter in turn may lend in the territories of its members, whether or not they are members of the Inter-American Development Bank.

Other Matters

The Committee took note of the statement by the Governor for the United States concerning the financial policy of the Bank. This matter is now under study by the Board of Executive Directors and the Management.

The Committee directed its attention to Document CA-91 requesting the members of the Committee, pursuant to the rules of procedure, to inform the Secretariat, not later than Tuesday, May 18, of the names of the Governors who will make up the Committee as from this meeting as representatives of the countries or groups of countries which appoint or elect Executive Directors.

Remarks by the Governor for Costa Rica at the Preliminary Session of Chiefs of Delegation

I have listened most attentively to the report made by the Chairman of the Committee of the Board of Governors at yesterday's meeting which I was unable to attend for reasons beyond my control.

One of the most important topics discussed at that time was the outcome of a study conducted by the Bank Management on a resolution approved at the last Meeting, held in the Dominican Republic, with reference to the system of classification by countries and the classification criteria employed. That study mentions and the report made to us yesterday by the Chairman indicates that in special, exceptional cases in certain countries the necessary adjustments will be made in credit treatment by the Inter-American Bank and that this step coincides with or fulfills the provisions of the resolution. I should like to say in this connection that I am aware of the studies made or drafted or formulated by the Bank Management and contained in that document. Naturally, I respect the conclusions reached by the study. I should like to repeat once more, however, the aspiration and interest of the Government of Costa Rica in continuing to study that problem and to explore in greater depth the true essence of the problem posed last year, which persists today. For the reasons duly cited of our economic integration relations with other countries, supply of natural resources and continuing balance of payments difficulties we believe that such classification presents a problem.

Our interest at present is simply to reiterate our position that we should, at some time in the future and on the basis of broader criteria, make a new proposal in that regard, for we believe we are right in saying that the classification as now proposed at the level assigned to us is not the most equitable from the standpoint of credit treatment between countries.

**FIRST MEETING OF CONSULTATION OF THE
INTERNATIONAL GROUP FOR AGRICULTURAL
DEVELOPMENT IN LATIN AMERICA**

First Meeting of Consultation of GIDA/AL

The First Meeting of Consultation organized by the International Group for Agricultural Development in Latin America (GIDA/AL) was held from May 14 to 16, 1976, at the Cancun Convention Center. The meeting was presided over by Dr. Oscar Brauer Herrera, Secretary of Agriculture of Mexico. Mr. Julián Rodríguez Adame, General Coordinator of GIDA/AL, served as coordinator of the meeting.

The meeting was attended by 150 persons, including the official delegations of 20 countries, 13 of which were headed by ministers or deputy secretaries of agriculture or officials at the cabinet level. Also present were representatives of the following member agencies of GIDA/AL: Agency for International Development (AID); International Bank for Reconstruction and Development (IBRD); Organization of American States (OAS); Canadian International Development Agency (CIDA); Consultative Group on Food Production and Investment in Developing Countries (CGFPI); Economic Commission for Latin America (ECLA); Inter-American Institute of Agricultural Sciences (IAIAS); Rockefeller Foundation; Ford Foundation and the Inter-American Development Bank (IDB).

In addition, the following special guests attended: Consultative Group on International Agricultural Research (CGIAR); International Center for Tropical Agriculture (CIAT); International Potato Center (CIP); Latin American Free Trade Association (LAFTA); Embassy of Japan; Association for Development of Fertilizer Industry in Latin America (ADIFAL); International Maize and Wheat Improvement Center (CIMMYT); Interagency Project for Promotion of National Food Policies; Tropical Agriculture Center for Research and Education (CATIE); Central American Bank for Economic Integration (CABEI); Latin American Economic System (SELA), and Pan American Health Organization (PAHO).

The major subjects discussed included the following:

- Purposes of GIDA/AL
- Horizontal technical cooperation
- Consultation on initial lines of action, including consideration of manpower training, coordination of agricultural research, coordination of national investment programs, postharvest farm losses, international trade, agricultural planning, animal health, soil conservation and handling, establishment of an agricultural information center, external technical assistance for preparation of agricultural investment projects, expansion of irrigation and conservation of natural resources.

The official documents, including the major agreements of the Meeting, will be published by the GIDA/AL Coordination Office, 1720 I Street, N.W., Washington, D.C., 20577.

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Special Guests

The Seventeenth Annual Meeting of the Board of Governors was attended by 432 special guests from 34 countries.



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