INTER-AMERICAN DEVELOPMENT BANK

Proceedings

Eighteenth Annual Meeting of the Board of Governors

Guatemala City, Guatemala, May 1977

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PROCEEDINGS

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PREFACE

The Eighteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in Guatemala City from May 30 to June 1, 1977. The Meeting was attended for the first time by Governors for the 13 nonregional countries admitted to the Bank since July 9, 1976. The inaugural session took place in the Los Lagos Room of the Camino Real-Biltmore Hotel and the other plenary sessions in the El Dorado Americana Hotel where the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 also met.

Present at the inaugural session were General Kjell Eugenio Laugerud García, President of Guatemala; Mr. Mario Sandoval Alarcón, Vice President of Guatemala, and Mr. Alfonso López and Mr. Hernán Hurtado Aguilar, chairmen respectively of the legislative and juridical branches of government. At that session the agenda of the Meeting was approved and Mr. Jorge Lamport Rodil, Governor for Guatemala and Minister of Public Finance, 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 Seventeenth and Eighteenth Meetings, as well as those approved in the course of the latter. It also includes an account of the decisions adopted by the Meeting, a summary of the Seventeenth Meeting of the Committee of the Board of Governors and the list of delegations of member countries and of observers from countries and international agencies in attendance.

In addition it contains a summary of the meeting of Governors for the nonregional countries held on July 9, 1976, at Bank headquarters to elect two Executive Directors to represent those countries.

Jorge Hazera
Secretary

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2. Seventeenth Annual Report of the Bank; financial reports for 1976:
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   —Fund for Special Operations

3. Study on the operating policies of the Bank; report of the Committee of the Board of Governors in fulfillment of Resolution AG-5/76

SCHEDULE OF SESSIONS

Saturday, May 28, 1977

10:00 a.m. Seventeenth Meeting of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70

Sunday, May 29, 1977

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

Monday, May 30, 1977

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

1. Approval of the Agenda of the Meeting
2. Election of the Chairman of the Board of Governors
3. Address by Mr. Jorge Lamport Rodil, Chairman of the Board of Governors and Governor for Guatemala
4. Statement by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
5. Address by General Kjell Eugenio Laugerud García, President of Guatemala

3:00 p.m. Second plenary session

1. Address by Mr. Fernando Reus Salinas, Temporary Alternate Governor for Peru
2. Address by Mr. W. Michael Blumenthal, Governor for the United States
3. Address by Mr. José Alfredo Martínez de Hoz, Governor for Argentina
4. Address by Mr. Héctor Hurtado, Governor for Venezuela

Tuesday, May 31, 1977

9:00 a.m. Third plenary session

1. Seventeenth Annual Report of the Bank, 1976
   a. Financial report, ordinary capital resources
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   c. Financial report, Fund for Special Operations

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4. Address by Mr. Abdón Espinosa Valderrama, Governor for Colombia
5. Address by Mr. José María López de Letona, Alternate Governor for Spain
6. Address by Mr. Julio Rodolfo Moctezuma, Governor for Mexico
7. Address by Mr. José D. Cardozo, Governor for Uruguay
8. Address by Mr. Paulo H. Pereira Lira, Governor for Brazil
9. Address by Mr. Udo Kollatz, Temporary Alternate Governor for Germany
10. Address by Mr. Pablo Baraona Urzúa, Governor for Chile
11. Address by Mr. Michiya Matsukawa, Temporary Alternate Governor for Japan
12. Address by Mr. Walter Neudoerfer, Alternate Governor for Austria
13. Address by Mr. Robert Kaplan, Temporary Alternate Governor for Canada
14. Address by Mr. Zlatko Muršec, Alternate Governor for Yugoslavia
15. Address by Mr. C. R. A. Rae, Alternate Governor for the United Kingdom
16. Address by Mr. Franklin E. Hope, Governor for Guyana

Wednesday, June 1, 1977

9:00 a.m. Fourth plenary session

1. Address by Mr. Nicolás Ardito Barletta, Governor for Panama
2. Address by Mr. Eulalio R. Palacios, Temporary Alternate Governor for Paraguay
3. Address by Mr. Vagn H. Hoelgaard, Temporary Alternate Governor for Denmark
4. Address by Mr. Jean-Yves Haberer, Alternate Governor for France
5. Address by Mr. Emmanuel Bros, Governor for Haiti
6. Address by Mr. Dov Kantorowitz, Alternate Governor for Israel
7. Address by Mr. Fernando Periche Vidal, Governor for the Dominican Republic
8. Address by Mr. Klaus Jacobi, Governor for Switzerland
9. Address by Mr. Ludovicus Meulemans, Alternate Governor for Belgium
10. Address by Mr. David H. Coore, Governor for Jamaica
11. Address by Mr. Alfonso Arcos, Alternate Governor for Ecuador
12. Address by Mr. C. J. Oort, Temporary Alternate Governor for the Netherlands

13. Address by Mr. Manuel Antonio Robles, Governor for El Salvador, on behalf of the Central American countries
14. Address by Mr. Giuliano Monterastelli, Alternate Governor for Italy
15. Address by Mr. Errol E. Mahabir, Temporary Alternate Governor for Trinidad and Tobago

Wednesday, June 1, 1977

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

1. Commentary by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank
2. Remarks by Mr. Jorge Lamport Rodil, Chairman of the Board of Governors, and Governor for Guatemala

ADDRESSES

FIRST PLENARY SESSION

May 30, 1977

INAUGURAL SESSION

Address by Mr. Jorge Lamport Rodil, Chairman of the Board of Governors, Governor for Guatemala and Minister of Public Finance

At a time of growing domestic crises in our countries; at a time of inherent crises in our own region; at a time of strained relations on the international level between the privileged world of the nations that have more than enough and the nations that barely manage to survive, we open today the Eighteenth Annual Meeting of the Inter-American Development Bank.

Our meeting is being watched, throughout Latin America and the Caribbean, by silent multitudes who because of their poverty scarcely dare hope for improvement in their lives, while other large groups are clamoring for rapid progress in development.

The peoples and governments of Central America bid you welcome and extend their cordial greetings, while at the same time expressing their firm faith that the IDB will, more than ever before, continue to act as an agent of change and reform to raise, improve and preserve a better life for the peoples of Latin America.

For their part, the people and Government of Guatemala trust that the deliberations of this Meeting will prove fruitful and help support the aspirations of Latin America to integrate for survival and effective participation in the progress of the human race.

We extend a particularly warm welcome to the new members of the Inter-American Development Bank: Guyana, as a regional member, and the nonregional countries of Austria, Belgium, Denmark, France, Germany, Israel, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom and Yugoslavia, which have joined the great IDB family as contributing members.

The central theme that brings us together here in Guatemala is the integral development of our countries: The integral development of each nation, the progress that can occur in relations between nations, the integration of the region as a whole, in line with its possibilities, its capabilities and its actions *vis-a-vis* the external sector.

We should also start to establish the obligations incumbent on our own peoples.

We know, of course, that each country has the responsibility of determining the plan, philosophical foundation and methodology of its own development. Except for certain basic conditioning factors, we know that there are no simplistic formulas for development, and that it has to be pursued in the light of the ethnic, sociological, economic, cultural and political conditions of each country.

But we also know from the lessons of history and the contemporary world around us that the possibilities, effectiveness and the stability of development depends on its association with the development efforts of other nations. This is particularly true of the countries in an intermediate stage of development, and it is also very true when efforts and decisions are linked, when actions and objectives are linked and integrated, and when there is a political will to build progressive phases of regional integration.

In its purposes and in its actions, the Inter-American Development Bank expresses the higher aspirations of Latin America toward integration, within which the process of integral development of each nation is implicit. The main success of the Bank's policy lies in understanding and interpreting the local peculiarities and special features of each country and its particular needs, while at the same time finding solutions within a general framework.

It is of great importance to Latin America and the peoples of the Caribbean that, independently of the high technical qualification of the members of its Board of Executive Directors, the IDB is headed by a man like Antonio Ortiz Mena, who combines a humanistic view of regional problems with financial judgment. As an anthropologist and historian, he is able to interpret the soul and being of Latin America not only in relation to the present but also with regard to the past and to the future.

There is a consensus among the relatively less-developed countries of Latin America regarding the worrisome prospect of possible shortage of concessionary funds, because if such funds are not available, the development possibilities of the region would be hampered and the inequalities prevailing within the region would be deepened.

Both consequences would obviously be serious and represent a threat to domestic peace, but they would also be at variance with what Latin America seeks in its relations with the rest of the world.

As a region, an outward-looking region, we seek free trade, equitable and non-discriminatory treatment for our products, a reduction in technological dependence and the chance to take advantage of international opportunities. Unequal and unbalanced growth within our own region would mean keeping our house divided and thus weakened; such weakness would inevitably reduce our cohesion, vigor and ability to compete on international markets.

Concessionary funds are thus an instrument with which the poorest and smallest countries of the region cannot do without. Consequently it is vital that the Bank seek to secure new sources of such funds.

But it is also vital that the less developed nations make an appropriate effort of their own so as not to be solely dependent on concessionary funds.

Thus far, the countries of Latin America—and within them particular individuals—have not made significant efforts to finance their own development. Although investment by the public sector is in fact investment by the inhabitants in their capacity as taxpayers, there is need for additional participation by those who have already contributed in the form of taxes; similarly, there is need for some effort on the part of those who will receive the greater part of the social benefits of development.

In Central America, for example, the economic integration organizations have prepared a preliminary estimate of the amount of capital investment that will be required over the next ten years. This figure comes to more than Central American $3 billion needed to deal with problems of regional development, particularly in physical and social infrastructure, power, tourism and other fields. An additional Central American $1.7 billion will be required for health, education and training services. The governments will, of course, have to participate in this financing effort. The Inter-American Development Bank will certainly also make a major contribution. But the question must be asked: What contribution will the peoples provide and how much in cash and how much in labor?

We must not permit development to be constructed by government authorities and the financing agencies, without the active participation of the recipients of its benefits. This would amount to negating the fact that man is creative by nature and necessity; it would amount to handing over to our inhabitants social, cultural and material goods in a paternalistic fashion, which will make them inconsistent and perishable.

Our peoples, therefore, must participate in the shaping of development with the assistance of financing but without being totally dependent upon it, since it must also be borne in mind that there just is not the volume of concessionary resources or funds available that would be needed.

Accordingly, each country will have to organize the participation of its citizens, and when I refer to citizens I mean each and every one of their inhabitants, without any differentiation or segregation.

The benefits and the advances of development will serve the agricultural worker, the artisan, the city worker, the skilled worker, and small- and medium-scale farmers. But these benefits and advances will also serve the industrialist, the exporter of agricultural products, the businessman and the landholder.

It is clear, therefore, that the costs of development will have to be borne—but fairly borne—by all, and it is also evident that if these contributions are not made today and development does not take shape or only insufficiently, the social cost expressed in frustrations, social unrest, subversion and terrorism will be all the greater for those who do no more than pay the moderate taxes usual in our countries and believe that this relieves them of all other responsibility.

However, in our view the delays, deficiencies and imperfections in development assume the nature of social injustice.

And it is also our opinion that development executed in a progressive and orderly manner generates progress through reform, but that delayed or, worse still, shelved development generates changes on an unforeseeable scale through violence.

I believe, Governors, that in the light of the social, historical and political context in which this meeting is taking place, it is vital that the conclusions reached take into consideration the dramatic urgency with which our peoples are demanding satisfaction of their needs.

The complexity of our problems and the magnitude of the region's needs, however, dilute in some measure the projections of the Bank, which points up not only the need to expand its resources, but also the necessity of the countries taking measures to step up their participation in the financing of development and to correct their structural deficiencies.

We are prone to denounce the large industrial countries for their imperial attitude to the small countries and their policy of restricted markets. However, it is also not unusual that although we are aware of the requirements for participation in the international market, we hold off implementing agreements concluded in the past. We have to note that in the competition of the world market it is not metaphysics, but creative, pragmatic, dynamic and joint action that will enable our countries to participate successfully.

The large industrial countries are familiar with the predominantly romantic, ungovernable, dispersive and individualistic Latin American temperament, which leaves for tomorrow that which should have been done yesterday.

And of course those countries take advantage of this temperament. So it is not enough to complain and denounce. What is needed is for the romantic and dispersive temperament to be replaced in these matters by practical application of what our great forefathers had in mind for Latin America: let us unite to create, let us unite to participate and to work as one to progress.

It is no more than 22 years to the dawning of the Twenty-First Century yet our countries have built up needs and frustrations deriving from the preceding century.

As I said at the beginning, our meeting is being watched by silent multitudes whose poverty is such that they scarcely dare hope for improvement in their lives, while other large groups are clamoring for rapid progress in development. Perhaps not all of them can see and hear what is discussed and resolved here. But all of them will feel it. It will have some effect on each one of them. It will have an impact and a consequence on each of their lives. And in ours.

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

First I should like to express my deepest appreciation to the people and the authorities of Guatemala for the generous hospitality they are extending to us in this delightful capital. The preparation on short notice of a meeting of this size has demonstrated the organizing capacity of your national institutions and the admirable drive of your country in overcoming the damage caused by the 1976 earthquake.

The holding of the Eighteenth Annual Meeting of the Board of Governors of the Bank in Guatemala City comes at a time when solidarity among the countries of the isthmus, and between them and the rest of Latin America, is particularly important. I wish to express my special appreciation to the government of El Salvador for its efforts to hold these deliberations in a Central American setting, thus reaffirming the faith in the goal of economic integration—a goal which animates the entire region and which is actively supported by our Bank.

The Meeting opening today has a special significance because we have reached the end of a stage in which the Bank's role as a regional development agency has been fully justified, while its organization and financial capacity has been consolidated.

- The admission of a large number of nations from outside the hemisphere has given the Bank a global dimension without altering its regional character. This is the highly successful culmination of an extensive process of negotiations authorized by the Board of Governors and initiated in 1970. It is a source of special satisfaction for me to welcome the Governors representing Austria, Belgium, Denmark, France, Germany, Israel, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom and Yugoslavia. I am also pleased to report that Finland is completing the requirements for admission into the Bank.

During the same year, steps leading to the expansion of our membership and activities in the Caribbean have served to strengthen the ties that join the countries of that area to the other Latin American nations. I am very pleased to greet the Governor for Guyana, who is now a member of this Board. I should also like to express my satisfaction with the forthcoming admission to the Bank of Bahamas and Surinam.

- Shortly before the end of the 1976 fiscal period, the cumulative volume of loans authorized by our Bank reached the $10 billion mark. Important as this figure is in itself, the fact that more than half of that volume was approved during the last five years underscores the dynamic character of our Bank's participation in financing Latin American development. For their part, our member countries are contributing over $30 billion to the financing of those projects—a contribution that emphasizes the great importance of the development effort being carried out.

At this stage of our institutional growth, we have reaffirmed our commitment to having an authentically regional agency which has its own characteristics different from other international entities. Our mission of service to Latin America is reflected in our close contact with the situations in each of our borrower member countries, and in the extension of cooperation to those key sectors of their economies that were previously excluded from access to external public financing. The Bank's credit policy has been manifested in continuing support for agriculture in all its aspects, within the concept of comprehensive development of the rural community; in aid to science and technology programs; in the promotion of development in social sectors that include education, water supply and environmental sanitation and health centers; and in support for institutions financing low-cost housing and urban development. Special mention should be made of the Bank's action in fostering programs designed to promote physical and economic integration of the region, including export financing.

This pioneering mission of the Bank, whose goal has been to encourage harmonious and balanced development of Latin America, has been emphasized in recent years in the growing technical and financial support provided to the 15 smallest and least advanced countries.

- The increase in resources agreed upon by the Board of Governors in 1975, which entered into effect in mid-1976, was easily the most important in the history of the Bank. This step will lead to the expansion of the institution's capital structure by $6.3 billion. The nonregional countries have agreed to contribute an additional $868.6 million. Recalling that our institution opened its doors with an authorized capital of $1 billion, we must all take pride in the fact that, 17 years later, those resources, together with the contributions of the nonregional countries and various trust funds, exceed $18 billion.

In this respect, I wish to remind the Governors that in accordance with resolution AG-7/76, it will be necessary to increase the Bank's callable capital prior to December 31, 1977. To this effect, 108,000 shares in an equivalent value of $1.3 billion will be issued. In the near future I will present the pertinent draft resolution to the Board of Executive Directors for transmission to, and approval by, the Board of Governors during the year.

I cannot fail to express my concern over the fact that it has not been possible thus far to implement fully the last replenishment of resources of our institution. It is very likely, however, that the delay on the part of the United States in fully subscribing to the installments which have come due, will be remedied in the near future. On this occasion, I should like to emphasize the importance of the Bank receiving, in a timely manner, the increased resources agreed upon by the member countries, so that its activities may be programmed in an orderly fashion.

Bank Activities in 1976

Detailed information on the Bank's activities during this period is contained in the Annual Report presented by the Board of Executive Directors, which I have transmitted to the Board of Governors. I shall, therefore, limit myself to a brief reference on the major aspects of our institution's progress in 1976.

During the fiscal period, 81 loans for $1,528 million were approved, representing an increase of 11 per cent at current prices. Thus the operations approved during the last two years grew in real terms, at an average rate of 9.4 per cent in comparison with the level of activity achieved in 1974—a rate of increase which compares favorably with the 7 per cent annual growth target programmed by our Bank.

Of the total amount committed in 1976, 43 per cent was approved from the Fund for Special Operations, 35 per cent from the ordinary capital, 16 per cent from the inter-regional capital and 6 per cent from trust resources. It should be noted that the 15 smallest countries received 72 per cent of the convertible resources loaned from the Fund for Special Operations.

Forty per cent of all loans went to the productive sectors—agriculture and industry; 38 per cent to physical infrastructure sectors—transportation, communications and electric energy; 16 per cent to social infrastructure—education, urban development, water supply and sanitation; and the remaining 6 per cent to the financing of exports, preinvestment and tourism.

The technical cooperation approved totaled $91 million. Of that amount, $31 million represented assistance provided on a nonreimbursable or contingent repayment basis, most of which was allocated to the agricultural sector. The remaining $60 million represented loans that included more than over $30 million to finance preinvestment programs.

Disbursements

Disbursements made against loans authorized amounted to $727 million, raising the total of resources transferred by the end of 1976 to approximately 57 per cent of the Bank's credit portfolio. This ratio has remained virtually unchanged over the past four years, even though the international economic crisis has weakened the capacity of many borrowing countries to contribute local counterpart funds.

Resources Mobilized in Capital Markets

Resources mobilized by the Bank in the capital markets totaled $550 million in 1976, the highest level recorded to date. Bond issues at medium and long terms were placed in the United States ($250 million); Switzerland ($129.2 million); Germany ($77.9 million); Japan ($16.7 million); Austria ($16 million); Trinidad and Tobago ($15 million); Italy ($7.5 million), and the United Kingdom ($3.8 million). In addition, the Bank placed a short-term bond issue, primarily in Latin America ($33.7 million).

Interest Rate

In 1976, the Bank standardized the interest rate applicable to loans from the ordinary capital and from the new inter-regional capital. The rate is reviewed each year, but can be revised semi-annually if the behavior of the capital markets should so warrant. As a result of this new policy, the 8 per cent rate maintained over a period of seven years was raised to 8.6 per cent on July 1, 1976, and lowered to 8.35 per cent on January 1, 1977. The interest rate on loans from the Fund for Special Operations has not changed.

Evaluation of Projects Completed

In an effort to continue improving the programming and implementation of operations, an office of ex-post facto operations evaluation, staffed by specialized professionals, has been set up under the Office of the Controller of the Bank. This unit selects from among the completed projects those with maximum demonstration effect and studies them with a view to utilizing the experience acquired to improve future operations.

Fiscal Period

The gross income of the Bank's own resources—ordinary capital, inter-regional capital and Fund for Special Operations—amounted to $318 million, with a net income of $122 million. The relationship between gross and net incomes is similar to our experience in most recent years. Income for the fiscal period made it possible to increase the Bank's reserves from $557 million to $679 million.

Administration

During the year, efforts continued to increase the Bank's efficiency and productivity, while maintaining strict control over its administrative costs. Under the manpower planning program, an evaluation of all positions at the headquarters was concluded. This will make it possible to speed up the decentralization of activities and to facilitate rotation of personnel between headquarters and field offices. The effort to simplify administrative and legal procedures was continued, and preparation and review of the corresponding manuals was completed.

Administrative expenses during the fiscal year amounted to $56.9 million. This represented an increase of 3.9 per cent in real terms over the previous year, once the rate of inflation is discounted.

Prospects for Cooperation for Development

The encouraging experience of the Bank, reflected in the results of our operations, should not lead us to take a complacent view of the future. The coming years may present us with tasks more difficult than those which confronted our institution in earlier years. We are living in a time when both the industrial and the developing countries have had to adopt drastic changes in order to cope with pressures generated by the international crisis. The impact of this process has been far-reaching and its ultimate consequences cannot yet be predicted. We can say, however, that a new international order is evolving in which Latin America's relations with the industrial centers and the other developing regions will be very different from what they are today.

Crisis and Economic Interdependence

Since the end of the 1920s, when the effects of that earlier crisis in the world economy had been registered, the industrial countries, almost without exception, adopted the promotion of growth and employment capacity as the central feature of their economic policies. This situation remained unchanged until the early part of this decade. During that lengthy period, despite the traumatic effects of the wars, the dynamics of development expedited international coexistence and the efforts of the least developed countries. In recent years, however, this situation has changed radically. Inflation has become a concern that decisively affects the orientation of economic policy. This is an evil for which there is no immediate solution. Its conquest entails sacrifices that cannot be easily distributed, in a fair manner, among all the groups of the community, especially in communities with pluralistic political systems. Consequently, we can anticipate that in the coming years the economy of the industrial centers as a whole will expand at moderate rates, a situation that will make recovery of the developing countries more difficult.

Most of the Latin American countries have also had to deal with serious economic dislocations. International inflation and the rapid increase in the price of fuels produced unprecedented deficits in the balance of payments of oil-importing countries. This gap was further widened by the decline in demand for major export commodities, resulting from recession in the industrial centers. The impact of these external factors—and, occasionally, the delay in applying corrective domestic policies as well—halted Latin America's outstanding progress in maintaining high growth rates within relatively stable economies. The size of the lag recorded by the oil-importing countries is summarized in the following statistics.

- In the years before the crisis, 1972 and 1973, the current account of external payments of the region, excluding Ecuador, Trinidad and Tobago, and Venezuela, showed negative balances of approximately $4 billion a year. The deficit escalated to $12.8 billion in 1974 and $16.3 billion in 1975. The situation began to improve in 1976 as the gap was narrowed by $3 billion, with the deficit dropping to $13.3 billion.
- In 1970–74, the regional economy grew at an average annual rate of more than 7 per cent. In 1975, the growth rate fell sharply to 2.3 per cent. It began to recover in 1976, when it is estimated to have reached 4.6 per cent.
- The inflationary spiral in Latin America reached its peak in 1974 and began to recede thereafter. In 1965–69, 14 of the 22 Latin American countries belonging to the Bank recorded an inflation rate of less than 5 per cent a year, while in only four of the other eight did inflation exceed 15 per cent. In contrast, by 1974, 18 countries registered an inflation rate of more than 15 per cent, four had rates between 5 and 15 per cent, and none dipped below 5 per cent. In 1976, there was a substantial improvement, with five countries recording inflation rates of less than 5 per cent, while the number

of countries with rates exceeding 15 per cent dropped from 18 to eight.

These data show that Latin America has begun to overcome the effects of inflation and appears to have found the path to recovery of its economic health. Nevertheless, our countries bear the responsibility for continuing to apply, decisively and resolutely, policies of adjustment needed to cope with conditions developing on the international level, so that economic growth will be stimulated without reactivating inflationary pressures.

Rapid recovery of the Latin American economy is also of interest to the industrial centers. The last crisis has clearly shown that the era of self-sufficient economies has ended, and that we are embarked upon a period of economic interdependence. The Latin American regional market is already of considerable significance to the more advanced nations both in terms of the volume of their imports, as well as because a high proportion involves capital goods of high technology.

We deal here with a very important issue in Latin America's relations with the industrial countries. In fact, the extent of industrialization achieved by the region, and its vast potential supply of natural resources, make it easier to coordinate its development aims with the fundamental interest of the more advanced nations in combating inflation and improving the security of their economic systems. This provides an opportunity for evolving a common strategy directed toward producing specific results in three key areas:

- Agreements on basic commodities that could help to insure a regular market supply, at more stable prices that are remunerative for the producers;
- Access to the markets of the industrial countries for Latin American manufactures which, because of their comparative advantages, would tend to stabilize prices at competitive levels.
- Public and private financial transfers and contributions of foreign capital, primarily to facilitate the attainment of the above goals.

Certain aspects of this matter are examined below.

Financial Cooperation: Inter-Relationship of Public and Private Credit

The recently experienced deterioration in their external accounts confronted most of the Latin American countries with two alternatives: On the one hand, acceptance of economic stagnation with unpredictable social and political consequences; on the other hand, the mounting of a great effort to finance the gap as a means of buying time in which to apply the corrective measures needed to resolve the crisis. Generally speaking, the countries chose the second alternative, and their successes today justify their sacrifices.

The scope of the external imbalance and the rapidity with which it developed made it more difficult to finance the deficit. During the 1974–76 period, the International Monetary Fund's transactions with Latin America served to finance only a small share of the negative balance of foreign trade. For this reason, many Latin American countries had to resort to massive reliance on private credit as the only alternative to economic collapse.

This situation, however, does not justify the criticisms leveled at our countries and at the private international banking community, on the grounds that Latin America's external indebtedness had reached excessive, and even dangerous, levels. At the Eighth Meeting of the Development Committee, held in Washington at the end of April, I made a statement demonstrating that in reality the situation is quite different. For Latin America as a whole, the debt service plus remittances for profits on foreign investments have remained at the levels recorded in the past decade, fluctuating between 25 and 29 per cent of the value of exports of goods and services. Moreover, considering that the external debt of the three largest countries—Argentina, Brazil and Mexico—represents about 70 per cent of the regional total, it is apparent that most of the other Latin American countries can increase their external commitments without risking imprudence. The few countries that have a heavier debt burden have already adopted and continue to firmly maintain policies designed to improve their position. For their part, the three largest countries have also adopted policies which leave no doubt regarding their capacity to meet their obligations abroad and to undertake new loans in response to their economic needs. The text of my statement, together with a more detailed study of this matter, has been distributed to the Governors.

It is clear that the development of our countries cannot be satisfied primarily by commercial credit. Unfortunately, the financial cooperation mechanisms available to developing countries have not yet been sufficiently perfected, so as to include short-and medium-term credits, with long-term financing provided by institutional investors, such as insurance companies and pension funds. I shall return to this topic in reporting on the Bank's efforts to help find a solution to this problem.

It is within this context that official developmental cooperation is most important. The participation of an international financing institution is an essential factor to encourage the mobilization of private resources and promote the most efficient use of investment financing in our countries. The possibility of combining both types of resources allows the type of financing to be adjusted to the special requirements of each project and to the development level of the borrowing country. Furthermore, official aid often allows the entire financing operation to be covered by guarantees which provide greater security to private creditors: a condition of vital importance where longer-term obligations are concerned.

These observations underline our institution's need to continue to have available a sufficient supply of its own resources—both ordinary and concessional—so that we can perform the dual mission of furnishing appropriate cooperation to the less developed countries and mobilizing an increasing volume of private resources to supplement the financing of projects, primarily in the largest countries of the region.

Bank Activities

I should like to mention at this point the effort we have been making to expand the Bank's activities in fields in which cooperation between our countries and the industrial centers is most promising.

Before examining this matter, I should like to stress the importance of maintaining the image of the Bank as an institution in which the decisions adopted take into account exclusively considerations of a technical character. This fact has enabled us to fulfill our mission of service to our member countries with a clear understanding that the loans which are approved promote their economic and social development and contribute to the meeting of the basic needs of their people. The result of this conduct could not be more satisfactory, considering that to date we have authorized loans for a total of about $10.5 billion and that the Bank's portfolio contains no bad debts or delinquent operations.

Mobilization of Private Resources

From the start of its operations, the Bank has applied traditional formulas for the mobilization of resources for project financing. To the extent possible, resources are obtained from official sources and, to a lesser degree, when market conditions allow, from commercial banks through the sale of participations in our loans. Recently, we have endeavored to create other mechanisms to attract larger participation of private resources on terms more in harmony with the requirements of development project financing. At the Meeting of this Board in Cancún, I reported to the Governors on "complementary financing" which, briefly, consists of the participation of groups of private banks in projects partially financed with IDB resources. The terms of the private credit are established by competition and are incorporated in a loan which the IDB extends to the borrower with the understanding that, as soon as the operation is finalized, the private banks will make the necessary resources available without our guarantee. In this way, the IDB serves as the sole creditor of the borrower. This means that the entire loan package is officially guaranteed by the borrowing country and that our institution, in addition to conducting studies to verify project feasibility, assumes responsibility for the supervision of the project and the administration of the loan. The participation of the private banks is made under the most advantageous conditions since maximum use is made of the services provided by the IDB through its own organization at headquarters and in the borrowers' countries. Two complementary financing operations were concluded in 1976, and several others are expected to be arranged during this year.

Private banks participate only in medium-term financing—up to eight years—and, since these operations are usually financed in the Eurocurrency credit market, the interest rate generally fluctuates. It is therefore advisable to supplement such private lending with longer term operations, preferably carrying a fixed interest rate. To that end, we are negotiating, through our investment bankers in New York, with such institutional investors as insurance companies, pension funds and trust funds in commercial banks. In this case, our aim is to set up mechanisms similar to those agreed upon with the commercial banks, but adapted to the operational approach of each type of investor.

In another area, we have established contacts with agencies in nonregional oil-exporting countries in order to facilitate mobilization of resources to finance projects in Latin America. Negotiations to provide approximately $75 million for two large hydroelectric projects, one in Ecuador and the other in Brazil, to complement the Bank's own financing for these projects, are in an advanced stage. We have also initiated contacts with the International Fund for Agricultural Development, the Organization for Economic Cooperation and Development, and the European-Economic Community to exchange information and, when pertinent, to coordinate our efforts in technical and financial cooperation for the benefit of the Latin American Countries.

In regard to this same matter, I should like to inform the Governors that the Development Committee, at its last meeting, recommended that the international agencies give favorable consideration to the extension of partial guarantees for the bond issues of developing countries. Compliance with that recommendation would affect the Bank's guarantee capital, thereby diminishing its capacity for lending and for mobilizing additional resources from other external sources.

The adherence to membership of the nonregional countries has transformed the Board of Governors into a truly international forum where we can examine the broad range of relations between Latin America and the industrial centers, particularly those issues which are most directly connected with economic interdependence. This broader perspective allows us to consider new types of cooperation aimed at strengthening complementation between the demands of the industrial economies and the region's abundant supply of natural resources. It is, in short, a question of promoting the development and processing of those resources with the technical, financial and capital cooperation of the most advanced countries.

Obviously, the implementation of programs which significantly contribute to stabilizing the supply of basic commodities, make financial demands that far exceed the capacity of our countries. Additional resources will have to be mobilized to execute large-scale projects, primarily in the fields of mining and fuel supply, including the development of prime industries when comparative advantages so warrant.

I believe that the Bank can play a key role in facilitating understandings of this sort. Our institution enjoys the confidence of its member countries, both borrowers and capital exporters, and has in turn consolidated its technical capacity for functioning independently to identify projects of mutual interest, to conduct technical studies and to prepare negotiations between the interested parties.

Additional resources are required for the Bank to participate effectively in such activities. This prompts me to recommend the establishment of a Special Guarantee Fund constituted by the industrial countries and administered by the Bank in accordance with standards agreed upon for that purpose.

Promotion of Latin American Enterprises

We have also given preferential attention to activities related to the development of enterprises in Latin America. Progress in this area has been made possible by the Venezuelan Trust Fund, whose resources can be used flexibly for a broad range of operations that include direct investment in the capital of a company and the granting of loans for working capital.

Our cooperation has developed along two lines: the organizations of large enterprises responsible for exploiting and processing natural resources, and the development of small and intermediate entities, primarily in the industrial field. I have already reported to the Governors on the Bank's activity in connection with the first in my account of our participation in such large-scale projects as Olancho, in Honduras. I should like to note now our part in the strengthening and broadening of opportunities for investment in smaller enterprises. This is an urgent and broad-gauged task. The weakness of capital markets and the shortage of credit at longer than commercial terms has served to perpetuate the family firm in most of our countries. In this type of organization, the narrowness of company capital limits its growth and makes participation of the private sector in the country's socio-economic development less dynamic.

At the beginning of this year, the Bank sent an exploratory mission to four Caribbean and Central American countries, which identified more than 50 companies that in principle, offer attractive investment opportunities. Of these, 14 were selected in agroindustry, fishing and manufactures of various types. These companies are expected to be able to absorb between $20 million and $30 million in loans and investments in order to expand their corporate capital. Once this phase of the program is underway, other missions will be organized to the less developed and medium-sized countries of South America, and finally, to the largest nations, with the understanding that in each case only small and intermediate-size companies will be considered.

The first phase of this program would be financed with resources from the Venezuelan Trust Fund for equity investments. The additional support required by the companies in the form of credit will be underwritten by global loans extended by the Bank to the member countries, or by credits extended by private banks. It is encouraging to observe that several member countries have expressed an interest in principle in making contributions to the resources available for this program.

Technical Cooperation

Technical cooperation is a function which, by its very nature, can be one of the most productive of the diverse activities comprising the development process. This has been proved by the Bank's experience with a volume of operations which, by the end of last year, amounted to more than $400 million, of which about $130 million has been authorized as nonreimbursable or contingent recovery technical cooperation. We have substantially stepped up this activity in recent years, facilitating the efforts of the countries to improve the caliber of the investment and the effectiveness of its implementation. We are not forgetting that up until a short time ago, there was a serious shortage of projects eligible for external financing, whereas now even the less developed countries have an inventory of studies which enables them to make much better use of domestic savings and financial cooperation from abroad. Moreover, significant progress has been made in strengthening institutions and training personnel responsible for development tasks on all levels; planning national goals and policies; sectoral and regional programming of investments; identification and preparation of priority projects, and execution and management of projects.

Last year progress was also made in organizing the Intra-Regional Technical Cooperation Program, whose major objective is to promote the exchange of technical resources and institutional experiences among the Latin American countries. A total of 22 countries have already joined, and in less than a year 41 technical cooperation projects have been negotiated, of which 19 either have been completed or are in progress. Generally speaking, these are short-term operations that include the exchange of advisory missions and the organization of brief training programs. In every case, efforts are made to utilize the experience of the most effective regional institutions.

Promotion of Programs Benefiting Low-Income Groups

In recent years, the criticism that international financial cooperation does not pay sufficient attention to the improvement of the living standard of low-income groups has intensified. While not wishing to reopen the debate about the choice of models for developing an economy, or questioning the exclusive right of the national authorities to make such decisions, I would like to comment on this matter within the context of the Bank's operations.

I shall begin by recalling that, for many years, deep concern has been felt in Latin America for improving the quality of life of the masses of people. This concern was reflected in the charter of our institution, which set up our soft-loan window to finance socioeconomic projects which are generally inconsistent with the traditional criteria of profitability. It was also reflected in the decision to use technical cooperation as an instrument to promote the development of this type of projects. These aims were strengthened in 1961 when the United States Government, in establishing the Social Progress Trust Fund, generously responded to the proposals made by President Juscelino Kubitschek of Brazil in Operation Pan America.

The participation of international agencies in programs more directly benefiting the low-income groups is a complex and a time-consuming task. Generally speaking, the aim is to favor very numerous groups of people who are unable to take advantage of resources without adequate technical assistance. To achieve this objective, external cooperation has to be implemented through local institutions that are capable of administering financial resources efficiently and of assisting borrowers to make good use of their credit.

The Bank has been a pioneer in financing social projects. We entered a field in which there was little experience. This required us to develop suitable criteria for selecting and evaluating projects, and to train our own teams of specialized professionals in the various fields of socioeconomic development.

Our most important work has been done through programs of technical cooperation designed to establish and strengthen local institutions and to train specialists in the promotion of social investments. This has been a long task requiring a large volume of resources. But it has been fully justified by the development of our member countries' capacity to undertake important social development programs.

The availability of resources that can be used in a wide variety of operations—as nonreimbursable and contingent recovery technical cooperation and as ordinary and concessional loans—enabled the Bank to provide financing for projects in most social sectors. This is why loans allocated to the expansion of production and productivity of agriculture, within the framework of comprehensive development of the rural community, occupy first place in the Bank's portfolio. They are followed in importance by social development projects in the fields of education, health, urban development and the installation of water supply and sewage services. Likewise, we have extended a considerable volume of global loans to meet the needs of small entrepreneurs. In programming these operations we have given preferential attention to workers and small land-owners organized in cooperatives or similar associations. This type of organization is becoming increasingly important in Latin America and often represents a significant percentage of activity in different sectors of the economy. The Bank will continue to give its full support to these initiatives.

In concluding, I would like to reiterate our firm conviction that the catalytic function of our Bank as a technical institution dedicated to the mobilization of resources and their proper application to development tasks in the region, in accordance with national priorities, is of fundamental importance. While external financing is an indispensable factor in the transformation and modernization of our societies, it is the national effort that motivates and ultimately determines the outcome of this process. It is our Bank's role to support and complement each country's efforts without trying to direct them.

Address by His Excellency General Kjell Eugenio Laugerud García, President of the Republic of Guatemala

Guatemala thanks the Inter-American Development Bank for its decision to hold this meeting in our country.

It gives us particular satisfaction to be able to offer our hospitality to an institution such as the IDB that has furnished effective, prompt and sustained cooperation in the reconstruction of Guatemala.

I wish to emphasize our gratitude to Mr. Antonio Ortiz Mena, who has lived with our Indians, whom he has seen working in the tranquility of the creative peace before the earthquake, as well as working in the tragic hours of the catastrophe.

This meeting will take place in a context of pronounced and disturbing economic and social stresses in Latin America, whose countries are having to face the adverse circumstances of the world economy and a slow, unsatisfactory and complex process of development in the region.

The subordination of our countries to the external economy is continuing to weaken and diminish our possibilities for progress, while Latin American growth, development and integration are proceeding in an imbalanced fashion, with great advances and huge steps backward, which has accentuated the backwardness and the frustrations of the peoples.

The Central American countries are aware that the crises in their integration process derive from their having deferred on account of local circumstances the rigorous and systematic implementation of the philosophy of integration.

We have also learned that the economies cannot be integrated as if they were simply the parts of a machine, or by the free movement of goods and capital alone, but that the participation of the human components is indispensable. It is also necessary that the integration process be instrumental in creating well-being for those who so far have only fulfilled the passive function of consumers.

If integration enables more economical and efficient production on the part of manufacturers, it should also generate economic and cultural betterment for the population.

In the domestic sphere, Guatemala is taking steps to be able to participate fully in the Central American economic and social community.

These steps relate essentially to the establishment of orderly and peaceful changes in the productive structure, involving the extension of social goods to a larger number of inhabitants.

The way in which these objectives will be reached is through national reconstruction.

Prior to February 4, 1976, my government was implementing the various programs contained in the National Development Plan. We were on the point of making major changes in order to speed up the results and enlarge the prospects for the future.

It came without warning. Disaster struck Guatemala on February 4. In 36 seconds the earthquake destroyed the homes and possessions of more than 1.2 million Guatemalans.

In 36 seconds the country lost vital infrastructure works, and a cultural heritage that had taken 400 years to build up was grievously damaged.

In 36 seconds, thousands of lives were disabled. Thousands of families lost the only thing of value many of them possessed: a mother, a child, a wife.

The catastrophe of February 4 obviously created special needs and new priorities; but these new needs did not eliminate those that our nation has had ever since it was first founded.

My government resolved then to continue to implement the National Development Plan and to embark on reconstruction programs, while trying to tie the two together.

We see reconstruction—and we are pursuing it in this way—not as the task of restoring what was there before, but rather as an opportunity to reform and reshape more rapidly the conditions under which our population live.

The decision to carry out reform through reconstruction will tend to eliminate or at least reduce the explosive gulf that separates and brings into confrontation those who own everything and those who own nothing. In executing its reconstruction programs, Guatemala has found solidarity and support from the Inter-American Development Bank. The financial and technical support provided by the IDB is not only helping to implement the reconstruction of Guatemala but is strengthening the process of Central American Integration.

I wish to express here the gratitude of the people and Government of Guatemala for the support that the IDB has provided for our reconstruction. I can assure you that the resources placed at our disposal are being used efficiently.

Guatemala sincerely hopes that the deliberations at this meeting will produce major advances in the work of the Inter-American Development Bank, and that the work of the Bank will continue to bring about a better life for the nations of Latin America. My government also greets the non-regional countries present at this meeting for the first time.

ADDRESSES

SECOND PLENARY SESSION

May 30, 1977

Address by Mr. Fernando Reus Salinas, Temporary Alternate Governor for Peru

On behalf of Peru I am pleased to bring to this Meeting a message of renewed hope for the future of our regional bank, the Inter-American Development Bank.

It is our duty to join together in thanking the Government of Guatemala, which, faced with a change of venue for this Eighteenth Meeting, was able to provide a solution for an unexpected situation with exemplary speed and efficiency. El Salvador's praiseworthy and considerate understanding, together with the immediate solidarity of her neighboring countries, has made it possible for us to enjoy traditional Central American hospitality, all the warmer for its generosity and spontaneity.

The Bank in 1976

Bank activities during 1976, described in the Annual Report, which this time is a model of impeccable print work, reflected events in the region with all their achievements and frustrations.

The volume of loans and disbursements continued to increase during 1976, which, in the final analysis, is a sure means of assessing the contribution made by the Inter-American Development Bank to financing national development programs in member countries. Part of this success is due to the incorporation of the twelve new donor countries who for the first time are participating as full-fledged members in the discussions at our Annual Meetings. The President of the Bank has expressly referred to these countries, as have you, Mr. Chairman, in your welcoming addresses on behalf of all the delegations. Another part of this success is derived from sound institutional programming, which speaks well of the professional expertise and efficiency of the executive team headed by Mr. Antonio Ortiz Mena, to whom we extend our warmest congratulations.

A brief analysis of the IDB's present loan portfolio reveals equitable sectoral distribution, with a growing percentage of allocations being earmarked for economically less-developed countries.

On the basis of annual averages, I must, however, reiterate the same idea expressed at the Cancún Meeting with regard to the progressive reduction in the percentage of loans granted to the three countries of intermediate development, Colombia, Chile and Peru. In comparing figures it may be seen that from 1961 to 1970 the Group B countries received 22.4 per cent of all loans, a percentage that since then has diminished each year until it reached the figure of 18.4 per cent in 1976. This led us to say in Cancún what we repeat here today: ". . . 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." Let us hope that the 1977 financial year does not confirm this trend.

On the administrative side, special mention is made in the Annual Report of the newly established Plans and Programs Department, with particular emphasis on the future medium- and long-term operations of the Bank, and the ongoing task of completing the process of mechanization at all levels with a view to obtaining integrated data on the Bank's functions. The IDB can hardly insist on rational administration on the part of the borrowers if its own head office does not practice what it preaches. The second stage of the Loan Information and Disbursements Analysis System (LIDAS) shows that much can be achieved along these lines.

Also with regard to administrative matters, mention is made of the efforts to raise productivity and bring overhead costs down. The mere fact that in over three years there has not been any vegetative budget increase that can be correlated with either the increase in the number of operations or the diversity of the resources used, is a good indication of a determination that should not be allowed to pass unnoticed by the Governors. Equal praise is also due for the new speed in disbursements and the process of decentralization in the Representatives' Offices.

President Ortiz Mena's personal contact with all the member countries in 1976 is a clear demonstration of his desire to gain first-hand understanding of today's dynamic and changing Latin America that is ever-avid for regional solutions to regional problems, and where the models that inspired previous generations are no longer valid for the simple reason that the present-day international scene has acquired new dimensions, new imperatives and new perspectives. What he puts before us as the fruit of this continent-wide vision will inevitably have its effect throughout the Bank and the entire range of its activities.

The IDB and Peru

Peru will remember 1976 as the year in which the IDB granted us the largest volume of loans in its history—$149 million. While this is a source of great satisfaction, we must realize that the increase was based on the fact that loans projected for the end of 1975 were not approved until the beginning of 1976, which means that the annual average over the last two-year period remained the same.

The five projects included in the Bank's loan portfolio will have undoubted repercussions on our National Development Program. The loan to the *Banco Agrario* will permit the extension of credits to 17,500 farm families belonging to cooperatives and conclude a program of small and intermediate irrigation projects. The loan to *CENTROMIN* will help to finance a mining expansion program aimed at increasing the country's exports. The loan to *ELECTRO PERU*, designed to raise the capacity of the Machu Picchu hydroelectric plant from 40,000 to 110,000 kilowatts, will serve to improve the living standards of 300,000 persons in a largely undeveloped area. The loan to the Republic for the Olmos-Corral Quemado Highway will benefit

900,000 persons in an extensive farming area located in three densely populated departments. Finally, the preinvestment loan to *COFIDE* is designed to lead to short-range formulation of several projects (Majes and Bayovar, among others) which will be submitted to international banks for consideration.

With regard to the export program, the *Banco Industrial* received, first, a revolving line of credit and, later, four other revolving credits for a total of slightly more than $5 million, which will also generate a sizable inflow of foreign exchange.

Peru restates its most cordial appreciation to the Republic of Colombia, which we are honored to have as joint representative of our countries on the Board of Executive Directors. The never failing support we receive from the Executive Director for Colombia is an expression of an enriched conceptual identity in the Andean Group community that encourages us to find similar points of agreement in other international forums.

Operating Policy

1. Interest Rates

A source of concern for the member countries has been the fluctuations in interest rates as an immediate consequence of illiquidity derived from the lack of fresh money—paid-in capital contributions—replaced largely by borrowings financed with the backing of the callable capital. Under the new procedure it is understandable that the rates must be periodically adjusted to the real cost of such borrowings. Although there was, happily, a small reduction in the first half of 1977, from 8.6 per cent to 8.3 per cent a year, the medium and long-range outlook is not very encouraging. This prompts us to urge the Board of Executive Directors to exhaust all the procedures that sound administration might suggest with a view to avoiding increases and fluctuations that upset financial projections in development programming.

2. Export Financing

The promotion of nontraditional exports still lacks significant financial support. The goal of the IDB Program remains the same: to promote the growth of industries in the region producing capital goods, consumer durables and intermediate goods, so as to enable Latin American exporters to offer credit on terms and at rates of interest comparable to those offered by competitors. But the total of $60 million has remained unchanged for several years, and in practice this figure is indeed small in comparison with what is potentially needed. The refusal to include a measure of concessionality in the interest rate charged has bogged down other decisions of equal importance, and we very much hope the Board of Executive Directors will find some way to solve this problem.

3. Regional Integration

In 1976, unlike earlier years, some attention was again paid to projects and organizations concerned with regional integration. In the projects area, particular mention should be made of technical cooperation operations for Agricultural Research Centers in Latin America, evaluation of the Foot-and-Mouth Disease Program, support to the savings and loan system through *BIAPE*, the meeting of experts on population, the study on a regional mechanism for export financing, and various seminars and training programs. In the institutional field, mention should likewise be made of the introduction of "Latin American Bank Acceptances" for the LAFTA countries and the Dominican Republic, the agreement on institutional cooperation with the Andean Development Corporation and the two technical cooperation operations in favor of the Board of the Cartagena Agreement. To this list should be added the decision to operate in the vast geographical area covered by the Caribbean Development Bank, and continued support for the Central American Bank for Economic Integration and the Institute for Latin American Integration (*INTAL*).

With regard to *INTAL*, we must unfortunately make mention of the announced decision to change the status of the organization. This would close a chapter that had brought honor and credit to the IDB, but which is now just another example of the gap between strong lip service to regional integration and financial disregard in practice for its operating agencies and mechanisms. Peru takes this opportunity to express its unqualified support for any formula that would guarantee the technical and administrative autonomy of *INTAL* and voices its hopes that the immediate future of the organization will turn out promising, it being understood that this has the approval of Argentina as host country.

In Peru we are following with interest the progress of the joint technical cooperation loan that the Bank granted to Peru and Ecuador for preparation of the Puyango-Tumbes binational project, which is destined to become one of the major multinational undertakings in the region.

There is another binational project, the Ilo-Desagüadero-La Paz Highway, execution of which will establish a road infrastructure of vital importance for the social and economic development of Peru and Bolivia.

4. The Special Guarantee Fund

Mr. Ortiz Mena has suggested the establishment of a Special Guarantee Fund, to be set up by the industrial countries and administered by the Bank, to mobilize additional resources with a view to promoting the exploitation and financing of basic resources in the region.

My fellow Governors are certainly aware of the need to stabilize supplies of basic commodities. This is an area of cooperation that will benefit the economies of the industrial countries and of the developing countries equally. There will be little progress in the exploitation and processing of basic commodities unless vast sums of money are mobilized for large-scale projects. The work of the Fund could greatly increase the meager resources the Bank could obtain against its own callable capital.

All of these considerations cause Peru to express its warm support for such an important suggestion. Moved by a desire to see good ideas converted into reality, we formally propose that this Meeting agree to instruct the

Board of Executive Directors to study, in the course of this year, the establishment of such a Special Guarantee Fund. Our customary procedure of written voting will enable the Governors to be consulted, at the appropriate time, so that if they signify their agreement the Management will have a legal instrument that will enable it to negotiate on definite terms and conditions with the contributing industrialized countries.

It is not hoping too much to expect the preliminary results of this initiative to be available for our next Meeting in 1978.

Compliance with Resolution AG-5/76

Through the agency of the Committee of the Board of Governors we have taken cognizance of the document detailing the outcome of the mission entrusted to the Board of Executive Directors pursuant to Resolution AG-5/76, passed in Cancún.

The assiduity displayed by the members of the Board of Executive Directors in completing their assignment so promptly is worthy of special praise. The decisions with regard to international public bidding and determination of the imported component, on use of the funds held by the Bank and on the total cost of projects, undoubtedly represent a step forward in updating the Bank's policies. This will contribute toward our remembering the work of the 1975–78 Board of Executive Directors as an active stage in redefining policies, a basic requirement for sound management.

Peru is very pleased to see at last, exactly eight years after the establishment of the Andean Group, that expression has been given to the concept of a regional margin of preference. This will be destined to change the use of Bank resources in harmony with rules adopted by groups of member countries acting jointly in the full exercise of their sovereignty.

With regard to the alternative solutions for the exchange risk in respect of currencies held by the Bank, in the absence of any better answer, Peru shares the view that it would be inappropriate for the Bank itself to absorb this risk. While we accept the argument that the amounts involved so far are relatively small and that a special reserve fund could meet the possible risk of exchange losses, we nevertheless feel that in the long run this would be to take the path of least resistance and to evade a financial responsibility that belongs more to the direct beneficiaries, the borrowers, than to the stockholders of a banking institution.

We feel that the use of a composite monetary unit would add to the cost of operating the Bank, which is exactly what we are trying to avoid.

Of all the alternatives put forward by the Management, none of which can fully satisfy all the member countries, we tend to prefer the "exchange risk basket," the procedure whereby a yearly adjustment is made that will enable borrowers to know exactly how much they owe in the various currencies used for the previous year's disbursements.

The door remains open, however, so that ideas may be exchanged in the course of this Meeting.

The Voting Power in the Bank

After looking at the range of positive achievements, we cannot avoid mentioning other aspects that have had a negative influence ever since the Cancún Meeting. The first of these negative aspects, the one giving rise to the most concern, is undoubtedly that relating to United States contributions, which are in arrears both in terms of amounts and in terms of due dates.

There is no need to enter into details of the history of this matter. Whenever the issue is raised at some international gathering, we are left with an unpleasant feeling of a Latin American confrontation with our majority stockholder. Faced with the choice of remaining complaisantly silent or of speaking out openly about a situation that is starting to become uncomfortable, we have decided to take the constructive course, even at the risk of being misinterpreted. We are encouraged in this by the knowledge that the solidarity of the Inter-American system today rests on the indestructible ties linking all of the countries without exception, starting with the United States. On the other hand, it is no secret that, in this connection, Latin America has called in various forums for a new relationship of interchange, and has expressed the hope, quite simply, that each donor country in the Inter-American Development Bank will define, as a member country, and not solely at the Executive Branch level, the extent of its financial relations with the region.

When the Inter-American Development Bank was first set up, the United States subscribed and paid a share capital equivalent to almost 43 per cent of the voting power. On this basis, and on the basis of what the creation of a soft loan window would mean for the future, the member countries agreed to establish the headquarters of the organization in Washington, D.C. More important still, they agreed that a two-thirds majority vote of the member countries would be required to pass certain types of resolutions, among others:

- The utilization of the resources of the Fund for Special Operations.
- The quorum required for meetings of the Board of Governors.
- The quorum required for meetings of the Board of Executive Directors.
- Increases in the capital stock of the Bank.
- Amendments to the Agreement Establishing the Bank.

The past ten years have witnessed a number of changes in the IDB, the most recent of these being the incorporation of nonregional countries as donor countries. The countries in the region have increased their capital contributions and at the same time have assumed the obligation of paying back their loans in dollars instead of in local currency as originally stipulated. During this same period, the more developed countries in the region have waived their right to use convertible resources of the Fund for Special Operations, and today they restrict themselves to transactions involving ordinary capital resources and parallel credits from private commercial banks. In fact, one of these countries, Venezuela, now declines to exercise its right to borrow funds in any form and has even set up a Trust Fund to benefit the other developing countries. Finally, by means of bond issues and funds in administration, operations in convertible Latin American currencies are recycled.

All of this regional participation has taken place within a commercial framework that was effectively described by President Ortiz Mena in his address to the Seventeenth Annual Meeting in Cancún. On that occasion he said that there is a close relationship between the exports of the industrial centers and the growth of the Latin American economy. The Latin American market absorbs United States exports amounting to $16.3 billion, a figure which he stated is "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."

The trade picture so soberly drawn by President Ortiz Mena last year is faithfully reflected in the operations of the Inter-American Development Bank. The quarterly report put out by the Bank under the title "Use of Funds According to the Origin of Goods and Services Acquired" shows that the United States continues to be the major supplier of goods and services financed out of the funds contributed by it and by the other member countries. To the direct foreign exchange cost paid by the region must be added a vast range of indirect costs reflecting the sale of a technology which, although efficient, is not always the cheapest in relation to other feasible alternatives. In other words, the activities of the IDB have a favorable impact not only on the Latin American economy but also on the United States economy.

In contrast to the foregoing, which is an irrefutable fact, we find in decision-making circles in the United States the assumption that country's contributions to the IDB form part of a vast World External Aid Program. In view of the problem of distributing this aid among different geographic areas of the world it was understandable that the contributions to the IDB should follow the usual legislative and political swings in also serving domestic requirements in traditionally depressed areas, or ones which suddenly became centers of social unrest. There is no justification whatsoever for combining with external aid a set of totally different items having a different purpose for members and recipients. The relationship with the IDB makes it essential to distinguish between aid and investment, as do the other donor countries.

It is a definite fact that the United States has now reduced its capital stock contribution to 34.5 per cent while in the Fund for Special Operations (FSO) it has reduced its contribution to convertible currencies from 100 per cent at the start to some 8 per cent as of now. There is every indication that we are faced with a continued legislative trend toward gradual disengagement of the United States from the multilateral organizations and a shift toward bilateral programs.

Right from its beginning, President Carter's Administration has undertaken what we can term a titanic task to demonstrate to Congress the desirability of timely subscribing to the corresponding shares of the United States. Latin America is pleased to note in President Carter a clear perception of the function of a leader in international relations. My country especially wishes to express to our colleague Michael Blumenthal, present here, our pleasure at his appointment as Secretary of the Treasury and our appreciation of his hard work. Mr. Blumenthal's known position regarding the United States' relations with Latin America, as expressed last year in the committee chaired by Mr. Sol M. Linowitz, was a good credential for the Bank. It was not therefore surprising that in his testimony before the Senate on last March 2 he affirmed that the United States' relations with Latin America through the IDB were as important for some as for others and that "the IDB's contribution to this relationship is really vital."

In the sovereign exercise of the political decisions of each country, no one is entitled to criticize a change of course such as we have been sensing over recent years. However, in the case of the IDB, it happens that the rules of the game are being changed while at the same time old prerogatives and powers are being maintained. This Bank is still a regional bank, but it is no longer exclusively inter-American, as regards the composition of the donor countries, with the inclusion of the nonregional members. Fifty-one per cent of the Bank's loans are granted out of hard resources, on terms and conditions derived from the cost of borrowings, bond issues, suppliers' credits and various types of commercial bank financing, as an immediate result of the reduction in the cash contributions of the majority partner. In the Bank the vast majority of the disbursements, for loans and for technical cooperation, have as their direct origin a particular member country.

Paradoxically, the Establishing Agreement as it now stands gives the majority partner a deciding power equal to that it had at the beginning, as if there were but one donor country, as if the contributions had been maintained in the same proportions as 17 years ago or as if these contributions were still in the nature of gratuitous gifts to the cause of regional development.

This meeting is not the time for specific messages for specific recipients. So we shall simply seek to set out objectively the salient features of a situation that it is in the member countries' interest to solve—without recriminations or acrimony, without complaints or appeals—as good neighbors who want to continue living in harmony and in closer cooperation in other areas.

In this connection, at some point we must face the fact that the decisions adopted by the Inter-American Development Bank, at all its levels, must conform exclusively to the provisions of Article VIII of the Establishing Agreement: "all matters . . . shall be decided by a majority of the total voting power of the member countries."

This without prejudice to the option of any donor country to create sources of funds additional to the ordinary capital, concerning which it may establish such terms and conditions as it deems fit.

To repeat that which we said for the first time at the Tenth Annual Meeting also held here in Guatemala in 1969 we believe that in the IDB we should drop the practice by which one-third of the voting power held by one country prevails over the two-thirds of the other countries. The day this is done, we shall not only have taken a step consistent with democratic principles, but we also shall have eliminated an anomaly and, above all, removed a source of friction and unproductive international confrontations. The Bank would then be in a position to learn to live with a range of financial and human resources different from what it has traditionally been accustomed to. The advantages to be gained prompt the hope that this change will at the appropriate time be given the positive consideration it warrants.

The Multilateral Nature of the IDB

There is another matter which cannot be disregarded in our frank collective deliberations either. This is the definition of the multilateral nature of the IDB.

When a country joins the IDB, as donor or as borrower, it does so with the aim of participating collectively in a financial agency conceived as a mechanism for combining national efforts with the aim of speeding the development of the entire region. In this multilateral agency there is not, by definition, a direct relationship between contributions and benefits, nor any differentiation between the rights and obligations of its members. Profit is replaced by service, and political votes are out of place when evaluating the feasibility of a project. All the member countries are equally responsible for a common aim, and in the final decisions there is no other power than that deriving from a voting power, in which no country can prevail unilaterally on the basis of its own domestic preference or political convictions.

To subject capital contributions to the Bank to compliance to a specific exclusive condition amounts to disregarding the Establishing Agreement on which the Bank is based and is a denial of its multilateral nature. It was Latin America's understanding that in founding the Inter-American Development Bank, it was contributing to the establishment of a multilateral financial agency, but it observes with alarm today that not all the donor countries share this view in practice.

To the causes of the past, which were of direct influence and impact for Peru—such as the matter of the 200-mile limit—another has now been added. But how can the Special Guarantee Fund be created on the unsound basis of discrimination within the region itself? How could the Bank act with an international financial community which distinguishes every so often where the law does not authorize the making of distinctions? Whatever the reasons may be that tempt donors to deny the use of IDB resources for political reasons, as an expression of tacit moral disapproval at governmental level, in the last analysis history teaches that the end never justifies the means.

In the guiding of the destinies of institutions there are crucial moments when the alternatives are conformism or change. The history of the international organizations over the past quarter of a century has been a succession of chimeras and frustrations. The idealism of their founders and promoters has, with varying success, been set against the shortsightedness of those who never had the courage to aspire to higher endeavors in the spirit of those who forged the independence of each of the countries of America. Let us not, through indolence or laziness, allow the ideals which nearly 20 years ago justified the creation of this Inter-American Development Bank to wither.

Peru repeats its convictions that the entry of the nonregional countries will be a factor of great significance for the Bank and that in the same spirit of service all of us, Latin America, the Caribbean, the United States, Canada and the nonregional countries, will in the near future find ourselves on one and the same path toward the integrated development of the region.

Address by Mr. W. Michael Blumenthal, Governor for the United States and Secretary of the Treasury

Allow me to say a few words in Spanish. Seventeen years ago, the Governors of the Inter-American Development Bank held their first meeting in Central America. It is a great honor for me to attend this meeting, the first opportunity for such participation by President Carter's Administration. I am also very pleased to be with you in Guatemala.

I would like to refer briefly to the subject of inter-American relations. We in the United States wish to consult with you closely on a broader and more flexible approach to our activities with regard to Latin America. In the economic field we sincerely believe that your problems, as many of our own, are of a global nature and require more extensive action.

In this respect some of our own policies are of special interest to other nations on the American Continent. When we plan to make important decisions in these areas we will consult with you. In such matters, as President Carter said in his recent address to the Permanent Council of the Organization of American States, we depend on your advice, and we hope we can count on you to contribute with your constructive leadership and your assistance in guiding us in the North-South dialogue. We in the Administration are working closely with the United States Congress to secure funds for the U. S. participation in the current replenishment. Recently we made $556 million available to the Bank. We hope, in addition, to make a similar amount available later this year. As an indication of Congressional interest in the Bank, we are privileged to have a number of Members of the Congress in our delegation.

Many thanks for your patience with my Spanish. And now, if you please, I will continue in my own language.

The International Economic Outlook

The recent summit meeting in London reaffirmed that continuing worldwide economic recovery depends upon sustained growth and reduced inflation in the major industrial countries, and expanded international efforts to assist the developing nations.

We believe that the world economy is already well along in recovering from the 1974–75 recession, and that the major industrial countries are pursuing the right economic policies—to maximize sustainable, non-inflationary growth and reduce unemployment.

Recovery of the industrial nations should stimulate the economies of the developing nations. A vigorous United States economy is especially important to Latin America. The U.S. economy is growing at a satisfactory rate and the outlook is favorable. We now expect almost 6 per cent real growth from the fourth quarter of 1976 to the fourth quarter of 1977, and a reduction in our unemployment rate to 6.7 per cent by the end of the year. While inflation remains a serious long-run concern, we are making a comprehensive effort to bring it under control.

Relatively open access to the U.S. market, enhanced by a Generalized System of Tariff Preferences, has also stimulated the growth of Latin America. In spite of strong pressures to that end, President Carter recently refused to adopt widespread controls on imports of shoes and sugar, which account for an important part of the foreign exchange earnings of several Latin American countries. The President did so because he believes that an open world economy is essential to the economic health of all countries, and that a liberal U.S. trade policy is particularly important to developing countries in Latin America and elsewhere. Moreover, he took these steps in spite of our trade balance shifting into sizable deficits of $9 billion in 1976 and perhaps $20 billion this year, providing sizable scope for expansion of exports from Latin America.

In addition to liberal trade, another key element of U.S. international economic policy is our strong and increasing support of the efforts of the International Monetary Fund to assure adequate financial help for countries in balance of payments need. We have declared our willingness to participate fully in the proposed "Witteveen Facility," which would provide sizable amounts of additional resources to the Fund over the next several years. In addition, for the longer run, we support a further increase in all countries' quotas in the Fund. In addition to providing more balance of payments finance, such further strengthening of the Fund will help maintain open capital markets, which are increasingly important to Latin America to finance its external deficits. We remain confident in the ability of the private banks to maintain a steady flow of capital to the region, on a stable basis.

Another key element in U.S. policy toward the developing countries is our sharply increased support for the whole range of international development lending institutions. The Administration is currently seeking Congressional authorization of $5.2 billion in U.S. contributions to the current replenishments of the development banks, and Congressional appropriation of $2.6 billion of U.S. payments in Fiscal Year 1978 alone. The full House of Representatives and the Senate Foreign Relations Committee have voted the full authorizations, and just last week the House Appropriations Subcommittee voted to appropriate over $2.1 billion of our total request. For the future, as indicated at the London summit meeting, we intend to support a sizable further increase in the lending capacity of the World Bank.

In addition, we have indicated our willingness to consider negotiating international agreements to stabilize commodity prices around market trends. The United States has already joined the tin and coffee pacts, and we have begun negotiations on sugar. We are also willing to negotiate a "common fund" which would link the buffer stock financing of individual commodity agreements, once these agreements were negotiated.

We are pursuing all of these steps in our own economic self-interest, but also because the future of the world economy is intrinsically tied to the ability of the developing nations to overcome poverty, achieve healthy growth and assure more secure lives for their people. At the London summit conference, we reaffirmed our commitment to policies aimed at meeting the basic human needs of the developing world and helping them to increase their productive capacity.

At the same time, we realize that the significantly different characteristics and needs of the developing countries must be taken into account. The countries of the Third World of more advanced developing nations—which includes most of Latin America—must have access to the markets of the industrial world for their exports. As their need for concessional lending has declined, they must turn to market-related lending from the World Bank and the regional development banks, and to private capital markets.

The Latin American countries as a whole are the most economically and socially advanced in the developing world. In spite of the recent worldwide recession, the gross domestic product of the region increased by almost 5 per cent in 1976. The value of Latin American exports of manufactured goods has risen by an annual rate of 20 per cent over the past 10 years. When the industrial nations recorded negative rates of economic growth in 1974 and 1975, Latin America recorded *positive* growth rates of 7.2 per cent and 2.4 per cent respectively. All these developments attest to the rising economic strength of Latin America, though vigorous growth in the United States remains of crucial importance for the rest of the Hemisphere.

We also recognize that there are significant differences among the countries or the region. Some have achieved impressive levels of growth, enjoy abundant natural resources and export manufactured goods. Others still have very low levels of per capita income, are resource short and export very little. In light of this great diversity, President Carter has indicated that a single U.S. policy toward Latin America would make little sense. Our policy will be one of flexibility, worked out in close consultation with the individual countries of the Hemisphere and in close contact with and support of, the Inter-American Development Bank and other international organizations. Our policies will seek to differentiate between the needs of the more advanced Latin American developing nations and those of the poorer ones. For the former we see great potential for multilateral development loans from the capital resources of the IDB, the World Bank and the IFC; economic gains from open, strong trade with the United States and the rest of the world, and an important contribution from private capital flows. For the less developed, we will look as well to concessional funding from the IDB's Fund for Special Operations, the International Development Association, and grant bilateral assistance from the United States.

United States Assistance to Latin America

Development assistance is a key part of our relationship with Latin America and we are seeking substantial increases in our levels of such assistance. President Carter has requested a total of $7.8 billion in multilateral and bilateral development assistance for our coming fiscal year 1978, $2.6 billion of which is to be channelled through the international development banks alone. This is the largest amount ever requested for multilateral aid.

During the past several months, I and other Administration representatives have testified extensively before Congress in support of our requests for the international development banks. During our appearances and informal consultations, we have heard many expressions of concern about the effectiveness of multilateral assistance programs in reaching the needy people of the developing world and our own share of contributions, and we have heard much interest in supporting those countries which respect and promote human rights.

We, in turn, have made a major effort to acquaint the Congress and the American public with the tremendous contribution which the IDB and the other international development banks have made, and will continue to make, to the developing nations. We have noted with deep satisfaction the entry into Bank membership of a number of nonregional members, and the broadening of financial support for the Bank which has resulted—which has, in turn, permitted a healthy decline in the U.S. share of the Bank's total resources from 45 per cent in 1959 to 33 per cent in 1976. We are extremely pleased that Congress voted to appropriate over 70 per cent of the total amount requested in the fiscal 1977 supplemental appropriation for funding for the IDB and that, as a result, we were able earlier this month to subscribe \$396 million to the Bank's capital resources and \$160 million to the Fund for Special Operations. We will continue to work closely with Congress as our fiscal 1978 budget requests are being reviewed, and are hopeful that Congress will act favorably this summer. I am heartened by the fact that the House Appropriations Subcommittee recently voted to appropriate \$525 million of the total \$600 million requested for the coming year, though we will seek to restore full funding before final Congressional action.

The Bank's Role in Latin American Development

In its 17 years of operations, the IDB has become the single most important source of financing for social and economic development in Latin America. Under the leadership of President Ortiz Mena the Bank has registered impressive achievements during the past year:

• The Bank surpassed the \$10 billion mark in net lending to its Latin American members, thus helping to finance development projects to totaling more than \$42 billion. We are particularly pleased to see that lending to the agricultural sector is continuing to increase, and that it now represents almost a quarter of cumulative Bank lending.

• We strongly support the increasing emphasis being given to the least developed countries of the region and to the most disadvantaged segments of Latin American society. Not only have integrated rural development projects stressed the needs of the poor, but the projects for rural electrification, potable water systems, improved health facilities, rural access roads and greater educational opportunities aim at improving their quality of life. An increasing part of this assistance has been channelled through cooperatives and other associative groups during recent years, and we hope to see this trend continue.

- After a review of the interest rate charge on capital loans, the Board of Directors adopted a new system for setting the interest rate on new capital loans, based on borrowing costs plus a spread estimated to cover other costs. We strongly applaud this step which, in view of the sharp increase in loan commitments, will enhance the Bank's creditworthiness in international capital markets.
- We wish to encourage the Bank's efforts to direct additional financial resources for Latin American development through complementary financing arrangements with private institutions. Such arrangements hold great potential for increasing private sector participation in the development process, stretching the Bank's scarce resources and introducing the Bank's more developed borrowers to new sources of funds.
- The Bank adopted a policy under which the development and use of intermediate, or light capital, technology will become an increasingly important facet of its lending program and issued a report on this subject. We welcome these steps and hope to see greater utilization of appropriate technology in meeting the development needs of Bank members.

Future of the Inter-American Development Bank

The Bank's record is impressive and significant progress has been achieved in Latin America. Its future is of paramount importance. The Bank must follow well conceived policies to ensure the continued support of donor countries, borrowers, and international investors.

The IDB is the most mature of the regional development banks. As the current replenishment illustrates, the Bank's operations are being financed primarily through increments of callable capital. During the past year the Bank borrowed over half a billion dollars on international capital markets. We believe this reflects a natural process of diminishing reliance on paid-in capital contributions, which should continue.

In reviewing the lending rate on capital loans as scheduled this July, the Executive Directors should ensure that it adequately reflects the Bank's operating costs. This is important to maintain the strong confidence which international investors have demonstrated in the Bank.

With the growing volume of lending, even greater stress must be placed on the quality of the Bank's programs and the effectiveness of its operations. Greater effort should be made to improve the preparation and implementation of projects. This could be done by improving estimates and control of project costs, increasing supervision of projects underway, and ensuring that the various conditions essential for project implementation are fulfilled *before* projects are brought to the Board of Directors for approval. In many cases, use of appropriate technologies could greatly enhance the developmental impact of loans.

Those projects which have greatest development impact must be given priority. During the past several years in reviewing certain tourism loans, student credit and other loans which subsidize the interest rates to borrowers, we have questioned whether the Bank's resources could not have been used more effectively.

Making optimum use of the Bank's scarce foreign exchange resources must be a priority concern to all of us: I urge the Board of Directors and Management to find additional ways to ensure that these resources be directed where they are most needed, where the greatest development results can be achieved, and that, in the interest of conservation, foreign exchange disbursements be generally limited to procurement outside the borrowing country.

We applaud the wealthier borrowing countries for making a portion of their contributions to the Fund for Special Operations under the current replenishment in convertible currencies, and agreeing to discontinue borrowing FSO convertible currencies. We believe that, in addition, these countries and the other middle income Latin American members must increasingly borrow from ordinary and inter-regional capital and the Venezuelan Trust Fund. The use of convertible currencies to meet local cost financing needs in the wealthier countries should decline as their ability to mobilize internal resources increases. These measures will free scarce concessional convertible currencies for the benefit of the poor.

If the Bank is to enjoy the continuing support of its members, it is essential that its operations be managed in a cost-effective and efficient manner. Stricter control should be exercised over administrative costs, including salaries, fringe benefits, and travel allowances. This issue deserves our serious attention. Salaries in the international development banks should bear a reasonable relationship to the member countries' civil services. Excessive salaries and administrative costs are borne ultimately by the poorer borrowers and do not help donor governments' efforts to mobilize public and legislative support for appropriations for these institutions. These issues can often relate directly to the funding which our country is willing to provide for the Bank. We seriously doubt that it is in the interest of the member countries of the Bank, and their people, to jeopardize such funding through unnecessary increases in salaries and other administrative costs.

In his address at the Pan American Union, President Carter reaffirmed U.S. support for regional and sub-regional integration efforts in Latin America. In recent years the impetus for regional economic integration, however, has slowed somewhat—in contrast to the strong momentum of the 1960s. We believe that it would be appropriate now for all of us to consider again what role regional integration should play in the future development of Latin America, the most effective institutional framework for pursuing economic integration, and the role the IDB should have in this process.

Recent developments in international economic and political affairs have made us all more conscious of the need to make optimum use of our precious natural resources. The rich energy and raw material resources of the region have tremendous potential for contribution to long-range economic development. A recent study by the World Bank suggests that the development banks could increase markedly their lending for projects in the non-fuel minerals and energy sectors. We believe the IDB should expand its efforts to develop indigenous resources to meet internal demands for energy and raw materials, particularly in the poorer countries in Latin America, and perhaps for export purposes as well.

We urge the IDB to increase its support to the private sector, through increased lending to productive enterprises outside the public sphere and to domestic finance companies which raise additional domestic capital and re-lend to local industry, commerce and agribusiness. We believe the IDB should consider allocating some of its resources for equity financing in private sector projects.

The Bank should also continue to expand its support of credit unions and savings and loan institutions which can be effective in mobilizing domestic savings. We believe that assistance to small, private groups, through direct lending or through coordination with other organizations such as the Inter-American Foundation, should become an increasingly important part of the Bank's lending program.

As signatories of the United Nations Charter all of us are pledged to observe and respect human rights. We share a deep conviction that abuses of individual freedom, whether they are caused by political, social or economic deprivations, must be combatted. My government believes that the goals and purposes of the international development banks encompass a broad range of fundamental concerns, including human rights, as well as freedom from economic privation and want. I am confident that by working together all of us here can do much to meet these basic human needs and promote the dignity of our countrymen and neighbors. On behalf of my Government, I invite you to share your views with us on how to advance our common commitment to human rights and human needs in ways which will enhance the integrity and effectiveness of this important regional development bank.

The United States Government plans to follow through actively on all these views, and others which we may decide from time to time. We wish to assure all of our colleagues in the Bank of the effective representation in the Board which our new Executive Directors Ralph Dungan and Jay Finkel will bring. As U.S. Governor, I look forward to personally playing an active role in the Bank, as does Under Secretary of State Richard N. Cooper, the Alternate U.S. Governor who is absent from this meeting only because he is leading the U.S. Delegation to the Ministerial Meeting of the Conference on International Economic Cooperation in Paris. This active engagement of top U.S. officials in the Bank is an indication of our deep concern for the economic well-being of Latin America, and for the future of the Bank itself.

This is one way in which my country will fulfill its commitment to work closely with the countries of Latin America and the Caribbean, to help realize our aspirations for a better life for all our people. On behalf of the United States, I thank the Government of Guatemala for its gracious hospitality in hosting this Eighteenth Annual Meeting of the IDB.

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

May I commence by expressing my personal recognition and that of the members of the Argentine delegation for the most cordial reception and hospitality that has been extended to us by the authorities of Guatemala.

We are gathered in this Eighteenth Annual Meeting of the Board of Governors to consider the progress achieved last year by the Inter-American Development Bank and its possible future course of action. The Bank has undoubtedly accomplished a role of growing importance for the development of the continent.

From its creation up to today it has gradually perfected and increased its means of action for the best fulfillment of the economic and social requirements of our countries.

To this end, the Bank has broadened the number of its members with the inclusion of various developed nonregional countries. I would like to express to their representatives our warmest welcome, in the conviction that their presence as new members of the Bank will further enhance and fortify the development of Latin America.

The new complementary or co-financing system may also substantially widen the scope of the Bank. In the course of 1976, the Bank has exceeded the $10 billion mark in credits approved since its creation. This is a clear evidence of the significance of the role it has performed in the region.

With regard to the Annual Report, we have read with great satisfaction that Fiscal Year 1976 has again brought a significant increase in the amount of credits approved by the Bank and that it has been so successful in firmly establishing its presence in the capital markets by raising more than $550 million under highly favorable conditions.

With reference to Argentina, I wish to expressly state the recognition of our country towards the President of the Bank, its authorities and staff, for the great understanding and support which it has shown towards the program of recovery and expansion of the Argentine economy.

A great effort is undoubtedly required by the process of economic and social growth of our countries. Above all, it is the internal will of each nation which must exist in order to obtain this result and external support by way of financing, although important, is complementary. That is, we must all realize that external financing will not help us if the economies of our countries are not in a sound condition which enables them to take full advantage of this support.

In the modern world, we must all implement a great effort to diversify our economies, as a basis for the modernization and expansion of the productive power of the country. The increase of production, on a basis of efficiency, will open the possibility of access to international markets and diminish the dependence of the external sector on foreign currency originated in a small number of exports subject to cyclic fluctuations.

This process undoubtedly needs to rely on the international understanding of the industrialized countries in order that those less advanced nations may gradually integrate into the world economy and allow for broadened exchange of goods, products and technology.

At the same time, international financial support must take into account the necessity for a balanced development between the public and the private sectors in our economies. The insufficient provision for support for the private sector in external financing has caused in the case of many of our countries a retarded growth, in addition to the corresponding imbalance.

I am pleased to emphasize the Bank's policy in this respect, which has given due emphasis, especially in the latter years, to the achievement of this coordination.

With reference to the operational policies of the Bank, we have noted with satisfaction the revision effected by the Board of Executive Directors and we hope that in the course of the current year definite solutions can be adopted in this aspect. We consider it would be highly desirable that a sufficiently flexible formula should be found to allow that the Bank, in the public tenders which are effected, can finance the indirect costs in foreign currency relative to the goods and services purchased locally.

We also consider that a sufficiently flexible and, above all, agile mechanism for the functioning of the co-financing system should also be approved, in order not to delay with procedural obstacles and rigid rules the election of the suppliers' financing.

The approval of a system of regional preferential margins with a provisional and experimental character, although favorable in principle, must be cautiously observed once it is in action. As to the subject of exchange risks, we consider that the adoption of a system which implies certain previously approved rules for the distribution of foreign currencies would be convenient in order to avoid situations that may be deemed as discriminatory. We would also urge the Bank to modify the policy in force up to now of only guaranteeing U.S. dollars in the case of letters of credit opened without taking into account the origin of the purchases.

We have noted with satisfaction the termination, by decision of the Board of Directors, of the so-called "four currencies" program, as also its rapid implementation.

Another favorable intention of the Bank is that of financing, by means of additional credits, the escalation of costs which may seriously affect the completion of projects that have benefited with the Bank's financing.

As to the subject of export financing, which is so important for the general development of the Latin American nations to which I have referred, we would highly appreciate any measure which the Bank might adopt in order to broaden its present program, without necessarily affecting the ordinary capital of the Bank, with the purpose of permitting the access of Latin American manufactured products to world markets in conditions of financial equality.

We have listened with great interest to the suggestion of the Bank's President about the creation of a special guarantee fund to help mobilize the primary resources and the process of industrialization of Latin America.

We consider that this idea is a step in the right direction in the interest of all the members of the Bank and it would be highly desirable that the Bank's Board of Directors should effect the necessary studies to be able to draft a project for this purpose.

As to the Institute for Latin American Integration (INTAL), the Government of Argentina states its satisfaction for having been able to cooperate with the Bank and its member countries in maintaining this institution to promote the economic cooperation between Latin American countries.

We consider that in this new period, the Institute should preserve its close links with the Bank. In addition, we believe that the financing of the Institution's activities should be adequate in order to be able to maintain its present level of operations, as any reduction would imply a decline in its capacity of action. In this respect, we consider it fundamental to maintain a cooperative effort of all the member countries of the Bank which made the operation of this institution possible by means of their contribution. In these conditions, Argentina is willing to continue to provide all its support for INTAL's activities.

The Change in Argentina's Economy Over the Last Year

The last Annual Meeting of the Board of Governors of the Bank held in Cancún, honored us by listening to our address in which we explained the main points of the program for recovery, redressment and expansion of the Argentine economy adopted by the authorities that took over the responsibility of government on March 24, 1976.

A year has gone by since then, and I would greatly appreciate the opportunity of pointing out the main changes that have taken place in Argentina's economy over that period, in the light of a brief summary of the main measures which have been implemented and the results obtained.

Characteristics and objectives of the Argentine economic programme

As an introduction I will briefly recall the basic characteristics of the new Argentine economic program that was announced on April 2, 1976.

1. It is adapted to the realities of the modern world and discards outmoded approaches which have repeatedly failed in the course of the latter years.

2. It drastically drops the worship and practice of what we have named "economy-fiction." Demagogic disguise of facts is left to one side and is replaced by adjustment to economic reality as the master guideline. We believe that the true and honest exposure of the economic problems, although it may hurt at first, will in the end bear fruit.

3. Its pragmatism, that is the absence of ties to all dogmas, makes flexibility possible in order to adapt the diverse situations that occur and the different solutions required by the economic reality of the moment.

4. Its active gradualism, that is, a decision not to adopt a shock policy, because the latter would not have been possible due to the serious state in which the Argentine economy was and the conviction that the desired results could be obtained in that way with a relatively lower social cost. Excessive gradualism must also be avoided.

5. What we have called an economy of production must replace an economy characterized by speculation and scarcity due to the absence of sufficient incentive to the productive process.

6. The State's role in the modern economy is redefined, with the reduction of State intervention and the basic consideration that private enterprise is the real driving force of the economy. Nevertheless, the State maintains the power of establishing the general guidelines and the policy making in the main economic and financial fields.

7. The recognition of the necessity of obtaining a harmonious and balanced growth between the different economic and social sectors.

8. The requirement that the program, which is global and coherent, should be applied simultaneously in all its parts, as they are inseparably linked one to another.

At the same time, the three basic objectives of the program can be stated as following:

1. To achieve a sound monetary and financial basis for the modernization and expansion of the productive system of the country, in all its sectors, thus guaranteeing a non-inflationary growth of the economy.

2. To speed up the rate of economic growth.

3. To achieve a reasonable distribution of created wealth, maintaining the income level of the population in relation to the aggregate production of the economy.

The Argentine economy in March 1976

When we took over the responsibility of the Ministry of Economy towards the end of March 1976, there existed three main and urgent problems.

In the first place, inflation had got completely out of hand, the monthly rate which we had reached would have led us into hyper-inflation itself and anyway rose above a 900 per cent annual rate.

Secondly, a profound recession was affecting the economy since 1975 and the result was an accelerated process of decapitalization, as shown by the decline in the gross investment rate, which in the last quarter of that year descended by 21 per cent. As to the Gross Domestic Product, it also decreased in that same period by 6.3 per cent and the consumption rate declined by 3.3 per cent. All three indicators were showing a headlong downhill course with a very rapid deterioration.

At the same time, the country's basic production in all its sectors, from agriculture to industry, was stifled by the artificial economic system imposed, be it exchange control, price control or simply the disappearance of all incentives for production. This, together with the high rate of inflation, caused the speculative fever that had taken hold of the country.

Thirdly, default in external payments was virtually a fact if the creditors would not have been willing to roll over the obligations, as all possibility of international financial assistance had become impossible due to the high negative figures of the balance of trade and of payments.

Main results obtained during the first year of implementation of the new economic program

Allow me to briefly summarize the main results achieved (comparison of figures is in real terms):

1. *The drastic reversal of the inflationary process.* Measured by the wholesale price index, it has descended from a level of over 900 per cent per annum to 117 per cent. We are, of course, aware that this rate is still high, but we will continue to progress in our fight against inflation and the different measures to be implemented during 1977 should assure the continuation of the downward trend.

2. *The reduction of the deficit of the national budget* was one of our basic objectives, because it had become the main—although not the sole—cause of inflation in Argentina over the last years. In the first quarter of 1976 at the end of which the new government took over, the budget deficit amounted to 13.5 per cent of gross domestic product. Over the year 1976 we were gradually able to obtain its decrease to 6.3 per cent in the last quarter of that year. For the 1977 budget we established as a target a maximum of 3 per cent of GDP for the deficit and this was achieved in the preparation of the budget and approved by law. In other words, while in 1975 the budget deficit amounted to 77 per cent of total expenditure, for 1977 this figure has decreased to 27 per cent. At the same time, in the first four months of 1977, compared to the same period of the previous year, the deficit of the National Treasury has been reduced by 57 per cent.

3. As to the cause of the enormous deficit of the budget, on the one hand we can point out the excessive growth of the State apparatus and its activities and enterprises and on the other hand the virtual destruction of the tax system as a means of collecting revenue. In the first quarter of 1976 the current revenue of the National Treasury was not sufficient to cover 20 per cent of total expenditure. Due to the various *reforms and adjustments of the tax system and the action taken against tax evasion,* during 1976 we were able to obtain a gradual improvement in the situation and by the last quarter of the year that proportion had increased to 50 per cent and for the 1977 budget it reaches 73 per cent. This level, of course, is not completely adequate, but it does represent the result of very serious efforts effected during 1976 to restructure the whole tax system. The tax revenue included in the 1977 budget represents a 57 per cent increase over the 1976 level and a 117 per cent compared to that of 1975. As to results already obtained in 1977, in the first four months tax revenue has increased by 74 per cent compared to the same period in 1976.

4. *The reduction of fiscal expenditure* is a long and difficult process, which cannot be achieved in one budget but will require various years of

gradual readjustments in the budget. The somewhat rigid organization of the State apparatus and the inefficiency of the State enterprises which demand large subsidies from the National Treasury and represent an important proportion of the budget's deficit, were the object of much legal and administrative groundwork during 1976 to prepare the necessary measures to redress this situation. The 1977 budget contains various action programs which will be implemented in the course of the present year. I will mention just a few examples with reference to this point:

a) As to the Central Administration's expenditure, in 1976 it represented 15.5 per cent of total expenditure and for 1977 this is reduced to 8.5 per cent.
b) On the other hand, between March and December 1976, total expenditure of the Treasury diminished by 34 per cent.
c) The reform and the readjustment of the provincial tax systems have allowed for an important increase in their tax revenue. Therefore, while in 1976 the subsidies of the National Treasury to the provinces to cover the deficit of their budgets represented 48 per cent of the deficit of the National Budget, for 1977 percentage has declined to 29 per cent.

    In the first four months of 1977, the National Treasury has reduced by 71 per cent its payments on this account to the Provinces, compared to the same period of 1976.
d) As to the subsidy of the National Treasury to the state enterprises, for the 1977 budget it diminishes by 30 per cent in relation to 1976. For the first four months of 1977, it has decreased 59 per cent compared to the same period of 1976. A typical example is the case of the Argentine Railways which required a subsidy equivalent to $2 million a day. For the 1977 budget it has been reduced to half and during the fiscal year the railway company's expenditure will have decreased by 52 per cent compared to 1976. We are implementing a strict program of reorganization, rationalization and generally cutting down the track network to the main trunk lines which can be efficiently and economically operated. Thus we have already completed a reduction of 36 per cent in passenger train services, and by the end of the year we will have closed and eliminated 20 per cent of the railway tracks. This process will allow us to also diminish by the end of the year the number of railway employees and workers by 17 per cent. This reorganization plan for the railways should be completed in two years. In the energy or power sector, the state enterprises will have reduced their personnel by 20 per cent by the end of 1977. We have also proceeded to effect a legal and management reorganization of the State enterprises, especially in the power sector, transforming them into state-owned stock companies, with the purpose of giving them the operative effectiveness of a private enterprise as well as the consequent responsibilities regarding efficiency and fulfillment of their objectives.

At the same time we have gradually readjusted the rates of the public utility companies and the price of fuel, the low level of which was seriously affecting the operation and re-equipment of these enterprises, as also increasing the burden on the National Treasury due to the subsidies they required in order to continue their operation.

In addition, we are continuing with the policy of transfering to the private sector all those investments and activities that can be done more efficiently by it in order to spare scarce public funds.

e) We are also implementing a program for reverting to the private sector all those enterprises which are intervened or have become administrated by the State due to economic or financial problems in order to avoid their bankruptcy. In this aspect, the 1977 Budget Law establishes that within the term of 180 days the State must take all those measures necessary to achieve these objectives. In this context we can also point out the National Development Bank's policy of gradually selling the stock of private sector companies that it holds.

f) An additional aspect of the reduction of the State's expenditure is the sale of all those fiscal properties that are not being utilized for any specific purpose and their sale will represent an interesting source of funds. A census has been effected and although it is not quite finished, there are already nearly 10,000 fiscal properties in these conditions, which will be gradually sold.

5. *The Incomes Policy* planned and implemented during 1976 was also an important part in the fight against inflation. As to prices, we totally eliminated the price control system which had not only failed in its objectives, since during its existence the increase of prices reached an all-time record, but had also caused a widespread situation of scarcity, undersupply of important goods and black market operations. The decision adopted was to allow prices to again act as an incentive for the production of goods and assure that competition on the market should become an effective control to avoid unjustified price increase.

At the same time the wage policy was also modified and the procedure of establishing wages by the collective bargaining system was suspended because it had been widely misused and had become the cause of tremendously high increases in the wage level, which although periodically more frequent, had not been able to maintain the purchasing capacity of salaries due to the enormous inflation rates.

Thus between March 1975 and March 1976 while salaries increased by 370 per cent the cost of living augmented by 566 per cent thus the purchasing capacity of salaries has descended by 35 per cent which clearly demonstrated the fallacious and misleading features of the system. In any case, due to the decrease in investment and production already mentioned, the wage level was completely out of line with the aggregate production of the economy, and it was therefore essential that a tight wage policy be established. This objective was clearly stated and the alternative was massive unemployment. That is, the insistence on a high wage level would only benefit those that would not become unemployed in a declining economy.

Therefore the option was taken in favor of a relatively tight wage level as one of the means to assure that massive unemployment should not take place. Both the labor and the business sectors were called upon to cooperate with this policy. Thus, although the existing recession would have normally justified an important number of lay-offs due to the reduction in the level of economic activity, industry was required to maintain the existing level of employment without causing massive dismissals.

This commitment was accepted by industry and we were thus able to get through the worst period of recession without any serious degree of unemployment. Today, if anything, there is a shortage of manpower in many sectors.

6. *The reform of the exchange system* was absolutely necessary in order to stimulate production, thus complementing the other measures already commented upon such as the elimination of the rigid price control system. We clearly stated that our objective was to achieve a free rate of exchange and the elimination of exchange controls in order to obtain a free exchange market.

To this effect we established a process that tended to gradually eliminate all official rates of exchange, readjusting the rates that overvalued the Argentine peso until real parity was reached. By November 1976, without having to resort to any massive devaluation with the consequent shock effects on the economy, we were able to achieve a unified free rate of exchange subject only to the regulation of the Central Bank through the purchase of foreign currency on the free market.

This intervention of the Central Bank allows us to maintain a real parity for the exchange rate according to the evolution of the internal inflation rate, discounting the external inflation rate.

At the same time we gradually eliminated the existing exchange controls and have at present achieved a practically total freedom of the exchange market, including the possibility of freely remitting profits, dividends and royalties.

7. The effects of this exchange reform were to immediately stimulate exports of all types, both in the agricultural and the industrial sector. The response from the former was immediate and highly favorable mainly evidenced through an increased area sown to our main grain crops. As a result, the 1976–77 crop has achieved a record volume of production representing a 42 per cent increase over the annual average of the last ten years. Thus record or near record crops were obtained for all the main grains produced in our country, such as wheat, maize or corn, sorghum, soybeans, sunflower seed and cotton.

It is interesting to note that these results were achieved in the context of the elimination of the state monopoly of grain exports and a return to the system of private enterprise marketing of grains, with the State through the National Grain Board guaranteeing a support price for the farmer. At the same time, the shortage of storage capacity both on the farms and in the ports, for handling such extraordinary big crops, obliged both the private grain trade sector and the authorities to act with a coordinated and efficient mechanism to obtain the necessary agility for the flow of grain from the farm to the ports and avoid the congestioning of the storage facilities and the ports.

Thus, in the first four months of 1977 we have achieved a record tonnage of shipments through Argentine ports of over 6 million metric tons, which represents over double the annual average of the last ten years.

8. *The increase of the rate of economic activity*, which marked the gradual commencement of the end of the recession, began to take place as from the end of the second quarter of 1976 and from then on the trend of increased investment and production can be clearly observed by means of the corresponding economic indicators. As to the consumer market, although the trend in this case is somewhat slower, this is in line with the program as we do not wish to push it until investment and production have truly recovered in order to avoid the danger of causing new inflationary pressures.

Thus, in the first quarter of 1977 the rate of fixed gross investment increased over 20 per cent compared to the same period of 1976, which in turn had shown a negative figure of 16.5 per cent. As to the growth of GDP, by the first quarter of 1977 we have reached a positive growth rate of 1.2 per cent in relation to same quarter of the former year, after over a year and a half of negative growth rates.

At the same time, total production of energy increased by 13.7 per cent from March 1976 to March 1977, while the same period of the previous year had shown a decline of 3.7 per cent.

9. *Industrial activity has also gradually recovered*, although with important differences between the various sectors and branches, some of which, mainly those referring to consumer goods, are still suffering from the effects of the recession. It is important to note however that the production of capital and intermediate goods shows a strong rate of increase. Thus, for the first quarter of 1977 gross fixed investment in machinery and equipment has augmented by about 22 per cent over the level of the same period in 1976.

10. *The industrial re-equipment* of the country has also commenced, and we have established fiscal incentives to stimulate investment in it. Many important industrial projects have been approved and promoted in key sectors of the economy. Thus in 1976, under the industrial promotion scheme, an amount of investment of more than $1.4 billion has been authorized, which is almost equal to that of the previous 17 years during which the system of industrial promotion has been in effect, that is from 1958 to 1975. For 1977 we expect to exceed this level of investment and we have already submitted to the Executive Power the new industrial promotion law which we consider will represent an important contribution for a more agile system and the elimination of much bureaucratic red-tape that exists at present for the approval of these projects.

I would like to point out that in those industrial projects in which it has been necessary to apply for support of the international credit institutions, the Inter-American Development Bank has played an important role in this respect. Therefore we wish to especially state our appreciation of this fact to the President of the Bank and its authorities and staff.

11. The implementation of *the new petroleum production plan*, already

commenced, requires the cooperation of the private sector and an important effort to achieve in the shortest possible time national self-sufficiency in oil, the present level of which is 85 per cent. *YPF*, the state oil company itself, has increased its daily production of petroleum simply by means of a more efficient action and we have already awarded some of the tenders for drilling and production, as also for secondary recovery. In the next few months we will call for tenders in which international companies may participate for the exploration of important areas on shore and off-shore under the risk contract system.

I would like to point out that in the tenders which have already been called, different Argentine financial groups have associated their efforts with the existing Argentine oil companies. Thus the latter, although small in number, have been able to widen their field of action and 32 different groups of Argentine private companies presented bids in the above mentioned tenders.

12. *The Mining Promotion Law* has also been submitted for the approval of the Executive Power. We expect to obtain the cooperation of international capital and technology to achieve the objective that big mining operations should become important in Argentina. In this respect we can show some promising projects related to copper mining.

13. *The promotion of fishing activities* has also been implemented. We have already called for international bids for the exploration and exploitation of these resources in this area, which will shortly be awarded. Argentina counts with one of the biggest and least exploited continental platforms in the world. We consider that the increase of activities in this field will open up important possibilities for the future of fishing production.

14. *As to monetary policy*, which has such an important role to play in the fight against inflation, in order to avoid that monetary expansion should become an autonomous factor in the inflationary process, we have tended to achieve a balance between the monetary supply and demand, in order that the former should not be larger than the latter. The Central Bank has controlled the monetary expansion factors in order to regulate the money supply. Thus the growth rate of monetary circulation has diminished as from the second half of last year.

In April 1977, compared to the same month of 1976, the reduction of the annual rate of expansion is equivalent to approximately 60 points.

This rate, apart from being lower than that corresponding to last year, must be looked at in the context of a declining trend instead of a rising one.

As to monetary demand, we have stimulated the holding of monetary assets by private investors and corporations, by increasing the yields. For the first time, after many years, we have applied a policy of positive interest rates in real terms. The negative interest rates previously in effect, being lower than the inflation rate, meant that savings were not stimulated because part of the capital was completely eroded by inflation, thus awarding a subsidy to the beneficiary of the credit at the expense of the investor. This new policy has also brought into effect a redistribution of available credit resources and eliminated many existing speculative operations. Thus we have channeled to productive investments financial sources which have been previously directed towards speculative operations. This policy has also assured that national savings should find profitable investment opportunities within the country and thus avoid their deviation towards the foreign currency market. This, coupled with the exchange reforms already mentioned, has completely limited the importance of the parallel market of foreign currency.

15. *Credit policy.* We have totally reorganized our financial system by means of the approval of the law decentralizing the banking deposits and the new law regulating all financial institutions. The latter, one of the most important measures taken over the last year, will revitalize the whole system and permit that the financial requirements for the evolution of our economy can be better supplied.

16. As mentioned before, in March 1976 the country was in a situation of *virtual default in its foreign obligations.* In this respect, once the new economic program had begun to be implemented, we presented it to the International Monetary Fund requiring a $300 million credit from this institution. This was approved and together with the financial support of a group of private banks from the United States, Canada, Western Europe and Japan for an amount of about $1 billion, it permitted us to meet heavily concentrated short-term foreign debt obligations, transforming them into medium-term debt by means of the 4 years credit of the private group of banks. In this way we have obtained a re-structuring of our foreign debt, improving its profile.

This, together with an important increase of our reserves to which I will refer to, and with the reversal of the trend of the balance of trade and the balance of payments into highly positive results, assures that Argentina will have no future problems for the fulfillment of its international financial commitments.

17. As the best summary of the results achieved over the last year, we can point out the *drastic reversal of the negative figures of the balance of trade and balance of payments* which existed when we took over the government. Thus in 1975 the balance of trade presented a negative figure of almost $1 billion and this trend continued in the first quarter of 1976. During the last year we were able to reverse the trend and obtain a positive balance of nearly $900 million. As to the balance of payments, in its current transactions, a negative figure of nearly $1.3 billion for 1975 was transformed at the end of 1976 to a positive figure of more than $600 million. The variation of international reserves in the balance of payments also passed from a negative figure of nearly $800 million in 1975, to a positive $1.2 billion in 1976. Thus, in all these cases there has been a swing of nearly $2 billion in a positive trend.

For 1977 the situation looks even more promising due to the important grain exports to which I have referred to previously. In the first quarter of 1977 the trend of the previous year has not only been confirmed, it has increased. Thus the trade results show an estimated positive balance of $310 million, and exports reached the amount of $1,250 million. As to the result of the balance of payments measured through the variation of international reserves; it was positive by $290 million.

18. *A new foreign investment law,* together with the corresponding regulations, has also been approved. They have created an adequate and fair legal framework for external investments in our country that may wish to cooperate in Argentina's economic development, taking due account of our national interest. We are well aware, of course, that legal rules are not enough to attract foreign investments. Nevertheless, we consider that they will be a help and not an obstacle when the decision has to be taken based on confidence in the evolution of the Argentine economy.

19. At the same time a *new law for the transfer of technology* is about to be approved, under the inspiration of the general guidelines of the new economic program.

20. At this point I must also mention that almost all the disputes between the Argentine State and private companies—mostly foreign—which existed before March 1976 have now been settled.

21. Finally I wish to refer to the action of the *international banks.* Over the last year both the Inter-American Development Bank and the World Bank have approved a record level of credits for Argentina. This, together with the active participation of the private banks, is a clear indication of the renewed confidence of the international financial world in Argentina's economic recovery.

Conclusion

On April 2, 1976, when we announced the new economic program we stated that only a stable government that was able to supply complete political support, could assure the success of the economic program. At the same time we have insisted on the necessity of continuity in the implementation of the economic program because without that it is impossible to obtain faith and confidence in the stability of the rules of the game for the actors in this process, which are the economic forces of labor and business, which without this assurance are completely limited in their action.

I wish to clearly state at this point that we have had the full political support of the Armed Forces of the Nation which have taken over the responsibility of government on March 24, 1976. We consider that there exists a growing conviction among all sectors of Argentine society that one of the main causes of our previous frustrations has been political instability and lack of continuity. This has now totally changed and in this sense we can look towards the future with full confidence.

In this respect, the approval of the budget for 1977 was in itself a ratification of the economic program which, in addition, was expressly confirmed for its future operation a little over a month ago by a very precise statement by the Military Junta.

In the implementation of the 1977 Budget we will follow two main courses of action. In the first place, we will tenaciously continue our fight against inflation. Secondly, we will stimulate the gradual improvement of economic activity, especially by means of public and private investment.

We are well aware that we cannot expect definitive and lasting results in the term of just one year. A medium term is necessary and this will assure that we will achieve a firm basis for the difficult process of redressing a tremendously distorted economy by means of a gradual readjustment of the economic factors and process.

It is true that we have not chosen the easiest way. We know that the road to success is long and tough. But in this task of promoting the reorganization and balanced growth of our economy it is absolutely necessary that it should be known that this is not only a responsibility of government, but that every Argentine is ready to bear his responsibility to fulfill his role in this process, because it is they that are the real actors in this tremendous collective effort.

We have been at the edge of political, economic and social chaos. But with the joint efforts of all, with broad social solidarity, with hard work, with firmness, with discipline, with patience, with generosity, with perseverance and, above all, with continuity in our action, we are absolutely sure that we shall achieve our objectives in order that Argentina shall again become the country it should always have been.

In this way, we may also offer our contribution for the attainment of the common goals of the nations of this continent, with which we feel united and willing to contribute towards the solution of the main problems of the hemisphere.

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

This Meeting of Governors of the Inter-American Development Bank is taking place within Central America, in the same region where our institution was born 17 years ago. Circumstances known to all of us prevented this Eighteenth Annual Meeting from being held in the same city where the birth certificate of the IDB was signed. However, in witness to the intent expressed last year, we have gathered close to our institution's place of birth, here in the friendly land of Guatemala, which today offers us its hospitality in a gesture of Central American solidarity.

The year that has just finished in the history of the IDB marked the full incorporation of nonregional members. This is a matter of undoubted significance that should be emphasized on this appropriate occasion by extending to our new associates our most cordial welcome and expressing to them our certainty that their active participation in the work of the IDB represents for the member states of the region a timely affirmation of world solidarity that is so sorely needed at the present time.

The incorporation of these nonregional members has consolidated a tradition of cooperation that had been building up with these nations. It has also served, after many years, to mobilize new resources that will make it possible to continue regular operations with all the dynamism required. More than this, however, the incorporation of nonregional countries signifies consolidating the multilateral aspects of the institution through the introduction of new ideas and new interlocutors with whom we may share our problems and our search for solutions with regard to the development of Latin America.

In order for this dialogue to be truly fruitful the immediate objectives of the institution must be reconsidered and the principles inspiring its creation reaffirmed by evaluating both the goals set by our peoples and the singular nature of a regional development bank. Mr. Felipe Herrera, the first President of this Bank, said that the project to create a regional finance organization was based on Latin America's desire for an institution closer to the needs, aspirations and attitudes of the region. He added that the identification of the IDB with the problems of Latin American development and with the efforts made to overcome them was a response to that desire, and that most recently such identification had been reinforced through the emergence of growing Latin American nationalism, which is leading to a reinterpretation of the economic problems of the region.

This relationship between Latin American identity and the Bank's operations should be studied in greater depth, and the most important characteristics of the region's own efforts should be given special attention. Among these should be stressed the historic aspirations of our peoples for economic self-determination, not viewed as a rash desire for autarchy but rather as a struggle for true international economic interdependence based on relations free of domination and unjust exploitation.

True self-determination is possible only if we consider a second characteristic of the project for development that has been proposed for the region: integration. The impetus that the Andean Pact has taken on since the regrettable withdrawal of one of its members is a sign of the new vitality integration projects must acquire. The desire expressed with regard to revitalization of the Latin American Free Trade Association likewise indicates the hope of countries whose principal link with integration is LAFTA that efforts toward greater economic unity in the region will be redoubled. The establishment of the Latin American Economic System, which is already under way and whose Action Committees have made it possible to identify areas most suitable for specific programs, signifies a forward step and an advance in the direction of flexibility in the task that has so often been considered indispensable in the integration of Latin America.

A third element in the plans for development of the region is joint exploitation of natural resources. The establishment of Latin American multinational corporations for this purpose is the only means by which such resources may be exploited efficiently, without reviving former patterns of domination, so that they may contribute to greater development of the world economy. Such efforts should consequently receive the Bank's firmest support.

Reaffirmation of the Bank's general principles requires fulfillment by member countries of the commitments they undertake. In this context the words of the President of the United States were encouraging when, in addressing the Organization of American States, he stated that he had asked the Congress to carry out the commitments that country had undertaken with the Inter-American Development Bank and other multinational loan institutions.

I would like to express here my country's gratitude for the efforts made by the Government of the United States in fulfilling the commitments it had undertaken with Latin America with regard to new contributions to the ordinary capital resources and to the Fund for Special Operations. At the same time, however, I cannot but regret that these efforts have not met with complete success, since only part of the resources requested have been authorized by the United States Congress. An elementary sense of respect for the decisions of each country in its own internal affairs prevents me from commenting on this lack of solidarity among the branches of government of a country with regard to its external commitments. Nevertheless, the record should be made clear inasmuch as it affects the continuity of activities of organizations such as the Bank, whose operations must be planned on a long-term basis both with regard to authorization of loans and to the availability of funds for their financing.

In speaking of commitments I cannot fail but mention the developing countries that which for will remain a permanent claim, as long as it is not substantially and formally undertaken by the industrial countries. We must also fulfill our oft-mentioned moral commitments to support a more just international order, to collaborate in the development of the less developed countries, and to spare no efforts or imagination in designing formulas and projects for the future economic benefit of the region. Less than a month ago in this same city the United States Ambassador to the United Nations, Mr. Andrew Young, in addressing the Economic Commission for Latin America, urged the Latin American countries to present their own initiatives to serve as a basis for fruitful dialogue. It is up to us to reply to that challenge. We cannot merely enumerate our deficiencies, underline past and present injustices, and raise our voices in protest, which at times only amounts to a simple transfer of our own responsibilities. Rather, we must suggest realistic solutions that will make it possible for institutions such as the IDB to be effectively influential in overcoming underdevelopment.

Proposing new initiatives and fulfilling the responsibilities created by our clearly-defined objectives are not only incumbent upon member countries. The Bank's administration and its officials must, through the exercise of their technical capacity and imagination, make proposals that will make it possible for countries to make decisions. In this context, Mr. Raúl Prebisch said, on the occasion of the Bank's tenth anniversary, that he was fully convinced that it was the fundamental duty of officials with responsibilities in the regional or international institutions in Latin America to continually present all initiatives they felt were appropriate for consideration by Governments without any further restriction than their own sense of timeliness and responsibility. This, in his opinion, was absolutely essential, and he emphasized this fact because the Bank had at times been criticized for having assumed attitudes of this nature. He added that those who did not suggest new ideas did not for that reason fail to take a position. On the contrary, because of their passivity or indifference they contributed to perpetuating the existing order that was increasing the gap between affluence and deprivation.

We believe that in recent years new fields of action and new means of operation have been defined—even with regard to financing—that may be considered as initiatives worthy of continued efforts and specific action.

Approval of the amendment to the Agreement Establishing the Bank, by which the Bank is authorized to provide resources to the Caribbean Development Bank for the purpose of making loans to its member territories, is an advance in this direction. In his address to the Board of Governors of that Bank, Mr. Antonio Ortiz Mena noted that this marked a new beginning of joint efforts in promoting the economic and social welfare of the peoples of the Caribbean.

The countries of Latin America can and must find new fields for action in projects that will make it possible to develop and recover the region's natural resources while at the same time increasing its capacity for production and export. The Trust Fund established by Venezuela was designed to provide financing for projects of this type. It is a cause of concern that no development projects of this nature have been formalized to date, and it would be regrettable if these funds were to be eventually frozen for lack of initiative or imagination.

Nevertheless, we may note with satisfaction two positive facts that demonstrate vitality, imagination and the will to progress in the development of Latin America. One of these is the creation of the corporation that will develop the pulp and paper project in Honduras, a project that has already been totally worked out and in which participation by the Inter-American Development Bank was of great importance. This project will be partly financed by the Venezuelan Trust Fund, and will be participated in by the public and private sectors of several Latin American countries without, however, endangering full control by the Government of Honduras over this enterprise that is so essential for the economic future of the country.

Another positive initiative is the fund for the subscription of shares which has just been created and to which Venezuela has made a contribution of approximately $20 million through the Trust Fund. This is one of the most promising new areas for future operations of the Bank. We are convinced that the cooperation of other countries in these kinds of operations—particularly that of nonregional countries—will more actively promote Latin American multinational corporations.

The task of creating an economically different Latin America can no longer be postponed at a time when we are nearing more just international economic relations and when even the industrialized nations are questioning their own traditional privileges.

At the present time the future of the so-called new international economic order is being decided in Paris. A choice is being made between interdependence and confrontation. I prefer not to refer to the possibility of confrontation. With regard to the possibility of interdependence, however, we must bear in mind that Latin America's role in the world economy, which has declined in recent decades, must be enhanced if we are not to be condemned to backwardness and poverty. To avoid this we require an economy constituted by large production units, an economy that will extend beyond the substitution of imports on the local level and at the level of consumer goods. We require renewed vigor and a new dynamic impetus in order to improve the social conditions of our peoples and at the same time contribute our natural resources and our industrial capacity to the world economy.

ADDRESSES

THIRD PLENARY SESSION

May 31, 1977

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

I should like to convey the special greetings of the Government and people of Bolivia to the Government and people of Guatemala and to express my appreciation for the warm and generous hospitality they have extended to us.

It is always a pleasant, and at the same time, a constructive experience when we gather in our annual meetings to review the achievements of the past year and to discuss the main aspects of the policy and operations of the Inter-American Development Bank. These meetings are coming to occupy a more and more important place on our schedule of activities, as opportunities for important personal contacts both with those responsible for Latin America's economic management and with the international financial community.

This meeting of the IDB in Guatemala is undoubtedly marked by noteworthy historic features. First of all, I must express my admiration for the way in which Guatemala and its people have overcome the earthquake disaster that struck them just over a year ago. A further cause for satisfaction is the solidarity with which the other peoples and nations of the continent reacted. It is therefore most appropriate that it be Guatemala where we can pay tribute for a proof of solidarity from outside the region, in welcoming to the Bank a number of industrialized capital-supplying countries. The presence of these countries, the outcome of energetic negotiations on the part of the Bank's management, signifies a positive contribution to fraternal understanding of the problems of Latin America's development and the search for suitable solutions to them.

It is with these resolute steps forward, that Latin America prepares with maturity to play an important role in world affairs. It is this conviction that underlies our impatience in striving to obtain the appropriate financial resources which, in conjunction with our material and physical wealth, will enable us very soon to begin to make our contribution to the solution of the problems of humanity. We humbly accept this responsibility.

We note the Bank's Annual Report with satisfaction. Particular emphasis should be placed on the performance in 1976 of the President of the Bank, the Executive Directors and the entire Management. We note that, once again, the Bank approved a record level of annual lending last year, with 1976 approvals totaling $1.53 billion, 11 per cent above the previous highest annual figure. Disbursements were also higher in 1976 than in 1975.

Nevertheless, we are concerned to learn that if disbursements net of amortization payments are compared, in 1976 the Latin American countries received a net inflow of $498 million, down from the $513 million received in $975. If to this lower net flow of resources we add loan interest and commission ($223 million in 1976, against $196 million in 1975), the reversal of the progressive trend of financing is a matter for concern. We trust that this situation, perhaps fortuitous in 1976, will change in 1977. A decisive factor in this may well be the problem of loan processing, a subject to which many Governors have referred on numerous occasions. This problem will have to receive greater attention, bearing in mind also that the prices of our imports are constantly rising, with the result that our export efforts are sometimes neutralized and often making an amount of a loan which is disbursed late and show inadequate.

I believe that the excellent report and recommendations presented by the Committee of the Board of Governors on operational policies constitutes a great step forward. However, I reiterate that we shall make little progress unless we succeed in further streamlining and accelerating the Bank's operating procedures.

Looking at the general picture, while three countries together shared 47 per cent of total authorized lending we note with satisfaction that a greater proportion of the loans approved in 1976 went to the less developed countries than in 1975.

We make these points because we consider that the Bank will have to continue to give increasing attention to the countries of relative less development and those of limited market, in line with the IDB President's own statements. The need for this special attention is even more vital in the light of the emphasis the World Bank is placing on classification of the countries into three categories: the poorest countries, the developing or medium-income countries and the developed countries. The definition of medium-income countries as those with per capita incomes of $950 in 1975 is misleading, considering that a number of our countries still hover close to the first category.

To have a strong Bank we need periodic injections into its capital structure. We are gratified by the information imparted on this point because if we, the member countries of the Bank, do not comply with our commitment to increase its resources, we cannot expect the Bank to comply with our own demand: that it give us greater and better service.

I should like to take this opportunity to express my country's deep appreciation both to the Inter-American Development Bank and to the Governors of the 13 member countries that lent their interest and support within the Consultative Group for Bolivia recently set up by the World Bank, which has held its first meeting in Paris. We submitted to the Consultative Group and to a group of almost 100 institutions of the international private banking sector a list of the 80 principal economic and social development projects that are a priority component of Bolivia's Development Plan for the next three years. These projects will require total financing of $3,500 million, of which approximately $2,700 million will come from external resources. As a result of the opportunity that the World Bank Consultative Group afforded Bolivia to present an objective report on its achievements in recent years in the economic, social and political fields, together with the frankness with which we presented the problem of our development, our proposals were warmly received and the majority of our projects obtained the required financing in principle.

I can state positively, Mr. Chairman, that this experience of support has strengthened our resolve to continue to advance in the cause of improving the living conditions of our people. We shall zealously guard the confidence demonstrated in us and shall comply with all the commitments we are entering into.

Noteworthy is the priority attention given at this meeting to the technique of co-financing, which has received such encouragement within our Bank.

We are confident that we shall continue to enjoy the support of the Governors of the Consultative Group countries and the executives of the international financial community, so that from the high offices they occupy in their respective countries and institutions they may make it possible for us to accomplish our objectives.

The Consultative Group in Paris is the culmination of a long process of reordering of our economy, a process which has been significantly fostered by the political stability that Bolivia enjoys today, the abundance of our natural resources and a favorable external economic situation.

We expect that 1977 will be the fifth consecutive year in which our domestic product has grown at a rate of nearly 7 per cent. A prudent policy of fiscal equilibrium, combined with a wage increase policy that discriminates in favor of productivity gains and guarantees optimization of the purchasing power of income, has enabled Bolivia to hold inflation below 15 per cent a year. We expect exports to reach a new record in 1977 of $640 million, 13 per cent above the 1976 figure. The result will be a trade balance in equilibrium, a net capital inflow and a balance of payments surplus of approximately $40 million, equivalent to almost four months' exports. Consequently, our currency, whose parity has changed only once in the last 20 years, remains sound and freely convertible without restriction.

It will be seen that our financial strategy consists in securing both domestic and external financial equilibrium as the base for the accomplishment of our economic objectives and thereby the solution of our great social problems.

I should not, however, like to leave the impression that our development process is free of problems. We need to improve even further the efficiency of the public enterprises which play a leading role in our economy. We want to step up our own domestic efforts, to which end we are engaged in a comprehensive study of our fiscal situation with the assistance of a mission led by Professor Musgrave of Harvard University, and we must guard against trying to accomplish too much too quickly, overreaching our true capabilities.

One of the most important aspects of our socio-economic development process is perhaps not so much the solutions we have been able to find but rather the clear identification and awareness of our principal problems. Take, for example, the matter of external debt. The level of this debt is acceptable. We are holding our ratio at 20 per cent with a weighted average term of 20 years and a weighted average interest rate of 5 per cent. Nevertheless, we shall take care to maintain these indicators by ensuring that the resources are used for projects offering a suitable rate of return.

I am convinced, Mr. Chairman, that the progress we have been able to achieve in a poor Latin American country like Bolivia in the past few years has enabled us to break out of the vicious circle in which we were trapped and to embark on a new path. Given the continued support of the international financing agencies, such as the IDB, and of the financial community in general, we shall not only solve our pressing social problems but shall place ourselves in a position to contribute effectively in the future to the needs of humanity.

The road ahead is still long. But through this combined effort we shall all have contributed to the maturity of Latin America, to which we so earnestly aspire and which we are sure we shall achieve.

Address by Mr. Abdón Espinosa Valderrama, Governor for Colombia and Minister of Finance and Public Credit

In 1969, in this same magnificent setting of Guatemala City, I had the privilege of handing over the temporary powers of Chairman of the Board of Governors of the Inter-American Development Bank. At that time it was essentially a credit cooperative set within the framework of the economic and social system of the Hemisphere. At the same time it was a bank with new ideas, as Felipe Herrera liked to call it, an already prestigious bank in the world's financial markets because of the effectiveness of its work.

We could still feel in the air the fresh winds stirred up by President John F. Kennedy to provide new momentum to the fledgling bank. In the conference room, which was hardly as large, as crowded or as beautiful as this one, we, the spokesmen for the nations of the Hemisphere, sat down to discuss our common problems, social and regional imbalances, and the old dream of striving to ensure that human dignity would not be swallowed up in poverty, insalubrity and chronic unemployment. After ten years the institution had demonstrated its ability to promote economic and social development, not only through loans but also by mobilizing countries' energies, resources and savings. It had allocated some $3 billion to 500 projects with a value of $7.6 billion, of which 37 per cent had been contributed by the Bank and the remainder by the borrowing countries. Something akin to an association of nations—which it certainly has been—had emerged to assist and accompany the great masses of the people in their unflagging struggle to achieve more equitable, balanced and pleasant ways of life. Frustrations had existed, but successes had also been achieved. This is borne out by the fact that seven years later loans now amount to more than $10 billion, and total investment in corresponding projects has risen to $42 billion.

Today an essential change is apparent, the auspicious inclusion of nonregional, highly industrialized countries within the goals of the Inter-American Development Bank. I say auspicious because in the Agreement Establishing the Bank a way was left open to allow others to fill our ranks with their resources and experience, and also because their entry begins a new era in the history of regional organizations. Since active two-way trade is maintained with these countries it is only logical that they should participate dynamically in the efforts to overcome the constraints and obstacles of underdevelopment. Their presence at this forum may be interpreted as a decision to open a window onto the circumscribed mercantile cloisters of the Lomé Convention. Credit is definitely a decisive force in the progress of nations. However, the transfer of real resources, so often spoken of in international forums, implies the decisive ingredient in commercial trade, as proclaimed by the concept of general and nonreciprocal preferences for the products of developing countries. Latin America has never wished to become a kind of Atlantis without ties with the northern part of the continent or without relations with industrial centers abroad.

The world in general, and the market economies in particular, have been plagued by such unheard-of combinations of inflation and depression, recession and monetary disorganization that they have been forced to alter many of their customary patterns of behavior. It has suddenly realized that certain resources are not inexhaustible, not even the food needed to satisfy the demands of a spiraling population. It has, almost overnight, discovered that the asymmetry of international liquidity has become an ever-changing and mobile phenomenon that now also affects areas where the sun previously never set. It has seen that the secrets of technology continue to be the cardinal factor in well-being, development and power. It has seen the danger of doing away with employment opportunities when circumstances demand rather that more be created. It has opened its eyes to what is represented by the relation of trade prices that throughout the centuries has been erected as a symbol of contrast and, worse still, as a hostile wall blocking the impatient desires of the developing countries. It has understood how much the events taking place in a few nations can influence the others, especially when they occur in the industrialized nations, which, although they have found in unemployment a solution for avoiding overheating of their economies, have also been able to observe the consequences of this phenomenon throughout the entire world.

Many institutions, methods and strategies have had to be created in response to the collapse of certain techniques and a good number of convictions in both the most highly cultured countries and in those that have not been able to develop their own formulas in accordance with, and inspired by, their own realities. The general rule, applicable to all latitudes and situations, is being replaced by the most suitable approach for the problems, previous history and idiosyncrasies of each nation. The principle of the self-determination of peoples is politically expressed in ideological pluralism, although this does not fail to recognize the commitments of international community life nor does it undervalue democratic respect for human rights.

The Inter-American Development Bank could not and should not seek to isolate itself from the wave of change, nor modify its original character of an institution devoted to economic and social development. Neither a suicidal lethargy nor change at variance with its reason for being, are the sidelines of the profit motive. As the promoter of new ideas, its duty was to preach by example. And in fact it has not hesitated to do so, through support to regional and subregional integration movements, to environmental sanitation, the solving of energy problems and the careful examination of the results of education projects.

The onward movement of Latin America's integration and complementation is worthy of note. The intrazonal trade figures show how we have managed to line up markets for the region's production of manufactured goods and semimanufactures with a high labor content. The vicious circle has been broken, on this vital front, at least in highly representative sectors, in which demand and supply, being mutually dependent, were showing signs of suffering from irreversible debility.

An instance is the Andean Subregional Group which is continually seeking to structure and perfect itself, overcoming the difficulties which have arisen, both in the expansion of the market and in the shaping up of the bases of its production. Another is the Central American Common Market, with whose members Colombia, my country, has just concluded a compensation and reciprocal credit agreement and another to take care of liquidity deficiencies. A further point is that the subregional organizations should not prevent the promising Caribbean area, which most certainly deserves to be represented by an Executive Director, from reaching agreements with other zones, or from setting up binational or multinational enterprises with its neighbors, or from continuing, with a view to the goal of global integration, in the Latin American Free Trade Association.

Why do we speak of trade in the Annual Meeting of what is basically a credit cooperative? Why do we make express mention of the integration processes in Latin America? Because they are key elements for the development of our nations. And development is the purpose of the Inter-American Development Bank. When it provides resources for Latin American enterprises, what could be more heartening for us about a finance corporation of the nature proposed by President Antonio Ortiz Mena, than the fact that it contributes toward the strengthening, diversification or greater flexibility of our countries' export capability. Almost all have probably made appreciable progress, not withstanding the setbacks in certain items in 1975, due to the world recession, and others of earlier date caused by the tariff and other restrictions in the markets of the industrial nations. Nevertheless, in Colombia these advances are incontrovertible proof of what can be achieved by systematic action, especially when the import substitution process has reached its limits.

The Government of President Alfonso López Michelsen has sought to leave a strong social imprint on Colombia's development. In other words, to orient this process toward improvement of the quality of life for the poorest segment of the population, both urban and rural, giving priority to nutrition, housing, education and health for these people. Food production, subsistence agriculture and, in general, the low-income small farmers are all closely connected with nutrition. Hence the emphasis placed on the Integrated Rural Development Project which the Inter-American Development Bank has helped further, in coordination with the World Bank and the Canadian International Development Agency. Power, water, roads, social services such as health and education, and direct marketing for the farmers, are all combined to raise the living standards of the beneficiaries and at the same time, to increase their productivity. The project does not only cover subsistence farmers. Commercial-scale, scientific and modern farming is also being encouraged, with the emphasis on cooperatives, the needs of the country and the requirements of the world of today. It is an unfortunate fact that food is in short supply. So we must work hard to produce more, using modern technology and taking care the while to ensure that excessive mechanization does not eliminate precious job opportunities.

In a similar context, and without prejudice to consideration of wider markets, we are gratified to note the proposal of the President of the IDB to open new lines of credit in favor of small and medium manufacturing enterprises. This is nothing more nor less than the equipment of agro-industry, based on carefully intermeshing and complementary nuclei in the light of a new direction for industrialization. We cannot abandon the capital-intensive enterprises, such as mining in particular, but we ought to give preference, within a more rational division of labor, to those with a higher labor content. And with regard to technology, we should not blindly accept systems and processes which may well be the best in circumstances different from ours, without first adapting them to our requirements and constraints.

When one considers foodstuffs, or basic commodities, or perishables, the necessity arises of setting up buffer stocks to guard against shortages, a system that has long been employed, and, at the same time, proper storage facilities to ensure that there will be no more seesawing between dearth and glut. The Inter-American Development Bank has been active in this field through the furthering of silo construction, but it is nevertheless apposite to stress the importance of persevering along these lines so as to maintain a stable and satisfactory flow of income, on the one hand, and a sufficient supply available when needed on the other.

Presumably, preference will be given in the future to finding solutions to the energy problem, particularly where there is a high hydropower potential and gas and coal fields able to supplement oil or make up for the lack of it. In Colombia we are aware of the risk involved in putting off programs of this nature, because of our experience with extensive and devastating droughts which made it necessary to introduce disruptive rationing and thus led to slowdowns in economic growth. Programs of exceptional magnitude, the execution of which requires several years, will call for domestic and external resources, thanks to which it will be possible to quickly multiply available power, that is a prerequisite for progress along the road to development.

To be able to carry out projects and programs on such a scale, through partial or supplementary financing, the Inter-American Development Bank needs more capital. Nobody can deny this. Since if the Bank is not to be changed into just another commercial institution, or to remain at the mercy of the capital market and its ups and downs, it will need sufficient funds to proceed with its work, at rates of interest that are an incentive and not a burden. Not, of course, to serve the monopolies, who manipulate prices to suit their ends, or to be a submissive vehicle for the big multinational concerns, but to improve the quality of life for the masses of Latin America and, therefore, of the groups in greatest need.

May this meeting in Guatemala provide an opportunity to reflect on the course of the Inter-American Development Bank over these past 17 years, and also prove the starting point for new and more ambitious stages. To maintain its character, without commercial or political constraints, this credit cooperative needs the continuing support of the main partner in the inter-American organization, and it is a fact that the new President of the United States is seeking to ensure that the United States will respond to this need. However, besides the welcome cooperation of the nonregional members, with whom we have so many ties, this calls for the maintaining of a spirit of solidarity, without which the enthusiasm, the mystique and the sense of service which has been animating the Bank could be lost.

I must not close without publicly emphasizing my country's satisfaction with our joint representation with Peru on the Board of Executive Directors, conducted in the closest harmony and observance of the purposes of the Bank and, above all, giving consideration to the natural destiny of our peoples.

In conclusion, on behalf of Colombia I should like to offer you as the site for the meeting in 1980 our heroic and noble city of Cartagena de Indias, cradle of freedom and architectural gem of our America, which has recently added to its laurels the honor of giving its name to the charter of the Andean Subregional Group.

Address by Mr. José María López de Letona, Alternate Governor for Spain and Governor of the Banco de España

Unavoidable last minute obligations have made it impossible for the Minister of Finance, Mr. Carriles Galarraga, to fulfill his wish to head this delegation and share with his colleagues, the Governors of the IDB, in these days of intense and fruitful work, and to enjoy the cordial hospitality of the Government and people who have received us. As Alternate Governor I am therefore honored to address this Meeting in the hope that my words will first of all bring fraternal greetings from Spain to all the countries participating in this Eighteenth Annual Meeting of Governors of the IDB and especially to the people and Government of Guatemala.

I am most honored to be the first representative of a nonregional country to speak as a member of the Inter-American Development Bank at this Eighteenth Annual Meeting of the Board of Governors. May I begin by expressing our appreciation for the warm welcome given to us by the President of the Republic of Guatemala, the Chairman of the Board of Governors, our President of the IDB, and the Governors who spoke before me. I should also like to express my satisfaction at the harmonious manner in which my country is working in the nonregional group formed by Japan, Austria, Israel, Switzerland and Yugoslavia.

Admission to membership of the nonregional countries was a fortunate decision in the life of the Inter-American Development Bank, which is demonstrating that multinational collaboration is possible without the institution losing its status as a genuinely regional organization.

The Declaration of Madrid is the beginning of a new stage in the evolution of the IDB. This Declaration did not just represent an attempt to increase the Bank's resources and facilitate its access to international capital markets. What must be emphasized for its importance is the incorporation of certain nations of Europe and the Near and Far East into a common task at a time when serious disturbances in the world economy, already affected by internal and external imbalances in a great number of countries, made the job of integration and cooperation even more difficult.

Present-day history is characterized by the rapidly-moving economic changes taking place in many countries. In a few years' time Spain has overcome many of the innumerable obstacles blocking its road to development, so that it has come to be one of the 10 or 12 first-ranking powers of the Western free world in terms of production volume.

Spanish technical progress in recent times combined with the magnitude of many of the projects it has undertaken are an example of the kind of intermediate technology that is especially appropriate for successful use in Latin America's development plans for reasons of similarity in scale. In the sphere of agriculture noteworthy projects have been carried out in settlement and irrigation, in industry we occupy a special position in shipbuilding, vehicle manufacture and the construction of certain types of capital goods, and in the field of services we became in the space of a few years, the leading country in Europe for tourism.

All the experience we have accumulated in this development process, including any errors we may have made that have also proved to be instructive, now enables Spain to offer its most enthusiastic cooperation through the IDB, an institution that has shown itself to be particularly fitted for centralizing and coordinating efforts to improve living standards among sister nations.

If what counts, as historians tell us, is the tendency shaped over the centuries that impels nations to pursue a particular orientation, there can be no doubt that Spain's destiny is directed in a large measure toward Latin America, as a consequence of which we are firmly determined to intensify and expand the many ties that bind us, as is demonstrated by the initiatives and statements of His Majesty King Juan Carlos I during his visit to the American Continent.

On the international economic scene the effects of the crisis that affected the entire world in 1974 and 1975 have still not been altogether eliminated, and the specters of inflation, stagnation, monetary instability and external imbalance are still major problems for a great number of countries. The future appears all the more somber when it is observed that certain powerful countries have not displayed overmuch solidarity in their attitudes. The imposing of tariff barriers and the setting of restrictive quotas to the detriment of countries producing raw materials only impedes and delays the recovery process that is so vital for combating the terrible problem of the high rates of unemployment in so many countries.

The rate of growth of Bank financing must be greater than the average growth rate of borrowing countries in order for the Bank to be able to finance projects that will increase essential production and create new jobs.

The world is moving toward a situation in which the big economic communities will be struggling for control of the international markets. It is clear, therefore, that to compete as effectively as possible, the Latin American countries will have to give special priority to strengthening their integration ties. In this connection, the IDB will have to continue its efforts toward a gradual integration by subzones that complement one another.

The Report submitted to us reflects the efficient conduct of the Bank's operations. The volume of loans granted shows an appreciable increase compared with the previous year, and a high external financing resource potential —on very acceptable conditions—together with a significant level of nonreimbursable technical cooperation has been reached.

The President of the Bank, Mr. Antonio Ortiz Mena, and the Vice President, Mr. Reuben Sternfeld, deserve our sincere congratulations for their effective work over the past year.

We are firmly convinced that the nations of Latin America will find a solution to their common problems, in a great spirit of cooperation and solidarity.

The Inter-American Development Bank has established itself as the keystone of this noble undertaking, not just as the main source of financing but also as an effective forum for promoting international economic cooperation in the interests of development of the region.

In its 17 years of operations it has left an indelible impression through its projects in agriculture, infrastructure, industry, urban development and education. It is Spain's firm intention not to stand to one side in the economic and social development of the peoples of Latin America and the Caribbean, and nothing would give Spain greater satisfaction than to find that its know-how and experience can be put to use to intensify the cooperation already undertaken.

Mr. Chairman, Governors: in this first year in which the Bank's membership also includes countries from outside the region, I should like to express my most fervent wish that the Inter-American Development Bank will continue to attain ever-greater successes in pursuing its just purpose of improving the level of development of the peoples of Latin America, for which task we offer our most sincere collaboration.

Address by Mr. Julio Rodolfo Moctezuma Cid, Governor for Mexico and Secretary of Finance and Public Credit

On explicit instructions from the President of my country, José López Portillo, I should like to convey to the people and Government of Guatemala the cordial and friendly greetings of the Mexican nation.

As guests of the Guatemalan Government enjoying the cordiality and sympathy of the great Guatemalan people, the members of the Mexican delegation wish to congratulate the Guatemalan authorities upon their excellent organizational ability and thank them for their generous display of Latin American solidarity. The fact that they had to proceed at very short notice with the organization of this Eighteenth Annual Meeting of the Board of Governors of the IDB further enhances our appreciation of the splendid task they have accomplished.

Mexico and Guatemala are indissolubly linked by geography. In human relationships, they are bound by the fraternal ties between their two peoples, the strong roots of their historic past and the similarity of their aspirations. They form a cultural and geographic community which serves as a framework for the spiritual affinities typical of all nations which share the same space and the same tradition. That is why our resolve to act in harmony will continue to benefit both countries and help to perpetuate mutual understanding between them and the achievement of their common goals.

We have paid special attention to the program carried out by the Bank in the past year, which is described in the Annual Report presented by its President at the inaugural meeting. The report deals with the results of our common effort to support the economic and social development of Latin America. We congratulate the President of the Bank, his staff and the Board of Executive Directors on the execution of that task.

The report also advises us of the admission to membership in the Bank of nonregional countries whose participation is expected to yield mutual benefits and substantial contributions. In revising and amending the Agreement Establishing the Bank, an appropriate legal formula was found for admitting industrialized countries from outside the Latin American region without detriment to the regional character of the Bank. That is a way of meeting the need to recirculate the large liquidity of funds, with the Bank itself as the instrument for channeling financing to developing countries.

Until a few years ago, the Latin American economies were progressing satisfactorily on the whole owing to favorable international developments. However, the world economy then began to show signs of contracting and some developed economies began a clear trend towards recession. Consequently, Latin America as a whole experienced a substantial decline in its growth rate. Thus, despite efforts to effect structural changes aimed at achieving greater national autonomy, the economies of our countries continue to be extremely vulnerable to external forces.

It should be noted that the recession experienced by the developed economies in recent years exacerbates the difficulties we confront because it precipitates a falling off of external demand. That is why it becomes imperative to channel increasing volumes of financing to our economies to enable them to meet minimum growth targets in line with the needs of our peoples for economic and social progress. That procedure will help to reactivate the world economy and will be translated into benefits for the whole international community.

The malfunctioning of the international economic system necessarily affected the course of Mexico's development. In order to organize a new system internally, the Mexican Government is adopting measures for reconciling the nation's economic development objectives with social equilibrium and the specific demands of the various factors of production. These measures are aimed at increasing production and are so structured as to secure the basic interests of the majority of the people and generate greater opportunities for employment. In that context, control of inflation and the strengthening of our balance of payments are determining factors of economic policy.

In order to meet growth targets which will improve the economic situation and satisfy social needs, Mexico will promote an increase in domestic savings. Moreover, with its traditional solvency to support it, Mexico will continue to participate selectively in international credit markets. Its access to those markets will be increasingly rational, better structured and strictly adapted to the actual conditions and possibilities of the country.

We have firmly resolved that external credit must be merely a complement to the resources generated by national efforts.

At the end of this century, Mexico will have doubled its population. Our projected population growth makes it imperative for us, in the next few decades, to build a portion of a nation equal to the one which we have developed since the beginning of our history. To maintain an acceptable quality of life for all Mexicans, we will have to satisfy priority needs in all areas.

As a matter of urgency, we will have to provide a whole complex of socially necessary goods and services. Food, energy, education, health, housing, the balance to be struck between concentrating population in the big cities and dispersal in the rural areas, urban reordering, to mention just a few, are crucial areas which will require substantial resources.

A system based on the training of human resources will enable Mexico to meet the challenge successfully, but the foundation must be laid now, with large investments in the training of those who will be responsible for running the Mexico of the next generation. In that connection, we should emphasize the role of the Bank in the financing provided to the *Consejo Nacional de Ciencia y Tecnología.*

The Inter-American Development Bank is becoming increasingly important as a basic source of external financing for our countries. The participation of the nonregional members has begun to make itself felt in the first credits granted out of resources they contributed. Their presence is also an example of the dynamic role played by the Bank in channeling resources to the countries of the region. Nevertheless, to the results already obtained must be added the permanent task of introducing new methods for transferring funds to finance our development. The imperative need to accelerate the development of the region obliges us to develop imaginative formulas of international financing. Our financial wizards will have to explore new avenues in economics which will provide the resources enabling us to emerge from this period of crisis and stagnation.

There is an obvious need to increase multilateral efforts to transfer real resources to the developing countries. It can only be done, in our view, if the international financial community has a real interest in strengthening the power of general or regional financing agencies like the Inter-American Development Bank to guarantee the economic health of all the members of the community. A healthy community can be preserved by long-term financing, with mechanisms for reasonable interest rates, thus improving the debt-servicing capacity of the borrowing countries. By helping to achieve this objective, the Bank would fully discharge its responsibility towards its member countries and the international community.

The countries of the region, with the assistance of the Inter-American Development Bank, will continue to seek appropriate ways of reducing their internal shortfalls. To that end, the Bank's Fund for Special Operations acts as a source of soft resources to reduce the cost to the countries of the area of external financing. However, in the last few years, that capability has not even been sufficient to meet the requirements of the lower income countries. A financial mechanism will have to be invented to reduce the cost to the most seriously affected countries of the region of interest payments. Moreover, to increase the volume of available resources, the IDB could establish financial links with the oil-exporting nonregional countries and induce them to participate as capital contributing members in the near future.

We will have to obtain more funds for the operation of the Bank. To do this, a greater degree of participation will be required from the international financial community as well as a more efficient mobilization of our domestic resources. We have also stressed the possibility that the Bank might invest its funds in the countries of the region in order to stimulate their domestic capital markets and at the same time increase the volume of resources available for new development projects.

The need for new external financing mechanisms calls for flexibility in existing international instruments. Of course, the international financing agencies will continue to play a key role in development financing, but it is essential that in carrying out that task, they remain within the strict confines of the functions originally entrusted to them by the member countries.

The priority credit needs of the relatively weaker economies must be met; at the same time sufficient funds must be channeled to the developing countries of the region which require a larger volume of external financing. We are not unaware that there are different orders of need among the member countries of the Bank. It follows logically that the volume of the resources allocated to each country must be in line with that different order of needs so that the use of available financing resources is consistent with the welfare and development programs we are implementing. In order to bring those two elements into harmony, the highly developed economies and the nonregional oil-exporting countries must increase their participation in the external financing sources from which the Latin American countries may draw upon.

We have carefully examined the study on the Bank's operational policies which the Board of Executive Directors is submitting for the consideration of the Meeting of Governors because we consider it especially important. The preparation of that document is in itself a significant step towards specifying the criteria governing the Bank's activity and we regard it as a marked advance towards defining those policies and laying down the criteria for their application and interpretation.

However, there is a continuing need to improve our legal instruments and the document before us must be viewed as only part of an initial stage. If we are to comply with all the terms of the resolution which led to the preparation of the study on the Bank's operational policies, we must set in motion a mechanism which will foster the full implementation of the desired objectives in the subsequent stages of the work of the Board of Executive Directors. In this manner, we will ensure that the Bank pays due regard, in its operational approaches, to the experiences of the member countries. Moreover, a better definition of those policies, eliminating ambiguities in their application and interpretation, will ensure that the projects in which the Bank participates are better adapted to the economy of the countries of the region and that optimum benefits flow from their implementation. Only cooperation, with full respect for the will of each country to be guided by its own development ideology, will make it possible to enlarge the prospects for transforming our economies.

In the final document which the Board of Executive Directors is to submit to the Committee of the Board of Governors in September 1977, the Mexican delegation should like for the proposals which I am about to describe to be taken into account.

1. *International open bidding*

Determining the direct and indirect imported component of projects. In the case of global loans or integrated programs in which many small investments are being financed, the Board of Executive Directors might consider those circumstances where, without detriment to foreign exchange financing, it is not advisable to allow international open bidding because that procedure sometimes hampers the proper execution of projects.

There are also programs or parts of programs calling for investments where the national system demands a certain type of equipment in order to standardize maintenance and adhere to appropriate cost and operation levels for that equipment. The Board of Executive Directors should suggest criteria in such cases, with due regard for the legislation of each country and the possibilities of national public bidding.

On the other hand, we feel that the increase in the cost of machinery, equipment and services demands that we increase the minimum amount which is not subject to bidding for projects financed from ordinary and interregional capital resources.

With regard to the purchase of goods and the awarding of contracts financed by parallel loans and/or complementary lines of credit, the Bank should allow the borrower in liberty to meet the commitments he assumes with each specific source of funds. As a general rule, it would be useful to maintain international open bidding. However, the mixture of funds and special conditions of some projects may be factors to be considered in applying different criteria to the bidding procedure.

Finally, we believe that when there is an international open bidding, regardless of the ultimate provider of the goods or services to be purchased, it should be wholly financed in foreign currency without regard for direct or indirect costs.

2. *Use of currencies held by the Bank and effects of the exchange risk*

With regard to the use of currencies held by the Bank, the Board of Executive Directors should give thought to a system which would maintain sufficient financing in countries where there is a shortage of the national currency. If the currencies available in the biennial programs preclude the use of certain currencies in any of the borrowing countries to finance local costs, foreign exchange will have to be used or some other mechanism to offset the currency shortfall will have to be found.

The effects of the exchange risk should be analyzed in greater depth to determine so far as possible the quantitative impact of the proposals before a final decision is taken. More consideration should be given to the need for the Bank to guarantee, at least partially, the exchange risk as well as the proportional distribution of available currencies.

3. *Financing of local costs*

If the present policy on financing local costs is maintained, it may have the effect of reducing the amount of financing now being provided. The accepted definitions of "direct and indirect cost" in foreign exchange would make it impossible, in more than one case, to ensure adequate financing of projects or programs requiring substantial local investment. Furthermore, the present policy has the effect of deferring the implementation of social development projects for the less favored sectors of our economies.

To cope with this unfavorable situation, the Board of Executive Directors should interpret the concept of indirect foreign exchange expenditure financed from ordinary and interregional capital resources in the light of the needs of the Bank's borrowing countries.

4. *Total cost of projects*

The Board of Executive Directors should lay down general rules for additional financing to cover the rise in costs of ongoing projects. It would also be advisable to review the rates applicable to cost escalation and allocation for unforeseen expenses of projects being considered by the Bank with a view to bringing those rates and that allocation into line with inflation rates and the situation of the borrowing country.

We are confident that these proposals and others to be submitted to the

Board of Executive Directors concerning operational policies will help to develop a system which will make the Bank an increasingly useful institution for its members.

The Bank's objectives will be better achieved if in planning its annual activities, it established predetermined volumes of foreign exchange financing for borrowing countries, which could be used flexibly in priority sectors. In order to broaden its role as a development bank, it is suggested that the Board of Executive Directors re-examine the operational policies relating to the financing of integrated development programs. That entails working out specific operational rules for integrated programs different from those which apply to the financing of individual projects.

The Bank has played an important role in transmitting new technologies which accelerate increases in productivity. In that connection, various aspects of economic activity have been transformed by technological developments which started in our own countries and have not been sufficiently exploited. One of the Bank's tasks might be to develop a broader and more integrated program of technological exchange, mainly in strategic sectors. Public agencies, research institutes and the advisory agencies of the countries in the region would participate in that program.

Governors, the accomplishments of the Bank are many, under the able and efficient guidance of its President, Mr. Antonio Ortiz Mena. Its work has been useful in external financing directed to traditional sectors. However, it has also been successful in exploring new fields for credit and investment, as in the case of tourism. The Annual Report describes the progress made: increase in the membership and broadening of the financial structure, not to speak of the issue of an unprecedented volume of loans and technical cooperation to promote the development of the countries of the region.

However, we must also consider the limitations on our further development. External savings, which had been a key element in the prevailing style of development, are gradually being exhausted as a result of the monetary and financial crisis gripping the international system. In addition, we see the reordering of the priorities of international financing agencies in allocating resources and the hardening of credit terms, mainly as regards amortization and grace periods. To complete the picture, we still have not gained access to the financial surplus of the nonregional oil-exporting countries, which thus far has only marginally been channeled to Latin America.

These considerations remind us that although we are on the threshold of the fifth replenishment of the Bank's resources with our countries, sometimes at great sacrifice, honoring their commitments, it may be the moment to begin to envisage the next replenishment of resources, inasmuch as its design and the subsequent budgetary and constitutional procedures required to execute it are naturally slow.

In view of the monetary and financial upheavals in the world, we shall have to marshal all our energies to strengthen our national systems and fight for the establishment of a more just international economic order. In order to bring about that order, a new strategy for the financing of development will have to be worked out. In that undertaking, I am confident we can rely on the pioneering work being done by the Inter-American Development Bank in international financing.

Not quite three years ago, in this very forum, the then Governor for Mexico, José López Portillo, said that amid changing and crumbling systems, there were still institutions like the IDB which enabled us to look to the future with optimism. We wish to reassert that idea. Our collective will to make a real effort will certainly redound to our mutual benefit. We will, through that effort, build a world which we would like to be orderly, responsible, free and just. We once again reaffirm our belief that the Meeting of the Board of Governors of the Inter-American Development Bank constitutes a useful instrument for encouraging our peoples to achieve their goals of well-being and development, so that the region will occupy the place in history for which it is destined.

Address by Mr. José D. Cardozo, Governor for Uruguay and Secretary of Planning, Coordination and Information

In the first place, it is my duty to express the appreciation of the Delegation of Uruguay for the cordial welcome and friendly hospitality provided by the Guatemalan authorities and the organizers of this meeting.

It is also a high honor for me to have this opportunity to address this gathering regarding the economic situation of my country and the economic policy it has followed, and to state certain views as to the possibilities and limitations of collaboration of the Inter-American Development Bank in the economic growth of the American nations.

While Uruguay has been represented at the different meetings of the Board of Governors of the IDB, it has not spoken at all in the last five years, so I should like to take the liberty of briefly reviewing the economic and social situation of the country since 1972.

Development of the Economy

Up to 1955 the keynote was import substitution. Between 1955 and 1972 the economic diagnosis of Uruguay showed low product growth rates, lower even than the population growth rate, and high rates of inflation despite direct control of prices, wages and interest rates. It also showed an inability to generate new sources of employment, decapitalization and growing external indebtedness coupled with excessive State participation in economic activity.

To sum up, the economy was not able to satisfy the growing social aspirations. As a consequence the equality of opportunity so characteristic of Uruguay began to be eroded.

It is appropriate and important to note that the Republic of Uruguay has a land area of only 176,000 square kilometers and a population of around 3 million.

Between 1972 and 1973 Uruguay had to meet a two-fold challenge: on the economic front and on the politic-military front.

In those years the seditious movements were eliminated and the foundations were laid for overcoming the economic problem.

The National Development Plan for 1973–77, ratified and expanded at the civic-military meetings of San Miguel and Colonia Suiza held in the second half of 1973, defined the economic policy currently in effect in Uruguay. This was reaffirmed at the meeting of December 1976, in the following words:

"To ratify and accentuate the present economic policy as the most appropriate route for bringing about as quickly as possible the improvement of the living conditions of the people and to maintain a permanent control to ensure that all economic expansion favors development to the maximum and is, therefore, reflected in social wellbeing."

This strategy is based on a liberal philosophy grounded both in the traditional political thinking of the country and in the interpretation of the causes of its economic stagnation.

It was realized that the chief obstacle to growth lay in the extensive interventionism of the State in economic life. This found expression in quantitative control of external trade, closing of the economy to outside competition, and fixing of the interest rate at levels that were negative in real terms. In sum, these and other mechanisms prevented the market from functioning as an efficient resource allocator.

The new policy was introduced at a time when the international situation was particularly difficult: the price of oil had tripled, the export price of beef had gone down to one-third of what it had been, beef imports were banned by the European Economic Community, and the prices of key inputs such as fertilizers for an agricultural and stockraising country had gone up.

Instead of maintaining and carrying on even further a policy which had been directly responsible for the economic stagnation and social disruption of the country, a decision was made to run the risks of adopting a new policy.

Unlike the policy applied by other countries and consisting of heightened restrictions and barriers to free trade, Uruguay chose the path of economic freedom.

For the application of the program, it basically had the support and confidence of the international credit agencies and private banks. This enabled it to overcome, in the course of 1974 and 1975, without any erosion of production and employment levels, the problems deriving from the external sector.

It can be stated that Uruguay has fully adjusted to the new international economic situation. As early as 1976, Uruguay had a balance of payments surplus.

At the present time, the Uruguayan economy is in a stage of clearcut growth, based on the dynamism of its external sector. This dynamism is the result of the decontrolling of prices, the freeing of external trade, incentives to exports through a realistic exchange rate, promotion of savings and the efficient allocation of resources with interest rates that are positive in real terms, an orthodox monetary policy, and stimuli for public and private investments, both national and foreign.

The gross domestic product grew in the past three years at a cumulative annual rate of 3 per cent and this rate is expected to be higher this year.

The Uruguayan economy had not displayed comparable dynamism in recent years. Trade, which had remained constant for 20 years, increased by 2.5 times in 1976 and is expected to increase three-fold in 1977.

The rate of public and private investment has recovered. Imports of capital goods have risen spectacularly since the full freeing of external trade at the beginning of 1975. The country's international reserves, which fell in

1974 and 1975, recovered for the greater part in 1976 and this recovery is continuing in 1977. It can be explained by the improvement in the trade balance and by a sizable flow of capital.

As regards public finances, a substantial improvement has been achieved. For the current year the fiscal deficit will definitely be below 1½ per cent of the gross domestic product, so fiscal equilibrium is within reach.

These achievements have entailed a considerable social cost in terms of the living standard of the country's population. The increase in the price of oil and the lower prices for export products resulted in a decrease in the product available for domestic consumption of the order of 8.5 per cent in 1974 and 12 per cent in 1975, compared with 1973. To this must be added the capitalization effort begun by the country and the resources that had to be used to provide for national security. Together, these factors explain why national consumption is down in percapita terms. However, this social cost would have been unbearable if the previous policy had been continued.

If the balance of payments deficit had not been eliminated, the country would not have been able to finance its essential imports (oil and raw materials), with a resultant appreciable fall in levels of activity and employment.

Resources for Investment

The domestic effort has to be complemented by external savings. If not, consumption would be excessively penalized.

Uruguay does not discriminate either in favor of or against foreign capital. However, it has created legal mechanisms which guarantee the transfer out of the country both of profits obtained in Uruguay and the actual capital invested.

For public investments, Uruguay is prepared to resort to all the external sources of capital; it is especially interested in borrowing from the IDB and the World Bank, as well as in having access to the international market.

Uruguay does not ask for handouts or subsidies. It only wants access to the capital market on an equal footing, based on its record of faithful fulfillment of international commitments and the effectiveness of its economic policy.

In this same year, steps have been taken to secure the public placement of certificates of indebtedness to complete the financing of the Palmar Hydroelectric Dam, work on which is scheduled to start in a few months time.

In the past, Uruguay had not made adequate use of the funds that the Inter-American Development Bank has available for the countries of Latin America.

The total amount of loans approved by the Bank for Uruguay was lower than Uruguay's participation in the various capital funds, a highly unusual situation for net borrowing countries.

In the past three years, the Inter-American Development Bank has granted Uruguay larger sums in the way of loans than in the past.

Bank funds have supported national efforts to increase the capitalization of the energy sector (fuel transportation and hydropower generation); the rehabilitation, construction and maintenance of the national highway network; the supply of drinking water to small towns, and improvements in the national telecommunications system.

Our Government hopes that operations involving the Bank will continue to grow in the future.

Uruguay has thus requested and obtained the support of the Inter-American Development Bank for the drafting of terms of reference for a technical cooperation application designed to improve institutional machinery and operational criteria for preparation and implementation of a national investment plan.

Also up for consideration before the Bank is an application for a drinking water supply program. This is a matter of great importance as it would, *inter alia,* provide this basic service to low-income sectors and make irrigation water available to small-scale farmers. Also pending is a loan for an animal health program intended to overcome some of the livestock problems that have resulted in shortfalls in production and restricted the international marketing of meat products.

Finally, in accordance with the thrust of the Government's policy to support private enterprise and promote exports, it is hoped that the Bank will finance productive projects in the private sector, in particular those intended to maintain or increase the level of exports.

Internal Bank Operations

The internal functioning of the Bank calls for the following comments and observations:

The Management has made efforts to speed up the consideration of loan applications. Despite the results achieved, it is still possible to make further improvements in this important operational field.

The Management should therefore continue along this path, so as to ensure that borrowers are not disadvantaged by delays in utilization of the loan and the possible loss of purchasing power through price increases.

In a different area of activity, mention should be made of the fact that the Bank has for the first time approved a program budget. This approach should be applied and improved in the future to take account of the interests of all the members, both those who receive loans and those who contribute capital.

The resident representatives have recently been granted greater autonomy. In this connection every effort should be made to progressively reduce the amount of consultation with Headquarters and increase the powers of decision of the local representatives.

Political Problems

I now turn to political problems.

On the subject of the composition of the Board of Executive Directors, I must first mention that nonregional countries have joined the Bank, as well as countries from the Caribbean area of the Hemisphere.

As a result, two new Executive Directors have been added to represent the first group of countries, while a request by the latter group for representation is under study.

What was said seven years ago at Punta del Este, in a meeting like this one, remains totally true today. What was said then was that the number of seats in the Board would have to be increased to ensure that its composition reflected the aspirations and interests of the various groups making up the Bank while at the same time maintaining a fair regional balance.

I cannot conclude my address without referring to the manifest intention of certain countries to use their voting power in the international lending agencies to cut off access to the funds of those agencies for countries accused of human rights violations.

If these intentions are carried out, this will strike a serious blow at the future development of the countries in question. It should be remembered that loans are granted to a country, not to its government.

Any attempt to politicize the operations of the Bank is contrary to its Establishing Agreement. This is a path from which there can be no turning back. Once this path has been taken, the very stability of the institution is threatened.

This inappropriate method of defending human rights would make access to resources derived from external savings more expensive for certain countries, as they would be obliged to resort exclusively to private sources of financing. This would make economic conditions more difficult and increase political and social tensions.

In conclusion, it only remains for me to express our ongoing faith and trust in the nations whose representatives are gathered here today; to render homage to the heroes who shaped those nations, and to reiterate our faith in the spirit of good will that animates all men worthy of the name, and the hope that this will inspire, create and bring about true solidarity among nations.

Address by Mr. Paulo Hortensio Pereira Lira, Temporary Alternate Governor for Brazil and President of the Banco Central do Brasil

May my first words be words of thanks for the noble and generous hospitality of the Government and people of Guatemala, who are so valiantly struggling to overcome the misfortunes that recently befell this courageous sister nation of ours in one of the most terrible tragedies of recent American history. I thus feel doubly honored in presenting on behalf of my Government our homage and support for the courage of the Guatemalan people and in expressing our admiration for what they have done in completing the arrangements for this important gathering in such a brief space of time.

We also take this opportunity to express our best wishes to the representatives of the nonregional countries who for the first time make their appearance as full members at a meeting of the Board of Governors of the Bank. There is no need for me to stress how much we expect from their valuable cooperation in the cause of regional development.

We take special pleasure in welcoming the Republic of Guyana as a new member also.

As we address this Eighteenth Meeting of the Board of Governors of the Inter-American Development Bank, we take pleasure in expressing once again our gratitude for the great contribution that the Bank has made to the social and economic development of our region, thanks to its efficient administration. Particularly worthy of mention in this regard is Antonio Ortiz Mena, who combines statesmanship with recognized managerial talents.

The world economy, ever changing, ever dynamic, presents us at each step with new and complex challenges which, particularly over the past three years, have demanded greater individual and collective efforts.

Even though the recovery in the economies of the major industrialized countries did not continue into the second half of 1976, as it had in the second half of 1975, the non-oil exporting developing countries did succeed in reducing their current account deficit from more than \$38 billion in 1975 to almost \$28 billion in 1976. As a result, it was possible to reduce substantially the rate of growth of the external debt of the least developed countries.

Among the reasons for this was the adoption, by the developing countries, of a series of adjustment measures, including restriction and substitution of imports and, more particularly, the promotion of exports.

In the case of Brazil, these policies have enabled us—albeit at the cost of some reduction in our rate of growth—to gradually reduce the deficit in our trade balance, so much so that from this year on we have the prospect of running a surplus on our trade balance.

To return to my general survey, I should add that for most countries it is difficult to reduce imports, and that it is not always possible to reduce them without serious sacrifices in terms of economic growth, employment levels and general welfare of the population. Moreover, import substitution is generally effective only in the medium and long term.

With regard to export promotion policies, the developing nations have been unable to convince the industrialized countries to eliminate, or to reduce to a minimum, the barriers of various kinds that they are increasingly erecting against imports of many of their products. The industrialized nations have attempted to justify this action in terms of their declared desire to defend domestic production and safeguard local employment. We appreciate the isolated efforts that have been made in recent months to resist protectionist pressures. In yielding to these pressures, the industrialized countries are apparently disregarding the fact that the growth of their own exports of goods and services is also predicated upon the ability of the developing countries to earn sufficient foreign exchange to pay for their imports and even to import more.

In a word, it is vital that all the world's leading economic powers—those that have maintained a strong balance of payments position in recent years—should play their proper part in absorbing the surpluses of the Organization of Petroleum Exporting Countries by adopting broader policies for goods imports and capital exports.

The export drives of the developing countries, particularly in the case of exports of semi-manufactures and finished articles, face other difficulties as well, one of the most serious of which is the serious problem of export financing. The Inter-American Development Bank has attempted to act in this area by opening lines of credit to refinance exports. This has been a highly praiseworthy step, but it is still not enough.

Let us now turn to consider the resources of the Bank. Here two main aspects have to be distinguished: raising funds on the market, and contributions from the member countries themselves.

As regards the first aspect, we must laud the efforts of the Bank's management in floating bond issues. These borrowings on the markets will now have the additional backing of the callable capital subscribed by the nonregional member countries.

With regard to the second point, however, we cannot but express the deep concern of our country at the reduction in the relative amounts of the subscriptions of the Bank's major shareholder to the capital stock and to the Fund for Special Operations. Despite the difficulties that the developed economies are experiencing, it is essential that there should be no delay in furnishing the IDB with the funds it requires to finance development in the region.

In this context, it should be pointed out that, within their limited possibilities and despite the sacrifices required of them, the developing member countries have endeavored to pay promptly their agreed contributions to the increases in the capital and in the Fund for Special Operations.

What is more, three of the more developed of the countries in the region have not only waived their right to the Fund for Special Operations loans in foreign currency during the period of the present increase, but have also agreed to make 25 per cent of their contributions to the Fund convertible. At the same time, Venezuela and Trinidad and Tobago, in the same spirit of Latin American solidarity, have agreed to make their contributions to the increase completely convertible.

The Bank, for its part, has recently complied with the undertakings entered into at the Paris Meeting and later ratified at the Meeting of the Board of Governors held in Washington, D.C. in 1975, for the end of the four currencies' program. We therefore note with satisfaction the decision of the Board of Executive Directors of last March, referred to in the report submitted pursuant to Resolution AG-5/76.

Due note should also be taken of the painstaking work done by the Board of Executive Directors in reviewing the other policies to which the Resolution refers, and on this occasion we should like to state that we are against any changing of traditional policies which, in the past, have made it possible for the IDB to cooperate so effectively in the interests of the development of its member countries. We are referring specifically to the requirement under consideration of rigid procedures for procurement and contracts financed with bilateral, complementary or supplier credits and to the attempt to restrict foreign exchange financing to goods of external origin and to goods whose origin cannot be specified in advance, hence a clear limitation of application of the 15 preference margin in favor of national producers. What we ought to do, on the other hand, is maintain unchanged the traditional policies that have proved themselves efficient, while only dropping or amending those which have been found to be inadequate.

I would like to use this opportunity to mention two interrelated fields in which the Bank could expand the activities that it has been carrying out with high success and which are, in our view, the foundations for all sustained economic and social development. I am referring to the financing of specialized education and technological research. We must support the developing countries' efforts to reduce their dependence on external technology, which is also closely bound up with the lack of acceptable minimum levels of education in general and with the shortage of specialized manpower in particular.

Over recent years, Brazil has been making tremendous efforts to eliminate the illiteracy still existing in the country and to develop the different levels of education, so as to realize potentials and bring new progress into the nation's productive activities.

However, as is generally known, a policy angled toward the training of human resources, besides requiring perseverance and dedication also involves costs on a scale such that implementation over reasonable periods can be jeopardized. As they take some time to show a return, investments in education entail the tying down of capital on a scale that the less developed countries find hard to sustain. This is why international cooperation in these areas proves quite fruitful.

I wish to repeat the Brazilian Government's concern that the Latin American character of the Bank's personnel be maintained, particularly in the executive positions, while ensuring that its recruitment provides the widest possible regional geographic representation.

Finally, I should like to voice our confidence in the future course and operations of the Bank, this confidence being fully justified by the excellent service it has rendered so far, and to express our certainty that its leadership will be able to continue to respond imaginatively and dynamically to the serious challenges facing us.

Address by Mr. Udo Kollatz, Temporary Alternate Governor for the Republic of Germany and State Secretary

First of all I should like to thank the Government and the people of Guatemala for their readiness to host and organize the Annual Meeting of the Inter-American Development Bank at such short notice. The great efforts made both by the Government of Guatemala and the Staff of the Bank deserve highest appreciation and respect. I should also like to express my sincere gratitude for the most friendly welcome we have experienced in Guatemala City, and for the hospitality so graciously extended to us. When I was visiting some projects in this country I was deeply impressed by the tremendous work of reconstruction which has been achieved by the people and the Government of Guatemala within only one year after the terrible earthquake.

Owing to the change of venue I got the opportunity to take a close look into the comprehensive program designed to provide this country with hydroelectric power. I think this project is impressive in terms of both its financial and technical dimensions. The reason I am mentioning this program here and now stems from its character as a classic example of successful cooperation between a Latin American country, the IDB, the World Bank, and a nonregional member of the IDB—and I may add that, as far as Germany is concerned, this cooperation started even before we became a full member of the IDB. We would be glad if this kind of successful cooperation could serve as a model for further projects which might lend themselves to similar joint efforts.

Mr. Chairman: For the German Delegation this is the first annual meeting in which we are participating as a full-fledged member of the IDB family. This family has recently been considerably enlarged and there is good prospect that it will grow further. Up to now we looked at this important multilateral institution only from the outside—even though with active interest. We were aware of the good reputation the IDB enjoyed in Latin America, as well as in banking circles elsewhere. Now we are part of it. This gives us a strong feeling of both satisfaction and responsibility.

As newcomers we are of course still in the process of learning—after all the Bank looks back to an impressive history comprising 18 years of active involvement in the economic and social development of Latin America. Nevertheless, I would like to venture to summarize our first impressions and our still limited experience with this institution as follows:

My Government is most satisfied that the Bank is obviously following a policy which is not only oriented towards mere economic but also toward clear social objectives. This demonstrates rightly its character as a genuine development bank and its involvement in the complex task of furthering the economic and social welfare of its recipient member countries. We should like to encourage the Bank to maintain and strengthen this important feature of its policy. This trend fully coincides with the concept of the development policy of my Government and—what is more important—this policy is also in keeping with the ideas and priorities of the countries of the Latin American region. Therefore we have noted with particular appreciation that the flow of resources at highly concessional terms from the Fund for Special Operations to countries which are most needy of assistance was increased in 1976 and that a further increase is envisaged for this year. The views expressed in the annual report reflecting the growing interest of the Bank in measures for the benefit of the poorer segments of population in all recipient countries also meet with our full approval.

It goes without saying that projects in the productive sector remain of vital importance as well. They should however be primarily supported from the ordinary capital stock of the Bank and from the inter-regional capital. We fully realize that the countries of Latin America do require tremendous amounts of capital, particularly at this juncture where some of them—while still fighting the impact of the oil crisis—are facing a period of transition and consolidation. My Government holds that the IDB should continue to play a constructive role in the process. We feel that the multilateral financial institutions such as the IDB can achieve much more for the member countries than would be possible via bilateral cooperation. It is for this reason that we are contributing significantly to such multilateral endeavors.

As a new member we are most interested in the lending policy in general and the various loan operations in particular. By and large we are impressed by the quality of the individual projects and their objectives. We are equally satisfied with the regional and sectoral allocation of funds. One item less of concern than surprise is the striking fact that the financial contributions of the Bank to projects designed to further regional economic integration have clearly decreased since 1974. Maybe this is just an accidental trend as can happen in a longer-term program. But we feel that in view of the obvious strong political desire in many Latin American countries to promote economic integration the IDB should, in principle, play an essential role in this process.

My Government attaches great importance to the development of an efficient evaluation system designed to provide both the Board of Directors and member countries with a reliable basis for an assessment of the activities of the Bank. Such a mechanism should also allow for a successful feed-back of experience gained during the process of implementation.

The activities of the Bank in the field of technical cooperation deserve particular attention. As far as the number of projects is concerned, this part of the program has reached a volume which one would not expect with a Bank primarily concerned with the extension of loans.

But here again we take this feature as a proof of the special character of the IDB as a development bank. We feel that this program component is indispensable and of utmost significance.

As to the business on the liability side we have noted with interest that as far as the financial indicators and ratios are concerned, the IDB is holding top ranks in almost all respects among comparable multilateral financial institutions. These positive results of a sound and cautious management were reflected in favorable borrowings in capital markets such as our own, in some instances better than those obtained by other comparable institutions. I am confident that this sound and rather conservative financial management on which I should like to congratulate our President will bear fruit also in the future.

The capital market in my country since 1964 has gradually become one of the main sources of re-financing for the IDB. The bond issues denominated in Deutsche marks amounted to almost 1 billion DM taking into account the results of the financial year 1976. Thus the Federal Republic of Germany ranks second among the capital markets which were successfully tapped by the IDB. My Government fully appreciates this development and shares the view of the management that the German capital market will continue to offer good prospects for further fund raising. This is partly due to the good standing and high rating the IDB enjoys and partly to the liberal rules as concerns access to the German capital market which is not impeded by any legal obstacles. I may add that some Latin American countries which were in a position to build up a credit standing of their own succeeded in raising considerable amounts in the German capital market directly and were thus also able to avail themselves of the free access to that market. In 1976, apart from one Asian country, only Latin American countries managed to be successful in this manner.

Mr. Chairman: The account of our first impressions and judgments would be incomplete if I did not mention a few aspects which give rise to some concern. There is first of all the uncertainty as to the mobilization of resources—in particular, of those funds which were agreed upon as contributions to the Fund for Special Operations prior to the accession of non-regional members to the Bank. The problems involved are well-known to everybody. We very much hope that satisfactory solutions can be worked out in order to enable the Bank to meet fully its lending program for 1977 amounting to $1.8 billion. Such targets are, of course, not an end in itself. More important is the quality of the individual project which has to be carefully prepared and scrutinized before a commitment is made. However, we feel that in view of the financial requirements of the countries of the region this target is fully justified.

Furthermore, I should like to suggest that discussions about the next replenishment of the Fund for Special Operations should be initiated in the not too distant future. This reminder may sound somewhat out of order at a time when the full implementation of the last replenishment is not yet fully ascertained. We all know, however, that such negotiations on replenishments take quite a lot of time. It is for this reason that we feel we should not delay these negotiations unduly so as to avoid the risk of jeopardizing the continuity of the Bank's operations. It would further be most desirable to see to it that there is no overlapping with replenishment negotiations of other comparable special funds. I could also well imagine that we might even envisage a departure from the conventional time frame of three years by extending the period to be covered to four or even five years.

Mr. Chairman, having mentioned a few concerns I may now turn to the vast field of positive expectations. The President of the Bank repeatedly stressed the important role of the IDB as a catalyst for mobilizing additional resources. We fully share this judgment, in particular for Latin America. It should not be too difficult to raise additional private capital because there is sufficient absorptive capacity in the region. It is not by accident that among all direct German investments in developing countries Latin America absorbed roughly 45 per cent of the total. One prerequisite for further expansion is, no doubt, an investment climate which assures private enterpreneurs of stable conditions over a longer period of time. This is what potential investors are looking for when making their decisions. Close cooperation with the Bank could be of valuable assistance in reaching that objective. In this context I should like to make reference to the instrument of complementary financing recently developed by the IDB which seems appropriate to direct additional private capital into projects of high priority without burdening further the callable capital of the Bank. We sincerely hope that the membership of Germany in the IDB will, *inter alia*, have the longer-term effect of attracting further German investors for joint ventures in the Latin American region.

In this context I should like to comment briefly on another initiative by the President which is designed to further private investment by the Bank's participation in the equity of a given enterprise. We feel that this proposal merits careful consideration. We were very happy to discuss this matter with the President of the IDB during his visit to Germany earlier this year. And we support the ideas developed by the President in his remarkable speech of yesterday. In the framework of our development policy, cooperation with developing countries in the field of trade and industry has always been a priority area. We have set up certain mechanisms to promote this kind of cooperation *inter alia* through the German Development Company (*DEG*) which also participates together with German investors in the equity of medium- and small-scale enterprises in developing countries. If the IDB also went in that direction, it might add to its programme a further promising dimension which could open up a field for cooperative action for the benefit of smaller member countries. These countries in particular find it difficult to attract foreign private investment on their own because their markets are limited and the technical and managerial know-how is still lacking. We feel that in particular in the field of small-scale industries this kind of cooperation could bring about positive results. Although the proposal by the President requires further scrutiny we are, in principle, favorably disposed to support this initiative and—subject to a satisfactory solution to pending problems both substantive and procedural—my Government is prepared to make a financial contribution to this effect in order to get the project off the ground.

Mr. Chairman, let me conclude with a few general remarks. The Annual Report has properly put into perspective the tremendous economic problems we all are facing and the serious repercussions of those economic difficulties from which the developing countries are suffering most. This goes also for the countries of Latin America. The period under review has been one of intensive discussions and negotiations in various forums designed to alleviate those constraints and to bring about new forms of economic cooperation and a structure of relations which is more responsive to the requirements of a world in which the notion of mutual interdependence is enjoying widespread acceptance. Germany is participating actively and constructively in all these activities and will continue to do so. Our accession to the IDB is part of our endeavors to broaden the range of our cooperative efforts. We are convinced that the IDB is an institution which has proved its efficiency and its ability to make a meaningful contribution to the economic and social development of this region. Germany wants to play an active part in this process and therefore we were happy to accept the offer extended to us to become a member of the IDB family. Above all, Mr. Chairman, this readiness to assume joint responsibility for the welfare of this important regional development bank should be taken as an expression of our strong desire to confirm also in this manner our long standing good relations and our traditional sincere friendship with the countries of Latin America.

Mr. Chairman, it is a distinct pleasure for us to be a part of this Bank with its distinctive Latin American flare and we sincerely hope that our relations with the region will grow even closer in the future.

Address by Mr. Pablo Baraona Urzúa, Governor for Chile and Minister of Economy, Development and Reconstruction

First of all, permit me to express to the authorities and people of Guatemala my appreciation and that of our Delegation for their warm welcome and hospitality.

In Cancún, a year ago, the Governor for Chile described the difficult economic situation in which the country found itself, as a consequence partly of the mistaken directions of certain past economic policies and partly of the adverse impact of external factors. He also reiterated the decision of the Chilean Government to maintain the necessary remedial policies that had been put into effect to overcome these problems. I am pleased to be able to report to this meeting that, thanks to the sacrifices made by the entire Chilean population in 1975—fall in real wages, unemployment, widespread losses by private enterprises, and high tax rates—the crisis has been overcome and in 1976 the Chilean economy began a process of recovery which is continuing to gain strength in 1977.

The 1976 inflation rate was half that of 1975, and in 1977 it is hoped to cut it by half again. Unemployment, close to 20 per cent in 1975, has already been reduced substantially and will be back to normal by the end of 1977. Thanks to the fiscal reform we were able last March to make the third tax cut in 12 months. As a consequence of productivity increases, real wages rose 14 per cent in 1976 and are expected to rise even further in 1977. In 1976, for the first time in 10 years, Chile reduced its net external debt. Our international reserves have risen to $800 million, the highest level in the history of our foreign trade, in spite of the continuous growth of imports that is a natural consequence of our economic recovery, the high external debt burden and a copper price that is still not back to normal.

We believe that the economic development of a country of Chile's characteristics and dimensions is inevitably bound up with the expansion and diversification of its foreign trade. Copper has been the basis of Chile's exports and will undoubtedly continue in the future to be one of its most important export products. Nevertheless we trust that the soundness of our external sector does not have to rely basically on this single product, and here again we have achieved satisfactory progress. In 1973, the value of Chile's copper exports was just under $1.1 billion, with other exports totaling $250 million. The economic policy pursued since then, among other factors, has led to a sustained improvement in the structure of our exports. Thus, in 1976 copper generated income of $1.24 billion and other exports $860 million; in 1977 exports are continuing to grow, at an annual rate of 18 per cent with the result that non-copper exports will exceed $1 billion—more than four times the 1973 level. Chile's tariff and exchange policies have contributed decisively to this success.

By means of the tariff reform we have been able gradually to reduce the average level of our customs tariffs from 94 per cent in 1973 to 24 per cent today. In addition, Chile has pursued a realistic exchange policy which is aimed at maintaining equilibrium in our balance of payments and has at the same time served as a stimulus to non-traditional exports.

Thanks to these measures we have been able not only to achieve a fundamentally sound external position but also to bring about changes in our production structure fostering expansion of the traditionally unprotected sectors in which Chile enjoys comparative advantages and in which the economically less advantaged segments of our population are normally concentrated. To achieve these objectives it was essential to implement these corrective policies in total and to apply them with firmness in all spheres. This explains our decision sharply to limit our participation in the fundamental instruments of the Andean Pact.

This does not imply any rejection of the concept of integration but rather a conviction that rigidly applied formulas would have made it impossible to put into effect policies that have proved beneficial to the country's general interest, as is shown by the results I have just outlined. Moreover, our trade within LAFTA has been growing very rapidly.

The economic recovery and the adjustment of production against the background described above are generating a demand for a wide range of capital goods imports, and in this connection the Government has been concerned to secure a variety of sources of external financing to enable it to meet that demand without excessive dependence on a few traditional sources.

We are therefore convinced that we are laying the bases for a sound and stable economy serving the welfare of all the Chilean people, particularly the poorest segments living outside the urban areas.

We have heard with particular satisfaction the clear and reasoned statement by the Governor for Peru concerning the need to maintain the multilateral character of the IDB in the sense of not allowing the views of one country or any specific political interest to prevail in the allocation of the Bank's resources.

I should like to place it clearly on record here that Chile firmly supports this view; moreover, I am sure that it has the practically unanimous support of the rest of the Bank's members.

Chile has always respected the aims and objectives of the international agencies to which it belongs. It will accordingly discuss political problems only within the political agencies and economic problems only within the economic agencies. We know that to mix these two things is to jeopardize the entire concept of international cooperation.

We also share the view expressed that the work of the international financing agencies will remain efficient only to the extent that, together with respect for the national development priorities set by the countries themselves, technical criteria prevail in the allocation of resources.

We appreciate the assistance that the Inter-American Development Bank has provided to Chile ever since it was established, and we wish it to continue to assist us in the programs and projects that lie ahead. And in this connection I should think this is a timely occasion to refer to a number of facts which seem to me to be important.

The purpose of the Bank is to support the development of a particular region, Latin America, which, first of all, has attained a position intermediate between the industrialized countries and the other less developed regions of the world. Secondly, however, within that region the Bank serves countries characterized by different stages and forms of development. To the differences in size of domestic markets, level of industrial development, structure of the external economy, development of domestic financing systems and basic social services infrastructure have to be added differences in the spheres of economic activity of the public and private sectors, the role of the market in resource allocation, and the latitude it is desired to leave for external influence on the economy.

The Bank must continue to be an instrument for the support of the development of *all* its members, as it has been up to now. This requires it to adapt to these new realities, to create new mechanisms for operations with the private sector and, no less important, to streamline and bring flexibility into its existing mechanisms and procedures, for example in the case of sectoral global loans. The latter loans are, in our view, of great importance because they make it possible to provide the needed financing for expansion and improvement of industrial, mining and agricultural enterprises in amounts which are sometimes too high for the domestic financing system to handle and difficult and expensive to finance abroad because they represent what are small-scale operations from the standpoint of the international market.

On another point, we share the concern expressed within the international financing agencies to promote programs that will meet the basic needs of the most disadvantaged socio-economic sectors of our countries. Action to improve the lot of these sectors is precisely the basic task of government, with or without external financial support, and this fact is reflected in the various fields in which the State intervenes, such as public investment in education, nutrition and health, housing, welfare, and so on.

We believe, however, that social development must be founded above all on the establishment of a sound economic base that permanently sustains the improvement being pursued for the extremely poor part of the population, and that it should not lead to the imposition of inflexible criteria or programs and loans, criteria which frequently militate against accomplishment of the very objectives that are being pursued.

We believe that the search for and development of new mechanisms for operations with the private sector is of fundamental importance. We accordingly support the proposals made by the President for the creation of mechanisms, linked to the Bank and oriented toward Latin America, that promote and facilitate more direct association of the capital and technology of developed countries with Latin American domestic private enterprises. Similarly, we note with satisfaction the initiatives for channeling funds from other sources through the catalyzing action of the Bank.

When the Bank was first established and given the ideas that prevailed at that time, it was simpler to define common denominators of Latin American priorities in the allocation of resources and of institutional machinery and sectors for channeling them. There existed in Latin America at that time a widely held and highly prejudiced view concerning the merits of what was called "inward development," as if to suggest that the public sector and public enterprise were the basic, if not the sole, motive forces of economic development. Today, many countries understand and are facing up to the need to open up their economies and to adapt the productive structures of their private sectors to make them competitive, both domestically and externally; to expand and diversify the structure of their financial systems and to open them up to external participation, and to create stable links between the capital and technology of other countries and their own domestic productive sectors.

For all these reasons, the Bank not only needs to continue to take measures that expand its capacity to channel funds to the region. It must also continue to be vigilant in the task of adapting itself to the realities to which we have referred.

I thank you for your attention to my remarks, which have been inspired by the fundamental lesson that recent history at no little sacrifice, has taught us. The destiny of each of our countries is, primarily and fundamentally, in our own hands. Only through our own efforts, combined with efficient, cohesive and sustained policies can we achieve our independence, our prosperity and our liberty.

Address by Mr. Michiya Matsukawa, Temporary Alternate Governor for Japan and Vice Minister of Finance and International Affairs

It is my utmost pleasure to have a chance to address the Annual Meeting of the Inter-American Development Bank as a Governor of a full fledged participating member for the first time. The financial relation between the Bank and Japan has existed longer than ten years but we were able to cooperate with the Bank, up until July last year, only as an outsider.

First, let me, on behalf of the Government of Japan, express our deep appreciation for everything the Government and people of the Republic of Guatemala have done to make this year's meeting possible at the time originally scheduled. I would also like to pay tribute to the immeasurable efforts of President Antonio Ortiz Mena and all his staff who have well contributed to the betterment of the economic conditions in the Latin American region.

Mr. Chairman, the world economy has only recently entered into a new phase of development after the oil crisis, where brightness is gradually being restored after passing through the darkness of prolonged recession. However, despite this improvement, many non-oil producing countries, especially those developing countries, still find themselves in great difficulties. I believe that a strong and stable growth of the world economy is thus of vital importance and of the utmost necessity, particularly for the restoration and the steady development of the economies of these non-oil producing developing countries.

The Japanese economy achieved a substantial rate of growth last year. It was 6.3 per cent in real terms. Furthermore, as a result of the positive fiscal and monetary measures that are now being taken, we are looking forward to attaining a similarly high rate of growth again this year. It is our firm belief that the growth of our economy will give impetus to the upswing of the world economy and thereby contribute to the expansion of world exports by the countries both developed and developing. In addition, in response to the earnest desire of the developing countries, the Japanese Government has taken a series of trade related measures, which include the revision of the base period for preferential tariffs and a reduction of tariff rates for 83 tropical products effective April 1 of this year. We hope these measures will give momentum to the exports of the developing nations in this region.

Mr. Chairman, now I would like to refer to some aspects of the operations of the Inter-American Development Bank.

The first is on the need to secure adequate financial resources for assisting the development of the countries in this region. In this area, the Bank should be congratulated for the timely actions it took last year to increase the resources from the regional member countries and to admit countries from outside the Western Hemisphere. I deeply appreciate the efforts made by the Bank to include nonregional countries and extend a hearty welcome to the countries who have joined the Bank since then.

In addition, every effort should be made to diversify the sources of funds in the international capital markets in order to secure the necessary resources. I hope the newly introduced formulae for interest rates on loans will be implemented in such a manner as to take into consideration the necessity of diversifying sources of funds.

The second aspect relates to the betterment of the living standards of the low income people in the region. It is of vital importance that the strategy for economic and social development be properly drawn up and performed so that these people can share the benefits. While the Bank has done well in recognizing this point in past performances, I hope that it will exert further efforts in the future so that these low-income people may benefit more from the development projects financed by the Bank.

The third point concerns the improvement of productivity of the Bank. While both the loan projects and technical assistance projects have grown substantially in the last several years, the increase in the number of staff has been minimal and the growth of the administrative budget has continuously made for better administrative effectiveness and higher productivity.

Mr. Chairman, it is true that, geographically, Latin America and Japan are the farthest apart on the earth. Nevertheless, both are becoming closer year after year economically and socially. Some 800,000 descendants of the Japanese people have been well mingled with the people in Latin American countries, and are playing a substantial role in economic and social development. In the area of international trade, Latin American countries and Japan have become significantly interdependent with an annual trade amounting to $7.5 billion.

Under such relations with Latin America, Japan has been cooperating with the Bank to the greatest extent possible even before she was admitted to the Bank last year. For example, in the past ten years the Export-Import Bank of Japan and other financial institutions have provided funds totaling 59 billion yen.

In the case where the Bank seeks further diversification of its resources, Japan will continue to extend cooperation as far as her situation permits. In the Tokyo market, which is a rather newly-born financial center, 15 issues of yen denominated bonds have been floated so far for financing development projects in developing countries. And since the official discount rate has recently been reduced last March and again in April, interest rates have shown sharp declines and thus the climate in the Tokyo market is maturing for the first flotation of yen bonds by the Inter-American Development Bank before long.

In order to accelerate development in the developing countries, it is of vital importance to reinforce the fund-raising capacity of the developing countries themselves. In this connection, I would like to draw your attention to the agreement of the Joint Development Committee of the World Bank and the International Monetary Fund last April to study in depth the guarantee of bond issues using the guarantee authority of the World Bank and other existing organizations, taking into account the respective situation of financial resources. The proposed guarantee of bond flotations would supplement the creditworthiness of the developing nations in the region and strengthen their borrowing capacity through better access to the international capital markets.

Mr. Chairman, in concluding my remarks, let me offer my best wishes for the further prosperity of the Inter-American Development Bank. I would also like to renew Japan's pledge to cooperate with the Bank, particularly as a member country on the Board of Executive Directors.

Address by Mr. Walter Neudörfer, Alternate Governor for Austria and Director General of the Federal Ministry of Finance

The Eighteenth Annual Meeting of the Inter-American Development Bank give me the privilege of attending this distinguished gathering for the first time as a representative of the Republic of Austria. It is a great honor for my country to participate as a member in the work of a regional bank whose activities are so important and beneficial to so many member countries in Latin America and the Caribbean.

I would like, Mr. Chairman, to express my gratitude to the host country, the Republic of Guatemala, and to her beautiful capital for the hospitality their authorities have so kindly extended to us.

In spite of the fact that Austria has only recently joined the Bank as a nonregional member, her relationship to the Bank dates back for many years, because my Government was convinced that cooperation with a region of such an eminent importance for the world economy and for world trade is imperative to a country that is deeply committed to the ideas of economic cooperation and free trade among sovereign countries. We are fully aware that the problems that face so many nations of the region can only be mastered in a spirit of mutual respect and understanding. My country, therefore, did not hesitate to open the Austrian capital market to issues of the Bank and to make a special loan in the amount of 200 million Austrian schillings directly to the Bank long before the process of joining the Bank had been successfully terminated. We are convinced that the Bank will be able to play an ever increasing role in fostering the economic relations and the flow of resources from nonregional countries to Latin America and the Caribbean. Especially for Austria, a small land-locked country situated in Central Europe, the membership in the Bank can be very valuable, because it will be through the guidance and the experience of the Bank that the flow of aid and trade to the region can be better directed and coordinated.

A study of the Annual Report shows clearly how important the Bank's activities have been in the last year and what enormous progress is due to the Bank and the work of its staff. Not only the amount of $10 billion of the Bank's cumulative lending is impressive, the distribution of loans to the various sectors bears even more testimony to the wisdom of the Bank's selection of targets. The emphasis laid on agriculture, electric power and transportation and communications with 62 per cent of total distributions reflects the basic material needs of so many developing countries. On the other hand the importance of social infrastructure (sanitation, education, urban development) has not been overlooked because a percentage of 18 per cent for these purposes is a clear indication of the importance the Bank attributes to the human and social needs of the nations in the region.

In underlining and praising the successes of our Bank we must not forget that the main work is still to be done. There are staggering problems ahead of us and we shall have to deal with them. One of the most serious of these problems is the increasing amount of foreign debt and the imbalances in the external accounts. These problems are by no means confined to the region, they are world-wide and it is because of this global situation that the Interim Committee in the International Monetary Fund and the Development Committee alike are working hard to find a solution. As our Bank President, Mr. Ortiz Mena, so ably stated recently in Washington, the question of indebtedness must be seen under a certain aspect. That aspect is that many developing countries are very rich in human and material resources, resources that can only be mobilized by increasing debt. Let us not forget that the potential resources of many foreign countries are much greater than their actual debts and that these debts are helping to facilitate the structural adjustment process in the respective countries. The performance of adjustment is putting a heavy burden on the countries and nations concerned. To bear such a burden many countries, especially those on the road to development, need help and guidance. Our Bank is one of the multilateral institutions whose coordinated activities should render the adjustment process less painful and more successful. We all know that without a successful adjustment which involves the mobilization of every country's own resources and capacities economic progress and a better standard of living cannot be achieved. Big and small countries, therefore, must fight for this common end and I can assure you, Mr. Chairman, that Austria is prepared to join the efforts of our community.

Address by Mr. Robert Kaplan, Temporary Alternate Governor for Canada and Parliamentary Secretary to the Minister of Finance

It is a great privilege for me and my Delegation to represent Canada at this Eighteenth Annual Governors' Meeting of the Inter-American Development Bank. Let me first convey the sincere regrets of the Canadian Governor, the Hon. Donald Macdonald, at being unable to attend on this occasion. We are both elected to Parliament to represent the City of Toronto which has been much enriched by the influences of Latin America and the Caribbean. My Minister would have enjoyed this event. However, I welcome the fact that his absence has personally given me the opportunity to participate in these proceedings. I would also like to extend through you, Mr. Chairman, our congratulations to the Government of Guatemala for the outstanding preparatory work and arrangements that have been made for this Meeting. We are greatly appreciative of the generous hospitality extended by your country on such short notice.

My fellow Governors will permit me a word, I know, of tribute to the people of Guatemala. The force of nature has given us all a grim reminder of our frail status on this planet. To rise again, to build again, to resume life in the way I have seen it in my few days among you is an example of Guatemala for the world. Canadians will be proud to have had a small part in it.

Mr. Chairman, my government is deeply concerned over the need to strengthen the economic prospects of the developing world. Through co-chairing the Conference of International Economic Cooperation along with Venezuela, we have been made even more acutely aware of the difficulties that lie ahead. The Conference is now meeting at the Ministerial level in Paris and we hope that it will help to create conditions conducive to an international economic order more responsive to the urgent developmental needs of the developing countries. The CIEC has examined a vast range of issues and has in some areas discussed solutions for specific problems. We are convinced that the Conference has already made an important contribution in stressing that the orderly transfer of financial and technical resources is essential to enhance general living standards in the developing world. We are equally convinced that one of the results of the Conference will be to underline the importance of the World Bank and the regional banks in the development process. Certainly, Canada is determined to actively support the future growth of the Inter-American Development Bank. We have done so in the past, and we will do so in the future. The Bank, in our view, is one of the most effective means of transferring resources to accelerate the economic and social development of Latin America and the Caribbean region.

Canada's decision in 1972 to become a full member of the IDB was a clear indication of our determination to play a larger role in the realm of inter-American relations. These last five years as a regional member of the

Bank have helped us deepen our understanding of Latin America's developmental needs in a variety of sectors such as trade, technology, and developmental financing. We are now well engaged in developing a partnership which serves all the countries in the Hemisphere. Both the Government of Canada and the business community are now more conscious than ever of their particular responsibilities in promoting the growth prospects of Latin America. Simply one example of this is the early support and direct involvement of the Canadian banks in the IDB's promising complementary financing program. Canadian banks have been pioneers in our own country. We confidently expect that they will be a beacon for increasing participation by other Canadian enterprises. Likewise, the skills of Canadian engineers and other Canadian consultants who have opened half of North America for us have been well received in your service.

Let me join with previous speakers in expressing a sincere welcome to the new regional and nonregional members of the Bank who are taking part in the Annual Governors' Meeting for the first time. We believe that their participation will not only expand the resources and lending potential of the Bank, but also strengthen the future of this institution. In this regard, I would also like to express my government's particular satisfaction at the ratification of the amendments to the Bank's Charter which enable it to provide support to the Caribbean Development Bank. As a result, the Bank can now provide technical and financial resources directly or indirectly to virtually every country in the Southern Hemisphere.

This extension in the scope of the Bank's operations places a further responsiblity on the contributing member countries. If we are to meet the resource requirements of the less developed member countries of the Bank, it is essential that all of us meet our financial commitments to its ordinary capital stock and Fund for Special Operations. Unless this is done and unless Management is guaranteed a continued availability of resources, it will be extremely difficult to plan the Bank's operations effectively.

We have noted with satisfaction the undertakings of Argentina, Brazil, Mexico, Trinidad and Tobago and Venezuela to assume a greater financial responsibility as contributors, both through direct contributions in convertible currencies to the Fund for Special Operations, and indirectly through restraining their own concessional loan demands. As other countries in the region develop further and are able to establish their own programs of assistance to their less developed neighbors, we hope that they too will increase their resource contributions to the Bank. This will expand the scope of mutual self-help and cooperation between the countries of this region in promoting their economic and social development.

We also wish to congratulate the Bank's Management on achieving its lending and technical cooperation targets during 1976, and endorse its plans for a 7 per cent rate of growth in 1977. We welcome, in particular, continued emphasis on concessional lending in the least developed countries. We are also pleased with the expanded technical cooperation activities of the Bank, and the high priority given to agricultural production and resource development in new projects.

The President is to be congratulated on achieving an appreciable reduction in the average administrative costs of managing its loan accounts. It seems to me that, to a considerable extent, the degree of support by member governments for the Bank will be enhanced by a strict application of cost-conscious policies. We particularly commend the President and senior Management for their prudence in this area. The Bank's strength depends on its maintaining a strong, effective and well-managed organization as well as on being adequately financed by member governments. Both are essential if the Bank is to protect its financial position and its borrowing prospects in world capital markets. The successful expansion of this institution will require permanent efforts to strengthen operational procedures and controls at all levels. We expect that administrative efficiency will continue to improve. We also hope that the salary structure of the Bank will be both equitable and reasonable.

Canada has always taken a keen interest in the operating policies and procedures of all international development banks in which it participates. It is our conviction that good operating practices are the key to the continued success of the Bank. Therefore, we support the recent initiatives of the Bank to review and recommend improvements in such areas as local cost financing, the utilization of the Bank's local currency availabilities, and the sound assessment of total project costs and related cost escalation procedures. We look forward to participating in future discussions of the rules governing international bidding, the determination of direct and indirect import requirements of Bank projects, and the negotiation of associated suppliers' credits. We are confident that the Bank will soon be able to develop improved arrangements in these areas.

Finally, Mr. Chairman, I would like to express to you and to my fellow Governors the great honor Canadians feel in being able to host the next Annual Meeting of the Bank in Vancouver. May I, on behalf of the Government and of my countrymen, extend a very warm invitation to the representatives of all member countries. I know you will enjoy Vancouver's friendly atmosphere and its natural beauty of mountain and sea. We look forward with great anticipation to welcoming you all in Canada next year.

Address by Mr. Zlatko Muršec, Alternate Governor for Yugoslavia and Deputy Federal Secretary for Finance

It is a particular pleasure and honor for me to have been given this opportunity of addressing the Eighteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank and convey, on behalf of the Government of the Socialist Federal Republic of Yugoslavia, and on behalf of the Yugoslav delegation attending this distinguished gathering, our sincere best wishes for a most successful work during the forthcoming few days. Allow me also to express our deep thanks to the Government of Guatemala on the cordial welcome and warm hospitality we are privileged to enjoy in this beautiful city.

The Governor for Yugoslavia, Mr. Momčilo Cemović, has asked me to convey to you his regrets, for, unfortunately, due to unpostponable duties he was unable to come and take part in this Annual Meeting.

This year's Annual Meeting is especially significant for my country—this being the first year that Yugoslavia is participating as a nonregional member country of the IDB. We note with pleasure that after years long efforts on the part of the Bank, last year these endeavors bore fruit and membership was extended to nine countries outside the Latin American region, among them Yugoslavia.

In accordance with its policy of developing and promoting the cooperation with all developing countries and their financial institutions, Yugoslavia has particularly over recent years, followed up with much interest the results achieved in the operations of the Inter-American Development Bank. The achievements resulting from the 16 years of operations, and particularly those from the past five years, are truly impressive. This has placed the Inter-American Development Bank among the most outstanding financial institutions of the region.

Positive trends in all the fields of its live activity have been continued in the last fiscal year, and the data given in the Annual Report for 1976, which is on the Agenda of the present Annual Meeting, are the best proof of this.

The enlargement achieved by the admission of new members and the Resolution on the increase of ordinary capital and the Fund for Special Operations have significantly strengthened the financial potential of the Bank, which on its part represents a solid basis for the future expansion of its lending program for the financing of the social and economic development of the developing countries of the Latin American region.

Allow me to take advantage of this opportunity and express warm and genuine recognition and appreciation to the Management of the Bank led by Mr. Antonio Ortiz Mena, on the outstanding results achieved in IDB operations in 1976.

In view of this, it can rightfully be said that the view expressed in the

Annual Report, that the Inter-American Development Bank has alongside the World Bank become the most important source of financing social and economic development in the Latin American region, is a justified one.

From the date of the admission of Yugoslavia to the Inter-American Development Bank up to the present, important contacts have been carried out with the purpose of acquiring the knowledge and the insight of Yugoslav business and commercial bank circles in the methods of operation and activities of the Bank with the purpose of establishing the necessary mechanism for cooperation with the Bank and through the Bank for broadening and pursuing further bilateral cooperation with the countries of Latin America.

Within the framework of his visit to the nonregional member countries, the President of the Inter-American Development Bank, Mr. Antonio Ortiz Mena visited Yugoslavia last year. In his discussions with Mr. Momčilo Cemović, Federal Secretary for Finance, and the representatives of the Yugoslav work organizations, possible fields of cooperation were identified. We have evaluated these initial contacts to be not only useful but also as talks and discussions that would give an impulse for furthering of our cooperation.

It should be expected that the forthcoming period, which according to us is to be initiated by giving life to the cooperation agreed upon, will in turn intensify the economic and financial cooperation between Yugoslavia and the countries of Latin America.

Allow me to take advantage of this opportunity to add that the Government of my country alongside the Governments of other developing countries has, on international forums, endeavored to increase the capital of the regional financial institutions and the World Bank and thus increase the lending programmed for developing countries. Yugoslavia shall in the future, as necessity arises, do the same, considering the role of these institutions in development financing to be a significant one.

Mr. Chairman, may I close by congratulating our hosts, the Government and the respective authorities of Guatemala on providing an excellent organization for the work of this Annual Meeting in the brief period of time they had available. I would also like to express, once again, our deep appreciation for the exceptionally warm and cordial welcome extended to us all in this wonderful country and its beautiful capital city.

Address by Mr. C.R.A. Rae, Alternate Governor for the United Kingdom and Under Secretary of the Ministry of Overseas and Development

It is a great pleasure as well as a great honor for me to be the first spokesman of my Government to address this Board since the United Kingdom became a full nonregional member of the IDB. In so being, I must also express the deep regret of our Governor that the imminence of the Conference of the Commonwealth Heads of Government precludes her from attending herself. As our President knows from the discussions which he has had with her last month in Washington and before that, when we were very pleased to receive him in London, Mrs. Hart follows the affairs of this Bank—which I hope that we can now regard as our Bank also—with close personal attention.

The negotiations which culminated in the ceremonies in Washington last July were long and complex, and sometimes even difficult. Perhaps I could say a word about why my government pursued them with such keen persistence and why we were so pleased by their successful outcome.

The United Kingdom has had a very long connection with Latin America. Although our political and commercial links are today less potent than they were say 100 years ago, my Government, as also its predecessor in office, is determined to do all it can to renew and strengthen that connection. Again for historical reasons, this continent has not been a traditional field for the British development effort. But, it is, I believe, a healthy symptom of our re-found mutual interest in each other's destinies that total expenditures from the British Aid Programme on development assistance to Latin America has increased more than sevenfold over the last five years. Small as our projects must appear to be in relation to the economic progress and continuing developmental needs of the countries concerned, we believe that they have made a positive and appreciated contribution.

During the past few years, my Government has been pursuing an aid policy which is designed more and more to concentrate, first, on support of the multilateral institutions, and secondly, in the field of our bilateral aid, on help to the poorest countries and to the poorest sections of the community within individual countries. This is not a peculiarly British policy: it is in line with the policies of other donors, of the World Bank and of other multilateral organizations, including, we have been glad to find, the IDB among them. We have not been able to ignore that, in terms of gross national product per head, the countries of this continent are, with a few exceptions, less disadvantaged than most of the countries of Asia and Africa. But we recognize that in all of them there are major problems of poverty, both rural and urban, with which we would wish to help. That is not easy to do on a bilateral basis. As our President reminded us yesterday, it is a complex and time-consuming task even for a multilateral organization. But we gratefully recognize that the IDB has wide experience in poverty-oriented projects and that, as well as supporting the major infrastructure projects without which no development is possible, it has in mind the basic needs of the poor man and the small man also. We welcome the emphasis which the Bank places on help to rural communities through assistance in the field of natural resources in the development of cooperatives. We welcome the President's announcement yesterday of the initiative which the Bank has taken for the support of small-scale enterprises, though, obviously, we shall want to give it further consideration. Again, we shall want to have further details before we can state our position on the Special Guarantee Fund.

Technical cooperation is a field in which the IDB has been a pioneer among the multilateral institutions; we applaud the continuing emphasis which is placed on it in the Bank's program. Our own program of technical cooperation with Latin America is expected to total about £10 million in the current year and we plan to maintain it at about that level in real terms; if (as we hope) there is scope for cooperative ventures, we shall welcome any such opportunity.

There are two essential requirements of any development institution: as the distinguished Governor for Venezuela reminded us yesterday afternoon, *it must have imagination, it must experiment, it must innovate*. At the same time, it must keep its feet firmly on the ground, as a prudent housekeeper of the vast resources entrusted to it by governments and by institutional lenders. It ill becomes a newcomer to comment on the performance of a club which he has just joined, but I would like to say how impressed we have been by the care and thoroughness with which the Bank staff appraise and prepare projects which they bring before the Board. No doubt there is room for improvement: there always is.

We commend, therefore, the recent decision taken in the Executive Board to review the present machinery for evaluation through the Group of Controllers, and we hope that ways can be found whereby the nonregional members can be associated with this review, as we feel sure that each of us can contribute something from our own activities in this field. We know that export evaluation can be an uncomfortable experience for all parties involved. But not necessarily so—valuable lessons can be derived as much from success stories as from failures.

I add my voice to those who have congratulated the staff on the sound financial structure of the Bank. But in so doing, I would like to draw attention to the problems created by the existence of two separate capital stocks. The financial ratios relating to the ordinary capital are encouragingly healthy: those relating to the inter-regional capital appear considerably less satisfactory, and it is against the security of this that progressively more market borrowing must be made. I am confident that the Management will have this much in mind. I am sure, too, that the Management will take heed of what my distinguished German colleague had to say about the need for early consideration of a replenishment of the Fund for Special Operations.

Before I close, Mr. Chairman, I want to make two particular points.

The first relates to the issue of human rights, on which the distinguished Governor for the United States made a statement yesterday in terms which my delegation fully supports. It is right that in making their judgments on the economic merits of projects brought before them, the Executive Board and the staff should not be concerned with the political complexion of the requesting Government. But as contributors to the Bank, as in the management of our own aid programs, we have to have regard to our own constituency at home, which remembers the Charter of the United Nations and differentiates between a country's politics and its attitude to fundamental human freedoms. We understand the force of the opposing agreements; but in our view, economic, social and human development should be seen as a whole and we do ask that our position should not be misunderstood.

Secondly, I would like to express our particular pleasure that the Bank can now make funds available to the Caribbean Development Bank for on-lending to all its members. As Alternate Governor for the United Kingdom of the CDB also, I was attending the meeting in Port of Spain when Don Antonio's message was received saying that the relevant resolution of the IDB had just become effective: it was a happy coincidence of timing which I am sure bodes well for the future cooperation of these two development institutions; of one we were founder-members, of the other we are now proud to belong.

Finally, Mr. Chairman, I join with all those speakers who have preceded—and will follow—me in expressing my delegation's deep appreciation for the warm hospitality extended to us by the Government and people of Guatemala and (if I may say so) our congratulations on the impeccable arrangements which they have made for our reception on such short notice. I am sure that they will not misunderstand me if I suggest that some of the congratulations are due also to our President and to the members of his hard-working, efficient and devoted staff.

Address by Mr. Franklin E. Hope, Governor for Guyana and Minister of Finance

I consider it a great honor to be able to address this Eighteenth Annual Meeting of Governors of the Inter-American Development Bank as Governor for the Co-operative Republic of Guyana. My country has been accepted to membership of the Bank only as recently as November 1976. I wish at the outset to record sincere thanks to all member countries of the Inter-American Development Bank who have contributed through initiatives and support towards the successful carrying out of those procedures which have culminated in our membership in the Inter-American Development Bank.

In particular, I wish to record at this forum my country's appreciation for the understanding and support which Guyana's candidacy always received from the President, Mr. Ortiz Mena. I consider that the fact that Guyana is now able to take its place along side its Latin American colleagues in the Bank is in no small measure due to his unqualified support.

I also wish to place on record my Government's deep appreciation of the expedition and understanding with which officials of the Bank, at all levels, have dealt not only with the technical and procedural matters which had to be cleared prior to signature of the Agreement, but also with the task of identifying and evaluating projects in Guyana for financing by the Bank. Since becoming a member of the Bank and even immediately before that event, no less than three Inter-American Development Bank missions have visited Guyana. As a result of these missions I can now look forward to the early approval by the Inter-American Development Bank of partial financing of a drainage and irrigation project which is an important cornerstone in the development efforts of Guyana.

Mr. Chairman, Guyana feels genuinely pleased at being able to take its seat alongside other countries in this hemisphere as a member of the Inter-American Development Bank. We recognize that the Bank has as its purpose the acceleration of the process of economic and social development of the countries of the Latin American region. Guyana firmly believes that an institution such as this, which is able to focus specifically on the problems of the developing countries of the region, and in which the developed countries of our region, as well as the industrialized countries outside our hemisphere also participate, provides an excellent framework for both the determination and the fulfillment of the needs of our individual countries and our region. The participation of nonregional countries in the Bank is also a recognition by the international community of the important role the Bank has played, and continues to play, in the promotion of the economic and social development of the region.

Guyana, Mr. Chairman, is a relatively large country spatially with considerable mineral, forest, water and land resources. In terms of population, it is a small country. But we do take the task of economic and social development seriously. Towards this end, the basic strategy of our development effort is to satisfy the basic needs of the people—that is to ensure that the people are properly fed, clothed and housed. It is our firm conviction that this is a fundamental entitlement of every citizen.

In this connection the Government places great emphasis on the development of the agricultural and forestry sectors. There are vast acreages of arable land for the production of food and a high priority in the Government's program is to provide the necessary water control and infrastructure works which would facilitate the productive utilization of those lands. We are also, actively considering projects which are designed to exploit our considerable forests and water resources.

We have also embarked, Mr. Chairman, as a complement to the "basic needs fulfillment" strategy, on a program designed to ensure that every citizen, whatever his economic or social circumstance, is given the opportunity to realize his full potential, through free formal education and training at all levels. In short, while we seek to develop our natural resources, we have not lost sight of the clear need to develop our human resources as well.

I have adverted briefly to some aspects of our policy for economic and social development in order to illustrate the great degree of similarity which exists among our countries both in terms of objectives and needs and also to point to the scope which exists for a positive role by the Bank in helping to convert those objectives into reality.

My country has been following very closely the work that has been done by the Bank over the years in assisting the developing member countries of the region. That work is worthy of the highest praise; however, no one among us would deny the continuing need for additional flows of real financial resources to further support the process of economic and social development of the region. Certainly, in Guyana's case we look forward to the time when our stage of development could be such that we would be on the path to self-sustained growth. In the interim, and at a time when concessional financing for development is increasingly difficult to come by, there is a strong challenge for the Bank to help close the financial resource gap of its developing member countries.

Mr. Chairman, before closing, I wish to express the appreciation of my delegation to the Government and people of Guatemala for the hospitable reception we have received so far in this picturesque country. At the same time looking at fiscal year 1976, I would take this opportunity to compliment the Management, Staff, and Board of Executive Directors of the Inter-American Development Bank for another successful year of operations both in terms of the additional capital which the Bank was able to mobilize and the amount of loans it was able to appraise and approve.

And finally, Mr. Chairman, I would close my brief remarks by stating that Guyana proposes to cooperate fully with the Bank as it seeks genuinely to carry out its development role in Guyana. At the same time we look forward to the continuation and integration of the Bank's support for Guyana's development effort.

ADDRESSES

FOURTH PLENARY SESSION

June 1, 1977

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

We join with the rest of our colleagues who have preceded us in conveying our cordial and warm appreciation to the people of Guatemala for their generous hospitality in this meeting. We also join in the special welcome to all the new members of the Bank who are taking part in this meeting for the first time. The presence of these industrialized member countries expands and enriches the operation of the IDB, converting this forum into a world forum centering on the development problems of Latin America. We also congratulate the President of the Bank, Antonio Ortiz Mena, and the staff of the Bank, on their dynamic and exceptional work in 1976 in the course of which they surpassed all the previous achievements in the Bank's operations in terms of loans, disbursements, technical cooperation and the other functions in support of the development of our countries.

On this occasion I should like to say a few words on Panama's situation and the projected creation of a Bank to finance Latin American exports, and also—briefly—regarding financing for development in the years immediately ahead.

Panama today

Panama has benefited extensively from the Bank's support in financing its development projects. That support has grown and diversified recently, embracing key projects in our development plan. The country is presently engaged in three major national efforts. The first is the negotiation of a new treaty on the Panama Canal with the United States, an undertaking of signal significance for the entire economic development of the country. These negotiations are currently moving ahead swiftly and in a very positive tone on the part of both countries. Secondly, in common with all the other countries of the region, Panama is endeavoring to recover from the severe economic crisis of the last two years, while seeking at the same time to lay the foundations for sustained economic growth in the next decade. Thirdly, Panama is continuing with the ongoing process of national transformation that is enabling all the country's less privileged groups—both rural and urban—to enjoy a greater share in the development process and its benefits. For a small country such as ours, a three-fold effort of this sort is immense, critical and significant in the present circumstances, and for this reason we are pursuing a policy of national consolidation based on continuous and permanent consultation with all sectors of the life of the nation, maintaining the dialogue and the precision of the aims we have set ourselves.

Recently, at the end of 1976 and the beginning of 1977, economic policies have been adopted which, while sometimes difficult, are consistent with the needs of the moment. The fiscal and financial base of the Central Government and of the decentralized agencies has been strengthened, fresh incentives have been instituted for private investment and saving, a variety of measures have been put into effect to stimulate exports, and steps have been taken to increase employment and raise productivity by modifying the existing labor relations.

We can state that inflation has been easing gradually over the past two years and that at the present we can consider it the least of our problems, while the economic recession that we felt severely, especially in the last twelve months, is now beginning to pass and slight signs of recovery are already evident which we hope will become stronger during the rest of this year. Through a strong and varied program of public investments the Government has sought to prime this recovery process, establishing at the same time the foundations of a wide infrastructure that will make it possible to diversify national production and exports over the coming five to ten years.

From all of this, therefore, we can conclude that our country, embarked as it is on this ambitious program to further its development over the next 15 years, still needs the financial assistance of entities such as the Inter-American Development Bank in the form of loans on extended terms and at reasonable interest rates.

Latin American export Bank

I should like to take this opportunity to suggest to the Secretariat that it include in the records of this meeting the reports emanating from the Meeting of Presidents of Central Banks last week as regards the project for the creation of a bank for the financing of Latin American exports.

One year ago we informed this gathering on the work which the Central Bank President had been doing for a full year, in studying the possibilities for creating a new mechanism that would make it possible to increase and diversify the financing available for Latin American exports, concentrating primarily on nontraditional goods. The premises of the project were the following: we are agreed that it is important to step up and diversify our exports, especially nontraditional ones; we are also fully aware that it is the financing for these exports that is the basic element which enables them to compete in the international market. Moreover, in Panama, we have been setting up a Regional Banking Center of significant importance, which we would like to place at the service of the development of Latin America insofar as is possible with a view to achieving a greater integration of our markets in the course of our development.

These, then, are the basic premises which led us to study, with the support of the Meeting of Central Banks, the possibility of creating a mechanism for export financing.

One year ago, and with the support of many countries, we asked in this form for nonreimbursable financing from the IDB to continue these studies, which was granted shortly after the last Meeting of Governors. With these funds and the support of the central banks of the region, studies have been made which analyze the different alternatives that could be used for setting up a mechanism that would make it possible to increase financing for exports, recognized technical consultants with varied financial experience, both in the Hemisphere and in other parts of the world being hired for the purpose.

At the September Meeting of Central Bank Presidents held in San Francisco, California, the recommendation was accepted that establishment of a Bank for export financing was the most feasible alternative offering the widest scope that could be used to take advantage of the potential of the banking center established in Panama to increase the financing of exports from Latin America to all the countries of the region and all parts of the world, with the emphasis on nontraditional goods, and a Committee of Governors and the National Banking Commission of Panama were charged with studying, through negotiations with the different groups interested in the project, the feasibility and possible creation of this bank. In the course of the last eight months, technical work of a different nature has been done, concentrating on analyzing the possible creation of the bank. In this, representatives of the International Finance Corporation and of the IDB participated throughout, together with senior technical staff members of the central banks of the region and also staff members of international banks, especially those operating in Panama, and also Latin American commercial banks. At all times, therefore, there have been successive and ongoing consultations with all the different sectors interested in this project, and we believe that this method has not only produced results, but has produced outstanding results.

The Meeting of Presidents of Central Banks held last week here in Guatemala City unanimously approved the report presented by the Committee of Governors set up for the purpose. Among the principal recommendations of this report were the following:

1. To accept the preliminary legal, administrative and financial document as suitable for creation of the bank.
2. Support by the Meeting for creation of the bank.
3. To request the central banks—many of which have already done so, we may mention in passing—to identify the state agencies that might participate in this organization as stockholders representing the various countries, and to urge them to arrange a meeting as soon as possible to negotiate and finalize all outstanding matters pertaining to creation of the bank.
4. To request the central banks to notify the private commercial banks in each of our countries about the project and its scope, so as to secure their interest in participating in creation of this organization.
5. To request the National Banking Commission of Panama, a request we have accepted as an honor, to continue its efforts to coordinate the dialogue among the various groups, i.e. state agencies, the Latin American commercial banking system, the international commercial banking system, and the international agencies, in order to finalize this project as soon as possible, so that it can start operating within a reasonable period in the next few months.

The meeting also considered various aspects pertaining to alternative methods of capitalizing the bank, and a number of recommendations were passed on to subsequent meetings that will be held among the state agencies to discuss its capital structure.

In short, with the studies already carried out with the assistance of representatives of all the aforementioned agencies, with the negotiations already partially completed, with the legal, administrative and preliminary financial documents already completed, and with the support of the various groups of institutions that would become stockholders in the Bank, we feel that we are ready to embark on the final stage leading up to creation of the bank. I should like to report here that, of the funds that the Inter-American Development Bank has furnished to pay for these technical studies, one-half has already been expended; we hope to receive the other half in the course of the next few months so as to continue with this work.

This bank for the financing of Latin American exports would perform two main functions: The first would be to promote the establishment of a market for the rediscounting of Latin American acceptances to support exports, particularly of nontraditional goods, to markets anywhere in the world; in other words, a short-term market supported by the banking center set up in Panama and from there in contact with the various world financial centers. The second would be to support medium-term credit as well, particularly for the financing of exports of capital goods, which are becoming increasingly important among the exports of many of our major countries.

In view of this, we should be grateful if the project were to continue to receive the backing of the Board of Governors and the Board of Executive Directors in its final phase of actual establishment and start up of operations.

We feel that it is interesting to point out at this time, when debates are going on in various forums concerning a new international economic order, when negotiations and discussions are taking place on various forms of cooperation between agencies of the developed countries and of the developing countries, that this project, which is being carefully studied with the support and collaboration of the central banks of Latin America, may succeed in finding a formula that will bring together major international banks, the Latin American commercial banking system, and major state agencies in our countries for the purpose of increasing cooperation among all these institutions to provide greater financing for Latin American exports. As we all know, increased exports are the key to the growth of our region over the next several years. It is thus truly encouraging for us to be able to report these developments to this meeting. It has been a stimulating exercise for us to participate with all the groups working on this project. And now we are on what we might call the threshold of the final stage in the negotiations leading to the establishment and creation of this bank to finance Latin American exports.

Before we finish, and we do not wish to take up too much time at this meeting as so many of our colleagues are still waiting to address us, we wish to state that we support and feel encouraged by the effort that the Bank is making to develop machinery that will enable it to raise funds on the international capital markets to support major development projects in our countries. We urge the Bank to continue working along these lines, constantly seeking new means of securing finance to assist our development projects. We also urge the Bank to continue studying, alone and in collaboration with other international organizations, possible ways of lengthening the terms of the financing provided by the international banking system in recent years. The significant loan volumes that the international banks have provided to our countries in recent years to help overcome the effects of the crisis have been welcome but they have generally been for five to seven years only. It would be preferable if we could return to periods of ten years or more, as were usual on the private international capital market before the recent crisis.

My Latin American colleagues who have preceded me on this rostrum have put forward other specific suggestions on the direction the Bank's policy should take. Some of these are matters we have raised at earlier meetings of the Board of Governors. Others, however, are new and worthy of consideration by the Board of Executive Directors. In order to save time, I shall not list them here, but we do support them fully.

Mr. President, we greet you once again, we congratulate you on your endeavors, along with the entire staff of the Bank, and we send our best wishes for the labors of the new years now starting. We trust that the Bank, as a new worldwide forum, dedicated to tackling the problems of development in Latin America, with a newly enlarged membership, may continue to be the center of the dialogue on the problems of development finance in the region that may serve to cast light on the problems that exist in other developing regions of the world.

Mr. Chairman, we greet you with the same affection as always and we wish you success in the remainder of this mission and in your day-to-day activities.

Address by Mr. Eulalio R. Palacios, Temporary Alternate Governor for Paraguay and Economic Counselor of the Ministry of Finance

The Paraguayan Delegation wishes to express its deep appreciation for the hospitality extended by the people and Government of Guatemala for the holding of this Eighteenth Annual Meeting of the Bank in historic and vibrant Guatemala City.

This Meeting is taking place against the background of the renewed efforts being made by the member countries of the region to increase the growth rates of their economies and thereby to accomplish the objectives of a dynamic and sustained development. But these efforts are hampered by certain factors inimical to the development process, such as world inflation, the instability of world raw materials prices and the hard terms of the loans made by the international agencies. Together, these factors have adverse impacts on the balance of payments, investment, employment and income levels of our countries.

The gradual recovery of the economies of the industrialized countries since the 1975 recession has led to a reactivation of world trade and to increases in the prices of a group of raw materials, particularly foodstuffs and agricultural inputs. However, this is not the case with mineral raw materials, which have not benefited from the world economic recovery. Although the goods exports of the Latin American countries increased 14 per cent in 1976, the price-increase component was only 6 per cent, the other 8 per cent being accounted for by increases in physical volume. This demonstrates the slowness of the recovery of world raw materials prices in relation to the fall they experienced during the economic recession of 1975. There is an urgent need to lay the bases for more fruitful cooperation on the part of the industrialized countries to open up better opportunities for exports of the developing countries. Similarly, although the aggregate gross domestic product of the Latin American region registered a healthy improvement in 1976, this signifies no more than a recovery of the 1974 growth rate, which is insufficient in light of the aspiration of the countries of the region for faster growth.

Inflation in the industrialized countries continues to exert a depressing effect on the economies of the developing countries. Some progress was made in reducing inflation in 1976, to 8.5 per cent from 11.2 per cent in 1975. However, the phenomenon of inflation has not disappeared in 1977. On the contrary, there are indications that the rate could be higher this year, exposing the developing countries to new balance-of-payments pressures. It is necessary to establish suitable mechanisms for international cooperation between the developed and the developing nations with a view to moderating the repercussions of inflation on the latter countries through suitable adaptation of international financing and improvement of the terms of trade.

The external debt of the developing countries rose substantially in 1975 and 1976 as a consequence of the world economic crisis and of the need to finance investment projects with higher costs. The requirements of the development process were reflected in a growing demand for domestic and external financing and in a high rate of participation by the international financing institutions, which increased the developing countries' external debt. The external debt component of the balance of payments rose sharply, especially in the Latin American countries, as a consequence of the rigidity of the terms of the loans made by those institutions. Loan terms need to be more flexible so as to contribute more effectively to the development of the countries of the region. In this connection we note with concern the limits placed on the use of Special Fund loans, with a more severe effect on the countries of relatively less economic development, which need financing on favorable terms in order to stimulate their development.

The IDB's financing capacity would be strengthened if the capital contributions and injections promised by the countries were paid in punctually, in accordance with the schedules established, so that the funds can be applied promptly to the financing of programs and projects of the member countries that request loans. It is essential that the possibility be explored of attenuating the exchange risk for the Bank's borrowers, resulting from the growing incidence of variations in the exchange rates of the currencies that the Bank uses in its foreign-exchange loans.

We should like to record our satisfaction concerning the admission to membership in the Bank of a number of capital contributing developed countries which in this way are joining with the countries of the region to strengthen the resources available to overcome the obstacles to development. The increase in the ordinary capital resources and those of the Fund for Special Operations is also an important step forward in expanding the financial assistance of the Bank in the years ahead. The 11 per cent increase in IDB lending to the countries of the region in 1976, and the achievement of aggregate Bank lending of $10 billion by the end of December of that year, are indicative of the Bank's growing participation in regional development financing. In addition, the 25 per cent increase in nonreimbursable and contingent repayment technical cooperation activities marks a significant advance in Bank assistance for the formulation of programs and projects for investment in the basic sectors of the national economies of the region. We consider that the Bank must give sustained and renewed attention to this type of cooperation, particularly for the support of the relatively less developed and the limited-market countries.

I should like now to review briefly the major economic and financial events in Paraguay in 1976.

The gross domestic product, at constant 1972 prices, rose 6.5 per cent in 1976, compared with 5 per cent in 1975. The world economic crisis of 1975 substantially affected the country's economic growth but this recovered partially in 1976. The economic growth rate was 8.3 per cent in 1974. Domestic prices rose 4.5 per cent in 1976, evidencing the restoration of the price stability that Paraguay experienced through the 1960s and the early 1970s. The growth rate of domestic prices was 6.7 per cent in 1975, a sharp fall from the 25.2 per cent in 1974, when domestic prices were severely affected by the rise in the price of oil.

The national budget closed with a surplus in 1976, a fact that contributed to the process of monetary stabilization. Budget performance showed healthy equilibrium as a consequence of the changes made in the tax collection system and the establishment of suitable budgetary norms to keep public expenditure in line with revenue. The objective of the 1976 monetary program was to moderate the designed rate of growth of the money in circulation so as to prevent the surge of monetary pressures on domestic prices. The Central Bank's monetary issue rose 17 per cent and this rise was almost entirely of external origin. At December 30, 1976, 69 per cent of the monetary issue of the Central Bank of Paraguay was supported by foreign-exchange reserves. This backing was further strengthened in the first four months of 1977. The aggregate money supply rose 19 per cent in 1976. Market liquidity demand has risen substantially in recent years as a consequence of the increase in production, the expansion of services and the increase in domestic and external transactions.

Exports and imports were in balance, with a small trade-balance surplus. Exports rose in 1976 thanks to the diversification of domestic production, which made up for the contraction of the external market that affected important traditional exports such as meat and lumber. The balance of payments closed with a surplus of $50.9 million owing to the inflow of external capital and the expansion of exports. There have been successive balance of payments surpluses, with year-to-year increases, since 1971.

The international reserves of the Central Bank of Paraguay rose by 35 per cent in 1976 to the equivalent of 10 months' imports. In recognition of the country's strengthened external payments position, the guarani has been incorporated into the currencies budget of the International Monetary Fund this year.

As in previous years, external debt service obligations were duly met. Total medium- and long-term external debt was $455.5 million at December 30, 1976; of which 84 per cent was accounted for the public sector and 16 per cent for the private sector. Of the country's total external debt, 27 per cent consisted of loans made by the Inter-American Development Bank.

We wish to express our deep appreciation for the continuous assistance given to Paraguay by the IDB.

Mr. Chairman, we take pleasure in expressing to this Meeting our satisfaction concerning the fruitful work accomplished by the Bank during the past year, together with our sincere hope for the continued strengthening of the Bank's mission in accomplishing of the development goals of our peoples.

Address by Mr. Vagn H. Hoelgaard, Temporary Alternate Governor for Denmark and Ambassador to Mexico and Guatemala

May I congratulate the Government of Guatemala and the Secretariat for the very efficient organization effected on such short notice of our meeting here in this beautiful country. It is a great privilege for me to represent Denmark at this meeting, the first annual meeting at which Denmark is a member of the Inter-American Development Bank, and I should like to take this opportunity to outline some of the principal Danish development policies. The pursuit of these policies was the rationale behind our wish to join you in this development institution.

The Danish Government considers it of overriding importance that the industrialized countries strive to meet the target laid down in the strategy for the second United Nations Development Decade, namely to reach a minimum level of 0.7 per cent of the GNP by 1980 as official development assistance. The recession of recent years which has hit the poorest of the developing countries especially hard makes it even more imperative to live up to the 0.7 per cent target through increased assistance to these severely afflicted countries. As of today, official Danish development assistance has passed 0.6 per cent of our GNP, and it is the declared goal of the Danish Government despite an adverse economic situation of unemployment and cutbacks in other government expenditures to adhere to the established growth rate of our assistance which means that the 0.7 per cent target will be attained in fiscal 1979.

In Danish development policy, multilateral cooperation is given high priority. About one-half of our assistance is multilateral, channeled primarily through the United Nations Development Programme, the World Bank Group, the European Community, and the regional development banks. We consider our membership in the IDB as a natural extension of our cooperation with these organizations.

The bulk of our bilateral assistance is channeled to a limited number of the poorest developing countries. As often recommended by the United Nations the poor countries and the poorest segments of the population of these countries deserve special assistance. We find it very important to cooperate on projects which aim at meeting the basic needs of the people by improving the economic and social conditions. High priority is therefore given to assistance to the agricultural sector and rural development projects as well as to the health and education sectors. This attitude prevails in both our bilateral and multilateral development efforts.

Through our bilateral development policy Denmark has had only few opportunities to contribute to the process of economic and social development in this part of the world. Our membership in the IDB has now given us such an opportunity and we hope that this cooperation will also stimulate the already strong and time-honored relations in other fields between Denmark and the Latin American member states of the Bank.

Mr. Chairman, although we have been members of the Bank for less than one year we already feel certain that the IDB is a well-run institution. We consider the Bank's project proposals well-founded and well-documented. We acknowledge the achievements of President Ortiz Mena and the staff of the Bank in bringing this about even in a period with a substantial increase in Bank loans. Also in the future, with the planned further enlargement of IDB activities in mind, it will be crucial to maintain the standards set by the Bank in the past for its projects. The Bank must have the capacity to prepare and implement a constantly rising number of projects especially in the agricultural, health and educational sectors, projects which often require a considerable amount of preparation and administration. Hence it is indispensable for the Bank to continue expanding its technical assistance in order to solve these tasks, particularly in several of the less developed countries. The quality of IDB projects must furthermore be upheld by means of an efficient review and evaluation system.

In our cooperation with the international development banks we have always stressed the development aspect as being their *raison d'être*. The development banks must be able to grant assistance on terms, and to projects, which are outside the conventional scope of commercial banks. By adhering to a sound financial policy the IDB is capable of granting loans on more favorable terms than those normally allowed for loans from similar organizations. Coupled with the considerable FSO funds and the resources of the various trust funds this gives the Bank excellent facilities for operating as a true development bank, namely by extending its assistance to the poorest countries and by investing in sectors which are vital for the basic needs of the populations.

Denmark endorses the Bank's efforts to mobilize supplementary private capital. Increased resort to complementary financing and parallel financing would be especially valuable for the Bank's cooperation with the, relatively speaking, more prosperous countries and within those sectors which lend themselves well to commercial investment. This will limit utilization of the Bank's own scant resources for these sectors.

The Bank should also strive to ensure the most effective utilization of convertible funds, for instance by observing the principle that loans in foreign currency will normally not be granted to cover local costs. Only *vis-a-vis* the poorest countries should exceptions be allowed.

The concluding talks of the Conference on International Economic Cooperation (CIEC) are taking place in Paris. Through its membership in the European Communities, Denmark has participated actively in these talks. In the view of the Danish Government the Conference ought to produce specific results aimed at easing the burden of debt for the poorest developing countries and the so called most seriously affected countries. Denmark also supports the establishment of a fund for stabilization of commodity prices. Following the CIEC, the talks will continue on these and other issues in other international forums. There, too, Denmark will continue to endorse efforts to reach specific results with a view to distributing the resources of the world more equitably.

Concomitant to these talks it remains vitally important to maintain and extend the cooperation going on with existing international assistance agencies such as the IDB.

Denmark looks forward to such continued and enlarged cooperation with the Inter-American Development Bank.

Address by Mr. Jean-Yves Haberer, Alternate Governor for France and Chief of the International Affairs Department in the Directorate of the Treasury of the Ministry of Economy and Finance

Mr. Robert Boulin, Minister of Economy and Finance, who has unfortunately had to remain in Paris for the parliamentary discussion on three bills, has asked me to tender his regrets.

I should like first of all to thank the Guatemalan authorities for their cordial hospitality to us here. What a pleasure it is for us to meet in this magnificent country, the home of one of the most ancient civilizations in human history and characterized by the remarkable energy with which its people have always responded to the challenges of nature. Thus, while the tragic traces of the earthquake of February 1976 are still evident, I salute the courage and determination with which the Government and people of Guatemala have overcome this trial.

This Eighteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank differs from previous ones in that, for the first time, nonregional countries have been invited not just as observers, but as active members. At this great international meeting, France is of course present.

As you are aware, my country places the problems of development in the forefront of its policy. I should accordingly like to express, on behalf of the French Government, some views on the new international economic order, the birth of which it seems to us we should favor. I am therefore going to place the first part of what I have to say in the context of the necessary solidarity of the international community in regard to economic and social development, a solidarity that the crisis of 1974 made us better aware of. For it induced a stocktaking without precedent throughout the world, with a view to analyzing the shortcomings of the present organization of trade and international financial mechanisms and to drawing up reforms. It was France that took the initiative of calling an international conference to examine the various proposals and to produce concrete results; this is the task to which the Conference on International Economic Cooperation meeting in Paris with 27 participants, and in which several American ones—(in alphabetic order) Argentina, Brazil, Canada, Jamaica, Mexico, the United States and Venezuela—are playing an important and constructive role, has been devoting itself to for more than a year now.

At this conference the French Government has presented a certain number of suggestions and has constantly sought priority attention for two major steps:

- The first is the duty for each developed country to accept and implement the target set by the United Nations for the present decade, i.e., the raising of the annual transfer of real resources to the developing countries, through public development assistance, to 0.70 per cent of their GNP. For its part, France, which already devotes 0.62 per cent of its GNP to such aid, confirms its readiness to reach this goal by 1980.

• The second, in accordance with the integral program drawn up by UNCTAD in Nairobi in May 1976, is an effort by the international community to organize the markets for raw materials and commodities.

This essential step calls for a certain number of initiatives such as the negotiation of product agreements and the establishment of a common fund, as the starting point for long-term measures. In addition, for the least privileged countries, France would like to have studied the possibility of supplementing this stabilization of commodity prices with the institution of additional mechanisms for the compensatory financing of losses of export receipts, as applied in the International Monetary Fund.

On the problem of indebtedness, our views are governed by realism. It is legitimate to raise the question of the excessive or over-rapidly growing indebtedness of most of the developing countries. However, it is also legitimate to want to safeguard the mechanisms for financing international trade and aid, which have the merit of existing and functioning, and of which, all said and done, every country is pleased to avail itself. We therefore consider that any general debt relief would bring more problems than advantages, particularly since it would destroy forever the international credit of the developing countries. On the other hand, we should like to see case-by-case consideration, based on precise economic and financial criteria, given to the problems of the countries whose indebtedness is highly disturbing. Whatever the extent of its consequences, this pragmatic solution should not be an alibi allowing the industrial countries to evade their international duty, which remains a high level of transfer of real resources.

On all these points, the international dialogue has, I hope, entered a conclusive phase with the resumption this week of the Paris conference. It is highly desirable in the interest of all that there should be a convergence of views toward a balance combining the requirements of necessity with a correct assessment of the possible. The French Government very much hopes that its own efforts to find such a balance will coincide with those of the countries of the American continent.

Whatever comes about, France's joining of the Inter-American Development Bank will enable my country to contribute more extensively to the development of the nations of Latin America and the Caribbean. And this is what I should like to consider in the second part of what I have to say.

Our relations with Latin America and the Caribbean region have traditionally been friendly and warm in all spheres. Our economic assistance has most frequently been of a bilateral nature in various forms. France has, for instance, given particular attention to industry-oriented technical cooperation. Over the past 20 years, 9,000 courses and missions have been organized to improve training in the essential disciplines: agriculture, power, water supply, public works, and construction. For agriculture, our assistance is provided basically in three forms: teaching in the universities or agronomy institutes, assistance to governments for reforms of agricultural structures and assistance to applied agricultural research. Medical cooperation is also provided. In the field of public administration we participate, through missions, in the modernization of numerous administrative sectors and we help with the training and refresher training of senior staff who receive long-duration courses in France through the International Institute of Public Administration.

Moreover, France has financed major equipment operations in several countries which have been granted Treasury loans on concessionary terms and conditions.

In addition, the French Government is prepared to encourage private investments in Latin America, *inter alia* through incentive and investment guarantee agreements, as we have done with success in other regions of the world.

To these bilateral programs and operations, which have their value and which we shall continue to develop, we should like to add multilateral assistance. Of course, our active membership in the International Monetary Fund, the World Bank, the International Development Association and the International Finance Corporation, and our contributions to the United Nations specialized agencies and to the specific agencies of the European Economic Community, have long enabled us to make our contributions to the economic and social development of Latin America. However, our effort was lacking a regional channel, and when, like the Asian Development Bank, Governors, you elected to open this Bank to the nonregional developed countries, France responded to your invitation. For it is our view that the regional development banks have an important role to play, on the one hand because they gather a supplementary amount of resources, and on the other, because they have a clear understanding of local priorities.

This brings me to the third and last part of what I wish to say, in which I would like to refer to the Bank itself, although the natural modesty of a first address prompts me to prudence and hence brevity.

At the quantitative level, careful reading of the excellent annual report leaves certain striking orders of magnitude in our memory: since inauguration of the Bank, its resources have multiplied 15 times and the volume of lending reached $1.5 billion in 1976 alone. The opening of the capital to the nonregional industrial countries is bound to increase the means available to the Bank. Five years ago, the Bank issued a loan on the French market. We are ready to repeat this experiment, as soon as the Bank finds it appropriate.

In the qualitative sphere, we approve of the orientations mentioned by the President of the Bank in his address on Monday. We have noted his proposal regarding the creation of a Special Guarantee Fund; this is a serious problem and one which merits serious study.

After 17 years of existence, the Bank's success is striking. Special appreciation is due on this score to Mr. Antonio Ortiz Mena, President of the Bank since 1971, who, in the footsteps of his illustrious predecessor, Mr. Felipe Herrera, has made the Bank a dynamic, effective and major organization. I am happy to offer him the congratulations of the French Government and to acknowledge the work and dedication of all the Bank's staff. And in conclusion, I invite you to turn your eyes to the future, a future in which we all, regionals and nonregionals, will be living together.

Address by Mr. Emmanuel Bros, Governor for Haiti and Secretary of State for Finance and Economic Affairs

The Haitian Delegation to the Eighteenth Annual Meeting of the IDB has the honor not only of expressing, on behalf of the Government of the Republic of Haiti, the hope that this meeting will be extremely successful but also of rendering public tribute to the Inter-American Development Bank for its laudable efforts to promote the economic and social development of our various countries.

With the programs that it has conceived and developed, the IDB can take pride in having met the objectives for which it was set up, objectives which include ensuring a better future for the Latin American community still unable to satisfy fully the legitimate aspirations of its peoples, who are entitled to a decent life free from hunger, ignorance and misery engendered by underdevelopment.

In a world where social inequalities are felt ever more strongly, it is important to emphasize that the IDB has not failed in its task of bringing new glimmers of hope to our peoples in their day-to-day struggles. It is against this background that we should stress the efforts that have been made and the positive results that have been achieved by our Bank from the date of its establishment to the present.

1. The Republic of Haiti and the IDB

Mr. Chairman, with reference to the various applications that the Republic of Haiti has made to the authorities of the Bank, the Haitian Delegation cannot fail to point out that the IDB has again recognized the tireless efforts of the Haitian Government to secure the social and economic advancement of the country. The various loans that have been granted to different sectors of the economy bear witness to this.

A. Projects Nearing Completion—Loans Granted

The execution of projects financed under loans granted by the IDB has made an invaluable contribution to the success of the new economic policy being implemented by the Government of the Republic of Haiti. Projects in progress are making good headway, as the IDB Representative reported during the September 1976 discussions of the Joint Committee on External Aid in Port-au-Prince.

The following projects we are glad to report, are nearing completion:

a) The major port works for Port-au-Prince, for which $17.5 million has already been provided, representing 84 per cent of the total cost of the program. As of April 30, 1977, an estimated 65 per cent of the work had been completed; it is hoped to complete the entire program during the first half of 1978.

b) The major project for improving the potable water supply and distribution system for the capital and Petionville will soon enter its third implementation phase, the cost of which has been estimated jointly by the IDB and the Haitian Government at $12 million. The various loans granted have amounted to $7.1 million, representing 84 per cent of the total cost of the works for which contracts have been let.

c) The Southern Highway project. The two loans granted for implementation of this program of national interest, to which the Government has rightly accorded priority status, amount to $47.2 million. The first loan of $22.5 million and the second of $25 million will together finance 197 kilometers of asphalted highway together with the construction of a bridge over the Momance River. These two loans represent 87.2 per cent of the total cost of the project.

B. Projects in progress and future projects

Together with the financial resources provided by the Government of Haiti, the new loans that the IDB has granted will permit the financing, over the months ahead, of programs of vital importance to the Haitian community within the framework of the National Five Year Plan 1976–81. The Haitian Delegation cannot but point out the most significant of these projects:

• In the field of public health, the recently authorized $6.3 million loan is designed to support the Government's efforts to improve health conditions for the rural population as part of the National Plan in the northern and southern regions of the country. This loan represents 86.3 per cent of the total cost of this program, which is expected to be completed in the second half of 1979.

• In the field of agriculture and natural resources, the $5 million loan signed on December 17, 1976, will enable the Government of Haiti to finance the first stage of a comprehensive program to develop the Artibonite Valley and rehabilitate the irrigation and drainage systems. The following specific subprograms will be carried out:

(i) *Infrastructure Works.* Rehabilitation of a network of 230 kilometers of primary irrigation canals and 70 kilometers of drainage canals, together with rehabilitation of the system of access roads paralleling the canals.

(ii) *Land Rehabilitation.* The object of this subproject is to develop four nuclei of 900 hectares in successive stages with a view to improving plot irrigation.

(iii) *Agricultural Extension.* The plots of land referred to in the preceding paragraph will benefit under this subproject through strengthening and improvement of the existing agricultural extension system.

(iv) *Agricultural Credit.* Supervised agricultural credit will be provided to farmers living in the areas to be upgraded at the plot level.

(v) *Agricultural Surveying.* A cadastral survey will be carried out in the Artibonite Valley, covering an area of approximately 45,000 hectares.

This loan represents 84.7 per cent of the total cost of the program, which is scheduled for completion in the second half of 1980.

In addition to the projects involving IDB assistance, it is of great importance to the Government of the Republic that many other projects that have already been prepared take on concrete form in the near future. These include a project to benefit the *Institut National de Développement Agricole et Industriel (IDAI)*, which would permit the enlargement, modernization and/or diversification of small- and medium-sized enterprises in the private sector and the establishment of industrial infrastructure service under the *Société d'Equipement National (SEN)*, together with the expansion of a central laboratory which would act as a nationwide control and standards setting agency, and the construction of industrial plants in the Port-au-Prince industrial park. In the agricultural sector, subloans would be provided to finance crop growing and livestock raising operations of small and medium farmers, by promoting the production of foodstuffs, the economic consolidation of production units and the production of agricultural crops lending themselves to industrial processing on a priority basis. Through its branch offices, the *IDAI* would be able to grant short, medium or long term loans to promote the development of small and medium sized farms, depending on the nature of the investment.

With regard to rural education, the Haitian Government submitted a loan application to the IDB on December 20, 1976, based on a study prepared by the Inter-American Institute of Agricultural Sciences under the technical cooperation program. A preliminary estimate indicates that this loan—on which the Board of Executive Directors of the IDB has not yet reached a decision—could amount to between $10 million and $12 million.

A further project designed to strengthen rural education, which is a responsibility of the Department of Agriculture, would also improve vocational training nationwide. A preliminary appraisal mission was dispatched to Haiti last February, which drew up the following objectives:

- Establishment of an Integrated Rural Education Center in various parts of the country.
- Strengthening of the existing teacher training establishments.
- Assistance to the Damien Audiovisual Communication Center.

The Haitian Government also informed the IDB Programming Mission in September 1976 of its desire to obtain a loan to help finance an agricultural development program for the Cul de Sac Plain based on the findings of an FAO study.

In the transportation field, the Haitian Government is still awaiting a response from the IDB to its application of January 10, 1977 for the study and execution of two sections of highway of high priority for the development of the commercial and agricultural sectors, namely:

a) *A high-speed North-South link road* which would connect the Northern and Southern highways, thus helping solve the problem of traffic congestion, provide access to the new port area and allow North-South traffic to bypass the center of the city. This project would be integrated with the various steps being taken at the moment by the Port-au-Prince Physical Planning Project Unit and the Town Planning Bureau of the Department of Public Works.

b) *The Mirebalais-Pont Sondé Highway*, for the agricultural development of that area.

2. IDB Technical Assistance and Technical Cooperation

It is also important to mention the nonreimbursable technical assistance that we have received and the forms of technical cooperation provided at various institutional levels, such as the retaining of specialized firms to assist certain autonomous State agencies in preparing studies for restructuring their organizations. The Port-au-Prince Port Authority is already benefiting under this program, and its administrative and accounting structure has been strengthened. The same is also true of the *Centre Autonome d'Eau Potable* (CAMEP), the agency responsible for water supply. Similar requests have been forwarded for strengthening the operations of *Télécommunications d'Haiti* (TELECO).

3. General Questions Affecting the Members of the IDB

Mr. Chairman, the programming mission that recently visited Haiti considered the future operations of the Bank in the country in conjunction with the Haitian Government. These future operations have been included in the new five-year development plan. Encouraged by the resolutions adopted, the Haitian Government has deemed it desirable to give proof of its determination to bring about the economic and social well-being of the Haitian community. The following financial and fiscal measures taken recently in a number of fields are designed to evidence this:

- Restructuring and improving the agencies responsible for tax assessments, and strengthening inspection procedures at the collection level.
- Revising of the Income Tax Law with a view to increasing yields from this important source of revenue.
- Development of adequate manpower and human resources.
- Administrative reforms.
- Creation of new sources of local counterpart funds for investment projects of both an economic and social nature.

In this connection, the Haitian Delegation considers it important to inform you of an Executive Decree allocating 50 per cent of the gross profits of the Tobacco and Match Monopoly to the National Investment Fund so as to increase our ability to absorb financial cooperation (Decree of March 14, 1977).

Recommendations and Suggestions

Mr. Chairman: *having come to the end of our address, the Haitian Delegation* would be remiss if we did not submit one comment and two suggestions which, we feel, are worthy of further examination by the IDB.

In the case of certain loans granted to Haiti from the Fund for Special Operations, the rigidity of some of the implementation requirements, bearing on such aspects as the crops to be financed, the geographic distribution of the agricultural credits to be granted, the choice of industrial projects, etc., made it difficult to secure full disbursement of some of these loans.

Our two suggestions are both general in nature. The first would be to give thought to a decentralization of the organization, one result of which would be to lessen the immense burden on the staffs of the Executive Directors in studying and analyzing the loan dossiers submitted to them. Secondly, and as a corollary to our first suggestion, the IDB Representative Officers in each member country could be strengthened. This would eliminate many obstacles and simplify the cumbersome formalities required for financial transactions involving the IDB and its borrowers.

The Delegation of Haiti is confident that these two recommendations, which it feels are of great importance for the continued growth and expansion of our Bank, will be carefully studied by the Bank's ever vigilant Management.

Mr. Chairman, the Government of the Republic of Haiti wishes to take the opportunity presented by this Eighteenth Annual Meeting to thank our sister nation of Guatemala for its cordial, nay proverbial hospitality. Haiti extends a hearty welcome to the new regional and nonregional members, and once again thanks the IDB for not having betrayed the confidence of its members. It is meet that such gratitude be expressed publicly.

Address by Mr. Dov Kantorowitz, Alternate Governor for Israel and Controller of Foreign Exchange in the Ministry of Finance

I deem it a singular honor and privilege to address this distinguished assembly of Governors of the Inter-American Development Bank in which, for the first time, Israel participates as a full member. Israel is geographically distant from the Western Hemisphere. We have, nevertheless, always felt an affinity with the nations of Latin America with whom we share many common interests and aspirations.

In its first four years of independence, Israel's population doubled, and within a decade, it tripled. This obviously created enormous problems of socio-economic integration and development; tremendous efforts have had to be made to create a unified, equitable society able to withstand serious strains, both internal and external. Being a small country, poorly endowed in natural resources, we have had to utilize as fully as possible the potentials of our only major resource—our people. As is to be expected in coping with sizable and wide-ranging problems of socio-economic development, our path has been marked by mistakes as well as by achievements. We have tried to learn from both.

It was as a most natural outgrowth of shared interests in a wide range of development problems that Israel and the Inter-American Development Bank first signed a Technical Assistance Agreement in 1966—a decade before Israel was to become a member of the Bank. Our Technical Assistance Program, as it has evolved over the years, has been based primarily on the experience which Israel gained, both from its mistakes and its achievements, as well as upon its ability to work together with Latin Americans in applying this experience to local conditions. From the outset Israel's Technical Assistance Program in Latin America took the form of a dialogue in which both sides have been able to share and to learn from each other. This, we believe, is the heart of the matter, the secret of the success of the Israel-Latin American dialogue in many areas of socio-economic development.

Measured solely in terms of dollars and cents, the sum total of the joint Israel-IDB Technical Assistance Program over the past decade may not initially seem of major import within the overall development program of Latin America. On closer examination, however, one finds that Israel's Technical Assistance Programs have had, and continue to have, a positive impact in the individual countries in which they are in operation. These programs have ranged over wide and varied fields. Israelis have cooperated with Latin Americans in integrated rural development, in rural leadership training programs, in organizing cooperative agricultural production and marketing, in arid-zone research, in the creation of cooperative financial institutions and in agro-industrial research. We feel that, together with our

Latin American counterparts in these programs, we can be justifiably proud of the positive impact which these programs have had in these countries. One program, currently in operation in one of the lesser developed of the Latin American countries, is based upon techniques for the more efficient exploitation of the productive capacity of small farms. In the two years in which this program has been in operation, it has raised the income of the families involved from $100 to over $1,000 per annum.

Israel believes that there are additional new areas in which much can be gained from sharing our know-how and experience with fellow Latin American IDB members. Because of its own developing background, Israel has evolved technologies in many fields of industry, housing, communications, commerce, and transportation which are particularly suitable for the needs of its fellow developing countries. Living as we do, day to day, with the multiplicity of development problems has made for greater mutual understanding between Israel and Latin America. It is our sincere hope that our entry into IDB membership will strengthen and expand this positive relationship still further.

In closing, my delegation wishes to express its sincere admiration and warm congratulations to President Ortiz Mena, whose imaginative foresight and exceptional leadership have brought the "nonregional membership exercise" to a successful conclusion. We wish, further, to congratulate him and the Bank's staff for the expansion of IDB activities, both in scope and depth, during this last year. These achievements bode well for the future.

I should also like to take this opportunity to express our sincere appreciation for the devoted work of our Executive Director and his Alternate on behalf of our group.

In closing, our sincere gratitude and appreciation go to the Guatemalan Government and to the Guatemalan people whose warm hospitality have made this Meeting a memorable experience for us all.

Address by Mr. Fernando Periche Vidal, Governor for the Dominican Republic and Governor of the Central Bank

Let me express the warm and cordial greetings of the people and Government of the Dominican Republic to the people and Government of the country which is hosting this Meeting. Guatemala has combined the hospitality and grace which characterizes its people with the enterprise and dynamism which have placed it among the most industrious countries of the region. The natural disasters which it has suffered have evoked a suitable response in the perseverance and resoluteness of its people, who are striving nobly to overcome their effects.

I should also like to extend fraternal greetings to Guyana, a recent member of the Bank, and to the nonregional countries whose admission to membership has infused new blood into the Bank and signals the beginning of an innovative stage in international cooperation.

In this, my first intervention before the Board of Governors of the Inter-American Development Bank, I am pleased to be speaking to this august body from Central American soil. We have always believed that the development of the Western Caribbean was linked in some degree with that of the Central American countries.

The geographic situation, resources, structure of production, liaison with countries outside the region and cultural affinity of our peoples support that view. We are aware of the need to take action by establishing common policies which go beyond formal integration schemes. Fair and equitable prices for traditional exports, the expansion of domestic markets and the effort to abolish restrictions on the export of traditional and non-traditional goods by countries with a long free trade tradition are only a small sample of the common areas in which there can and must be greater cooperation among the countries of the region.

This is a good opportunity to express the gratitude of the Dominican Republic to the President of the Inter-American Development Bank, Antonio Ortiz Mena, for the magnificent work he has done as head of the Bank and for the Bank's enthusiastic support for the development projects we have submitted. During his term of office, the Dominican Republic has obtained resources of vital importance for the financing of its development process.

The political stability which has prevailed in our country for the last decade as well as the program of concentrating public expenditure on investments and the more rational use of our natural resources has produced one of the highest growth rates of the gross domestic product (GDP) in the region, thus creating the right climate and conditions for the launching of new development projects. It is also true, however, that the officials of the Inter-American Development Bank have provided valuable cooperation by actively and successfully participating in identifying areas and projects.

To be specific, the loan designed to continue to promote the integrated agricultural development of the Dominican Republic was signed yesterday, here in Guatemala. This objective will be attained through a program which was initiated with the cooperation of the Bank through a previous loan. The basic aims are to increase agricultural production and productivity, contribute to a better use of soils and water and, in short, to raise the standards of living of the rural population. In addition to this program, our Government has been implementing a vigorous policy of building essential infrastructure works which will provide the system of dams and canals necessary to bring new land into production and thus guarantee a yield of food and agricultural raw materials which will meet domestic needs and enable us to organize the export of those commodities on a more stable basis.

However, in order to sustain our domestic efforts to rescue us from underdevelopment in the long term, a series of factors must interact favorably; they include price levels of export and import products and the nature of the technological flow of capital.

During periods when those factors have a negative impact on the economy, creating forces which tend to erode the successes achieved, the support provided by multilateral organizations for the economic and social development process in the region assumes its precise and critical dimension. For that reason, it is vital for the nations of Latin America, especially those whose markets are small and whose production structure is not sufficiently diversified, to have access to financial resources on soft terms, because those funds sustain ongoing programs and help to maintain the desired pace of the economy. The process of making adjustments in the present international economic system would become much more flexible if the surplus and hard currency countries increased the flow of funds to the Fund for Special Operations and other similar funds. We should therefore like to point out that the stable evolution of the system depends on the balance which can be struck between surplus and deficit countries and that the economic and social improvement of the region is also in the interests of better development in the developed countries themselves.

The time is right to reflect on the general criteria governing the Bank's financial aid to the region and the priority given by each country to its projects in the light of its economic and social situation. Countries have their own characteristics and needs and at any given moment in history those needs may be different from competing needs, even in the neighboring countries. Consequently, while global priorities should be set in allocating the Bank's resources, that policy should be sufficiently flexible to be adapted to the order of priorities laid down by the countries in accordance with their development programs and therefore with due regard for the specific needs of each area or national entity.

In that connection, for some time now the Dominican Republic has been allocating funds to strengthen the tourism infrastructure because it believes that, with its geographical situation and natural beauty, tourism can in the near future become an important growth factor in the economy and can help to stabilize the balance of payments. However, some countries have run into serious difficulties with the Bank in this field. These have delayed the launching of planned programs. We would like the Bank to give firmer support to tourist development projects which are regarded as priorities by the requesting country.

I should like to refer now to the use of the resources of the Fund for Special Operations. There is a tendency within the international agencies to make comparisons based on per capita income. We take the view that the attainment of a specific level of income is not synonymous with having overcome the great obstacles that exist to development. To withdraw financial support at a time when, as the fruit of arduous effort or owing to cyclical economic situations, a particular level of income is reached can halt or slow down the social and redistributive changes that would otherwise occur. The proper thing to do is to promote the economic and social development of our relatively less developed countries and those of insufficient market and poorly diversified production structures by allocating more soft financing and more technical cooperation of them. This must be done because a country's own effort must be recognized not penalized.

Latin America needs an increased volume of concessional resources, which must be channeled to projects that are assigned priority by the relatively less developed countries, and these funds must be contributed by the developed nations and the oil producers and exporters. This is a timely occasion for these countries, some of them members of this Board of Governors, to reflect on this matter and to assist in the creation of a more balanced and stable international order.

In studying the results of the Bank's management during 1976 we are highly impressed by the goals achieved. The volume of loan approvals in that year was the highest in the Bank's entire history, and this was accompanied by an increase in nonreimbursable or contingent-repayment technical cooperation. In addition, the necessary measures were taken to authorize increases in the Bank's ordinary capital and in the resources of the Fund for Special Operations by $6,300 million, though this process has been hampered by the delay with which certain countries are fulfilling their commitments. As regards the distribution of 1976 lending, preferential consideration was given to agriculture, industry, mining and economic infrastructure, with little going to tourism and export financing. We believe that both these areas ought to receive greater attention, although this would require revision of the criteria that have been used up to now.

In presenting to the Board of Governors the proposed Resolution on enlargement of the Board of Executive Directors, I take pleasure in expressing the interest of the Dominican Republic in the request presented by the Governors for Barbardos, Guyana, Jamaica, and Trinidad and Tobago. The Dominican Republic is in full sympathy with the efforts that these four countries are making to perfect their process of integration. I wish therefore to propose that we follow with particular attention the work being done by the Committee of Governors to deal with the request submitted by our sister nations of the Caribbean.

During the meetings we have held, in the work done by the Bank, in the atmosphere of cordiality and understanding that has prevailed at this Meeting, we have noted the determination to improve even further this valuable instrument of cooperation between our countries which is the Inter-American Development Bank. We are accordingly convinced that even though there are many obstacles to be overcome in the never ending struggle to improve the quality of life of our peoples, we hold the possibility in our own hands to channel our best efforts to the accomplishment of that laudable goal.

Address by Ambassador Klaus Jacobi, Governor for Switzerland and Delegate of the Federal Council for Trade Agreements

I would like first to join previous speakers in expressing my gratitude to the Government and people of Guatemala for their cordial and generous hospitality extended to us. We consider this invitation as a special gesture, since our host country was struck by a natural catastrophe last year. Switzerland, which has had close ties with Guatemala for a long time, is proud to participate substantially in the international efforts for the alleviation of the damages caused by this disaster.

It is indeed, a great honor and a real pleasure for me to have the opportunity, for the first time, to address, as the Governor for Switzerland, the Annual Meeting of the Bank. Having actively participated from the very start in the long negotiations which culminated in the opening of the Bank to nonregional countries, I find it especially heartening to witness today the concrete illustration of our efforts.

I am pleased to stress that the entry of Switzerland into the Bank was a natural and logical development. Traditionally, Switzerland has had a close relationship with Latin America and the Caribbean. Already in the Nineteenth Century, this continent constituted the main pole of attraction for the many Swiss emigrating abroad. With time, a complex set of economic, financial, commercial and cultural ties was established. This results in the fact that on a per capita basis no other country has a higher trade volume with Latin America than Switzerland. By its joining the Bank, Switzerland hopes to further strengthen the various aspects of its relationship with this great continent.

Let me now comment on *five points* which I consider to be of special importance for the present and future situation of our Bank:

- The significance of the Bank's opening to nonregional countries.
- Recent developments in capital market.
- Operations.
- The decision-making process in our Bank.
- Public opinion in donor countries.

1. *Significance of the Bank's Opening to Nonregional Countries*

The association of nonregional countries with the Bank is significant in several respects. The most obvious implications are *financial*: thanks to the greater volume of resources put at its disposal, the Bank is now able to assume enlarged responsibilities.

Yet, the implications of the Bank's opening are not *only of a quantitative, but also of a qualitative* character: from now onwards, the policy of the Bank will be shaped jointly by groups of countries which may not always have identical opinions as to the best means of achieving the common goals of this institution. At the same time, the very fact that the nonregional countries are now full-fledged members of the Bank allows them to get progressively even more acquainted with the specific problems of Latin America and the Caribbean. As a consequence, we will all together be in a better position to live up to the expectations that the Latin American people have placed in this institution.

2. *Recent Developments in Capital Markets*

In his recent statement to the Development Committee, President Ortiz Mena placed a most appropriate emphasis on the great importance of *international financial transfers* and of increased access of developing countries to world capital markets. In this connection, I am pleased to report that the Swiss capital market has continued to be highly efficient. Prevailing market conditions and the liberal attitude of our monetary authorities again made possible sizable capital exports. In 1976, the Swiss National Bank approved capital exports in the overall amount of approximately 19 billion Swiss francs. Of this, 3.5 billion were accounted for by Swiss franc loan issues by foreign borrowers, 10.5 billion by placements of medium-term notes and 5.2 billion by bank credits.

Roughly 13 per cent of the Swiss franc loans issued by foreign borrowers were floated by development institutions. This access to our market was facilitated by exempting their offerings from the ceilings currently in force. In 1976 the IDB placed a loan in the amount of 100 million Swiss francs; another loan of 80 million will be offered for subscription in a few weeks.

In the medium-term sector, roughly 15 per cent of all placements were accounted for by development aid agencies. Here, IDB participated with two operations for a total of 225 million Swiss francs.

In line with prevailing market conditions, *interest rates declined sharply* in the year under review. In the foreign segment of the Swiss franc market for public loans, they dropped from 7¾ per cent at the end of 1975 to a level of 5¼ per cent in March 1977 for maturities up to 15 years.

Over the course of the years, the Bank's transactions with my country have developed in a way which makes Switzerland the *third most important capital market country for the borrowings of our institution*. At the end of 1976, the total outstanding borrowings of the Bank in Switzerland amounted to more than $300 million.

As far as the *financing of balance of payments deficits* is concerned, the international capital markets have so far demonstrated an impressive performance. Since balance of payments disequilibria are likely to persist in the near future, it is essential that due attention be paid to the problems of deficit financing. In this context, we consider the *following four points* as particularly important:

(i) to further develop the survey of international claims and liabilities;
(ii) to improve, in coordination between the private banking sector

and national as well as international authorities, the structure of debt maturities;

(iii) to increase the share of conditional deficit financing by official sources, and

(iv) to enlarge the contributions of oil-producing surplus countries to the financing of balance of payments deficits.

3. *Operations*

After having gained some more experience, we will at future annual meetings have the opportunity to comment in detail on specific aspects of the Bank's operations. For the time being, I would like to underline *four basic policy guidelines* followed by the Bank, which are similar to those applied in the development cooperation of Switzerland and which, in our view, should be vigorously pursued:

a) *the special attention granted to the 15 lesser-developed countries of the region,* in order to ensure that the benefits of development are distributed equitably on a region-wide basis; in this respect, we have noted with satisfaction that in recent years, the lesser-developed countries have been the main beneficiaries of Bank loans in per capita terms and have also received a growing proportion of the Bank's concessional lending; we would also recommend that such preferential attention be granted as well to the poorest areas and population groups of the relatively more developed countries;

b) *the expanding volume of preinvestment loans and the technical cooperation being supplied by the Bank;* for example, the volume of nonreimbursable technical cooperation extended by the Bank has increased sharply in recent years—from $6.5 million in 1973 to $30.9 million in 1976; in our view the Bank is thus fulfilling a very useful role in enhancing the ability of the Latin American countries to absorb larger quantities of external financing; this role should continue to be fulfilled in close coordination with the other international agencies concerned;

c) *the high priority accorded by the Bank to agricultural development in Latin America;* this is reflected by the fact that the Bank has channeled nearly one-fourth of its total lending volume to that sector;

d) *the increasing activity of the Bank in the social fields such as water supply, health and basic education;* in our view, the improvement of the living conditions of the rural and urban poor should continue to receive a special attention from the Bank.

4. *Decision-making process in IDB*

Our Bank has constantly to adapt itself to changing circumstances. In the future as in the past it will have to take important policy decisions which should always result from a frank and open exchange of views between all Bank members. In this respect, I have to confess that our first membership year has not been entirely satisfactory, especially if compared to our experience as a member of the two other regional development institutions. While recognizing fully the need for the Bank to act in a speedy way, we regret that there have been circumstances when important decisions have been taken without real prior consultation with the capitals of the member countries. From a practical point of view, I propose that Bank documents be circulated sufficiently in advance, so that in each case, the authorities in the capitals of the member countries can form an *objective judgment* on the basis of the documentation submitted. I believe that such improvements in the consultation procedures could contribute efficiently to the gradual formation of a common spirit among all members of the Bank.

5. *Public opinion in donor countries*

Finally, I would like to turn to a point which is of great importance to my country, but also, I assume, to other donor countries, namely public opinion with respect to development policy. Public opinion has become more critical towards contributions to international financing institutions. We have to admit that development cooperation is now—in a period of severe budgetary constraints and of worldwide economic recession—a highly sensitive issue which can lead to awkward controversies.

The Swiss authorities take these criticisms and questions seriously. They are studying ways of improving the information of the public on the purpose, methods and results of development cooperation. This is all the more necessary since, as you may know, a characteristic feature of Swiss democracy is the right of our population to demand a national vote on any major legislation adopted by Parliament.

With the help of concrete illustrations, it should be possible to convince the public of donor countries that *our Bank's projects effectively do benefit the poorest segments of the recipient countries* in terms of rural and urban development, job creation and satisfaction of basic needs. The Bank has already made an information effort to describe its role in the economic and social development of Latin America on which I would like to congratulate it. It should continue on this line to demonstrate to the public of its developed member countries the practical results of its manifold activities.

In concluding, I would like to express to President Ortiz Mena and his dedicated staff our high appreciation for their work. They can be assured of our full support for the difficult tasks which lie ahead of us. The economic and social development of this great Continent does, indeed, deserve our best efforts.

Address by Mr. Ludovicus Meulemans, Alternate Governor for Belgium

It is for me both a great pleasure and a great honor to attend this Eighteenth Annual Meeting of the Board of Governors of the Bank and to express on behalf of the Minister of Finance, the Governor for Belgium, who is unfortunately detained in Brussels by the formation of the new Government, his great interest in our institution and his best wishes for its continued progress in the service of the economic and social development of the countries of Latin America.

Belgium's participation in the Bank can be regarded as a continuation of the collaboration that started back in 1967, when the Bank placed its first loan on the Belgian capital market. Our participation rounds off in the multilateral sphere the bilateral efforts in which we have engaged in recent years with various countries in Latin America.

First I wish to join with other Governors, Mr. Chairman, in expressing through you, to the Government of Guatemala, the thanks of the Belgian delegation for the hospitality extended to our meeting and the warmth of the welcome given to our delegations in this beautiful country of such an ancient civilization, where we can also see the rapid and significant progress that can be achieved through a carefully considered development strategy.

We are glad that we have joined the Bank, because this represents the successful conclusion of lengthy negotiations. At this juncture I should like to express our gratitude and congratulations to the President, Mr. Antonio Ortiz Mena, and his immediate staff, who have spared no effort in the years between 1972 and 1976 to bring this exercise to the desired conclusion.

We are even more glad that we have joined, since at the past three meetings we have heard the Governors of the regional countries express words of warmest welcome, and describe in flattering terms, the salutary effects that will ensue from our joining the Bank, in terms of both its future resources and its future activities. Like other Governors of nonregional countries who have preceded me on this rostrum, I can assure you that we will do our best and will contribute to the limits of our means and possibilities to the study of and joint search for solutions to the development problems of Latin America.

With the recent accession of the Netherlands, France and Italy, virtually all the member countries of the European Economic Community are now represented within our Bank. This fact should be stressed, as it bears witness to the interest of Europe in a major regional institution bringing together countries with which the Community, through the agency of the European Development Fund and the European Investment Fund, is already collaborating in various ways under the aegis of the Lomé Convention.

Despite the favorable trend in certain factors at the international level and the improvements that have occurred in certain of the regional member countries of our Bank, I feel that we must all recognize that the situation still remains disquieting for a number of our member countries. They continue to face serious problems, not only with regard to their balance of payments but also in the pursuit of their development and the maintenance of a reasonable rate of growth. It is particularly in this context that we must see the importance of the Bank's activities, and the significant role it can play in securing the transfer of resources from the industrialized countries to the nations of the region. These transfers enable the countries of the region to mobilize a larger volume of domestic resources, which, as before, remain the essential factor in their economic progress. These transfers will thus play a significant role in the functioning of the process of international adjustment.

As the President, Mr. Ortiz Mena, said in his address last Monday, the Bank has achieved noteworthy results in this sphere:

a) Total Bank lending amounted to $1,528 million in 1976, approximately 11 per cent higher than in the previous year, thus raising the total amount outstanding to more than $10 billion.
b) Special funds have been largely reserved for the less developed countries in the region.
c) Study of the sectoral distribution of lending shows that the Bank has made a highly significant effort to develop agriculture and the rural area. This effort should be continued under the present circumstances, despite the difficulty identifying, preparing and managing sound projects in this sector.

The President's address also highlighted other favorable trends in the past year, but as a new member I should like to draw your attention to certain matters which struck me while reading and studying the various documents submitted to us by the Bank. I shall endeavor to give you my initial reactions to these matters as well.

First, the Inter-American Development Bank has managed to maintain a measure of balance between its ordinary loans granted on conventional terms, and its special loans granted on concessional terms. In this it differs from other similar institutions, where the ratio is 1:3 or 1:4. The Bank has thus been able to apply a blended loan system for certain countries and pursue in a more normal manner the objective sought by certain mechanisms currently being applied both multilaterally (cf. the World Bank's Third Window) and bilaterally (cf. the system of interest subsidies on export credits).

In view of the objectives pursued by the Bank, both with regard to its future activities and the contributing capacity of the donor countries, I wonder whether it will be possible to maintain in the future the same ratio between the two categories of loans.

Second, the interest charged by the Bank on its ordinary loans was held at 8 per cent for years, before being raised to 8.6 per cent on July 1, 1976, and then brought back down to 8.35 per cent as of January 1, 1977. In this field our Bank is distinguished from other development institutions, which charge higher interest rates on their ordinary loans. As such loans are provided out of funds raised on the capital market, the Bank's favorable interest rate is due mainly to its reputation as a first-class financial institution, that derives, for the greater part, from its sound and prudent financial policy evident in the maintaining of sound safety margins and liquidity and income ratios.

I believe that we should make every effort to ensure that the Bank retains its financial credibility, its international creditworthiness, so that it will be able to continue raising resources on the best possible terms and conditions in our countries' capital markets.

Third, the relatively high amount of repayments ($229 million in 1976, raising the cumulative total as of December 31, 1976, to $1.4 billion), which are an increasingly important element in the Bank's loan program.

Fourth, the growing importance of technical cooperation, furnished by the Bank on a nonreimbursable or a contingent recovery basis, and which is increasingly linked to the Bank's lending activities in different forms, namely to assist the member countries to prepare feasible development projects and to improve the region's institutions responsible for planning the execution of development programs.

Technical assistance operations are one of the most effective means for ensuring that there is a pipeline of sound, feasible projects that can be implemented within a reasonable time.

They also help to resolve in part the problem of the time lag between loan commitments and the corresponding disbursements, a problem that derives from numerous causes inherent in the time needed and the complications of the practical implementation of projects.

We must not dramatize the present situation. The problem in question is a matter of concern to all development institutions and they are all seeking appropriate solutions. Moreover, these solutions are not easy to apply and depend both on the countries concerned and on the Bank itself. I am in any case convinced that the Bank is aware of these problems and will spare no effort to resolve them.

Fifth, the volume of the Bank's resources, according to the President's address, exceeds $18 billion. As a result we feel that we are members not just of a regional bank but rather of a mini World Bank.

We trust that the operations under way and envisaged to reconstitute the Bank's resources will be able to proceed normally.

As other Governors for nonregional countries stated yesterday, I believe that the study of the problem of reconstitution of the Bank's, or more precisely the Fund's resources for the three-year period 1979–81 should be started in the months ahead. We all know that the negotiations to arrive at an agreement on this matter will take time and that in various countries—including mine—parliamentary approval requires several months.

Sixth, the important role played by the Bank in the mobilizing of foreign private capital and the effort it has put into setting up the complementary financing mechanism. Through this mechanism, resources from private commercial banks and other financial institutions are channeled to development projects in Latin America by means of parallel loans from the Bank. In 1976 the Bank carried out two complementary financing operations and we may express the hope that several more will materialize in the course of the present year.

Seventh, an intensification of the contacts with the various international, regional and national institutions also involved in the development of Latin America.

For the year under review, I particularly noted cooperation with the World Bank, the Saudi Arabian Development Fund and the industrialized member countries of our Bank in the execution of certain projects.

Moreover, we heard with satisfaction on Monday that negotiations have been undertaken by the Bank with a view to concluding cofinancing operations with agencies of the nonregional oil-exporting countries. In addition, contacts were initiated recently by the Bank with the International Fund for Agricultural Development and the European Economic Community and there are grounds for hoping that these will lead to real cooperation with these institutions.

Following the example of the World Bank Group, I believe that application of the cofinancing formula ought to be further encouraged since it unquestionably provides one of the most effective means of mobilizing additional financial resources, either multilateral or bilateral, public or private, in favor of regional Bank member countries. This ensures the global coordination of projects and confirms for this formula a role as a development instrument in this region of the world.

These, Mr. Chairman, Governors, are the considerations that I wished to express regarding certain aspects of the Bank's work.

In conclusion, I wish for the Bank continued success: may it thus pursue the task undertaken 18 years ago to the benefit of Latin America, an undertaking in which my country is happy to participate.

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

Mr. Chairman, I join with my fellow Governors in extending our sincere appreciation to your Government for the hospitality which we have received, and the excellence of the arrangements that you have made on short notice for our meeting. I couple with this our admiration for the tremendously successful effort of recovery that your country has made following the disaster of last year, and extend our sincere good wishes for continuing success in this regard.

This meeting has a special significance for me as a representative of a country of the Caribbean community, because we have the pleasure of welcoming another member of the community, the Republic of Guyana, into full membership of the Bank. It is significant for us also because of the unanimous acceptance by our fellow Governors of the Resolution which we presented for consideration to be given to representation of the Caribbean, as a group, on the Board of Directors. We very much look forward to having the opportunity in the future to participate in the work of the Board on a fully integrated sub-regional basis.

For all of us, this meeting is also significant as the start of a new association with the nonregional members from Europe, Asia and the Middle East. We welcome them most cordially, not only for the strengthening of the resources of the Bank which their membership brings, but also for the value of their contribution on the Board of Executive Directors.

This addition of strength to our Bank comes at a very timely moment. Over the past three to four years, most of the countries of this region have been seriously affected by the financial and economic crises that have characterized the international scene.

The experience of my own country, Jamaica, provides a graphic example of the impact of these events upon a developing country. We have had a very dramatic demonstration of the extreme vulnerability of our economic structure to the effects of inflation and recession in the industrial world. Because of the fact that we depend so heavily for essential imports and for export markets on North America and the industrial countries of Western Europe, even a small downward swing in those economies produces disproportionately adverse effects on us. When a serious recession takes place the consequences for us are disastrous.

Since 1973 Jamaica's economy has fluctuated between stagnation and absolute decline in real terms. The gap in current account has widened, and we have been experiencing critical shortages of foreign exchange. This experience of minimal or negative growth rate in real terms has not been peculiar to Jamaica. It has been duplicated in practically every oil importing developing country, although the virulence might have varied in degree from country to country. For a developing country, economic stagnation of this kind has very dangerous social and political implications. It has to be seen in the context of continuing population increase, combined with rising expectations, fueled, not only by the legitimate demands of people everywhere for better social services, better living conditions and better employment opportunities, but also by the experience of the high growth rates that had been enjoyed in the decade preceding 1973 by most if not indeed all developing countries.

This is obviously a very explosive situation, particularly when we have the cruel fact that economic stagnation in developing countries finds its most immediate and dramatic expression in the rapidly increasing rates of unemployment among young people.

While it is unquestionably true that each country has the ultimate responsibility for working out its own strategy of development and mobilizing its own efforts to that end, there is a critical obligation on the developed industrial countries and other capital exporting countries to assist this process by bold and imaginative actions on a scale much larger than has hitherto been attempted. There has to be a conscious and continuing program of action designed to increase the real resources available to the developing countries through secured markets and improved prices for their products, substantially increased development assistance, both financial and technical, and greatly accelerated capital inflows on terms that take into account both the economic and political realities of the recipient countries.

It is important to recognize that such action is as necessary for the benefit of the developed countries as it is for the developing countries. It is only by continuously increasing the totality of world economic demand that the developed industrial countries will be able to avoid the cycle of overproduction, recession and inflation being repeated at periodic intervals. The continuing increase of effective demand on a long term basis can only be guaranteed by the development of steadily growing economic power in the developing world.

We have long recognized, in theory, the interdependence of the world economic system. The events of the last few years should have demonstrated to everyone that it is time for this interdependence to be fully recognized in meaningful, practical action, on a scale far larger than anything hitherto attempted. A realistic assessment of the political and social forces at work in even the richest of countries in the world today, should also convince us that there is not much room for delay.

It so happens at this moment of time that most of the countries of this region are at the most strategic point of their development cycle to take advantage of any such major program of economic stimulus. That is why I have said, Mr. Chairman, that the nonregional members have come at a very timely moment to add to the strength of this Bank. There is no doubt that this Bank has developed into the principal agent for Latin American development. It has the leadership, the experience, the record of achievement and the policies for development most appropriate to this region. These all combine to guarantee that it will make the fullest and most dynamic use of increased operational strength.

My own country has benefited considerably over the eight years of our membership from a number of economic and social development projects, which we have been able to institute through the Bank's assistance. We are particularly appreciative of the programs for agricultural development, rural electrification and improvement in our water supply, which we have been able to implement with the Bank's assistance. We will in the years ahead be concentrating not only on the expansion of programs of this kind, but also on programs to expand our export capabilities in the field of light industry, handicraft and horticulture, in addition to our more traditional export products in agriculture and mining. We therefore particularly welcome the emphasis which the President has placed on Bank assistance for the development of small- and medium-size agricultural and industrial operations.

In conclusion, Mr. Chairman, I once again have great pleasure in congratulating the President and his able staff on another year of solid achievement in assisting the development of this region, and expressing confidence that in the ensuing year we will see even greater achievements for the benefit of us all.

Address by Mr. Alfonso Arcos, Alternate Governor for Ecuador and Chairman of the National Planning and Economic Coordination Board

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On behalf of the Ecuadoran Delegation, I wish to express our gratitude for the hospitality extended to us by the Guatemalan authorities and people.

This gratitude is combined with admiration when we recall that only a few months ago this sister nation, which was devastated by the rampaging forces of nature, is now not only emerging vigorously from the tragedy but also making this city available to Latin America and the world as the site for the Eighteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank, thereby demonstrating that when a government and a people unite as one there is no limit to what can be achieved, whatever the obstacles in their way.

Like Guatemala, we belong to the group of less developed member countries of the Bank. We therefore follow closely its efforts to further economic growth and social change.

We have carefully studied the Annual Report for Fiscal 1976 submitted to us by the Executive Directors and we are gratified to note the increasing vitality, both qualitative and quantitative, of the Bank. However, we feel that in this meeting we ought to make a renewed effort to ensure that this vitality is constantly increased to enable us to attain without setbacks or delays the goals of our charter, the Establishing Agreement.

At the Seventeenth Annual Meeting held in Cançún, a year ago, 24 countries gathered together to exchange views concerning our Bank. Today, there are 38, the membership having been increased by one regional country —Guyana—and thirteen nonregional ones, who come to offer us not only financial resources, but also, in particular, goods, services and alternative technologies, thus providing a wider range of choice that will unquestionably foster the development of Latin America.

However, Latin America has its own special characteristics and it is due to these that the IDB was established. We should therefore like to emphasize in this meeting that it is essential for the IDB to continue to be our regional financial mechanism, with a regional staff and under regional management, "to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively".

We are certain that under the wise leadership of Mr. Antonio Ortiz Mena the IDB will continue to serve the nations of Latin America, channeling an ever increasing volume of real resources to our countries which, as a consequence of an incomplete analysis, have been practically excluded from world transfers on the pretext of their progress in the struggle for development, without proper account being taken of the dynamism that this progress imparts to the growth of the industrialized areas.

We believe that financial support and technical cooperation should be continued on a growing scale and with due account to the relative degree of development of the countries concerned. We accordingly hope that the increase in resources to which we are committed will materialize on schedule so as to ensure that the resources will be compatible with the lending and technical cooperation programs.

We continue to believe in the multilateral institutions. In the case of the IDB, the principle of multilateralness is being strengthened by the entry of the nonregional countries. It is our hope that we shall continue to furnish an example to the continent and to the world of objectivity in the processing of requests by the countries and that these requests will be appraised solely on the basis of their socioeconomic and financial characteristics, in accordance with the guiding principles of the Inter-American Bank.

Ecuador is pursuing its rational and planned development policy with renewed vigor. We are currently evaluating the Integral Transformation and Development Plan for the 1973–77 period that the National Government has shouldered.

We are pleased to be able to say that, essentially, we have accomplished the objectives and goals and carried out the programs and projects of the Integral Plan. But the effort required of us to realize the universally accepted minimum aspirations is so great as to make international cooperation on concessional terms essential.

In this connection, Ecuador's policy directed at converting the temporary resources at its disposal into permanent resources has been studied by the Bank's Management, which has grasped the magnitude of the effort and has confirmed that, in terms of the current economic situation, Ecuador continues to belong to the group of countries which because of their development status and limited market need to beneficiaries of soft funds. In light of this and of the Bank's policy we urge that we be given appropriate access to this type of resource and that the tendency toward a hardening of loan terms observable in recent years be changed.

We see development as an integral process, with both domestic and international facets. On the domestic side, we see it as balanced regional development in the economic, political and social spheres. Internationally, it is a matter of our unstinted support for the processes of Latin American integration, reflecting Ecuador's unswerving faith that these activities will endow us with the necessary strength to arrive at our own decisions.

We need to step up our integration programs and projects, and Ecuador is giving special attention to all projects that bring us closer to and strengthen the links with our neighbors and with the region generally. The Inter-American Development Bank has pioneered in preinvestment financing in Latin America, and the preinvestment funds of practically all the member countries have been supported by Bank loans and technical cooperation. We should like to make special reference on this occasion to the decision taken by our countries, at the recent meeting on this subject in Quito, to set up a

Latin American Center for Pre-investment Information. We are confident that, in accordance with the statements made by at the highest level of authority in the IDB, this new manifestation of regional solidarity will enjoy the Bank's continuous support.

We congratulate the Bank's Management on its decision to devise new operational mechanisms for channeling international savings to Latin America. We believe that the system of supplemental financing already introduced, once it has been revised, will become a very important source of cofinancing of our projects by private banking.

We should like to make special mention of the technical support by the Bank that has enabled us to bring the negotiations with the Saudi Arabian Development Fund to a successful conclusion.

We should also like to endorse the action recommended by the President of the Bank with respect to the proposed Special Guarantee Fund as a means of creating a new flow of resources to the countries for support of their plans and programs for exploitation of the region's basic resources.

Mr. Chairman and Governors, we have heard with satisfaction the statements by the Governor for the United States of America to the effect that it is the policy of the present Administration of that country to establish a new and positive dialogue for the purposes of taking decisions that mutually affect us in the various fields of international cooperation. This leads us to foresee that the exceptions granted in the trade legislation to Venezuela and Ecuador will soon be eliminated, in fulfillment of the statements to which we draw attention, with such great interest, today.

Mr. Chairman, we shall continue to support our regional Bank in the policies and decisions that emanate from this Meeting of Governors and from the Board of Executive Directors, on which we participate in such close association with Brazil, of whose Board of Executive Directors we should like to make special mention.

It is our hope that this Eighteenth Meeting of the Governors will lead to institutional strengthening of the IDB for the benefit of Latin America.

Address by Mr. C. J. Oort, Temporary Alternate Governor for the Netherlands and Treasurer-General of the Ministry of Finance

It is a special privilege and a great pleasure for me to address, on behalf of the Netherlands, the Annual Meeting of the Inter-American Development Bank for the first time.

I am pleased to convey through you, Mr. Chairman, to the member Governments of the Bank, the appreciation of the Netherlands Government for your acceptance of my country as a member of this Bank. The Netherlands is particularly pleased to join this institution which has built up such an excellent reputation in development finance under the able and dedicated leadership of its President Mr. Ortiz Mena. I wish to pay tribute to the important role which the Bank has played for the financial, economic and social development of Latin America.

May I take this opportunity to join other Governors in thanking the Government of Guatemala for having hosted this meeting on such short notice and for the generous hospitality extended to us.

We are very happy that we and other nonregional countries have joined the Bank. We hope and expect that more countries, regional as well as nonregional, will be able to join this great institution in the foreseeable future. I especially hope that the Republic of Surinam, with which we continue to have a warm and close relationship, will soon be welcomed as a new member.

In this gathering I need not go into the international monetary and economic situation which has been so aptly described and analyzed by the Board of Executive Directors in the Annual Report. Nor do I want to go into the development policies of my own country which is as you know, among the few that have reached and in fact exceeded the ODA target of 0.7 per cent of the gross national product.

I would like to limit my remarks to the operations of the Bank and make a few observations on three subjects: the financial situation of the Bank, its lending activities and the evaluation of Bank projects. First of all, I wish to pay tribute to the sound financial management of the Bank. The financial performance is impressive and the level of net earnings as expressed in the Interest Coverage Ratio is even on the high side. It is gratifying to note that the Bank's credit rating in financial markets is of the same high standing as those of the World Bank and the Asian Development Bank. Since my country has and expects to have, at least for the foreseeable future, a rather large current surplus in its balance of payments, our capital market, therefore, is open to foreign borrowers and we have traditionally welcomed capital issues of international institutions. I may add that the Netherlands authorities will be most willing to cooperate with the IDB in the event of a new intended operation of the Bank in our capital market.

Mr. Chairman, the difficult world economic situation, reflected in the reduced and in some cases near zero growth rate of some Latin American economies, requires a genuine effort on the part of the Bank to expand and diversify its lending program. The wide difference among the member countries with respect to their economic situation, domestic financing, availability of natural resources and export opportunities call for a differentiated and flexible Bank lending policy.

The Netherlands Government attaches great importance to the economic and social development of the poorest and most seriously affected developing countries. My Government wholeheartedly supports the declaration in the Agreement Establishing the Bank that social development is considered as important as economic development. We have noted with great interest the preferential attention given by the Bank to the lesser developed member countries and the poorest parts of the population. This policy has our warm support. We ourselves direct our development aid especially to the poorest countries and to programs that benefit the poorest regions and sectors. In this context I would submit that the Bank might consider reviewing the existing lending policy of the Fund for Special Operations in order to have these limited funds directed increasingly to the poorest countries and the poorest segments of the population. I understand the policy guidelines and classifications date back to 1971. In view of the fast changing economic picture of the continent and the different developments, an early review of FSO lending criteria might be appropriate.

Mr. Chairman, with respect to the funding of additional resources, I noted with satisfaction the Bank's initiative to set up a complementary financing mechanism under which commercial banks can channel resources to the Latin American continent under the guidance of IDB. These complementary loans increase the resource flow to Latin America for the purpose of supporting the necessary investment programs and combating the still existing poverty. Moreover, the IDB has an important responsibility in helping the so-called "threshold" countries in gaining access to the world capital markets. In this respect I hope that the Bank will actively implement the recommendation recently agreed upon by the Development Committee that international development banks should make use of their existing guarantee authority and actively consider requests for guarantees of bond issues from interested developing countries. In addition to the guarantee authority of the Bank, the complementary financing mechanism might, by improving communications between the three partners, develop into an indirect but appropriate device in helping the relatively more developed countries in establishing themselves as regular and creditworthy borrowers in the bond markets. It is for these reasons that I wish to warmly support the Bank's initiative in complementary financing.

Mr. Chairman, my last observation relates to our interest in the operations evaluation work of the Bank. We attach great importance to a thorough evaluation of the projects, the work programs and activities of the Bank to determine whether the objectives are realized and in what ways the adequacy and effectiveness of the institution can be enhanced. The information thus obtained and the lessons to be drawn should help the President and the Executive Board in making judgments on new directions and policies.

Let me end, by expressing the conviction of my Government that the Inter-American Development Bank will play an ever increasing role in the social and economic development of Latin America. We are willing to contribute to that endeavor. We have great faith in the Bank and its very able President and staff. And above all, we firmly believe that Latin America has what it takes to make the Bank's lending bear fruit in terms of the economic and social development of this great continent.

Address by Mr. Manuel Antonio Robles, Governor for El Salvador and Minister of Economy, on behalf of the Central American Countries

I am honored to address you on behalf of the five countries of Central America, as has been the custom in this forum. The Government of El Salvador—as many of you are aware—made supreme effort to have this Meeting held in its capital, San Salvador. However, for reasons known to you we were obliged to suggest a change in the site of the Meeting. On the other hand, we are pleased that this event is taking place in a Central American country, thanks to the offer made by our sister republic, Guatemala, so that it retains its regional character.

The Inter-American Development Bank is a very different institution today from what it was 18 years ago when this Board met for the first time in San Salvador. It is now a mature institution which has granted loans exceeding $10 billion; it has progressively broadened the geographical and sectoral scope of its operations; and it has admitted to membership not only countries from this hemisphere, but other highly industrialized countries. This is a good opportunity for us to express our satisfaction at the presence of the nonregional members of the Bank who are at this Meeting for the first time. The presence of these countries will not only facilitate the dialogue between Latin America and the developed world, but will enable them to participate directly in giving new impetus to the Bank's activities. In that connection, I hasten to express our firm support for the idea put forward by President Ortiz Mena for the establishment of a Special Guarantee Fund constituted by the industrialized countries and managed by the IDB. We would recommend that the Board of Executive Directors consider the establishment of this fund and submit its conclusions to the Committee of the Board of Governors for consideration. The nonregional countries should play an active part in establishing the fund.

General Remarks

Poverty and the evils it breeds has always been and will continue to be a source of social and political tension throughout the world, but more often and with more lasting effects, in the socially and economically underdeveloped countries. The task of reducing that poverty to levels tolerable to the poorest social classes in every country is a long-term undertaking. However, we, the poorest nations, are in most need of rapid solutions to break the vicious circle of poverty.

Since this Meeting is not the proper forum for consideration of aspects affecting the international economic order, we shall confine ourselves to observing that the IDB should continue to promote programs for the benefit of low income groups and adopt decisions on the basis of technical and financial criteria in line with the Bank's basic function of promoting economic and social development in the region.

At the beginning of the Decade of the 1960s because of promises which did not materialize and which prevented us from fulfilling ours, we built up serious illusions in our peoples, who were living in a perpetual state of anxiety and uncertainty. The tragic death of President Kennedy marked the end of that brief era of hope and we reached the end of the decade in a state of even greater anxiety and uncertainty. Despite the initial success of our economic integration program, the purchasing power of our exports again began to decline while our needs increased over and above our capacity to meet them.

In the first five years of this decade, we were to experience even more adverse developments. Apart from the visible destructive effects of earthquakes and hurricanes, we are being beset during these first years of the 1970s by a merciless drain on our resources and energy caused by four factors: population growth, inflation, energy and the prices of our exports. Only at the beginning of this second five-year period have we been able, out of the income from our primary exports, to recover part of what we had lost. This income, an accident of circumstance due to the frosts in Brazil, neither satisfies us nor alleviates the social, economic and political insecurity which built up in El Salvador over the past 15 years. That is all the more significant in view of the fact that Central America is engaged in a costly campaign to combat coffee rust, a plague potentially disastrous for the region.

The emergence of Central America as a region with a future in world tourism has become increasingly evident in the last five years and today it is a reality, subject only to the introduction of more of the necessary facilities.

Owing to its geographical situation, the hospitality of its inhabitants, its vast and varied natural beauty, its rich history, culture and folklore, as well as the variety, distinctiveness and low cost of the goods and services it offers, the region has a great potential for the development of tourism of scale.

For that reason and because of its acknowledged favorable impact in generating employment and on the balance of payments, tourism emerges as a realistic, attractive and suitable activity for Central America. The countries of the region believe that the Bank should study and analyze the importance of developing tourism and of designing programs of financing which will promote and facilitate the establishment of the infrastructure required to convert the region's potential into a reality, taking into account the needs, resources and relative level of development of each country. By taking such action, the Bank would also be contributing to the sustained and balanced development of Central America.

IDB as a source of financing

In Central America, the IDB is the main source of financing for economic and social development. We hope that the Bank will be in a position to continue to provide financing for our countries since projections concerning future developments in the economies of our five countries indicate that we will need a large volume of external resources in order to maintain economic growth rates comparable to those of the last decade and at the same time activate the necessary social reforms. We are prepared to mobilize whatever domestic resources may be required to achieve those objectives.

We regard this new volume of resources as indispensable, on the one hand, because of the progressively more adverse conditions which countries like those of Central America—highly vulnerable because they are so dependent on foreign trade—find in the international economy and, on the other, because of the unprecented scale of our public investment programs. Public investment, for example, rose from $140 million in 1970 to $650 million in 1976, and the projects being undertaken in the State sector have reached proportions which would have been unthinkable ten years ago. Electric power programs alone in Central America are expected to require fixed capital investment of about $1.5 million over the 1977–85 period. The position of Central American countries as net importers of energy explains the magnitude of projects in the energy sector.

This unusual need for capital resources, amplified by the requirements of regional projects which I will discuss later, makes matters worse when there are serious doubts concerning the continued availability of external capital funds on noncessional terms. Let me stress that it is vital for the Central American countries to have access to soft loans in order to maintain an acceptable flow of income from external capital without exceeding the limits of their debt-servicing capacity.

In the light of those considerations, we were dismayed to find that the resources of the Bank's Fund for Special Operations will reach the stagnation point beginning in 1979 and that the prospects may be dimmer unless the Fund is replenished by further contributions. We therefore urge the Board of Executive Directors of the Bank to embark on a study of new modalities of financing for the relatively less developed or insufficient market countries of Latin America so that they can have access to the soft-term external financing which is vital to their economies.

IDB as an agency for promoting intra-Latin American cooperation

We wish to highlight the role of the Inter-American Development Bank as a promoter of intra-Latin American cooperation and, as regards Central America, as a force for strengthening Central American economic integration and cooperation between Central America and the rest of Latin America.

This is a matter of overriding importance to the Central American Governments at this time and has given rise to a proposal which we have submitted jointly to the international community.

While it is true that integration in Central America has encountered serious obstacles, particularly during this decade, the process continues to exhibit extraordinary vitality. Trade among the Central American countries rose above $600 million in 1976—equal to 20 per cent of the region's foreign trade—and the governments have taken concrete measures in agriculture and energy which will further expand that trade. Similarly, the prolonged effort begun in 1970 to find ways of restructuring the integration process culminated in 1976 with a new draft treaty to establish an Economic and Social Community with a wide field of action. In short, the Governments have adopted provisions specifically aimed at reactivating Central American integration in the short term by means of specific projects which are regional in scope.

That initiative very directly concerns the activities of the Inter-American Development Bank since the Central American Governments are seriously entertaining the possibility of establishing a body of agreements and programs which will ultimately revitalize integration and influence the development effort of the countries of the region collectively and individually. This body of agreements and programs requires the support of the international community and, within it, of the Inter-American Development Bank, so often referred to as the "Bank of Integration."

We wish to take this opportunity to reaffirm our resolute intention of using every instrument or initiative available to us to encourage a voluntary growing economic interdependence among the countries of our subregion. Among those instruments, as I said, are a series of regional projects which we have identified as examples. Their execution requires the enlarged market of the five countries, and in some cases even exceeds the geographical confines of Central America, necessitating formulas of cooperation with other Latin American countries. It is in the financing of some of these integration projects that the Bank can strengthen this process in Central America and thus contribute to the region's development. What is more, with the financing of these projects, the Bank and the other international financing agencies would not only be supporting initiatives which are inherently beneficial, but would also be strengthening the integration process and thus making a dual contribution to a single objective—that of accelerating the economic and social development of the Central American countries.

I do not wish to dwell on this question because time is short. I would therefore request this Meeting to authorize the inclusion in the records of the Eighteenth Annual Meeting of the Board of Governors of the full text of the proposal submitted today by the Governments of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica to the Inter-American Development Bank and the rest of the international financial community concerning the process of Central American Integration.*

However, these remarks would be incomplete without a reaffirmation of our desire that the Bank continue as in the past to support the Central American integration institutions, and particularly the Central American Bank for Economic Integration. The technical cooperation agreements signed this week and to be signed in the weeks to come—including cooperation for the interconnection of electricity systems and revision of the Central American common tariff—are a sample of the kind of support we hope will grow in future as the movement of the region towards integration grows and

* *The text of the proposal appears on page 255.*

becomes consolidated. In that connection, we take this opportunity to express our appreciation for the fact that the Board of Executive Directors of the Bank is considering how to ensure the stability of the Institute for Latin American Integration (INTAL), whose activities we consider to be of positive benefit to Central America.

Final remarks

I wish to conclude by pointing out that we have noted with great satisfaction the increasingly significant achievements of the Bank as shown in the detailed reports submitted by the Board of Executive Directors. We express our appreciation to its President, Antonio Ortiz Mena, and hope that it will continue to expand so that it can fulfill the lofty purposes entrusted to it.

We hope that the Bank's past achievements will serve as a stimulus for renewed efforts in future; that it will succeed in mobilizing a growing volume of resources; that a larger portion will be apportioned among the relatively less developed or insufficient market member countries and that they will continue to be provided on concessional terms; that the Bank will continue to demonstrate innovative capacity, imagination and flexibility in coping with the development problems of Latin America and, above all, that it will continue to give priority attention to promoting intra-Latin American cooperation and, in that context, subregional integration.

I wish to thank my Central American colleagues for the confidence they have shown and the honor bestowed in selecting me as the spokesman for the region, and to thank this august Board of Governors for its attention.

Address by Mr. Giuliano Monterastelli, Alternate Governor for Italy and Director General of the Bank of Italy

On May 16, a law approving Italian membership in the Bank became effective, and in the following days the necessary requirements were fulfilled, so that on May 26 Italy became a member of the Inter-American Development Bank.

My Governor, the Minister of the Treasury, Professor Gaetano Stammati, entrusted me to express his satisfaction over this event and his appreciation and best wishes for the activity of the Bank, and his warm greetings. He regretted that he was unable, because of unavoidable commitments, to take part in this assembly.

Personally, as alternate Governor, I am honored to be here and represent my country. I thank you very much for the warm words of welcome you have given to the entrance of the nonregional countries into the Bank.

At present, my country is also facing and trying to solve many problems, regarding its currency reserves; nevertheless, we joined the Bank to cooperate more closely than we did, since the beginning of its operations activity, in the past, for the promotion of the economic and social development of the Latin American countries.

Our decision was taken on the basis of two principles. First, because of the ties of brotherhood and friendship that have always characterized the relationship between Italy and the Latin American countries and the desire to strengthen in the future this relationship in a forum of international economic coöperation, as is this Bank. Second, we believe in the need of international cooperation and in the capacity of the multilateral financial institutions to contribute, according to their purposes, to solve development problems and to play a greater role in attenuating disequilibria and uncertainty existing in the great part of the economies of both industrialized and developing countries, due mainly to the increase of petroleum prices.

The multifacet activity performed by the IDB would deserve many favorable comments on what has been done and reflections about the perspective developments. As a newcomer, while I wish to extend warm congratulations to the President of the Bank, Mr. Ortiz Mena, to the Vice President, Mr. Sternfeld, and to the Management, I shall limit myself to the following considerations.

The results achieved by the Bank, measured in the amount of authorized loans, testify to its efforts and the ability in mobilizing resources for the economic and social development of Latin American countries.

The constant research for technical formulas to attract additional financial means from private sources is one of the peculiar aspects of the conduct of the Bank's activity in trying to reconcile market conditions and use of funds. This intermediation could be facilitated if expectations for reducing the rate of inflation, following the improvements registered in 1976, will induce the owners of resources, deriving mainly from petrol exports, to invest more in longer terms financial assets.

Mr. Chairman, let me conclude by expressing to the authorities of Guatemala the appreciation and gratitude of the Italian delegation for the very efficient organization of this meeting and the sentiments of solidarity to the people of Guatemala for the loss in human lives and in resources caused by the earthquake, and a hearty wish for a fast reconstruction.

Address by Mr. Errol E. Mahabir, Alternate Governor for Trinidad and Tobago and Minister of Finance, Oil and Mines

The Governor of the Bank for Trinidad and Tobago, the Hon. Dr. Eric Williams, has asked me to convey to you his sincere wishes for the success of our deliberations in pursuit of the social and economic development of Latin America.

It is also my singular pleasure, on behalf of the Trinidad and Tobago delegation, to thank the Government and people of the Republic of Guatemala for the generosity and cordiality which they have been extending to us during this brief visit. The fact that such excellent arrangements have been possible at very short notice provides ample evidence, if it is at all needed, of the resourcefulness of a people who have had to cope so courageously with more than their fair share of natural disasters.

In reviewing the progress of Latin America during the past year, it is noted with relief, that most of the region's economies have shown some recovery from the difficult economic conditions of the past few years. The rate of economic growth for the region as a whole during 1976, although still very much below the levels achieved in the early 1970s, registered some improvement over the stagnation of the previous year. There was a general upswing in exports while the purchasing power of these exports also rose. The deficit on the current account declined appreciably and the overall balance of payments surplus was some five times the level recorded in 1975.

These global trends obviously obscure the diversity of the performance of the individual countries in the region. For example, the performance of the oil exporting countries differed significantly from that of the non-oil exporting countries. And even within these sub-groups the performances of the individual countries have varied widely according to the degree of diversification of their exports and their capacity for the production of consumer, intermediate and capital goods.

However, there are some negative aspects of the region's experience, particularly over the last few years, which continue to frustrate our efforts at accelerating the social and economic development of the region. One of these is the level of unemployment and underemployment which for most countries remains above desirable standards, both politically and in terms of social justice. Inflation also remains a major problem for many countries. This phenomenon has served to accentuate the disparities in real incomes and levels of consumption. Influenced by these factors, the degree of urbanization has increased and with it, the demands on Governments for social and economic services and opportunities. Consequently, in an attempt to maintain the dynamic growth of previous periods, Latin American countries have been forced within the last few years to resort to more costly non-institutional borrowings which have aggravated the external debt burden.

Against this background, the Inter-American Development Bank has a very important role to play. We are therefore pleased to note that during the past year it has accelerated its loan authorization program and approvals have reached the highest level for any single year in the Bank's history. However, disbursements although reaching a record level, have not increased commensurately with approvals.

We appreciate the extension of technical cooperation by the Bank to member countries to assist in the preparation and implementation of development projects, and we would like to see the Bank intensify its efforts to assist in the creation of indigenous institutions responsible for the planning and execution of development programs.

The Bank must reflect in its lending policies continued awareness of the imbalances in the region and the need to correct such imbalances as they exist both between and within countries.

The Bank must also be a catalyst to strengthen the degree of technical cooperation between member countries and to promote the deepening of Latin American economic integration.

The Bank has recently initiated the mechanism of complementary financing which would enable more resources to be chanelled from private sources into the region. We urge the Bank to accelerate this program. In a similar vein and with a view to channelling further resources into the region, the Bank may well pursue the suggestion put forward by the Joint Development Committee of the International Bank for Reconstruction and Development and the International Monetary Fund involving the guaranteeing of loans on behalf of member countries.

There have been other significant developments which are worthy of note. Firstly, the membership of the Bank was extended to 37 countries. Twelve of these were nonregional developed countries, which on gaining membership, increased the resources of the Bank appreciably. The other is Guyana, a regional member, whose admission is of particular significance to the English-speaking Caribbean as a sub-regional grouping within Latin America. May I take this opportunity to extend a warm welcome to all these new members of the Board.

Secondly, regional members of the Bank completed the procedures allowing for a significant increase in the Bank's resources. This conforms with our conviction that the development of Latin America would be less meaningful, if at all achievable, without the practice of collective self-help by the regional members themselves.

Of equal significance was the step taken early in 1977 authorizing the Inter-American Development Bank to lend to the Caribbean Development Bank for on-lending to borrowing members of the latter organization, whether or not they are members of the Inter-American Development Bank. These developments have resulted from proposals which Trinidad and Tobago has actively pursued and their implementation will enhance the development of this sub-region of Latin America.

Trinidad and Tobago has also been associated with a related issue. In 1975, in Santo Domingo, Trinidad and Tobago tabled a resolution seeking an Executive Director for the Caribbean group of countries and requested that consideration of the proposed resolution be deferred in order to allow for further consultation among members of the sub-grouping. This issue has now been referred to the Committee of the Board of Governors for study and it is our hope, indeed our expectation, that the necessary processes would be successfully completed in time to enable the group to take its place on the Board in 1978.

Mr. Chairman, I wish to assure you that Trinidad and Tobago, notwithstanding the demands on its financial resources, will continue to provide maximum support to the Bank. Our decision to subscribe $15 million to a bond issue of the Bank in 1976, in addition to a previous subscription of $10 million, is one example of this. Similarly, we have agreed to make our entire contributions to the Fund for Special Operations freely convertible into the currencies of other countries eligible for procurement. We are also currently engaged in discussions with the Bank's staff with a view to the Bank making a public placement in Trinidad and Tobago which, we understand, if agreed upon, will be the Bank's first such placement in the market of a borrowing member country.

May I close by congratulating you, Mr. President, and your dedicated and efficient staff for your excellent performance during the year and once more thank the Government and people of the Republic of Guatemala who, in no small way, have ensured the success of the meeting.

ADDRESSES

FIFTH PLENARY SESSION

June 1, 1977

CLOSING SESSION

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

The Eighteenth Annual Meeting of the Board of Governors has been held in an atmosphere of great understanding, and its open and cordial discussions have been conducted in a spirit consistent with the gravity of the economic and social development tasks confronting Latin America today.

As a result of the excellent arrangements, we have concluded our work on schedule. I am, therefore, pleased to convey again through the Chairman of our Board, our feelings of gratitude and admiration to the Guatemalan authorities for their cordial hospitality and their extraordinary efforts to ensure the success of this event.

The Governor for Mexico presided over the Board during a period characterized by developments that are highly significant for the future of our institution. Now that he has turned over his chair to his colleague from our host country, I should like to express my appreciation for his judicious and efficient leadership. At the same time, I should like to express our satisfaction with the designation of the Governor for Guatemala as the new Chairman of the Board for the coming year.

The Meeting ending today is unique in the history of our institution because of the admission to membership of countries from outside the Western Hemisphere. In this regard, I am pleased to inform you that Finland has completed the internal legislative procedures required to enable it to become a member of the Bank. The nonregional countries bring us ideas and experiences that will enrich our deliberations and help to clarify, at the highest level, the developmental requirements of this region, and the real possibilities of mobilizing resources to meet these requirements.

At this point I should like to refer to certain proposals made by the Governors during the courses of this Meeting.

I am greatly encouraged by the favorable reception accorded by several Governors to the proposal for the establishment of a Guarantee Fund to promote better and more rapid utilization of Latin America's basic resources. Our objective is to stimulate efforts aimed at satisfying the growing requirements of the world economy and of the industrialized countries, while, at the same time, providing new impetus to the economic growth of the Latin American countries.

In consultation with the Board of Executive Directors, we shall pursue the necessary technical studies and if their results meet with approval, we shall at the proper time, bring them to the attention of the Board of Governors.

The admission of the nonregional countries provides new opportunities for expanding the Bank's cooperation in the area of Latin America's relations with those nations.

In this context, I should like to reaffirm our desire to coordinate, insofar as possible, the technical and financial cooperation provided by the Bank with any bilateral programs carried out by the nonregional countries in Latin America. Such coordination would multiply the benefits obtained by the recipient countries. We can also provide useful collaboration through our organization at the headquarters and in the borrowing countries that could result in a better and more rapid use of the funds allocated to the region through such programs. We are prepared to work out new modes of cooperation with overseas member countries that will serve to improve the use of our operational capacity.

I should like to inform you that we have also initiated discussions with the European Economic Community and associated organizations, such as the European Investment Bank, with a view to coordinating loan and technical cooperation programs, particularly in those Caribbean countries that have signed the Lomé Convention. I believe that a similar procedure could be adopted in the case of certain non-signatory Latin American countries that are also beneficiaries of the Community's Program of Cooperation for Development.

Within the framework of our policy of promoting agricultural and rural development, we will continue efforts to mobilize additional resources and to increase the yield of external cooperation. I am confident that we can soon conclude arrangements with the International Fund for Agricultural Development which will enable us to cooperate with the member countries in formulating and supervising projects financed by the Fund. In addition, we will give favorable consideration to joint financing of projects with resources from both the Fund and the Bank.

In like manner, on the basis of our expanding operational experience, we will be ready as in the past to conduct integrated projects or programs of rural development, especially in the less developed countries of the region, in coordination with the World Bank and with bilateral cooperation agencies in the industrial countries.

At the Cancún Meeting, I reported to the Governors on the organization of the International Group for Agricultural Development in Latin America (IGAD/LA), whose primary purpose is to improve the coordination of programs of agencies contributing to rural development in the region. Preferential attention has been given to programs benefiting the small producer, chiefly through projects aimed at eliminating crop losses caused by deficiencies in farm technology, and through improvements in storage facilities, transportation and marketing of products.

In the context of the important support which the Bank is providing to the international centers of agricultural research, we are cooperating with the Caribbean countries in carrying out studies designed to solve problems which, to date, have prevented proper storage of bread fruit so that it would be available for consumption not only in the harvest season but throughout the rest of the year as well. In coordination with the International Center of Tropical Agriculture in Cali, a high-level expert will be sent within the next few weeks to Guyana, Jamaica and Trinidad and Tobago.

It has also been recommended that the Bank step up its support for programs relating to the transfer of technologies and their adaptation to local conditions, including the training of professionals specializing in this type of activity. We are studying projects which would involve the transfer and adaptation of technologies as well as personnel training and the participation of local firms in the preparation of projects.

The Governor for Panama has informed us of the agreement reached recently by the Governors of the Latin American Central Banks to make possible the establishment of the Latin American Export Financing Bank. This is the successful culmination of an initiative which received the support of the countries of the region. I am pleased to say that the Bank has cooperated in this undertaking from the beginning and will continue to do so in the future. I take great pleasure in congratulating the Governor for this unflagging effort in an area of vital importance to the optimum development of the regional economy.

The Governor for Venezuela has agreed to the allocation of $20 million from the Venezuelan Trust Fund for the financing of a support program for small and intermediate enterprise. I am grateful for his cooperation in this undertaking, which we consider to be of great importance. I am also pleased to inform you that several Governors have given their support to this type of activity and expressed their willingness, in principle, to help finance it once experience makes it possible to define its scope.

Participation by the Bank is an important factor in efforts to develop Latin American enterprises and to open them up to local investment. Latin American industrial progress requires that private enterprises increase their corporate capital beyond the possibilities of individual entrepreneurs or small family groups.

I should also like to mention here the observations made by some Governors concerning the use of this program to promote the association of small and intermediate Latin American enterprises with others in the same region or in industrialized countries. This could also lead to the transfer of technologies and more efficient forms of organization.

A number of the Governors have expressed their views with respect to the involvement of political considerations in the approval of loan operations by international agencies. On this occasion, this issue has been reflected in the discussion of human rights. I outlined the Management's position at the Inaugural Session. It has been aptly stated that governments may come and go, but the people remain forever. Consequently, as we help to finance projects to bridge the gaps inherent in underdevelopment, unencumbered by political considerations, we are meeting basic, continuing needs of all of the people.

For that reason, resources channeled through international agencies cannot be made contingent upon conditions which are outside the scope of the charters of such organizations and which may hamper optimum utilization of funds in accordance with national priorities and with generally accepted socio-economic and technical criteria. Strict adherence to those principles is also essential if the international agencies are to continue to serve as effective instruments for the mobilization of resources in the financial and capital markets.

Some Governors have suggested the desirability of an early initiation of the next replenishment of the Bank's resources. It has also been suggested that the traditional three-year period be extended to four or even five years in order to provide greater continuity and to improve the programming of Bank activities. I believe that both ideas are timely and deserve our careful consideration. Consequently, I urge the Governors to take the necessary steps so that the Board of Executive Directors can begin its study of this matter during the course of this year.

I should now like to refer to the remarks made by most of the Governors concerning the delay in implementing the current increase in resources. This is a matter of the utmost importance that affects the execution of the 1978 program of operations. Although the program for the current year will be implemented in its entirety, next year's program depends essentially on bringing all payments or subscriptions in arrears up to date before the end of 1977, and implementing 1978 commitments on schedule.

With regard to the mobilization of external resources, some Governors have pointed out the advisability of diversifying our institution's sources of financing. In this context, it is expected that we will soon be in a position to issue our first public bonds, denominated in Japanese yen, on the Tokyo market. We are also working actively to market the first public bond issue in Trinidad and Tobago, a venture which, in addition to securing resources for the Bank, will enable us to help develop that country's capital market.

I would like to state that the Board of Governors has instructed the Committee to study the proposal submitted by Barbados, Guyana, Jamaica and Trinidad and Tobago, to the effect that these countries should form an integrated area with an Executive Director to represent them jointly.

This study is to be ready not later than November 30, 1977. The Board has also asked the Committee to make a second study of the possible effects of such action on the composition of the Board of Executive Directors.

Finally, I am very pleased to point out that the next meetings of the Board of Governors will take place in Vancouver, Canada and La Paz, Bolivia. We are also pleased to have received a request from the Colombian Government to hold the 1980 Meeting of the Board in Cartagena. This invitation has been referred for consideration to the Board of Executive Directors.

Gentlemen, we are now concluding the Eighteenth Annual Meeting of the Board of Governors, which will very probably mark the beginning of closer economic and financial relations between Latin America and the countries contributing resources. It has been recognized that the Bank must perform extremely important tasks during this new stage, which it will be able to perform effectively only if it has the support of all its member countries. I am confident that such will be the case and, therefore, I view the future with optimism.

Address by Mr. Jorge Lamport Rodil, Governor for Guatemala and Minister of Public Finance, Chairman of the Board of Governors

One year ago, on the occasion of the Seventeenth Annual Meeting of the Board of Governors held in Cancún, Mexico, the Central American countries, in a spirit of regional solidarity, supported the Republic of El Salvador's proposal that the next meeting be held in that sister country. Guatemala believes that the essence of that idea has persisted in this Meeting, and with this in mind I should like to make a few brief remarks to summarize our activities.

We close the Eighteenth Annual Meeting of our Board of Governors in the knowledge that we have fully complied with the provisions of the Agreement Establishing the Bank. In addition, however, we have taken a very important step in the history of our Bank with the admission as full members of the nonregional countries, thereby opening the way to closer economic, financial, social and cultural relations between this Continent and the rest of the world.

At a time when the world is preparing to discuss the bases for a new economic order it is of great importance for our Bank to have as members industrialized countries willing to share with us our continuing struggle against underdevelopment and its obvious consequences that weigh so heavily on our peoples. At this Meeting many opinions and policies have been discussed with the new members, the observers and our distinguished guests from the international financial community. These opinions and policies, though it is true they often differed, were nevertheless all directed toward the same common objective of developing our countries.

It is evident that the conclusions that may be derived from the North-South dialogues over the years to come, combined with the efforts of regional financing and integration organizations, will make the much desired ties of friendship among nations even closer ensuring peace among such nations, through equitable and progressive development for their inhabitants. It appears to us that the remaining years of this decade will be crucial in consolidating these achievements. The Inter-American Bank, which this year will be 18 years old and therefore has attained majority age, so to speak, is an example of the positive dialogue taking place among members in different stages of development and with diverse cultural, historical and racial origins who are, nevertheless, united in a common ideal.

We must therefore study the appropriate means and take the necessary action and concrete steps in our struggle against underdevelopment by working jointly to solve the problems it poses.

We have also achieved at this Meeting a consensus on the need to establish a special Guarantee Fund constituted by the industrialized nations and managed by the IDB. We have seen the need for replenishing funds on an ever greater scale and have, in this context, taken note of various conceivable mechanisms for achieving this.

I am also extremely pleased to point out that we have been witness to a reaffirmation of the need for integral development of our countries and for greater regional integration of the American Continent.

The Governors have indicated paths and guidelines for future action by the Bank. In this respect it is appropriate to recall increased assistance for the development of energy policies, greater control of the quality of projects, greater use of soft resources for poor countries and assistance with regard to exports, preinvestment and projects which rescue our natural resources. We are hopeful that the Bank will soon act on these suggestions and that its action will be, as always, a guide for the development of this Continent.

In expressing my gratitude for my designation as Chairman of this Meeting, I accept this great honor on behalf of Guatemala. I am also grateful and indebted to those who have contributed with their dedication and efforts to the success of this Eighteenth Annual Meeting of the Board of Governors.

I should like to give special thanks to the Bank Secretariat and to the Guatemalan personnel whose dedication made the organization of this Meeting possible in such a short time. Next year the Nineteenth Annual Meeting will be held in Vancouver, Canada, a city that I associate with fond personal memories since I initiated my university studies there. We wish success to Canada.

President Ortiz Mena, as Chairman of the Board of Governors and as Governor for Guatemala, I pledge my efforts to do everything in my power to make the coming year one of great achievements for the Bank.

Joined together in a common effort we still have far to travel before we realize the aspirations of the peoples of this Continent. I am certain that with your outstanding work as President of the Bank and the support of its employees, Governors and Executive Directors the Bank will be successful in this task. It now only remains for me to reiterate our gratitude and to adjourn this Eighteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

RESOLUTIONS APPROVED BY THE BOARD OF GOVERNORS BETWEEN ITS SEVENTEENTH AND EIGHTEENTH ANNUAL MEETINGS

Resolution AG-7/76

Increase of US$4 Billion in the Authorized Capital Stock and Subscriptions Thereto

WHEREAS the Working Group of Governors on the status of the Bank's resources appointed pursuant to Resolution AG-7/75 has studied the possibility of enlarging the resources of the Bank by means of an increase in its authorized capital stock and an increase in the resources of the Fund for Special Operations and a report and appropriate recommendations thereon have been presented to the Board of Governors;

WHEREAS the Board of Governors of the Bank has concluded that action to increase the authorized capital stock of the Bank would be desirable;

WHEREAS Article II, Section 2(e), of the Agreement Establishing the Bank, provides for increases in the capital stock of the Bank;

WHEREAS the United States has notified the Bank that it does not wish to avail itself of its right to subscribe to a full proportionate share of such increase pursuant to Article II, Section 3(b), of the Agreement Establishing the Bank, and

WHEREAS the Board of Governors already has under consideration a related capital increase resolution in connection with the admission of non-regional countries as members of the Bank,

The Board of Governors

RESOLVES THAT:

SECTION 1. *Increase in the Authorized Capital*

a) Subject to the provisions of paragraph (b) hereof, the authorized capital stock of the Bank shall be increased by US$3,315,810,000 in terms of United States dollars of the weight and fineness in effect on January 1, 1959 (equivalent to approximately US$4 billion in terms of current United States dollars), divided into 331,581 shares, each having a par value of US$10,000 of the weight and fineness aforesaid.

b) Such increase shall become effective only if, on or before such date in the calendar year 1975 or thereafter as the Board of Executive Directors shall determine, at least 16 members shall have deposited with the Bank an appropriate instrument, by which they agree to subscribe, observing such legal requirements as may be appropriate in the respective countries, to at least 250,000 shares of the increase of authorized capital stock in accordance with Section 2 of this resolution.

c) The increase in authorized callable capital stock provided for in the resolution entitled "Increase in the Authorized Callable Ordinary Capital Stock and Subscriptions Thereto in Connection with the Admission of Nonregional Member Countries," proposed March 18, 1975 to the Board of Governors, shall be included in Section 2(a) hereof under the column indicated, and, if said resolution shall not have entered into effect by the date the increase provided in paragraph (a) hereof becomes effective, the increase provided for in said resolution shall be considered approved hereunder and shall enter into effect on the same date.

SECTION 2. *Subscriptions*

a) In accordance with Article II, Section 3(b), of the Agreement Establishing the Bank, each member may subscribe to the respective number of shares as follows:

Country	Paid-in Shares	Section 1(c) Callable Shares	Other Callable Shares	Total Callable Shares	TOTAL SUBSCRIPTIONS Total Shares	Amounts Expressed in 1959 U.S. Dollars[1]	Amounts Expressed in current U.S. Dollars[2]
Argentina	3,330	7,934	33,408	41,342	44,672	446,720,000	538,897,651
Barbados	36	95	403	498	534	5,340,000	6,441,873
Bolivia	270	637	2,679	3,316	3,586	35,860,000	43,259,469
Brazil	3,330	7,934	33,408	41,342	44,672	446,720,000	538,897,651
Canada	1,626	–	14,606	14,606	16,232	162,320,000	195,813,634
Chile	912	2,179	9,175	11,354	12,266	122,660,000	147,970,062
Colombia	912	2,177	9,167	11,344	12,256	122,560,000	147,849,426
Costa Rica	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Dominican Republic	180	425	1,789	2,214	2,394	23,940,000	28,879,857
Ecuador	180	425	1,789	2,214	2,394	23,940,000	28,879,857
El Salvador	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Guatemala	180	425	1,789	2,214	2,394	23,940,000	28,879,857
Haiti	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Honduras	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Jamaica	180	425	1,789	2,214	2,394	23,940,000	28,879,857
Mexico	2,142	5,101	21,473	26,574	28,716	287,160,000	346,413,524
Nicaragua	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Panama	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Paraguay	132	319	1,341	1,660	1,792	17,920,000	21,617,671
Peru	444	1,063	4,479	5,542	5,986	59,860,000	72,211,706
Trinidad and Tobago	132	319	1,341	1,660	1,792	17,920,000	21,617,671
United States	9,948	–	89,526	89,526	99,474	994,740,000	1,199,997,873
Uruguay	354	851	3,585	4,436	4,790	47,900,000	57,783,841
Venezuela	2,394	4,251	17,289	21,540	23,934	239,340,000	288,726,191
Sub-Total	27,474	36,474	257,082	293,556	321,030	3,210,300,000	3,872,723,697
Unassigned	1,026	–	9,525	9,525	10,551	105,510,000	127,281,275
Total	28,500	36,474	266,607	303,081	331,581	3,315,810,000	4,000,004,972

[1] U.S. dollars of the weight and fineness in effect on January 1, 1959.
[2] U.S. dollars of the weight and fineness in effect upon the October 18, 1973 change in the par value of the U.S. dollar.

b) In connection with the amendments to the Agreement Establishing the Bank provided for in the resolution entitled "Amendments to the Agreement Establishing the Bank with respect to the Creation of the Inter-regional Capital Stock of the Bank and to Related Matters," proposed March 18, 1975 to the Board of Governors, Canada, the United States and Venezuela have indicated they wish to exercise their option to subscribe, in all or in part, to inter-regional capital stock, pending the effectiveness of such amendments, provided, however, that in the event such amendments have not entered into effect by December 31, 1976, or such later date as the Board of Executive Directors shall determine, such subscriptions shall automatically be made to ordinary capital stock. Likewise, other members may indicate they wish to reserve the right to exercise their option to subscribe to inter-regional capital stock with respect to any part of the increase.

c) Each subscription shall include the full amount of both paid-in capital shares and callable shares assigned to the respective country in paragraph (a) hereof, and each subscribing member shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.

d) The subscription of each member to the additional paid-in capital stock shall be on the following terms and conditions:

   i) The subscription price per share shall be US$10,000 in terms of United States dollars of the weight and fineness specified above.

   ii) Payment of the amount of paid-in capital stock subscribed by each member shall be made in three equal installments, payable, respectively, on June 30, 1976, June 30, 1977 and June 30, 1978, or such later dates as the Board of Executive Directors may determine.

   iii) Of each installment, 50% shall be paid in gold and/or United States dollars and 50% in the currency of the member, except that Canada and Venezuela may pay each installment entirely in their respective currency. It is understood, however, that Canada, the United States and Venezuela shall make arrangements satisfactory to the Bank to assure that all their respective currencies so paid to the Bank shall be freely convertible into the currencies of other countries eligible for procurement for the purposes of the Bank's operations.

   iv) The Bank may accept non-negotiable, non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock, provided that the Board of Executive Directors, taking into account the purposes of the increase of capital and the disbursement requirements of the loans to which the funds are committed, shall establish a schedule pursuant to which such promissory notes or securities shall be paid to the Bank.

v) The liability of members for payment of the second and third installments of the paid-in portion of their subscription shall be conditioned upon payment of not less than 75% of the total obligation of the members due for the first and second installment, respectively, of the paid-in portion of the subscription.

e) The subscription of each member to the additional callable capital stock shall be on the following terms and conditions:

i) The subscription price per share shall be US$10,000 in terms of United States dollars of the weight and fineness specified above.

ii) The subscription of each member to the callable capital stock, including the callable capital stock referred to in Section 1(c) hereof, shall be in three equal installments, the first of which shall be subscribed on or before such date in the calendar year 1975 or thereafter as the Board of Executive Directors shall determine, and the second and third installments shall be subscribed on or before December 31, 1976 and December 31, 1977, respectively, or such later dates as the Board of Executive Directors shall determine. Subject to the provisions of Section 4 hereof, earlier subscriptions may be accepted by the Bank.

iii) The obligation of each member to subscribe shall become effective with respect to each installment as of the date when all the terms and conditions specified in the preceding paragraph of this section have been fulfilled with regard to at least 75% of the total of the respective installments of all the members.

SECTION 3. *Additional Increase in the Authorized Callable Capital*

It is recommended that not later than December 31, 1977, or such later date as the Board of Executive Directors shall determine, the members shall take such action as may be necessary, including such legal requirements as may be appropriate in the respective countries, to authorize an additional increase of 108,000 shares in the authorized callable capital stock of the Bank, each share having a par value of US$10,000 in terms of United States dollars of the weight and fineness in effect on January 1, 1959, of which 37,303 shares may be subscribed by the United States and 70,697 shares may be subscribed by other member countries, provided that such increase shall take effect only if:

a) the date for subscription of all installments of callable capital established pursuant to Section 2(e) hereof shall have passed; and

b) the Board of Governors shall have approved the above-mentioned increase of 108,000 shares by a two-thirds majority of the total number of Governors representing not less than three-fourths of the total voting power of the member countries.

SECTION 4. *Voting Power*

The provisions relating to voting power included in Article VIII, Section 4(b), of the pending amendments to the Agreement Establishing the Bank referred to in Section 2(b) hereof and the provisions relating to voting power included in Section 7(b) of the General Rules set forth in the resolution entitled "General Rules Governing Admission of Nonregional Countries to Membership in the Bank," proposed March 18, 1975 to the Board of Governors, shall apply to the capital increases provided in Sections 2 and 3 of this resolution upon such amendments and such General Rules entering into force.

(Approved June 1, 1976)

Resolution AG-8/76

Increase of US$1,045,300,000 in the Resources of the Fund for Special Operations and Contributions Thereto

WHEREAS the Working Group of Governors on the status of the Bank's resources appointed pursuant to Resolution AG-7/75 has studied the possibility of enlarging the resources of the Bank by means of an increase in its authorized capital stock and an increase in the resources of the Fund for Special Operations and a report and appropriate recommendations thereon have been presented to the Board of Governors;

WHEREAS the Board of Governors of the Bank has concluded that action to increase the resources of the Fund for Special Operations would be desirable, and

WHEREAS Article IV, Section 3 (g), of the Agreement Establishing the Bank, provides for increases in the resources of the Fund through additional contributions by the members,

The Board of Governors

RESOLVES THAT:

a) Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased in the equivalent of US$1,045,300,000 through additional contributions by the members as follows:

Country	*Contributions* (Expressed in U.S. dollars)
Argentina	82,752,000
Barbados	297,000
Bolivia	6,645,000
Brazil	82,752,000
Canada	50,000,000
Chile	22,718,000
Colombia	22,704,000
Costa Rica	3,321,000
Dominican Republic	4,428,000
Ecuador	4,428,000
El Salvador	3,321,000
Guatemala	4,428,000
Haiti	3,321,000
Honduras	3,321,000
Jamaica	4,428,000
Mexico	53,196,000
Nicaragua	3,321,000
Panama	3,321,000
Paraguay	3,321,000
Peru	11,082,000
Trinidad and Tobago	3,321,000
United States	600,000.000
Uruguay	8,874,000
Venezuela	60,000.000
TOTAL	1,045,300,000

b) Each member shall make such additional contribution in its own currency or in United States dollars, to which the provisions of Article V, Section 4, of the Agreement Establishing the Bank, shall be applicable. The provisions of Article V, Section 1(c), of the Agreement, shall be applicable to the additional contributions, except it is understood that Argentina, Brazil and Mexico shall make arrangements satisfactory to the Bank to assure that 25% of their respective contributions to the increase shall be freely convertible into the currencies of other countries eligible for procurement for the purposes of the Bank's operations and that Canada, Trinidad and Tobago, the United States and Venezuela shall make similar arrangements with respect to all of their respective contributions to the increase. It is further understood that all members shall make arrangements satisfactory to the Bank to facilitate compliance with Article V, Section 1(a), of the Agreement Establishing the Bank.

c) The additional contributions shall be made in three equal installments, which shall be payable, respectively, on December 31, 1976, December 31, 1977 and December 31, 1978, or such later dates as the Board of Executive Directors shall determine.

d) None of the additional contributions shall become payable unless at least 16 members whose increased contributions total not less than the equivalent of US$900,000,000 shall each have deposited with the Bank, on or before December 31, 1976, or such later date as the Board of Executive Directors may determine, an appropriate instrument setting forth their agreement, observing such legal requirements as may be appropriate in the respective countries, to their making the contributions to the increase in the Fund for Special Operations in accordance with the terms of this resolution.

e) Each payment of a member shall be in such an amount as, in the opinion of the Bank, is equivalent to the full value, in terms of the par value of the United States dollar in effect in the International Monetary Fund on the date when the payment is due.

f) Currencies of all the members held by the Bank which are derived from these additional contributions shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank, but the standard of value set for this purpose shall be the par value of the United States dollar in effect in the International Monetary Fund on the due date for each installment, provided, however, that the Bank may exercise the waiver provisions of Article V, Section 3(c), in the event of a currency realignment involving a significant number of members of the Bank. However, upon the entering into force of the amendments to the Agreement Establishing the Bank provided for in the resolution entitled "Amendments to the Agreement Establishing the Bank with respect to the Creation of the Inter-regional Capital Stock of the Bank and to Related Matters," proposed March 18, 1975 to the Board of Governors, the standard of value for the purpose of the maintenance of value of the resources contributed to the increase or derived therefrom shall be the United States dollar of the weight and fineness in effect at any given time.

(Approved June 1, 1976)

Resolution AG-9/76

Amendments to the Agreement Establishing the Bank with Respect to the Creation of the Inter-Regional Capital Stock of the Bank and to Related Matters

WHEREAS Article II, Section 1(b), of the Agreement Establishing the Bank provides that nonregional countries which are members of the International Monetary Fund, and Switzerland, may be admitted as members to the Bank under such general rules as the Board of Governors shall have established;

WHEREAS certain nonregional countries have expressed their interest in becoming members of the Bank;

WHEREAS the Board of Governors has concluded that it would be desirable to admit such nonregional countries as members of the Bank and that their admission should be accomplished through (i) the amendment of the Agreement Establishing the Bank to provide, among other matters, for the creation of a new category of capital which shall be denominated interregional capital stock of the Bank; (ii) the adoption of general rules governing the admission of nonregional member countries, including provisions for an increase in the resources of the Fund for Special Operations; and (iii) an increase in the authorized ordinary capital stock of the Bank; and

WHEREAS Article XII of the Agreement Establishing the Bank provides for the process of amending the Agreement,

The Board of Governors

RESOLVES THAT:

SECTION 1. *Amendments*

The Agreement Establishing the Bank shall be amended as follows:

1. ARTICLE I, Section 1, shall read:

"Section 1. *Purpose*

The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively."

2. ARTICLE II, Section 1(b), shall read:

"(b) Membership shall be open to other members of the Organization of American States and to Canada, Bahamas and Guyana, at such times and in accordance with such terms as the Bank may determine.

Nonregional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, and under such general rules as the Board of Governors shall have established. Such general rules may be amended only by decision of the Board of Governors by a two-thirds majority of the total number of governors, including two thirds of the governors of nonregional members, representing not less than three fourths of the total voting power of the member countries."

3. ARTICLE II shall be amended by adding a new section after Section 1, as follows:

"Section IA. *Categories of Resources*

The resources of the Bank shall consist of the ordinary capital resources, provided for in this article, and the inter-regional capital resources, provided for in Article IIA, and the resources of the Fund for Special Operations established by Article IV (hereinafter called the Fund)."

4. ARTICLE II, Section 2, shall read:

"Section 2. *Authorized Ordinary Capital*

a) The authorized ordinary capital stock of the Bank initially shall be in the amount of eight hundred fifty million dollars ($850,000,000) in terms of United States dollars of the weight and fineness in effect on January 1, 1959 and shall be divided into 85,000 shares having a par value of $10,000 each, which shall be available for subscription by members in accordance with Section 3 of this article.

b) The authorized ordinary capital stock shall be divided into paid-in shares and callable shares. The equivalent of four hundred million dollars ($400,000,000) shall be paid-in, and four hundred fifty million dollars ($450,000,000) shall be callable for the purposes specified in Section 4(a)(ii) of this article.

c) The ordinary capital stock indicated in (a) of this section shall be increased by five hundred million dollars ($500,000,000) in terms of United States dollars of the weight and fineness existing on January 1, 1959, provided that:

i) the date for payment of all subscriptions established in accordance with Section 4 of this article shall have passed; and

ii) a regular or special meeting of the Board of Governors, held as soon as possible after the date referred to in subparagraph (i) of this paragraph, shall have approved the above-mentioned increase of five hundred million dollars ($500,000,000) by a three-fourths majority of the total voting power of the member countries.

d) The increase in capital stock provided for in the preceding paragraph shall be in the form of callable capital.

e) Notwithstanding the provisions of paragraphs (c) and (d) of this section and subject to the provisions of Article VIII, Section 4(b), the authorized ordinary capital stock may be increased when the Board of Governors deems it advisable and in a manner agreed upon by a three-fourths majority of the total voting power of the member countries, including a two-thirds majority of the governors of regional members.

f) Whenever the authorized inter-regional capital stock is increased pursuant to Article IIA, Section 1(c), and a member exercises the option provided for in Article II, Section 3(f), ordinary capital stock shall be increased in the amount required to allow such member to exercise that option and the inter-regional capital stock available for subscription by that member shall be reduced in an equivalent amount and be appropriately cancelled."

5. ARTICLE II, Section 3, shall read:

"Section 3. *Subscription of Shares*

a) Each regional member shall subscribe to shares of the ordinary capital stock of the Bank, and nonregional members may subscribe thereto in accordance with the terms of paragraph (b) of this section and in accordance with such terms as the Board of Governors shall establish. The number of shares to be subscribed by the original members shall be those set forth in Annex A of this Agreement, which specifies the obligation of each member as to both paid-in and callable capital. The number of shares to be subscribed by other members shall be determined by the Bank.

b) In case of an increase in ordinary capital pursuant to Section 2, paragraph (c) or (e) of this article, or an increase in inter-regional capital pursuant to Article IIA, Section 1(c), or an increase in both ordinary and inter-regional capital, each member shall have a right to subscribe, under such conditions as the Bank shall decide, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank. No member, however, shall be obligated to subscribe to any part of such increased capital.

c) Shares of ordinary capital stock initially subscribed by original members shall be issued at par. Other shares shall be issued at par unless the Bank decides in special circumstances to issue them on other terms.

d) The liability of the member countries on ordinary capital shares shall be limited to the unpaid portion of their issue price.

e) Shares of ordinary capital stock shall not be pledged or encumbered in any manner, and they shall be transferable only to the Bank.

f) Any member having the right to subscribe to the inter-regional capital stock of the Bank under paragraph (b) of this section, shall have the option of waiving that right and subscribing in lieu thereof to an equivalent amount of ordinary capital stock."

6. ARTICLE II, Section 4(a), shall be amended as follows:

1) In the preambular part the phrase "capital stock" shall read "ordinary capital stock."

2) In the first sentence of subparagraph (ii) the phrase "capital shares" shall read "ordinary capital shares," and the reference to "Article III, Section 4 (ii) and (iii)" shall be changed to "Article III, Section 4 (ii) and (v)."

7. ARTICLE II, Section 5, shall read:

"Section 5. *Ordinary Capital Resources*

As used in this Agreement, the term "ordinary capital resources" of the Bank shall be deemed to include the following:

i) authorized ordinary capital, including both paid-in and callable shares, subscribed pursuant to Sections 2 and 3 of this article;

ii) all funds raised by borrowings under the authority of Article VII, Section 1(i) to which the commitment set forth in Section 4(a)(ii) of this article is applicable;

iii) all funds received in repayment of loans made with the resources indicated in (i) and (ii) of this section;

iv) all income derived from loans made from the aforementioned funds or from guarantees to which the commitment set forth in Section 4(a)(ii) of this article is applicable; and

v) all other income derived from any of the resources mentioned above."

8. ARTICLE IIA shall be added to the Agreement after ARTICLE II, as follows:

"ARTICLE IIA. INTER-REGIONAL CAPITAL OF THE BANK

Section 1. *Authorized Inter-regional Capital*

a) The initial authorized inter-regional capital stock of the Bank shall be four hundred twenty million dollars ($420,000,000) in terms of United States dollars of the weight and fineness in effect on January 1, 1959 and shall be divided into 42,000 shares having a par value of $10,000 each, which shall be available for subscription by members in accordance with Section 2 of this article.

b) The authorized inter-regional capital stock shall be divided into paid-in shares and callable shares. Of the initial authorized inter-regional capital stock, the equivalent of seventy million dollars ($70,000,000) shall be paid-in, and three hundred fifty million dollars ($350,000,000) shall be callable for the purposes specified in Section 3(c) of this article.

c) Subject to the provisions of Article VIII, Section 4(b), the authorized inter-regional capital stock may be increased when the Board of Governors deems it advisable and in a manner agreed upon by a two-thirds majority of the total number of governors, including two thirds of the governors of regional members, representing not less than three fourths of the total voting power of the member countries.

d) Whenever the authorized ordinary capital stock is increased pursuant to Article II, Section 2(e), and a member exercises the option provided for in Article IIA, Section 2(g), inter-regional capital stock shall be increased in the amount required to allow such member to exercise that option and the ordinary capital stock available for subscription by that member shall be reduced in an equivalent amount and be appropriately cancelled.

Section 2. *Subscription of Shares of Inter-regional Capital*

a) Each nonregional member shall subscribe to shares of the inter-regional capital stock, and regional members may subscribe thereto in accordance with the terms of Article II, Section 3(b), and in accordance with such terms as the Board of Governors shall establish, subject to the provisions of this section.

b) The subscription of each original nonregional member shall be such number of shares of paid-in and callable inter-regional capital stock as may be determined by the Bank. The subscription, including the manner of its payment, of any new nonregional member shall be determined by the Bank with due regard to the conditions of the existing subscriptions.

c) Regional members may subscribe to the inter-regional capital stock on such terms as the Bank may determine, giving due regard to the conditions established for subscriptions by nonregional members.

d) Shares of the initial authorized inter-regional capital stock shall be issued at par. Other shares shall be issued at par unless the Bank decides in special circumstances to issue them on other terms.

e) The liability of the member countries on inter-regional capital shares shall be limited to the unpaid portion of their issue price.

f) Shares of inter-regional capital stock shall not be pledged or encumbered in any manner, and they shall be transferable only to the Bank.

g) Any member having the right to subscribe to the ordinary capital stock of the Bank under Article II, Section 3(b), shall have the option of waiving that right and subscribing in lieu thereof to an equivalent amount of inter-regional capital stock.

Section 3. *Payment of Subscriptions to Inter-regional Capital*

a) Payment of the amount subscribed by each country to the paid-in inter-regional capital stock shall be made entirely in the currency of the respective member, which shall make arrangements satisfactory to the Bank to assure that, subject to the provisions of Article V, Section 1(c), its currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

b) Each payment of a member under paragraph (a) of this section shall be in such amount as, in the opinion of the Bank, is equivalent to the full value in terms of United States dollars of the weight and fineness in effect on January 1, 1959, of the portion of the subscription being paid. The initial payment shall be in such amount as the member considers appropriate hereunder but shall be subject to such adjustment, to be effected within 60 days of the date on which the payment was due, as the Bank shall determine to be necessary to constitute the full dollar value equivalent as provided in this paragraph.

c) The callable portion of the subscription for inter-regional capital shares of the Bank shall be subject to call only when required to meet the obligations of the Bank created under Article III, Section 4(iv) and (v), on borrowings of funds for inclusion in the Bank's inter-regional capital resources or guarantees chargeable to such resources. In the event of such a call, payment may be made at the option of the member either in fully convertible currency of a member country or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made.

Calls on unpaid subscriptions of inter-regional callable capital shall be uniform in percentage on all such shares.

Section 4. *Inter-regional Capital Resources*

As used in this Agreement, the term "inter-regional capital resources" of the Bank shall be deemed to include the following:

i) Authorized inter-regional capital, including both paid-in and callable shares, subscribed pursuant to Section 2 of this article;

ii) all funds raised by borrowings under the authority of Article VII, Section 1(i) to which the commitment set forth in Section 3(c) of this article is applicable;

iii) all funds received in repayment of loans made with the resources indicated in (i) and (ii) of this section;

iv) all income derived from loans made from the aforementioned funds or from guarantees to which the commitment set forth in Section 3(c) of this article is applicable; and

v) all other income derived from any of the resources mentioned above."

9. ARTICLE III, Section 2, shall read:

"Section 2. *Categories of Operations*

a) The operations of the Bank shall be divided into ordinary operations, inter-regional resources operations, and special operations.

b) The ordinary operations shall be those financed from the Bank's ordinary capital resources, as defined in Article II, Section 5. The inter-regional resources operations shall be those financed from the Bank's inter-regional capital resources, as defined in Article IIA, Section 4. Both types of operations shall relate exclusively to loans made, participated in, or guaranteed by the Bank which are repayable only in the respective currency or currencies in which the loans were made. Such operations shall be subject to the terms and conditions that the Bank deems advisable, consistent with the provisions of this Agreement.

c) The special operations shall be those financed from the resources of the Fund in accordance with the provisions of Article IV."

10. ARTICLE III, Section 3, shall read:

"Section 3. *Basic Principle of Separation*

a) Subject to the amending provisions of Article XII(a)(ii), the ordinary capital resources, as defined in Article II, Section 5, the inter-regional capital resources, as defined in Article IIA, Section 4, and the resources of the Fund, as defined in Article IV, Section 3(h), shall at all times and in all respects be held, used, obligated, invested, or otherwise disposed of entirely separate from each other.

b) The ordinary capital resources and the inter-regional capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities or losses arising out of operations for which the resources of the Fund were originally used or committed.

c) The ordinary capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities or losses chargeable to the inter-regional capital resources, and, except as provided in Article VII, Section 3(d), the inter-regional capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities or losses chargeable to the ordinary capital resources.

d) The financial statements of the Bank shall show separately the ordinary operations, the inter-regional resources operations, and the special operations, and the Bank shall establish such other administrative rules as may be necessary to ensure the effective separation of the three types of operations.

e) Expenses pertaining directly to ordinary operations shall be charged to the ordinary capital resources. Expenses pertaining directly to inter-regional resources operations shall be charged to the inter-regional capital resources. Expenses pertaining directly to special operations shall be charged to the resources of the Fund. Other expenses shall be charged as the Bank determines."

11. ARTICLE III, Section 4(i) through (v), inclusive, shall read:

"i) by making or participating in direct loans with funds corresponding to the unimpaired paid-in ordinary capital and, except as provided in Section 13 of this article, to its reserves and undistributed surplus; or with the unimpaired resources of the Fund;

ii) by making or participating in direct loans with funds raised by the Bank in capital markets, or borrowed or acquired in any other manner, for inclusion in the ordinary capital resources of the Bank or the resources of the Fund;

iii) by making or participating in direct loans with funds corresponding to the unimpaired paid-in inter-regional capital, including any reserves or undistributed surplus pertaining to such resources;

iv) by making or participating in direct loans with funds raised by the Bank in capital markets, or borrowed or acquired in any other manner, for inclusion in the inter-regional capital resources of the Bank; and

v) by guaranteeing, with the ordinary capital resources, the inter-regional capital resources, or the resources of the Fund, in whole or in part loans made, except in special cases, by private investors."

12. ARTICLE III, Section 5, shall read:

"Section 5. *Limitations on Operations*

a) The total amount outstanding of loans and guarantees made by the Bank in its ordinary operations shall not at any time exceed the total amount of the unimpaired subscribed ordinary capital of the Bank, plus the unimpaired reserves and surplus included in the ordinary capital resources of the Bank, as defined in Article II, Section 5, exclusive of income assigned to the special reserve established pursuant to Section 13 of this article and other income of the ordinary capital resources assigned by decision of the Board of Governors to reserves not available for loans or guarantees.

b) The total amount outstanding of loans and guarantees made by the Bank in its inter-regional resources operations shall not at any time exceed the total amount of the unimpaired subscribed inter-regional capital of the Bank, plus the unimpaired reserves and surplus included in the inter-regional capital resources of the Bank, as defined in Article IIA, Section 4, exclusive of income of the inter-regional capital resources assigned by decision of the Board of Governors to reserves not available for loans or guarantees.

c) In the case of loans made out of funds borrowed by the Bank to which the obligations provided for in Article II, Section 4(a)(ii), are applicable, the total amount of principal outstanding and payable to the Bank in a specific currency shall at no time exceed the total amount of principal of the outstanding borrowings by the Bank for inclusion in its ordinary capital resources that are payable in the same currency.

d) In the case of loans made out of funds borrowed by the Bank to which the obligations provided for in Article IIA, Section 3(c), are applicable, the total amount of principal outstanding and payable to the Bank in a specific currency shall at no time exceed the total amount of principal of the outstanding borrowings by the Bank for inclusion in its inter-regional capital resources that are payable in the same currency."

13. ARTICLE III, Section 9(a), shall read:

"a) Except as provided in Article V, Section 1, the Bank shall impose no condition that the proceeds of a loan shall be spent in the territory of any particular country nor that such proceeds shall not be spent in the territories of any particular member or members; provided, however, that with respect to any increase of the resources of the Bank the question of restriction of procurement by the Bank or any member with regard to those members which do not participate in an increase under the terms and conditions specified by the Board of Governors may be determined by the Board of Governors."

14. ARTICLE III, Section 10, introductory paragraph, shall read:

"Direct loan contracts made by the Bank in conformity with Section 4 of this article shall establish:"

15. ARTICLE IV, Section 2, shall read:

"Section 2. *Applicable Provisions*

The Fund shall be governed by the provisions of the present article and all other provisions of this Agreement, excepting those inconsistent with the provisions of the present article and those expressly applying only to other operations of the Bank."

16. ARTICLE IV, Section 3(b), shall read:

"b) Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1(a), Canada, Bahamas and Guyana, and countries that are admitted in accordance with Article II, Section 1(b) shall contribute to the Fund with such quotas, and under such terms, as may be determined by the Bank."

17. ARTICLE IV, Section 3(g), shall read:

"g) The resources of the Fund shall be increased through additional contributions by the members when the Board of Governors considers it advisable by a three-fourths majority of the total voting power of the member countries. The provisions of Article II, Section 3(b), shall apply to such increases, in terms of the proportion between the quota in effect for each member and the total amount of the resources of the Fund contributed by members. No member, however, shall be obligated to contribute any part of such increase."

18. ARTICLE IV, Section 3(h)(ii), shall read:

"ii) all funds raised by borrowing to which the commitments stipulated in Article II, Section 4(a)(ii), and Article IIA, Section 3(c), are not applicable, i.e., those that are specifically chargeable to the resources of the Fund;"

19. ARTICLE IV, Section 8(c), shall read:

"c) In the operations of the Fund the Bank shall utilize to the fullest extent possible the same personnel, experts, installations, offices, equipment, and services as it uses for its other operations."

20. ARTICLE IV, Section 9(a), shall read:

"a) In making decisions concerning operations of the Fund, each member country of the Bank shall have the voting power in the Board of Governors accorded to it pursuant to Article VIII, Section 4(a) and (c), and each Director shall have the voting power in the Board of Executive Directors accorded to him pursuant to Article VIII, Section 4(a) and (d)."

21. ARTICLE IV, Section 12, shall read:

"Section 12. *Suspension and Termination*

The provisions of Article X also shall apply to the Fund with substitution of terms relating to the Fund and its resources and respective creditors for those relating to the Bank and its capital resources and respective creditors."

22. ARTICLE V, Section 1, shall read:

"Section 1. *Use of Currencies*

a) The currency of any member held by the Bank in its ordinary capital resources, in its inter-regional capital resources, or in the resources of the Fund, however acquired, may be used by the Bank and by any recipient from the Bank, without restriction by the member, to make payments for goods and services produced in the territory of such member.

b) Members may not maintain or impose restrictions of any kind upon the use by the Bank or by any recipient from the Bank, for payments in any country, of the following:

i) gold and dollars received by the Bank in payment of the 50 per cent portion of each member's subscription to shares of the Bank's ordinary capital and of the 50 per cent portion of each member's quota for contribution to the Fund, pursuant to the provisions of Article II and Article IV, respectively, and currency received by the Bank in payment of the equivalent portion of each member's subscription to shares of the inter-regional capital pursuant to the provisions of Article IIA;

ii) currencies of members purchased with the resources referred to in (i) of this paragraph;

iii) currencies obtained by borrowings, pursuant to the provisions of Article VII, Section 1(i), for inclusion in the capital resources of the Bank;

iv) gold and dollars received by the Bank in payment on account of principal, interest, and other charges, of loans made from the gold and dollar funds referred to in (i) of this paragraph; currencies received by the Bank in payment on account of principal, interest, and other charges, of loans made from the portion of the inter-regional capital referred to in (i) of this paragraph; currencies received in payment of principal, interest, and other charges, of loans made from currencies referred to in (ii) and (iii) of this paragraph; and currencies received in payment of commissions and fees on all guarantees made by the Bank; and

v) currencies, other than the member's own currency, received from the Bank pursuant to Article VII, Section 4(d), and Article IV, Section 10, in distribution of net profits.

c) A member's currency held by the Bank, whether in its ordinary capital resources, in its inter-regional capital resources, or in the resources of the Fund, not covered by paragraph (b) of this section, also may be used by the Bank or any recipient from the

Bank for payments in any country without restriction of any kind, unless the member notifies the Bank of its desire that such currency or a portion thereof be restricted to the uses specified in paragraph (a) of this section.

d) Members may not place any restrictions on the holding and use by the Bank, for making amortization payments or anticipating payment of, or repurchasing part or all of, the Bank's own obligations, of currencies received by the Bank in repayment of direct loans made from borrowed funds included in the ordinary or inter-regional capital resources of the Bank.

e) Gold or currency held by the Bank in its ordinary capital resources, in its inter-regional capital resources, or in the resources of the Fund shall not be used by the Bank to purchase other currencies unless authorized by a two-thirds majority of the total voting power of the member countries. Any currencies purchased pursuant to the provisions of this paragraph shall not be subject to maintenance of value under Section 3 of this article."

23. ARTICLE V, Section 3, shall read:

"Section 3. *Maintenance of Value of the Currency Holdings of the Bank*

a) Whenever the par value in the International Monetary Fund of a member's currency is reduced or the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value of all the currency of the member held by the Bank in its ordinary capital resources, in its inter-regional capital resources, or in the resources of the Fund, excepting currency derived from borrowings by the Bank. The standard of value for this purpose shall be the United States dollar of the weight and fineness in effect on January 1, 1959.

b) Whenever the par value in the International Monetary Fund of a member's currency is increased or the foreign exchange value of such member's currency has, in the opinion of the Bank, appreciated to a significant extent, the Bank shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency which is held by the Bank in its ordinary capital resources, in its inter-regional capital resources, or in the resources of the Fund, excepting currency derived from borrowings by the Bank. The standard of value for this purpose shall be the same as that established in the preceding paragraph.

c) The provisions of this section may be waived by the Bank when a uniform proportionate change in the par value of the currencies of all the Bank's members is made by the International Monetary Fund.

d) Notwithstanding any other provisions of this section, the terms and conditions of any increase in the resources of the Fund pursuant to Article IV, Section 3(g), may include maintenance of value provisions other than those provided for in this section which would apply to the resources of the Fund contributed by such increase."

24. ARTICLE V, Section 4, shall read:

"Section 4. *Methods of Conserving Currencies*

The Bank shall accept from any member promissory notes or similar securities issued by the government of the member, or by the depository designated by such member, in lieu of any part of the currency of the member representing the 50 per cent portion of its subscription to the Bank's authorized ordinary capital and the 50 per cent portion of its subscription to the resources of the Fund, which, pursuant to the provisions of Article II and Article IV, respectively, are payable by each member in its national currency, provided such currency is not required by the Bank for the conduct of its operations. Such notes or securities shall be non-negotiable, non-interest-bearing, and payable to the Bank at their par value on demand. On the same conditions, the Bank shall also accept such notes or securities in lieu of any part of the subscription of a member to the inter-regional capital with respect to which part the terms of the subscription do not require payment in cash."

25. ARTICLE VI, Section 3(b), shall read:

"b) The expenses of providing technical assistance not paid by the recipients shall be met from the net income of the ordinary capital resources, of the inter-regional capital resources, or of the Fund. However, during the first three years of the Bank's operations, up to three per cent, in total, of the initial resources of the Fund may be used to meet such expenses."

26. ARTICLE VII, Section 1(i), second sentence, shall read:

"In addition, in the case of borrowings of funds to be included in the Bank's ordinary capital resources or inter-regional capital resources, the Bank shall obtain agreement of such countries that the proceeds may be exchanged for the currency of any other country without restriction;"

27. ARTICLE VII, Section 3, shall read:

"Section 3. *Methods of Meeting Liabilities of the Bank in Case of Defaults*

a) The Bank, in the event of actual or threatened default on loans made or guaranteed by the Bank using its ordinary capital resources or its inter-regional capital resources, shall take such action as it deems appropriate with respect to modifying the terms of the loan, other than the currency of repayment.

b) The payments in discharge of the Bank's liabilities on borrowings or guarantees under Article III, Section 4(ii) and (v) chargeable against the ordinary capital resources of the Bank shall be charged:

i) first, against the special reserve provided for in Article III, Section 13; and

ii) then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus, and funds corresponding to the capital paid in for ordinary capital shares.

c) Whenever necessary to meet contractual payments of interest, other charges, or amortization on the Bank's borrowings payable out of its ordinary capital resources, or to meet the Bank's liabilities with respect to similar payments on loans guaranteed by it chargeable to its ordinary capital resources, the Bank may call upon the members to pay an appropriate amount of their callable ordinary capital subscriptions, in accordance with Article II, Section 4(a)(ii). Moreover, if the Bank believes that a default may be of long duration, it may call an additional part of such subscriptions not to exceed in any one year one per cent of the total subscriptions of the members to the ordinary capital resources, for the following purposes:

i) to redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it chargeable to its ordinary capital resources in respect of which the debtor is in default; and

ii) to repurchase, or otherwise discharge its liability on, all or part of its own outstanding obligations payable out of its ordinary capital resources.

d) The Bank's liabilities on all borrowings of funds for inclusion in its ordinary capital resources which were outstanding at December 31, 1974 shall be payable out of both the ordinary capital resources and the inter-regional capital resources, including, notwithstanding the provisions of Article IIA, Section 3(c), the callable inter-regional capital subscriptions, provided, however, that the Bank shall use its best efforts to discharge its liabilities on such outstanding borrowings out of its ordinary capital resources pursuant to paragraphs (b) and (c) of this section before discharging such liabilities out of its inter-regional capital resources pursuant to paragraphs (e) and (f) of this section, for which purpose appropriate substitution shall be made in such paragraphs of the term ordinary capital for inter-regional capital.

e) The payments in discharge of the Bank's liabilities on borrowings or guarantees under Article III, Section 4(iv) and (v) chargeable against the inter-regional capital resources of the Bank shall be charged:

i) first, against any reserve established for this purpose; and

ii) then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus, and funds corresponding to the capital paid in for inter-regional capital shares.

f) Whenever necessary to meet contractual payments of interest, other charges, or amortization on the Bank's borrowings payable out of its inter-regional capital resources, or to meet the Bank's liabilities with respect to similar payments on loans guaranteed by it chargeable to its inter-regional capital resources, the Bank may call upon the members to pay an appropriate amount of their callable inter-regional capital subscriptions, in accordance with Article IIA, Section 3(c). Moreover, if the Bank believes that a default may be of long duration, it may call an additional part of such subscriptions not to exceed in any one year one per cent of the total subscriptions of the members to the inter-regional capital resources, for the following purposes:

i) to redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it chargeable to its inter-regional capital resources in respect of which the debtor is in default; and

ii) to repurchase, or otherwise discharge its liability on, all or part of its own outstanding obligations payable out of its inter-regional capital resources."

28. ARTICLE VII, Section 4, shall read:

"Section 4. *Distribution or Transfer of Net Profits and Surplus*

a) The Board of Governors may determine periodically what part of the net profits and of the surplus of the ordinary capital resources and of the inter-regional capital resources shall be distributed. Such distributions may be made only when the reserves have reached a level which the Board of Governors considers adequate.

b) When approving the statements of profit and loss, pursuant to Article VIII, Section 2(b)(viii), the Board of Governors may by decision of a two-thirds majority of the total number of governors representing not less than three fourths of the total voting power of the member countries transfer part of the net profits for the respective fiscal year of the ordinary capital resources or of the inter-regional capital resources to the Fund.

Before the Board of Governors determines to make a transfer to the Fund, it shall have received a report from the Board of Executive Directors on the desirability of such a transfer, which shall take into consideration, *inter alia,* (1) whether the reserves have reached a level that is adequate; (2) whether the transferred funds are needed for the operation of the Fund; and (3) the impact, if any, on the Bank's ability to borrow.

c) The distributions referred to in paragraph (a) of this section shall be made from the ordinary capital resources in proportion to the number of ordinary capital shares held by each member and from the inter-regional capital resources in proportion to the number of inter-regional capital shares held by each member and likewise the net profits transferred to the Fund pursuant to paragraph (b) of this section shall be credited to the total contribution quotas of each member in the Fund in the foregoing proportions.

d) Payments pursuant to paragraph (a) of this section shall be made in such manner and in such currency or currencies as the Board of Governors shall determine. If such payments are made to a member in currencies other than its own, the transfer of such currencies and their use by the receiving country shall be without restriction by any member."

29. ARTICLE VIII, Section 2(b)(ii), shall read:

"ii) increase or decrease the authorized ordinary capital stock and inter-regional capital stock of the Bank and the contributions to the Fund;"

30. ARTICLE VIII, Section 2(b)(viii), (ix) and (x), shall read:

"viii) approve, after reviewing the auditors' reports, the general balance sheets and the statements of profit and loss of the institution;

ix) determine the reserves and the distribution of the net profits of the ordinary capital resources and of the inter-regional capital resources and of the Fund;

x) select outside auditors to certify to the general balance sheets and the statements of profit and loss of the institution;"

31. ARTICLE VIII, Section 2(e), shall read:

"e) A quorum for any meeting of the Board of Governors shall be an absolute majority of the total number of governors, including an absolute majority of the governors of regional members, representing not less than two thirds of the total voting power of the member countries."

32. ARTICLE VIII, Section 3(b)(ii), shall read:

"ii) One executive director shall be appointed by the member country having the largest number of shares in the Bank, two executive directors shall be elected by the governors of the nonregional member countries, and not less than eight others shall be elected by the governors of the remaining member countries. The number of executive directors to be elected in the last category, and the procedure for the election of all the elective directors shall be determined by regulations adopted by the Board of Governors by a three-fourths majority of the total voting power of the member countries, including, with respect to provisions relating exclusively to the election of directors by nonregional member countries, a two-thirds majority of the governors of the nonregional members, and, with respect to provisions relating exclusively to the number and election of directors by the remaining member countries, by a two-thirds majority of the governors of regional members. Any change in the aforementioned regulations shall require the same majority of votes for its approval."

33. ARTICLE VIII, Section 3(f), shall read:

"f) A quorum for any meeting of the Board of Executive Directors shall be an absolute majority of the total number of directors, including an absolute majority of directors of regional members, representing not less than two thirds of the total voting power of the member countries."

34. ARTICLE VIII, Section 4, shall read:

"Section 4. *Voting*'

a) Each member country shall have 135 votes plus one vote for each share of ordinary capital stock and for each share of inter-regional capital stock of the Bank held by that country, provided, however, that, in connection with any increase in the authorized ordinary or inter-regional capital stock, the Board of Governors may determine that the capital stock authorized by such increase shall not have voting rights and that such increase of stock shall not be subject to the preemptive rights established in Article II, Section 3(b).

b) No increase in the subscription of any member to either the ordinary capital stock or the inter-regional capital stock shall become effective, and any right to subscribe thereto is hereby waived, which would have the effect of reducing the voting power (i) of the regional developing members below 53.5 per cent of the total voting power of the member countries; (ii) of the member having the largest number of shares below 34.5 per cent of such total voting power; or (iii) of Canada below 4 per cent of such total voting power.

c) In voting in the Board of Governors, each governor shall be entitled to cast the votes of the member country which he represents. Except as otherwise specifically provided in this Agreement, all matters before the Board of Governors shall be decided by a majority of the total voting power of the member countries.

d) In voting in the Board of Executive Directors:

i) the appointed director shall be entitled to cast the number of votes of the member country which appointed him;

ii) each elected director shall be entitled to cast the number of votes that counted toward his election, which votes shall be cast as a unit; and

iii) except as otherwise specifically provided in this Agreement, all matters before the Board of Executive Directors shall be decided by a majority of the total voting power of the member countries."

35. ARTICLE VIII, Section 5(a), shall read:

"a) The Board of Governors, by a majority of the total voting power of the member countries, including an absolute majority of the governors of regional members, shall elect a President of the Bank who, while holding office, shall not be a governor or an executive director or alternate for either.

Under the direction of the Board of Executive Directors, the President of the Bank shall conduct the ordinary business of the Bank and shall be chief of its staff. He also shall be the presiding officer at meetings of the Board of Executive Directors, but shall have no vote, except that it shall be his duty to cast a deciding vote when necessary to break a tie.

The President of the Bank shall be the legal representative of the Bank. The term of office of the President of the Bank shall be five years, and he may be reelected to successive terms. He shall cease to hold office when the Board of Governors so decides by a majority of the total voting power of the member countries, including a majority of the total voting power of the regional member countries."

36. ARTICLE VIII, Section 5(e), shall read:

"e) The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence, and integrity. Due regard shall also be paid to the importance of recruiting the staff on as wide a geographical basis as possible, taking into account the regional character of the institution."

37. ARTICLE VIII, Section 6(a), shall read:

"a) The Bank shall publish an annual report containing separate audited statements of the accounts of the ordinary capital resources and of the inter-regional capital resources. It shall also transmit quarterly to the members summary statements of the financial position and profit-and-loss statements showing separately the results of its ordinary operations and its inter-regional resources operations."

38. ARTICLE IX, Section 2, first paragraph, shall read:

"If a member fails to fulfill any of its obligations to the Bank, the Bank may suspend its membership by decision of the Board of Governors by a three-fourths majority of the total voting power of the member countries, including a two-thirds majority of the total number of governors, which, in the case of suspension of a regional member country, shall include a two-thirds majority of the governors of regional members and, in the case of suspension of a nonregional member country, a two-thirds majority of the governors of nonregional members."

39. ARTICLE IX, Section 3, shall be amended as follows:

1) The third sentence of paragraph (d)(ii) shall read:

"However, no amount shall be withheld on account of the country's contingent liability for future calls on its subscription pursuant to Article II, Section 4(a)(ii), or Article IIA, Section 3(c)."

2) The second sentence of paragraph (d)(iii) shall read:

"In addition, the former member shall remain liable on any call pursuant to Article II, Section 4(a)(ii), or Article IIA, Section 3(c), to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares had been determined."

40. ARTICLE X, Section 2, shall read:

"Section 2. *Termination of Operations*

The Bank may terminate its operations by a decision of the Board of Governors by a three-fourths majority of the total voting power of the member countries, including a two-thirds majority of the governors of regional members. After such termination of operations the Bank shall forthwith cease all activities, except those incident to the conservation, preservation, and realization of its assets and settlement of its obligations."

41. ARTICLE X, Section 3(b), shall read:

"b) All creditors holding direct claims shall be paid out of the assets of the Bank to which such claims are chargeable and then out of payments to the Bank on unpaid or callable subscriptions to which such claims are chargeable. Before making any payments to creditors holding direct claims, the Board of Executive Directors shall make such arrangements as are necessary, in its judgment, to ensure a pro rata distribution among holders of direct and contingent claims."

42. ARTICLE X, Section 4(a), shall read:

"a) No distribution of assets shall be made to members on account of their subscriptions to the capital stock of the Bank until all liabilities to creditors chargeable to such capital stock shall have been discharged or provided for. Moreover, such distribution must be approved by a decision of the Board of Governors by a three-fourths majority of the total voting power of the member countries, including a two-thirds majority of the governors of regional members."

43. ARTICLE XII, paragraphs (a) and (b) shall read:

"a) i) This Agreement may be amended only by decision of the Board of Governors by a majority of the total number of governors, including two thirds of the governors of regional members, representing not less than three fourths of the total voting power of the member countries, provided, however, that the voting majorities provided in Article II, Section 1(b), may be amended only by the voting majorities stated therein.

ii) The relevant articles of the Agreement may be amended as provided in paragraph (a)(i) above to provide for the merger of the inter-regional capital stock and the ordinary capital stock at such time as the Bank shall have discharged its liabilities on all its ordinary capital borrowings which were outstanding at December 31, 1974.

b) Notwithstanding the provisions of (a) above, the unanimous agreement of the Board of Governors shall be required for the approval of any amendment modifying:

i) the right to withdraw from the Bank as provided in Article IX, Section 1;

ii) the right to purchase capital stock of the Bank and to contribute to the Fund as provided in Article II, Section 3(b) and in Article IV, Section 3(g), respectively; and

iii) the limitation on liability as provided in Article II, Section 3(d), Article IIA, Section 2(e), and Article IV, Section 5."

SECTION 2. *Entry into Force*

The foregoing amendments shall enter into force on the date on which the official communication certifying their adoption has been addressed to the members in accordance with Article XII(c) of the Agreement Establishing the Bank.

(Approved June 1, 1976)

Resolution AG-10/76

General Rules Governing Admission of Nonregional Countries to Membership in the Bank

WHEREAS Article II, Section 1(b), of the Agreement Establishing the Bank provides that nonregional countries which are members of the International Monetary Fund, and Switzerland, may be admitted as members to the Bank under such general rules as the Board of Governors shall have established;

WHEREAS certain nonregional countries have expressed their interest in becoming members of the Bank; and

WHEREAS the Board of Governors has concluded that it would be desirable to admit such nonregional countries as members of the Bank and that their admission should be accomplished through (i) the amendment of the Agreement Establishing the Bank to provide, among other matters, for the creation of a new category of capital which shall be denominated interregional capital stock of the Bank; (ii) the adoption of general rules governing the admission of nonregional member countries, including provisions for an increase in the resources of the Fund for Special Operations; and (iii) an increase in the authorized ordinary capital stock of the Bank,

The Board of Governors

RESOLVES THAT:

The attached General Rules Governing Admission of Nonregional Countries to Membership in the Bank be approved.

GENERAL RULES GOVERNING ADMISSION OF NON-REGIONAL COUNTRIES TO MEMBERSHIP IN THE BANK

SECTION 1. *Conditions for Nonregional Membership*

Nonregional countries which are members of the International Monetary Fund, and Switzerland, may become members of the Bank provided that, on such date in the calendar year 1976 as the Board of Executive Directors shall determine, the following conditions shall have been fulfilled:

(a) The amendments to the Agreement Establishing the Bank provided for in the resolution entitled "Amendments to the Agreement Establishing the Bank with respect to the Creation of the Inter-regional Capital Stock of the Bank and to Related Matters" shall have entered into force;

(b) The increase in the authorized ordinary capital stock provided for in the resolution entitled "Increase in the Authorized Callable Ordinary Capital Stock and Subscriptions Thereto in Connection with the Admission of Nonregional Member Countries" shall have come into effect;

(c) At least eight nonregional countries, including not less than four countries with contributions to the Fund for Special Operations of not less than US$60,000,000 each, through the deposit of appropriate instruments with the Bank, shall have agreed:

(i) to subscribe at least 31,100 shares of inter-regional capital stock in accordance with Section 2 hereof.

(ii) to contribute at least the equivalent of US$375,000,000[1] to the resources of the Fund for Special Operations in accordance with Section 3 hereof;

If it deems it appropriate after March 1, 1976, the Board of Executive Directors may reduce the total share subscriptions and the total contributions to the Fund for Special Operations specified in subparagraphs (i) and (ii) above.

Subscriptions to the inter-regional capital stock and contributions to the Fund for Special Operations by the nonregional countries shall be at least in the following amounts:

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[1] U.S. dollars of the weight and fineness in effect upon the October 18, 1973 change in the par value of the U.S. dollar.

	Paid-in Inter-regional Capital Subscriptions			Callable Inter-regional Capital Subscriptions			Total Inter-regional Capital Subscriptions			Contributions to the Fund for Special Operations
	Shares	Amounts Expressed in 1959 U.S. Dollars[1]	Amounts Expressed in current U.S. Dollars[2]	Shares	Amounts Expressed in 1959 U.S. Dollars[1]	Amounts Expressed in current U.S. Dollars[2]	Shares	Amounts Expressed in 1959 U.S. Dollars[1]	Amounts Expressed in current U.S. Dollars[2]	Amounts Expressed in current U.S. Dollars[2]
Austria	69	690,000	832,377	350	3,500,000	4,222,201	419	4,190,000	5,054,578	5,054,578
Belgium	171	1,710,000	2,062,847	865	8,650,000	10,434,869	1,036	10,360,000	12,497,716	12,497,716
Denmark	74	740,000	892,694	373	3,730,000	4,499,660	447	4,470,000	5,392,354	5,392,354
Germany	863	8,630,000	10,410,742	4,367	43,670,000	52,681,009	5,230	52,300,000	63,091,751	63,091,751
Israel	68	680,000	820,313	346	3,460,000	4,173,948	414	4,140,000	4,994,261	4,994,261
Italy	842	8,420,000	10,157,410	4,264	42,640,000	51,438,476	5,106	51,060,000	61,595,886	61,595,886
Japan	940	9,400,000	11,339,627	4,757	47,570,000	57,385,748	5,697	56,970,000	68,725,375	68,725,375
Netherlands	128	1,280,000	1,544,120	648	6,480,000	7,817,104	776	7,760,000	9,361,224	9,361,224
Portugal	68	680,000	820,313	346	3,460,000	4,173,948	414	4,140,000	4,994,261	4,994,261
Spain	842	8,420,000	10,157,410	4,264	42,640,000	51,438,476	5,106	51,060,000	61,595,886	61,595,886
Switzerland	188	1,880,000	2,267,925	952	9,520,000	11,484,388	1,140	11,400,000	13,752,313	13,752,313
United Kingdom	842	8,420,000	10,157,410	4,264	42,640,000	51,438,476	5,106	51,060,000	61,595,886	61,595,886
Yugoslavia	69	690,000	832,377	350	3,500,000	4,222,201	419	4,190,000	5,054,578	5,054,578
Sub-Total	5,164	51,640,000	62,295,565	26,146	261,460,000	315,410,504	31,310	313,100,000	377,706,069	377,706,069
Unassigned	1,836	18,360,000	22,148,462	8,854	88,540,000	106,809,630	10,690	106,900,000	128,958,092	128,958,092
Total	**7,000**	**70,000,000**	**84,444,027**	**35,000**	**350,000,000**	**422,220,134**	**42,000**	**420,000,000**	**506,664,161**	**506,664,161**

[1] U.S. dollars of the weight and fineness in effect on January 1, 1959.

[2] U.S. dollars of the weight and fineness in effect upon the October 18, 1973 change in the par value of the U.S. dollar.

SECTION 2. *Subscriptions to Inter-regional Capital Stock*

(a) Nonregional countries listed in Section 1 hereof may subscribe to shares of inter-regional capital stock.

(b) Each subscription shall include at least the full amount of both paid-in inter-regional capital shares and callable inter-regional capital shares assigned to the respective country in Section 1 hereof, and each subscribing country shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.

(c) The subscription of each country to the paid-in inter-regional capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be US$10,000 in terms of United States dollars of the weight and fineness in effect on January 1, 1959.

(ii) Payment of the amount of paid-in inter-regional capital stock subscribed by each country shall be made in three equal installments, except that the Board of Executive Directors, taking into account special circumstances with respect to particular countries, may agree (i) that the amount of the first installment to be paid by the respective country may be decreased to not less than 20% of the amount of the paid-in capital assigned to such country, with the two subsequent installments to be adjusted accordingly; or (ii) that payment by the respective country may be made in five equal annual installments. The first installment shall be paid by each country within thirty days after the entry into force of these General Rules or on or before the date of deposit of the instrument of acceptance or ratification in accordance with Section 4 (c)(ii) hereof, whichever shall be later. If a country chooses to pay the first installment in cash, it may make the payment not later than the end of the calendar year in which these General Rules enter into force or the calendar year in which the member deposits its instrument of ratification, if this is later. Each of the remaining annual installments shall become due at intervals of one year after the date on which the first installment becomes due.

(iii) Each installment shall be paid entirely in the currency of the contributing country which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

(iv) 50% of each installment shall be subject to the provisions of Article V, Section 1 (b)(i), of the Agreement Establishing the Bank and shall be paid in cash. With respect to the remaining 50% of each installment, unless a country elects to make payment thereof also in cash, the Board of Executive Directors shall establish a schedule pursuant to which any non-negotiable, non-interest-bearing promissory notes or similar securities accepted pursuant to Article V, Section 4, shall be paid to the Bank.

(d) The subscription of each country to the callable inter-regional capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be US$10,000 in terms of United States dollars of the weight and fineness in effect on January 1, 1959.

(ii) The subscription of each country to the callable inter-regional capital stock shall be in three equal installments, which shall be subscribed, respectively, on or before the corresponding dates for payment of each of the first three installments of the country's subscription to the paid-in inter-regional capital stock pursuant to Section 2 (c)(ii) hereof.

(e) The inter-regional capital resources shall be utilized in making loans in such a manner as to ensure a reasonable distribution of such loans and subsequent obligations between ordinary and inter-regional capital resources.

(f) At such time as the Bank shall have discharged its liabilities on all its ordinary capital borrowings which were outstanding at December 31, 1974, measures shall be taken to merge the inter-regional capital stock and the ordinary capital stock.

SECTION 3. *Increase in the Fund for Special Operations and Contributions Thereto*

(a) Subject to the provisions of these General Rules, the resources of the Fund for Special Operations shall be increased by the equivalent of US$506,664,161, through contributions by nonregional countries, it being understood from their approval of these General Rules that the regional member countries do not wish to avail themselves of their right to contribute to a proportional share of such increase pursuant to Article IV, Section 3 (g), of the Agreement Establishing the Bank.

(b) Such increase shall become effective and such contributions shall become payable only upon these General Rules entering into force pursuant to Section 10 hereof.

(c) Nonregional countries shall make contributions to the Fund for Special Operations equivalent to their subscriptions to nonregional capital stock pursuant to Section 1 (c) hereof.

(d) Each country shall make its contribution entirely in its own currency and shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

(e) The entire amount of each contribution shall constitute national currency to which the provisions of Article V, Section 1 (c), of the Agreement Establishing the Bank, shall be applicable. Should a country elect not to make payment of its entire contribution or any part thereof in cash, the Bank, pursuant to Article V, Section 4, of the Agreement Establishing the Bank, shall accept non-negotiable, non-interest-bearing promissory notes or similar securities for which the Board of Executive Directors shall establish a schedule of encashment.

(f) The contributions shall be made in three equal installments, except that the Board of Executive Directors, taking into account special circumstances with respect to particular countries, may agree (i) that the amount of the first installment to be paid by the respective country may be decreased to not less than 20% of the amount of the total contribution assigned to such country, with the two subsequent installments to be adjusted accordingly; or (ii) that payment by the respective country may be made in five equal annual installments. The installments shall be paid on the same dates as the payments by the country of its installments of paid-in inter-regional capital stock pursuant to Section 2 hereof.

(g) Each payment of a country shall be in such an amount as, in the opinion of the Bank, is equivalent to the full value, in terms of United States dollars of the weight and fineness in effect upon the October 18, 1973 change in the par value of the United States dollar.

(h) Currencies of all the members held by the Bank which are derived from these contributions shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank, but the standard of value set for this purpose shall be the United States dollar of the weight and fineness in effect upon the October 18, 1973 change in the par value of the United States dollar, provided, however, that the Bank may waive this readjustment in the event of a currency realignment involving a significant number of members of the Bank.

(i) Notwithstanding the provisions of Article IV, Section 3 (g), of the Agreement Establishing the Bank, and in keeping with the traditional method for augmenting the resources of the Fund for Special Operations, any future increases in the resources of the Fund for Special Operations shall be in such proportions and on such terms and conditions as shall be negotiated at that time.

SECTION 4. *Requirements for Nonregional Membership*

A nonregional country shall become a member of the Bank when:

(a) The Board of Executive Directors shall have determined that all the conditions of Section 1 hereof have been fulfilled;

(b) These General Rules have entered into force pursuant to Section 10 hereof; and

(c) The President shall have declared that the country has fulfilled all the following requirements:

(i) Its duly authorized representative has signed the original of the Agreement, as amended, deposited with the General Secretariat of the Organization of American States;

(ii) It has deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its law, the Agreement and all the terms and conditions prescribed in these General Rules and that it has taken the steps necessary to fulfill all of its obligations under the Agreement and under these General Rules; and

(iii) It has represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by paragraphs (i) and (ii) above and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

SECTION 5. *Additional Nonregional Countries*

Additional nonregional countries not listed in Section 1 hereof may become members of the Bank in accordance with such terms as the Board of Governors shall establish. The subscriptions of such additional nonregional countries and their respective contributions to the Fund for Special Operations shall be such number of shares of paid-in and callable inter-regional capital stock and such contributions to the Fund for Special Operations as shall be determined by the Board of Governors with due regard to the conditions of the subscriptions and contributions of the nonregional countries listed in Section 1 hereof.

SECTION 6. *Unsubscribed Stock and Contribution Quotas*

Inter-regional capital stock and contribution quotas to the Fund for Special Operations provided for by Section 1 (c) of these General Rules which have not been subscribed by the nonregional countries listed in Section 1 hereof or by additional nonregional countries as provided in Section 5 hereof within two years from the date on which these General Rules shall have entered into force may then be subscribed by the nonregional member countries which are members at that time. Each such member shall have the right to subscribe to a proportion of the available stock equivalent to the proportion which its stock already subscribed bears to the total subscribed inter-regional capital stock. Likewise, each such member shall have the right to subscribe to a proportion of the unsubscribed quotas to the Fund for Special Operations equivalent to the proportion which its contribution quota bears to the total subscribed quota contributions. In each subscription there shall be maintained the ratio of paid-in to callable capital as well as the ratio of contributions to the Fund for Special Operations to subscriptions to capital stock established in these General Rules. Payment for the paid-in capital and the contribution quotas to the Fund for Special Operations, as well as the subscriptions to the callable capital so subscribed, shall be accomplished within three years from the date on which these General Rules enter into force.

SECTION 7. *Special Quorum and Voting Power*

(a) The agreement of a two-thirds majority of the total number of governors of nonregional members representing not less than three fourths of the total voting power of the nonregional member countries shall be required for the approval of:

(i) any amendment of the Agreement Establishing the Bank modifying: (1) the number of governors who shall be appointed by the nonregional member countries; (2) the number of executive directors who shall be elected by the governors of the nonregional member countries as provided in Article VIII, Section 3 (b) (ii), of the Agreement; (3) Article VII, Section 3 (d), (e) and (f), of the Agreement; or (4) the provisions relating to the distribution of the net profits and surplus of the inter-regional capital resources as provided in Article VII, Section 4, of the Agreement; and

(ii) any increase in the authorized inter-regional capital stock as provided in Article IIA, Section 1 (c), of the Agreement.

(b) No increase in the subscription of any member to either the ordinary capital stock or the inter-regional capital stock shall become effective, and any right to subscribe thereto is hereby waived, which would have the effect of reducing the voting power (i) of the regional developing members below 53.5 per cent of the total voting power of the member countries; (ii) of the member having the largest number of shares below 34.5 per cent of such total voting power; or (iii) of Canada below 4 per cent of such total voting power, provided that, notwithstanding the foregoing provisions and the provisions of Article VIII, Section 4 (b), of the Agreement Establishing the Bank, any resolution of the Board of Governors for an increase in the ordinary capital stock or the inter-regional capital stock of the Bank shall specify that (1) in order to prevent the voting power of the regional developing members as a group from falling below the set percentage, any member of the group may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares; (2) the provision relating to percentages of voting power may be waived by the regional developing members as a group with respect to (i), and by the United States and Canada with respect to (ii) and (iii), respectively; and (3) any member of the group of nonregional members may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares.

SECTION 8. *Amendment of the Regulations for Election of Executive Directors*

Since nonregional countries shall have the right to elect two executive directors with their own votes as provided in Article VIII, Section 3 (b) (ii), of the Agreement Establishing the Bank, as amended by the resolution referred to in Section 1 (a) hereof, the Regulations for Election of Executive Directors, provided for in said Article of the Agreement, are amended to read as set forth in Annex I hereto. These amendments shall become effective on the same date as these General Rules enter into force.

SECTION 9. *Number of Executive Directors*

The agreement of a two-thirds majority of the total number of governors of nonregional members shall be required for the approval of an increase in the number of executive directors of the Bank beyond a total number of thirteen executive directors.

SECTION 10. *Entry into Force*

These General Rules shall enter into force only after the Board of Executive Directors shall have determined that all the conditions of Section 1 hereof have been fulfilled and after the President shall have declared that at least eight nonregional countries have satisfied all of the requirements of Section 4 (c) hereof.

ANNEX I

REGULATIONS FOR THE ELECTION OF EXECUTIVE DIRECTORS

I. ELECTION OF EXECUTIVE DIRECTORS

1. The Governors eligible to vote in accordance with Article VIII, Section 3 (b) (ii), of the Agreement Establishing the Bank shall elect ten Executive Directors.

2. The Governor for Canada shall elect one Executive Director with the votes of his country.

3. The Governors for the regional developing member countries shall elect seven Executive Directors in accordance with the following provisions:

   (a) This section shall apply exclusively to the regional developing member countries, and the total voting power of those countries shall be counted as 100 per cent for the purposes hereof.

   (b) Each Governor eligible to vote under this section shall cast in favor of a single person all the votes to which the member country he represents is entitled under Article VIII, Section 4 (a), of the Agreement Establishing the Bank.

   (c) In the first place, as many ballots as are necessary shall be taken until five persons have been elected Executive Directors in the following manner:

      (i) Each of two candidates has received a number of votes constituting not less than the sum of the votes appertaining to the country with the greatest voting power and to the country with the least voting power.

      (ii) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the third greatest voting power and to the two countries with the least voting power.

      (iii) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fourth greatest voting power and to the two countries with the least voting power.

      (iv) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fifth greatest voting power and to the three countries with the least voting power.

(d) In the second place, Governors whose votes have not been cast in favor of any of the Directors elected under paragraph (c) shall elect two Executive Directors on the basis that only countries individually having not more than two and one-half per cent (2½%) of the total voting power shall be eligible to present candidates and to vote. The two candidates who receive the greatest number of votes shall be deemed elected, provided that in each case these votes have been cast by three or more countries, and as many ballots shall be taken as are necessary to reach this result.

(e) After the balloting has been completed, each Governor who did not vote for any of the candidates elected shall assign his votes to one of them. The number of votes appertaining under Article VIII, Section 4 (a), of the Agreement Establishing the Bank to each Governor who has voted for or assigned his votes to a candidate elected under these Regulations shall be deemed for the purposes of Article VIII, Section 4 (d) (ii), of the Agreement to have counted toward the election of such candidate.

4. The Governors for the nonregional countries shall elect two Executive Directors in accordance with the following provisions:

(a) This section shall apply exclusively to the nonregional member countries and the total voting power of those countries shall be counted as 100 per cent for the purposes hereof.

(b) Each Governor eligible to vote under this section shall cast in favor of a single person all the votes to which the member country he represents is entitled under Article VIII, Section 4 (a), of the Agreement Establishing the Bank.

(c) The two candidates receiving the largest number of votes shall be Executive Directors, provided that no person shall be deemed elected unless he has received the votes of three or more nonregional Governors constituting at least 40 per cent of the total eligible votes, but provided further that he shall not have received more than 60 per cent of such total votes. As many ballots as are necessary shall be taken until two candidates have been elected.

(d) After the balloting has been completed, each Governor who did not vote for either of the candidates elected shall assign his votes to one of them. The number of votes appertaining under Article VIII, Section 4 (a), of the Agreement Establishing the Bank to each Governor who has voted for or assigned his votes to a candidate elected under these Regulations shall be deemed for the purposes of Article VIII, Section 4 (d) (ii), of the Agreement to have counted toward the election of such candidate.

II. RULES OF PROCEDURE FOR THE ELECTION

5. *Notice of the Election*

At least ninety days before the Annual Meeting of the Board of Governors at which a general election of Executive Directors is to be held, the Secretary shall so notify the Governors and invite them to nominate candidates.

6. *Supervision of the Election*

The Chairman of the Board of Governors shall supervise the election, shall appoint two Governors as tellers to supervise the balloting and count the votes, and shall take such other action as he deems necessary for the conduct of the election.

7. *Nominations*

(a) The election shall take place among the candidates nominated in accordance with these rules of procedure.

(b) The Executive Directors shall be persons of recognized competence and wide experience in economic and financial matters and shall not be Governors (Article VIII, Section 3 (b) (i), of the Agreement Establishing the Bank).

(c) A Governor may not nominate more than one person.

(d) Nominations shall be submitted to the Secretary.

(e) Each nomination shall be made in writing and shall be signed by the Governor making the nomination.

(f) The Secretary shall distribute to the Governors a list of the persons nominated.

(g) The period for nominating candidates shall end at 10:00 a.m. of the first day of the Annual Meeting of the Board of Governors at which the election is to be held.

8. *Election*

(a) The election shall consist of four separate stages. The Executive Director referred to in Section 2 of these Regulations shall be elected in the first stage. The five Directors referred to in Section 3 (c) of these Regulations shall be elected in the second stage, the two Directors mentioned in Section 3 (d) thereof in the third, and the two Directors referred to in Section 4 in the fourth.

(b) Each Governor may participate in only one stage of voting.

(c) For each stage of the voting the Secretary shall announce the names of the official candidates and of the countries eligible to vote.

9. *Balloting*

Each ballot shall be taken as follows:

(a) Votes shall be cast on forms which the Secretary shall furnish before the beginning of the ballot to each Governor entitled to vote. On each ballot, only those votes shall be counted which have been cast on the forms distributed for that ballot.

(b) After the name of each country is announced by the Secretary, the Governor therefor shall deposit his signed vote in the ballot box.

(c) When a ballot has been completed, the tellers shall check the number of votes and proceed to a count of the votes cast.

(d) If the tellers are of the opinion that any particular vote needs clarification or has not been properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before completing the tally; and such vote, if so corrected, shall be deemed to be valid.

(e) As many ballots as are necessary shall be taken until all the Executive Directors to be elected in the separate elections provided for in Section 3 (c), Section 3 (d), and Section 4 of these Regulations have been elected, in each case in a single ballot.

(f) The Chairman of the Board shall state whether or not an election has been effected and if it has, he shall announce the names of the persons elected and of the member countries which elected them.

10. *Elimination of Candidates*

In any ballot, the Governor or Governors who have nominated a candidate may advise the Secretary that he will not participate in succeeding ballots, in which case his name shall be removed from the list of candidates.

11. *Settlement of Differences*

Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman of the Board and from him to the Board. Whenever possible, questions shall be put without identifying the member country or Governor concerned.

III. VACANCY IN THE BOARD OF EXECUTIVE DIRECTORS

12. Directors shall continue in office until their successors are appointed or elected. If the office of an elected Director becomes vacant more than 180 days before the end of his term, a successor shall be elected for the remainder of the term (Article VIII, Section 3 (d), of the Agreement Establishing the Bank).

13. When a new Executive Director must be elected because of a vacancy requiring an election, the President of the Bank shall immediately notify the member countries which elected the former Director of the existence of the vacancy and request that candidates be nominated.

14. The President of the Bank may convene a meeting of the Governors of such countries for the exclusive purpose of electing a new Director or he may conduct the election by mail or telegraph. Successive ballots shall be cast until one of the candidates receives an absolute majority of the votes cast.

IV. AMENDMENT OF THE REGULATIONS

15. The Board of Governors may amend these Regulations at any of its meetings, or by a vote without calling a meeting, by a three-fourths majority of the total voting power of the member countries, including:

    (a) with respect to amendments of Sections 1, 2, 3, 5 through 14, and 15 (a), a two-thirds majority of the Governors of regional members; and

    (b) with respect to amendments of Sections 4 and 15 (b), a two-thirds majority of the Governors of nonregional members.

Resolution AG-11/76

Admission of Guyana to Membership in the Bank

WHEREAS Article II, Section 1(b) of the Agreement Establishing the Bank (hereinafter referred to as the "Agreement") has been amended so that membership in the Inter-American Development Bank (hereinafter referred to as the "Bank") is thereby open to Guyana;

WHEREAS Guyana has applied for admission to membership in the Bank, and

WHEREAS, pursuant to Section 11 of the By-laws of the Bank, the Board of Executive Directors, after consultation with representatives of the Government of Guyana, has made recommendations to the Board of Governors with regard to the application of Guyana for admission to membership in the Bank.

The Board of Governors

RESOLVES:

1. That Guyana shall become a member of the Bank when the President shall have declared that Guyana has fulfilled all the following requirements:

a) It shall have subscribed to 1,540 shares of the ordinary capital stock of the Bank having a par value of US$10,000 per share, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 370 paid-in shares and 1,170 callable shares, on the following basis:

i) Payment of the amount subscribed to the ordinary paid-in capital stock of the Bank shall be made in three equal annual installments. The first installment shall be paid on the date the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution. The remaining two installments shall be paid one year and two years, respectively, after such date. Of each installment, 50 per cent shall be paid in gold and/or U.S. dollars and 50 per cent in the Currency of Guyana in accordance with Article II, Section 4(b) of the Agreement.

ii) The callable portion of the subscription shall be subject to the provisions of Article II, Section 4(a)(ii) of the Agreement.

b) It shall have undertaken to contribute to the Fund for Special Operations of the Bank with a quota of US$5,280,000, payment of which shall be made as follows:

i) US$280,000 shall be paid in gold and/or U.S. dollars, and the equivalent of US$5,000,000 in the currency of Guyana, in such amounts as, in the opinion of the Bank, are equivalent to the full value, in terms of the par value of the United States dollar in effect in the International Monetary Fund on the date when each payment is due.

ii) The quota shall be contributed in three equal installments, of which the first shall be paid on the date the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution and the remainder annually thereafter. The first installment shall consist of US$94,000 in gold and/or U.S. dollars and the equivalent of US$1,666,000 in the currency of Guyana. The second and third installments shall consist each of them of US$93,000 in gold and/or U.S. dollars and the equivalent of US$1,667,000 in the currency of Guyana.

iii) The currency of Guyana held by the Bank shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement, but the standard of value set for this purpose shall be the par value of the United States dollar in effect in the International Monetary Fund on the due date for each installment, provided, however, that the Bank may exercise the waiver provisions of Article V, Section 3(c) in the event of a currency realignment involving a significant number of members of the Bank.

c) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the Organization of American States.

d) It shall have deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its law, the Agreement and all the terms and conditions prescribed in this resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement and this resolution.

e) It shall have represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by Section 1(c) and (d) of this resolution and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

2. Guyana may accept the conditions and fulfill the requirements established for membership in the Bank until November 30, 1976. However, if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

(Approved August 20, 1976)

Resolution AG-12/76

Admission of France to Membership in the Bank

WHEREAS:

The General Rules Governing Admission of Nonregional Countries to Membership in the Bank have entered into force;

Section 5 of the General Rules provides

> Additional nonregional countries not listed in Section 1 hereof may become members of the Bank in accordance with such terms as the Board of Governors shall establish. The subscriptions of such additional nonregional countries and their respective contributions to the Fund for Special Operations shall be such number of shares of paid-in and callable inter-regional capital stock and such contributions to the Fund for Special Operations as shall be determined by the Board of Governors with due regard to the conditions of the subscriptions and contributions of the nonregional countries listed in Section 1 hereof;

France has applied for admission to membership in the Bank; and

Pursuant to Section 11 of the By-laws of the Bank, the Board of Executive Directors, after consultation with representatives of the Government of France, has made recommendations to the Board of Governors with regard to the application of France for admission to membership in the Bank;

The Board of Governors

RESOLVES:

1. That France shall become a member of the Bank when the President shall have declared that France has fulfilled all the following requirements:

   a) It shall have subscribed to 5,106 shares of the inter-regional capital stock of the Bank having a par value of US$10,000 per share, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 842 paid-in shares and 4,264 callable shares, on the following basis:

      i) The amount subscribed to the inter-regional paid-in capital stock of the Bank shall be subject to the following conditions:

         1) Payment shall be made in three annual installments, the first of which shall be of the equivalent of US$2,800,000 and the second and third each of US$2,810,000, all of the weight and fineness above specified. The first installment shall be paid on the date the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution. The remaining two installments shall be paid one year and two years, respectively, after such date.

2) Each installment shall be paid entirely in the currency of France, which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

3) 50% of each installment shall be subject to the provisions of Article V, Section 1(b)(i), of the Agreement Establishing the Inter-American Development Bank (hereinafter referred to as the "Agreement") and shall be paid in cash. With respect to the remaining 50% of each installment France shall give assurances satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid of December 17, 1974. Unless France elects to make payment of all of such remaining 50% in cash, the Board of Executive Directors shall establish a schedule pursuant to which any non-negotiable, non-interest-bearing promissory notes or similar securities accepted pursuant to Article V, Section 4, shall be paid to the Bank.

ii) The subscription to the callable inter-regional capital stock shall become effective in three installments, respectively, on the dates for payment of the installments of the paid-in inter-regional capital stock. The first installment shall be of 1,422 shares and the second and third each of 1,421 shares. The callable portion of the subscription shall be subject to the provisions of Article IIA, Section 3(c), of the Agreement.

b) It shall have undertaken to contribute to the Fund for Special Operations of the Bank with a quota of US$61,595,886, in terms of United States dollars of the weight and fineness in effect upon the October 18, 1973 change in the par value of the United States dollar, payment of which shall be made on the following conditions:

i) The contribution shall be made in three equal installments, which shall be paid on the same dates for payment of the installments of the paid-in inter-regional capital stock, pursuant to Section 1(a)(i) (1) hereof.

ii) The contribution shall be entirely in the currency of France, which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

iii) The entire amount of the contribution shall constitute national currency to which the provisions of Article V, Section 1(c), of the Agreement, shall be applicable. Except to the extent that France may elect to make payment of its entire contribution or any part thereof in cash, the Bank, pursuant to Article V, Section 4, of the Agreement, shall accept for each installment non-negotiable, non-interest-bearing promissory notes or similar securities, for which the Board of Executive Directors shall establish a schedule of encashment. With respect to its contribution France shall give assurances satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid.

iv) The contribution shall be subject to paragraphs (g) and (h) of Section 3 of the General Rules.

c) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the Organization of American States.

d) It shall have deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its law, the Agreement and all the terms and conditions prescribed in the General Rules Governing Admission of Nonregional Countries to Membership in the Bank and in this resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement, the General Rules, and this resolution.

e) It shall have represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by Section 1(c) and (d) of this resolution and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

2. France may accept the conditions and fulfill the requirements established for membership until December 1, 1976, provided, however, that if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

(Approved August 27, 1976)

Resolution AG-13/76

Remuneration of Executive Directors

WHEREAS:

The committee of the Board of Governors designated pursuant to Resolution AG-2/72 has examined the remuneration of the Executive Directors and made recommendations in that regard,

The Board of Governors

RESOLVES:

1. To accept the recommendations of the committee and to stipulate, that pursuant to Article VIII, Section 2(b)(v), of the Agreement Establishing

the Bank, the Executive Directors and their Alternates shall receive, for the time they devote to the service of the Bank, a remuneration computed at the rate of US$38,500 per annum for an Executive Director and US$30,200 per annum for an Alternate Executive Director, net of national taxes in both cases, effective November 1, 1976.

2. To retain without change the annual allowance established by Resolution AG-12/75.

(Approved November 26, 1976)

Resolution AG-14/76

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 Price Waterhouse & Co. is selected, with respect to the fiscal year 1977 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 21, 1976)

Resolution AG-1/77

Lending to the Caribbean Development Bank

The Board of Governors

RESOLVES:

To make the following amendments to the Agreement Establishing the Bank:

a) To amend Section 1 of Article III, as follows:

"The resources and facilities of the Bank shall be used exclusively to implement the purpose and functions enumerated in Article I of this Agreement, as well as to finance the development of any of the members of the Caribbean Development Bank by providing loans and technical assistance to that institution."

b) To amend Section 4 of Article III, as follows:

"Subject to the conditions stipulated in this article, the Bank may make or guarantee loans to any member, or any agency or political subdivision thereof, to any enterprise in the territory of a member, and to the Caribbean Development Bank, in any of the following ways:"

c) Subsection (b) of Article III, Section 6, as follows:

"(b) By providing financing to meet expenses related to the purposes of the loan in the territories of the country in which the project is to be carried out. Only in special cases, particularly when the project indirectly gives rise to an increase in the demand for foreign exchange in that country, shall the financing granted by the Bank to meet local expenses be provided in gold or in currencies other than that of such country; in such cases, the amount of the financing granted by the Bank for this purpose shall not exceed a reasonable portion of the local expenses incurred by the borrower."

(Approved January 27, 1977)

Resolution AG-2/77

Admission of Finland to Membership in the Bank

WHEREAS:

The General Rules Governing Admission of Nonregional Countries to Membership in the Bank have entered into force;

Section 5 of the General Rules provides

Additional nonregional countries not listed in Section 1 hereof may become members of the Bank in accordance with such terms as the Board of Governors shall establish. The subscriptions of such additional nonregional countries and their respective contributions to the Fund for Special Operations shall be such number of shares of paid-in and callable inter-regional capital stock and such contributions to the Fund for Special Operations as shall be determined by the Board of Governors with due regard to the conditions of the subscriptions and contributions of the nonregional countries listed in Section 1 hereof;

Finland has applied for admission to membership in the Bank; and

Pursuant to Section 11 of the By-Laws of the Bank, the Board of Executive Directors, after consultation with representatives of the Government of Finland, has made recommendations to the Board of Governors with regard to the application of Finland for admission to membership in the Bank;

The Board of Governors

RESOLVES:

1. That Finland shall become a member of the Bank when the President shall have declared that Finland has fulfilled all the following requirements:

a) It shall have subscribed to 419 shares of the inter-regional capital stock of the Bank having a par value of US$10,000 per share, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 69 paid-in shares and 350 callable shares, on the following basis:

   i) The amount subscribed to the inter-regional paid-in capital stock of the Bank shall be subject to the following conditions:

      1) Payment shall be made in three annual installments, each of which shall be of the equivalent of US$230,000, of the weight and fineness above specified. The first installment shall be paid within thirty days after the date on which the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution. The remaining two installments shall be paid one year and two years, respectively, after such date of deposit.

      2) Each installment shall be paid entirely in the currency of Finland, which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

      3) 50% of each installment shall be subject to the provisions of Article V, Section 1(b)(i), of the Agreement Establishing the Inter-American Development Bank (hereinafter referred to as the "Agreement") and shall be paid in cash. With respect to the remaining 50% of each installment Finland shall give assurances satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid of December 17, 1974. Unless Finland elects to make payment of all of such remaining 50% in cash, the Board of Executive Directors shall establish a schedule pursuant to which any non-negotiable, non-interest-bearing promissory notes or similar securities accepted pursuant to Article V, Section 4, shall be paid to the Bank.

   ii) The subscription to the callable inter-regional capital stock shall become effective in three installments, respectively on the dates for payment of the installments of the paid-in inter-regional capital stock. The first and second installments shall each be of 117 shares and the third of 116 shares. The callable portion of the subscription shall be subject to the provisions of Article IIA, Section 3(c), of the Agreement.

   iii) The subscription will not have the effect of reducing any of the voting powers specified in Article VIII, Section 4(b), of the Agreement Establishing the Bank below the respective percentage set forth therein.

b) It shall have undertaken to contribute to the Fund for Special Operations of the Bank with a quota of US$5,054,578, in terms of United

States dollars of the weight and fineness in effect upon the October 18, 1973 change in the par value of the United States dollar, payment of which shall be made on the following conditions:

i) The contribution shall be made in three annual installments, which shall be paid on the same dates as for payment of the installments of the paid-in inter-regional capital stock, pursuant to Section 1(a)(i)(1) hereof. The first installment shall be in the equivalent of US$1,684,860 and the second and third each of US$1,684,859.

ii) The contribution shall be entirely in the currency of Finland, which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

iii) The entire amount of the contribution shall constitute national currency to which the provisions of Article V, Section 1(c), of the Agreement, shall be applicable. Except to the extent that Finland may elect to make payment of its entire contribution or any part thereof in cash, the Bank, pursuant to Article V, Section 4, of the Agreement, shall accept for each installment non-negotiable, non-interest-bearing promissory notes or similar securities, for which the Board of Executive Directors shall establish a schedule of encashment. With respect to its contribution Finland shall give assurance satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid.

iv) The contribution shall be subject to paragraphs (g) and (h) of Section 3 of the General Rules.

c) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the Organition of American States.

d) It shall have deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its law, the Agreement and all the terms and conditions prescribed in the General Rules Governing Admission of Nonregional Countries to Membership in the Bank and in this resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement, the General Rules, and this resolution.

e) It shall have represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by Section 1(c) and (d) of this resolution and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

2. Finland may accept the conditions and fulfill the requirements established for membership until June 30, 1977, provided, however, that if extraor-

dinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

(Approved April 20, 1977)

Resolution AG-3/77

Admission of Bahamas to Membership in the Bank

WHEREAS Article II, Section 1(b) of the Agreement Establishing the Inter-American Development Bank (hereinafter referred to as the Agreement") has been amended so that membership in the Inter-American Development Bank (hereinafter referred to as the "Bank") is thereby open to the Bahamas;

WHEREAS Bahamas has applied for admission to membership in the Bank, and

WHEREAS, pursuant to Section 11 of the By-Laws of the Bank, the Board of Executive Directors, after consultation with representatives of the Government of Bahamas, has made recommendations to the Board of Governors with regard to the application of Bahamas for admission to membership in the Bank.

The Board of Governors

RESOLVES:

1. That Bahamas shall become a member of the Bank when the President shall have declared that Bahamas has fulfilled all the following requirements:
    a) It shall have subscribed to 2,000 shares of the ordinary capital stock of the Bank having a par value of US$10,000 per share, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 600 paid-in shares and 1,400 callable shares, on the following basis:
        i) Payment of the amount subscribed to the ordinary paid-in capital stock of the Bank shall be made in five equal annual installments. The first installment shall be paid within thirty days from the date the instrument of acceptance or ratification is deposited in accordance with paragraph 1(d) of this resolution. The four remaining installments shall be paid annually thereafter on the same date. Of each installment, 50 per cent shall be paid in gold and/or U.S. dollars and 50 per cent in the currency of Bahamas in accordance with Article II, Section 4(b) of the Agreement.
        ii) The callable portion of the subscription shall be subject to the provisions of Article II, Section 4(a) (ii) of the Agreement.

b) It shall have undertaken to contribute to the Fund for Special Operations of the Bank with a quota of US$6,600,000, payment of which shall be made as follows:

   i) US$350,000 shall be paid in gold and/or U.S. dollars, and the equivalent of US$6,250,000 in the currency of Bahamas in such amounts as, in the opinion of the Bank, are equivalent to the full value, in terms of the par value of the United States dollar in effect in the International Monetary Fund on the dates when each payment is due.

   ii) The quota shall be contributed in five equal installments, of which the first shall be paid within thirty days from the date the instrument of acceptance or ratification is deposited in accordance with paragraph 1(d) of this resolution and the remainder annually thereafter on the same date.

   iii) The currency of Bahamas held by the Bank shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement, but the standard of value set for this purpose shall be the par value of the United States dollar in effect in the International Monetary Fund on the due date for each installment, provided, however, that the Bank may exercise the waiver provisions of Article V, Section 3(c) in the event of a currency realignment involving a significant number of members of the Bank.

c) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the Organization of American States.

d) It shall have deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its law, the Agreement and all the terms and conditions prescribed in this resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement and this resolution.

e) It shall have represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by paragraphs 1(c) and (d) of this resolution and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

2. Bahamas may accept the conditions and fulfill the requirements established for membership in the Bank until October 4, 1977. However, if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

(Approved April 20, 1977)

RESOLUTIONS APPROVED AT THE EIGHTEENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS

Resolution AG-4/77

Financial Statement of the Ordinary Capital Resources

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, 1976, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 31, 1977)

Resolution AG-5/77

Financial Statement of the Inter-Regional Capital Resources

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 inter-regional capital resources for the fiscal year ended December 31, 1976, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 31, 1977)

Resolution AG-6/77

Financial Statement of the Fund for Special Operations

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, 1976, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 31, 1977)

Resolution AG-7/77

Composition of the Board of Executive Directors

WHEREAS:

Article VIII, Section 3(b)(ii) of the Agreement Establishing the Bank contemplates the possibility of increasing the number of Executive Directors;

The Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago have requested that their countries, which constitute an integrated area, be represented jointly by an Executive Director, and

Taking into account the special situation of these countries,

The Board of Governors

RESOLVES:

To request the Committee of the Board of Governors:

a) To study the proposal submitted by the Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago and report to the Board of Governors not later than November 30, 1977 concerning the matter of adequate representation of the Caribbean subregional group.

b) To prepare a second study on the implications of the action recommended in the first study upon the composition of the Board of Executive Directors.

(Approved May 31, 1977)

DECISIONS ADOPTED BY THE BOARD OF GOVERNORS DURING THE EIGHTEENTH ANNUAL MEETING

Decisions Adopted by the Board of Governors during the Eighteenth Annual Meeting

An account of the decisions adopted by the Board of Governors during the Meeting is presented below:

1976 Annual Report of the Bank

At the Inaugural Session, the President of the Bank presented to the Board of Governors the report on activities of the Bank in 1976.

At the Third Plenary Session, the Governors approved the financial statements of the ordinary capital resources, the inter-regional capital resources and the Fund for Special Operations for the fiscal year ended December 31, 1976, on the terms set forth in Resolutions AG-4/77, AG-5/77 and AG-6/77, respectively.

Composition of the Board of Executive Directors

At the Preliminary Session the Board of Governors took note that the Committee of Governors appointed pursuant to Resolution AG-5/70, having examined at its Seventeenth Meeting the proposal presented by the Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago that a study be made of the request of those countries that they be represented jointly on the Board of Executive Directors as part of an integrated area, and having considered the motion of the Argentine Delegation that the request be examined within the general context of the representation of the Latin American member countries in the Board of Directors, had decided to recommend that the Board of Governors charge the Committee with preparing first, a study on the proposal of the Governors for the Caribbean subregional group and, subsequently, another study on the implications of the action recommended in the first study upon the composition of the Board of Executive Directors. The matter was originally referred to the Committee at the Sixteenth Annual Meeting of the Board of Governors in response to a proposal by the Governor for Trinidad and Tobago.

The Board of Governors also took note that the Committee had further agreed on that occasion that, if its recommendation were adopted, the Board of Executive Directors would be requested to prepare the documents on which the Committee might base its study.

At the Third Plenary Session, the Board of Governors adopted the Committee's recommendation on the terms set forth in Resolution AG-7/77.

Study on Operating Policies of the Bank

At its Seventeenth Meeting the Committee of Governors considered the report prepared by the Board of Executive Directors in compliance with Resolution AG-5/76 instructing it to examine, define and adopt a systematic body of standards and 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.

The aforementioned report, contained in Document CA-95-1, indicates that, as a result of the review the Board of Executive Directors decided to confirm some of the current policies on these matters and amend several others, while also establishing new policies which would be included in the Operational Policies Manual. It is pointed out that there are cases, however, where because of complexity of the issue involved, it was not possible to arrive at a final solution and the Board of Executive Directors agreed to continue the study during 1977 and endeavor to reach a decision by September 30, which would be reported to the Board of Governors. Also, with specific reference to the effects of the exchange risk, the report states that the Board of Executive Directors decided that because of the diversity of alternatives under consideration it was desirable first to obtain more precise guidance from the Board of Governors.

The Committee agreed to forward the report of the Board of Directors to the Board of Governors together with the observations made during the consideration of this item, which are recorded in the summary of the Committee's meeting, and with the recommendation that the Governors transmit their comments on the several matters to the Executive Directors, so that the Board of Directors might consider them when it resumed the study of the points which were still unresolved.

At the Preliminary Session the Board of Governors took cognizance of the measures adopted by the Board of Executive Directors and expressed its agreement with procedure recommended by the Committee of Governors.

SUMMARY RECORD OF THE MEETING OF GOVERNORS FOR THE NONREGIONAL COUNTRIES

Washington, D.C., July 9, 1976

Summary Record of the Meeting of Governors for the Nonregional Countries Washington D.C., July 9, 1976

The Governors for the nonregional member countries of the Inter-American Development Bank held a meeting in Washington on July 9, 1976, at 4:00 p.m., under the chairmanship of Mr. Antonio Ortiz Mena, President of the Bank, for the purpose of electing the two Executive Directors to which they are entitled under the provisions of Article VIII, Section 3(b)(ii) of the Agreement Establishing the Bank, for the term ending June 30, 1978.

The meeting was attended by the Governors for Belgium, Denmark, the Federal Republic of Germany, Israel, Japan, the United Kingdom, Spain, Switzerland and Yugoslavia. The complete list of the delegations that attended the meeting appears as Annex I of document AB-516.

In conformity with Section 8(c) of the Rules of Procedure for the Election of Executive Directors, the Secretary of the Bank reported that as of that time Messrs. Günther Schulz and Torao Aoki had been nominated as candidates for the position of Executive Director, proposed respectively by the Governors for the Federal Republic of Germany and Japan.

The President of the Bank appointed the Governors for the United Kingdom and Switzerland to act as tellers. The Governors then proceeded to cast their votes by signed ballot in favor of one or the other of the candidates.

Upon conclusion of the voting, the tellers verified the number of ballots and counted the number of votes in favor of each candidate. The President of the Bank then reported that the election was completed and announced that those elected as Executive Directors for the term ending June 30, 1978 were:

—Günther Schulz, representing Belgium, Denmark, the Federal Republic of Germany and the United Kingdom

—Torao Aoki, representing Israel, Japan, Spain, Switzerland and Yugoslavia.

SUMMARY OF THE SEVENTEENTH MEETING OF THE COMMITTEE OF THE BOARD OF GOVERNORS

Guatemala City, May 28, 1977

Summary of the Seventeenth Meeting of the Committee of the Board of Governors Guatemala City, May 28, 1977

The Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 held its Seventeenth Meeting in Guatemala City on May 28, 1977, presided by Sr. Julio Rodolfo Moctezuma, Governor for Mexico, in order to consider the matters it had under study by mandate of the Board of Governors which are included in the agenda of the Meeting (Document CA-96). Also to be considered was the item on composition of the Board of Executive Directors, which the Board of Governors had instructed the Committee to study in 1975. Attached are the agenda of the Meeting (Annex I), and the communication received from the Governor for Barbados, on behalf of his country, and of Guyana, Jamaica and Trinidad and Tobago, requesting consideration of the matter at this Meeting. (Annex II)

On this occasion the Committee welcomed for the first time the Governors for Germany and for Japan, representing the nonregional members that have been admitted to the Bank since July 1976.

The following Governors attended the Meeting as Committee members: for Germany, Horst Moltrecht; for Brazil, Paulo Hortensio Pereira Lira; for Canada, Robert Kaplan; for the United States, Arnold Nachmanoff; for Japan, Michiya Matsukawa; for Mexico, Gustavo Romero Kolbeck; for Nicaragua, Juan José Martínez L.; for Paraguay, César Romeo Acosta; for Peru, Fernando Reus; and for Venezuela, Héctor Hurtado; in addition to the representative of the Governor for Argentina, Teodoro A. Fernández. The complete list of delegations attending the Meeting, including the names of representatives of countries that are not members of the Committee, appears in Annex III of Document CA-98.

1. Election of Committee Chairman

At the proposal of the Alternate Governor for Brazil, seconded by Argentina and Peru, the Committee unanimously elected the Governor for Mexico, Mr. Julio Rodolfo Moctezuma, as its Chairman for 1977–1978.

2. Summary of Sixteenth Meeting

The Committee approved the summary of the Sixteenth Meeting, held on May 15, 1976 in Cancún (Documents CA-94 and CA-94-1).

3. Study on operating policies of the Bank pursuant to Resolution AG-5/76

The Committee received the report prepared by the Board of Executive Directors in compliance with the instructions received from the Board of Governors in Resolution AG-5/76 to 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.

The report, contained in Document CA-95-1, indicates that as a result of the study performed, the Board of Executive Directors resolved to conform certain of the prevailing policies associated with these matters, modify others and also establish new policies to be incorporated into the Manual on Operational Policies. Nevertheless, there were cases in which, given the complexity of the matter, it was not possible to arrive at a definitive decision. The Board of Executive Directors therefore decided to continue studying these cases during 1977 and in due course inform the Board of Governors of the policies it may approve. Furthermore, with specific regard to the effects of the exchange risk, the Board of Executive Directors considered that in view of the variety of alternatives under consideration, it would be desirable to obtain prior and more precise guidelines from the Board of Governors.

International bidding. The Committee took note of the decision of the Board of Executive Directors to raise to US$100,000 the limit above which the procurement of goods and awarding of contracts must be based on public bidding in the case of projects financed from resources of the Fund for Special Operations, and to maintain at the same level the limit above which public bidding is required for projects financed from ordinary and interregional capital resources (Paragraph 2.04, Document CA-95-1).

The Representative of Argentina said that although he agreed with unifying the minimum amounts required for carrying out international bidding, he felt that the Board of Executive Directors should review the amount established, given the evolution of international prices since the time at which the figures had been fixed. He also recommended that periodic studies should be made in order to adjust these figures in accordance with such prices.

With regard to the procedures to be followed in the procurement of goods and awarding of contracts financed under parallel loans and/or complementary credit lines or supplier credits, the Committee noted that no agreement had been reached in the Board of Executive Directors concerning Bank intervention in the procurement of goods in such financing and that the Board of Executive Directors would continue to study this matter, hoping to arrive at a decision before September 30, 1977 (Paragraph 2.05 ibid).

The Representative of Argentina indicated that although he fully agreed with the analysis of the matter, he was of the opinion that these credits should not be subject to conditions or regulations similar to those applying to loans provided by the Bank.

The Committee noted that the Board of Executive Directors would likewise continue to study the policy with regard to determining the scope of bidding and would attempt to arrive at a decision before September 30, 1977, when it would report to the Board of Governors (Paragraphs 2.10 and 2.11 ibid).

The Committee noted that the Board of Executive Directors had provisionally approved, subject to study and review within the next two years, a regional margin of preference policy for those cases in which both the country of the borrower and that of the supplier participating in international public bidding are signatories to the same subregional integration agreement (Paragraph 2.12 ibid). In this regard, and responding to an observation made by the Delegate from Argentina, it was specified that application of this policy would be optional for the borrower.

Use of currencies held by the Bank. The Committee took note of the procedure adopted by the Board of Executive Directors for determining the availabilities and for use of Latin American currencies held by the Bank and of the fact that its adoption marked the termination of the so-called four-currency program for utilization of the currencies of the major Latin American contributors (Paragraphs 3.01, 3.02 and 3.03 ibid).

Effects of the exchange risk. The Committee took note of the fact that the Board of Executive Directors had been unable to reach a consensus on a procedure for covering the exchange risk different from that currently followed, and that it was studying various alternative methods, which are presented as an annex to Document CA-95-1. It also took note of the fact that the Board of Executive Directors had considered it desirable to leave this matter in suspense and to request the guidance of the Board of Governors so that the issue could be considered further (Paragraph 3.04 ibid).

The Temporary Alternate Governor for Germany stated that the exchange risk cannot be borne by the Bank, as this could create problems for it. He requested that the Board of Executive Directors, in taking a decision on this matter, consider the desirability of distributing the exchange risk more equitably among the borrowing countries, as is proposed in a number of the alternatives presented in the annex. In conclusion, he emphasized that if the Board of Executive Directors is to continue studying these alternatives, it should seek procedures that will not result in additional costs for the Bank or in excessively bureaucratic practices.

The Representative of Argentina stated that, in general, he appreciated the technical and operational difficulties involved in a greater diversification of the exchange risk and its impact on borrowers receiving loans in currencies that tend to appreciate in relation to the dollar. He suggested that one way of diversifying the risk would be for the Board of Executive Directors to consider changing the present policy of guaranteeing letters of credit in dollars and using only this currency for disbursements, of the supplying country.

Direct and indirect import component of projects. In addition, the Committee took note of the decision by the Board of Executive Directors to make no changes in the rules and criteria pertaining to the classification of costs for projects financed by the Bank (Paragraphs 2.06, 2.07 and 2.08 ibid).

Financing of local costs. The Committee took cognizance of the decision by the Board of Executive Directors to maintain the current policy on financing of local costs (Paragraphs 4.01 and 4.02 ibid).

Cost of projects. The Committee further noted that the Board of Executive Directors had adopted a policy whereby the Bank could, in exceptional cases, authorize additional financing to cover cost overruns on projects in execution, based on detailed, individual analysis of each case. Such policy also stipulates that financing would be granted only when needed for specific projects, inasmuch as other situations calling for the financing of cost overruns generally can be resolved by different means without having to increase the total credit amount (Paragraph 5.01 ibid).

The Representative of Argentina expressed his country's satisfaction with the approval of this measure and the hope that the standard might be equally applicable to all borrowers who invoke it, regardless of the countries' stage of development.

Presentation of the report. The Secretary referred to the request of the Board of Executive Directors for guidance from the Board of Governors on the various alternatives for covering the effects of the exchange risk. In view of the complexity of the matter, he suggested that the Governors forward their observations to the Executive Directors during the course of the Eighteenth Annual Meeting, in order to orient their study.

The Alternate Governor for Mexico expressed his agreement with the proposal made by the Secretary, remarking that there would be no need for discussion if the Governors would transmit to the Executive Directors their observations on the entire document.

The Committee agreed to forward the report of the Board of Executive Directors to the Board of Governors, together with the observations made during the Committee meeting and with a recommendation that the Governors transmit their comments on the several matters to the Executive Directors so that the Board of Executive Directors could consider them when it resumes the study of the points which are still unresolved.

Finally, the Committee expressed its appreciation to the Board of Executive Directors for the progress made in examining the policies of the Bank and its hope that it would continue the systematic study of those policies.

4. Composition of the Board of Executive Directors

The Committee considered the communication received from the Governor for Barbados (Annex II) containing a proposal calling for the establishment of a post of Executive Director to represent Barbados, Guyana, Jamaica and Trinidad and Tobago jointly and agreed to study the subject at this time.

The Governor for Jamaica, speaking on behalf of the aforementioned countries, presented the following draft resolution:

"WHEREAS:

The Regulations for the Election of Executive Directors provide for an increase in the number of Executive Directors; and

WHEREAS:

The Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago have requested that they be represented jointly on the Board of Executive Directors as part of an integrated area,

THEREFORE,

The Board of Governors

RESOLVES:

To request the Committee of the Board of Governors to study the proposal submitted by the Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago and report to the Board of Governors not later than November 30, 1977 concerning the matter of adequate representation of the Caribbean subregional group."

The Governor for Jamaica recalled that this matter had first been raised by the Governor for Trinidad and Tobago at the Sixteenth Annual Meeting of the Board of Governors, held in Santo Domingo in May 1975, and that the issue had then been referred to the Committee, which had agreed that the matter should remain pending in order to permit consultations among the member countries affected regarding the desirability of taking the recommended action and the manner in which it could be implemented. These consultations had been completed, and the resolution submitted represented the outcome of these consultations.

He explained that the countries sponsoring the draft resolution form a natural subregion in terms of geography, are members of a common market and have various institutional arrangements that make them a subregion within the Latin American region. On the basis of the foregoing, the Governor for Jamaica requested that the Committee forward the draft resolution to the Board of Governors.

The Governors for Brazil, Venezuela and Germany expressed their support for the proposal of the Governor for Jamaica.

The Representative of Argentina proposed that the draft resolution be considered within the general context of the original proposal put forward by Trinidad and Tobago at the Santo Domingo meeting, that is, with the possibility of increasing by two the number of members of the Board of Executive Directors.

The Temporary Alternate Governor for the United States stated that, although his country did not feel that it would be desirable to increase the size of the Board of Executive Directors, it did support the draft resolution presented by the Governor for Jamaica, in recognition of the special character of the Caribbean subregional group.

The Temporary Alternate Governor for Canada welcomed the opportunity to consider the proposal of the Governor for Jamaica, and suggested that the matter be studied by the Board of Executive Directors, in view of the technical issues involved, such as amendment of the Regulations for the Election of Executive Directors.

The Alternate Governor for Paraguay stated that, while he sympathized with the proposal, it would be desirable for it to be studied in greater detail, so as not to upset the balance of the current system governing the composition of the Board of Executive Directors. He likewise agreed that the study should be carried out by the Board of Executive Directors.

The Secretary recalled that Resolution AG-5/70 setting up the Committee stated in paragraph 2 that the Committee could, whenever it felt this to be necessary, call upon the Board of Executive Directors and the staff of the Bank for assistance, and that consequently there would be no problem in following this course if the Committee so resolved.

The Temporary Alternate Governor for Germany expressed his support of the motion that the Board of Governors instruct the Committee to study this matter, as it is a subject falling within the purview of the Governors. However, the Board of Executive Directors could prepare the basic documents for the report to be submitted by the Committee to the Board of Governors.

Following a brief recess, the Committee considered the following draft resolution prepared by the Secretariat designed to express the consensus of the meeting:

"The Board of Governors

RESOLVES:

1. That the Committee of the Board of Governors be instructed to study the representation on the Board of Executive Directors of the Latin American member countries as provided by Section 3 of the Regulations Governing the Election of Executive Directors, taking into account the desirability that the Caribbean countries be represented jointly by an Executive Director, and present its recommendations in that regard to the Board of Governors not later than November 30, 1977.

2. That the Committee may request the Board of Executive Directors to prepare the basic documents for the study."

The Temporary Alternate Governor for the United States then submitted the following draft resolution which, in his opinion, was consistent with the proposal put forward by the Governor for Jamaica on behalf of the Caribbean countries:

"WHEREAS:

Article VIII, Section 3(b)(ii) of the Agreement Establishing the Bank contemplates the possibility of increasing the number of Executive Directors;

The Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago have requested that their countries, which constitute an integrated area, be represented jointly by an Executive Director, and

Taking into account the special situation of these countries,

The Board of Governors

RESOLVES:

To request the Committee of the Board of Governors:

1. To study the proposal submitted by the Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago and report to the Board of Governors not later than November 30, 1977 concerning the matter of adequate representation of the Caribbean subregional group.

2. After appropriate action is taken on the report, to prepare a second study on the implications of the action recommended in the first study upon the composition of the Board of Executive Directors."

The Governors for Germany and for Canada expressed their support for the draft resolution submitted by the United States.

The Representative of Argentina reminded the meeting that the draft resolution put forward by the Governor for Trinidad and Tobago at the May 1975 meeting of the Board of Governors was still awaiting consideration by the Committee, and he asked whether the draft resolution of the Governor for Jamaica replaced the earlier proposal. In response, the Governor for Jamaica stated that the draft resolution being presented at this time represents the outcome of the consultations among the member countries concerned regarding the desirability of taking the action recommended in Santo Domingo, and that the former draft resolution had been replaced by the one submitted at this meeting.

The Representative of Argentina felt that the Committee remains empowered to continue its examination of the draft resolution submitted in 1975, even though the reasons that had occasioned its being kept pending have now disappeared.

He added that, without ignoring the concern of the Caribbean countries, which he himself shared, the Committee should continue to examine the overall matter of increasing the number of Executive Directors.

The Governor for Venezuela stated that, as between the Jamaican proposal—which his country supported—and the United States proposal, the draft resolution put forward by the Secretariat represents a compromise which in practice does not prejudge the position of the member countries regarding the recommendations that could result from the study called for in the draft resolution.

The Representative for Argentina stated that he agreed with the Governor for Venezuela and added that he felt that the Secretariat's draft resolution was a way of placing the matter within the overall context of the problem.

The Temporary Alternate Governor for the United States pointed out that the proposal of the Governor for Jamaica calls for the establishment of a post of Executive Director for the Caribbean member countries. He further stated that the scope of the subject that other Governors had recommended be studied, could be included in the second part of the draft resolution submitted by his delegation, and that it would represent a suitable compromise among the different positions taken by the countries on this matter.

The Temporary Alternate Governor for Japan recognized the difficulties of the issue raised and added that, as a matter of basic principle, his country was cautious about increasing the number of Executive Directors. He indicated that he preferred the draft resolution submitted by the United States.

The Alternate Governor for Mexico suggested that an attempt be made to reword the second paragraph of the United States draft resolution to take account of the position expressed by the Representative of Argentina.

The Secretary observed that one way of acting on this suggestion would be to eliminate the introductory phrase, which requires that the second study be undertaken after the Board of Governors has taken appropriate action as recommended in the first report. With the elimination of this phrase, it would be understood that the Committee of the Board of Governors would be empowered to proceed with the second study immediately after the first report had been presented. The text of the second paragraph would thus read: "To prepare a second study on the implications of the action recommended in the first study upon the composition of the Board of Executive Directors." The representatives of Argentina and the United States signified their acceptance of this text.

With this amendment, the Committee agreed to forward to the Board of Governors the draft resolution submitted by the United States (Document AB-535).

On the proposal of the Temporary Alternate Governor for Germany, the Committee also agreed that, if the draft resolution is adopted, the Board of Executive Directors should be instructed to prepare the basic documents for the Committee's study.

ANNEX I

SEVENTEENTH MEETING OF THE COMMITTEE

AGENDA

Place: El Dorado Hotel
María Isabel Room

Date: Saturday, May 28, 1977

Time: 10:00 a.m.

1. Election of the Chairman of the Committee for 1977–78
2. Consideration of the summary of the Sixteenth Meeting, held on May 15, 1976 (Documents CA-94 and CA-94-1)
3. Review of Bank operating policies pursuant to Resolution AG-5/76 (Document CA-95-1)
4. Other matters

MINISTRY OF FINANCE AND PLANNING
GOVERNMENT OF BARBADOS

Government Headquarters, Bay Street, Barbados

7096 Vol. VII

17th May, 1977

The Secretary,
Inter-American Development Bank,
Washington D.C., 20577,
U.S.A.

Dear Sir:

The Governor for Barbados to the Bank requests on behalf of the Caribbean Member Countries of the Bank that the proposal to create a Directorship for these countries on the Board of Executive Directors of the Bank should be included in the agenda of the Committee of the Board of Governors for their meeting in Guatemala on May 30.

It will be recalled that this proposal was referred to the Committee for its recommendations by the Governors at their 1975 meeting in Santo Domingo.

The late notification of this request is regretted but is due to the need for consultation among Caribbean Member Countries. It is hoped that amendments to the agenda of the Committee can be made without too great inconvenience to the Chairman of the Committee and those responsible for preparation of the agenda.

Thanking you for your cooperation.

Yours faithfully,

S. E. Emtage (Signed)
Alternate Governor

PROPOSAL OF THE GOVERNMENTS OF GUATEMALA, EL SALVADOR, HONDURAS, NICARAGUA AND COSTA RICA REGARDING THE PROCESS OF INTEGRATION IN CENTRAL AMERICA

Guatemala City, May 30, 1977

Foreword

The Governments of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica have decided to present a proposal for the strengthening of subregional integration to the Inter-American Development Bank, and through it to the international financial community, at the Eighteenth Annual Meeting of the Board of Governors of the Bank.

First and foremost, the proposal is a reaffirmation of the political decision of the Central American countries to reactivate a process which was decisive in furthering their economic development during the 1960s, and the potential benefits of which have only begun to materialize. It also includes an outline of the ideas and procedures that the governments propose to put into effect for this purpose.

The Governments of the Central American countries present this document to the international financial community, with the hope that the support of the community for the economic integration of Central America will be strengthened and increased, for the benefit of the entire region.

Contents

I. The Renewed Impetus that the Governments Propose to Give to Central American Economic Integration

1. *Introduction*

Few can doubt the potential benefits of economic integration, particularly for countries such as those of Central America which, in addition to their close historical, cultural and geographic ties, have common interests arising in part from the similarity of their economic structures and the problems that hinder their development. Many years ago the governments of the region found themselves in agreement that through integration the countries could jointly undertake many activities with much greater economy and efficiency than if each of them were to do so separately. They also recognized that collective economic defense, *vis-a-vis* third countries, was bound to be much more effective, and that it would reduce the external vulnerability of each country acting in isolation.

Perhaps to a greater extent than in any other regional integration scheme, the benefits of integration became evident in Central America during the 1960s. These benefits have continued in varying degrees up to the present, for integration has undoubtedly been a factor in bringing about the high rates of economic growth and fostering changes in the structure of production—particularly in the level of industrialization—that took place during this period.

Needless to say, the integration process faced many obstacles, among them the imbalance in the distribution of benefits among the Central American countries; the evident ineffectiveness of the integration mechanism in dealing with this problem and with rapidly changing situations, both in the region and elsewhere; and the tensions and conflicts that result from any confrontation between specific objectives of national economic policy and the goals of economic policy in the integration context.

These obstacles, together with others of a noneconomic nature, are the main factors explaining the difficulty in furthering integration, and the impression that the capacity of the process to continue and build upon the promising initial impetus has been exhausted. For this reason, since 1969 the governments have been attempting to devise ways of correcting the errors of the original scheme, preserve what has been achieved, and find some way of giving new dynamism and greater depth to integration.

It should be pointed out that during this entire period a vigorous effort has been made to find solutions. We may recall the *modus operandi* proposed in 1970; the *ad hoc* mechanisms to preserve what had been achieved (such as the Standardization Commission of the Central American Common Market) in 1971; the proposal for refinement and reorganization of the process in 1972; the short-term measures to reactivate economic integration in 1975; and finally, the proposed general treaty for the establishment of an economic and social community in 1976. Thus, the efforts of all the Central American governments have been aimed at finding the most appropriate and viable means of consolidating and extending integration.

In addition to this active period of analyzing options, studying proposals and exploring action programs, and motivated by the urgent need to reactivate Central American integration, the governments of the region have come to the conclusion that simultaneous action in two areas is most practical. The first type of activity is general in nature, and is aimed at promoting long-run integration by establishing the overall objectives of the process and the agencies and procedures required for their attainment. In this connection, the governments have stated their intention to negotiate a new treaty as soon as possible for the advancement and restructuring of integration in Central America. The second type of activity, which is more specific and is not conditional on the entry into force of the treaty, consists of the implementation of certain projects of unquestioned regional interest. As will be seen below, the two types of activity are mutually reinforcing and are two parts of a single strategy, aimed as we have said at revitalizing economic integration and reactivating its procedures and agencies.

2. *General commitments: signing of a general treaty*

In order to give precise direction to the integration process and to normalize the functioning of the common market, the Central American governments are prepared to negotiate a new general treaty. In this way, they believe that the economic and social development of each and every country of the region can be made more dynamic, and they therefore propose to adopt an instrument for promotion of the general development.

We know, of course, that the mere signing of a new treaty is not sufficient in itself to solve the problems posed by integration, nor does the formal undertaking of commitments ensure that they will be met. But the governments have concluded that an instrument of this kind signifies a step forward in the movement toward integration, because in signing it they unmistakably express their political intention to continue their support for integration. Furthermore, the set of commitments that such signing entails means that the contracting parties are convinced of the need to establish mechanisms, instruments and procedures to attain the objectives sought through integration. In other words, the treaty will be a firmer basis of commitments through which the governments can, through their expressed political intention, bring about the restructured integration that they seek.

The working document on which the negotiations have been based, and on which the agreement of the five governments is expected in the near future, does not call for a mere return to the past—although, naturally, it seeks to preserve the gains made in the process since its beginning. Rather, it is the expression of a renewed form of integration that seems to respond better to the needs of economic and social development in Central America.

The negotiation, signing and entry into force of the general treaty establishing the Central American Economic and Social Community is therefore the first step in the planned reactivation of integration.

3. *Action program: integration through projects*

The second measure to reactivate integration in Central America has been the implementation of a number of projects of regional interest which, together with other joint actions intended to normalize the functioning of the common market, broaden the impact of the free trade zone, and revise the common tariff, make up a program of short-term activities.

With regard to projects of regional scope, the intention of the Central American governments is, in brief, to support all those that meet the following conditions: 1) have an intrinsic value in terms of their benefits; 2) would be unlikely to yield an equal economic return if carried out by a single country; and 3) are of undoubted value for the development of the region and for fostering and increasing economic interdependence among all the countries of the area. In other words, they must be of value from every standpoint in achieving the overall objectives of the integration process.

This way of undertaking projects of joint interest has been conceived as economic integration "from the bottom up," which is precisely the form in which it was recommended by the Committee on Economic Cooperation at its 10th Meeting, held in Tegucigalpa, Honduras, in May 1975. Furthermore, in no way does it conflict with the more general approach—i.e., integration "from the top down"—as sought through the signing of the general treaty. It must be stressed that the convergence of the two forms in which integration is conceived *is fully consistent with the strategy that the governments of the region wish to adopt through any instrument or action that promotes an increasing and voluntary economic interdependence among the countries as a means of promoting the economic and social development of all of them.*

The great importance that the governments have decided to assign to regional projects is the most original feature of the strategy explained here, for it adds, to the gains already realized through the common market, an effective procedure for undertaking *joint* action aimed at the solution of *common* problems. In the very short term, this procedure will help overcome any resistance that may arise to the signing of the general treaty; and once the treaty enters into force, the "project" approach to integration will give real content to the work program of the community.

At the same time, because the minimum economic scale of certain projects exceeds the foreseeable demand of Central America—as it would that of other groups of countries—the approach described makes it feasible to extend the geographic scope of the Central American integration movement to such other countries as Panama, Colombia, Mexico, Venezuela, and the members of the Caribbean community. For example, the program of electrical interconnection mentioned below will include Panama.

The promotion of integration through specific projects requires the adoption of a criterion to clearly distinguish activities corresponding to a particular country from those regarded as regional. It has already been noted that the latter, apart from their intrinsic benefits, would have to generate benefits that a single country could not obtain unilaterally.

The Central American governments believe that such benefits can be derived from three types of activities. First of all, the most obvious benefits would be economies of scale, which would apply to most of the basic industries. The same kinds of savings, and the consequent benefits, would be obtained from certain agricultural projects (basically in the stages of processing and marketing), infrastructure projects and the provision of certain services, notably research and training.

Secondly, some joint projects or actions have indirect benefits or external economies, for example, the greater competition resulting from the implementation of one or more projects in the regional context, which would redound to the benefit of the consumer.

Finally, there are obvious benefits to be derived from all measures that help reduce the vulnerability of the participating economies, especially their external vulnerability. Examples are specific measures for regional economic defense *vis-a-vis* third countries, or the joint measures that can be taken to increase Central American exports to the rest of the world, which are bound to be more effective if adopted by all than if adopted by each country individually.

Ultimately, it will be up to the governments themselves, advised by the Central American integration agencies, to adopt the criteria summarized briefly in this document, both to decide upon the activities that they regard as suitable for regional action, and to assign priorities.

The planning offices and national development agencies will have a key role to play in this process, since the projects will be, in the main, those which each country wishes to implement and which, under the criteria established, meet the conditions for classification as regional. The process of continuous consultation among the national planning offices and regional institutions will make it possible to systematically identify regional projects, which will facilitate the allocation of activities among the countries of the region, taking into account the programming mechanisms to be established.

4. *Priority sectors for integration projects*

While a rigorous selection of projects on the basis of the criteria indicated above has not yet been made, it is possible to indicate some of the sectors in which specific integration projects could obviously be implemented. The most important sector continues to be *manufacturing*, in particular relatively complex activities whose technologies require a minimum production level in order to yield a satisfactory return, which level exceeds the domestic demand of any Central American country.

The *agricultural* sector is in a similar situation, less as regards production than marketing, processing and certain services, e.g. agricultural research and pest control.

There is a particularly large field for joint action in the *exploitation of marine resources*, especially if there is general acceptance of the 200-mile limit of territorial waters, which is likely, and if a common system is established.

Another sector that calls for collective action, now more than ever, is *energy*. In this regard, the interconnection of the electricity generation systems of the region is only one example.

Physical integration, especially in the sectors of communications and transportation, has given rise to major integration projects during the last fifteen years, and undoubtedly will continue to offer possibilities for joint action. This involves not only infrastructure projects, but also the joint provision of services. For example, the establishment of a Central American airline consortium is an old idea that has not yet become a reality.

There are also significant opportunities for joint action in the *tourism* sector, and especially through an *external economic policy*, which—though it requires comparatively little external cooperation (except technical assistance)—is bound to increase the bargaining power of the region as a whole *vis-a-vis* third countries; this amply justifies high priority for such a policy on the part of the Central American community.

The specific projects mentioned below fall within the sectors and activities mentioned.

5. *Support of the international community*

The international public agencies, bilateral as well as multilateral, have traditionally supported Central American integration, acting on the conviction that their contribution to the development of all the participating countries is effective. This support has taken a variety of forms during the last 15 years, and its level has varied over time, with a clearly decreasing trend.

With the decision now taken by the governments of Central America to reactivate economic integration in the terms described, the international agencies are faced with a new situation.

First of all, the renewed interest that the governments have shown in integration as an instrument of development for Central America, and the stepped up domestic effort they are making to bring about integrated development, fully justify support in the form of a growing volume of the external resources they need to facilitate this process.

Secondly, the intention to carry forward integration through specific projects of regional scope, as part of a broader strategy making it possible to simultaneously take all measures deemed necessary to increase economic interdependence among the countries of the region, automatically establishes an ideal system for the mobilization and channeling of external support. *In contributing to the financing of these projects, the international agencies would not only be supporting initiatives that would yield inherent benefits; they would also strengthen the integration process and would thereby contribute in two ways to a single objective: acceleration of the economic and social development of the Central American countries.*

The financing of regional projects, compared to the implementation of the same projects unilaterally by one or more countries, means a more rational allocation of the ever scarcer resources that are being made available through the international financing agencies. It has been found, for example, that an interconnected electricity generation system in Central America could result in savings, during the next 15 to 20 years, of the massive capital investments that would be required to increase generating capacity in each of the countries, merely through the greater efficiency achieved by sharing the installed capacity of the region as a whole.

One of the many unfortunate results of the prolonged standstill in the process of Central American integration has been the accumulation of a number of projects that are both from the technical standpoint and from the economic standpoint, in view of the size of the regional market, chiefly because of uncertainty about the future of the common market. As this uncertainty begins to be resolved, thanks to the decisions taken in this regard by the governments, it may be expected that some of those projects will be undertaken; but since they are precisely projects of large scale and with substantial financing requirements the difficulties in their implementation lie more in the areas of financing and organization. In other words, to begin the implementation of specific projects—most of them already identified, as will be seen below—there is need for access to financing in the immediate future, in addition to an improvement of the organizational capacity of the public and private sectors of the region.

It is true that part of this financing can be obtained in Central America itself, through the growing volume of domestic savings. A major part will also have to come from direct foreign investment, which will have to provide technology as well, and from external private credit. Nonetheless, an ample margin remains for complementary financing by public international institutions, bilateral as well as multilateral. Thus, official external financing is one of the *determining* factors in the effective revitalizing of Central American integration.

It should be made clear that this public external financing for regional projects should in no way affect the bilateral financing programs carried on by the international agencies with each of the Central American countries, even though to a considerable extent the regional projects are embodied within national development plans. In any event, it can be said that in the absence of integration many of these projects will not be carried out; for this reason, integration itself implies an *additional* demand for external financing. Hence it is felt that the international financial community will understand the need to mobilize a volume of resources for the Central American countries taking part in this integration effort which is greater than that required for the same countries without integration. There is no need to point out that the higher rates of economic growth that have been achieved through integration will also increase the debt capacity of the five countries.

The foregoing observations will enable the international financing agencies to clearly distinguish projects that are regional in nature from projects that are not. In this regard they should be guided by the judgment of the Central American governments. In any case, such projects will be those which, while included in the development plan of a given country, require a regional dimension for their implementation on an efficient basis. The international financing agencies would decide, in accordance with their own regulations, whether to make the resources available directly for projects or to channel them through the Central American Bank for Economic Integration, the financial institution of the region.

II. Priority Regional Projects

1. *Introduction*

Various international organizations, as well as the Central American integration agencies, have devoted substantial resources and efforts during the last 25 years to the formulation of projects, particularly in the manufacturing sector, intended to improve the regional economic situation. Some of those projects—those for the manufacture of tires and tubes, sodium chloride, insecticides and glass containers—have been carried out; others, such as the pulp and paper plant, are about to be implemented. However, many of these projects have not materialized for a variety of reasons, and periodically reappear on lists of projects that are considered to be opportunities for productive investment. For this reason, it should be pointed out that the list of priority regional projects presented below could be regarded as somewhat repetitive for those who have closely followed the process of integration in Central America. Many of these projects actually have been identified in the past, some of them several times, but have not thereby lost their importance.[1]

The list of projects presented here differs from earlier lists in four aspects. First, as already pointed out, since 1969 there has been an accumulation of projects that are evidently feasible but the implementation of which has depended on normalization of the integration process. The governments believe that upon the successful completion of the negotiations on the proposed general treaty, the stability and continuity of the Central American Common Market will be ensured, which will eliminate the uncertainty that has existed up to the present; and that even during the negotiation period some of these projects can be gotten under way.

Secondly, the size of the Central American market has grown in recent years, both in terms of population (about 18 million in mid-1976), and in terms of per capita income (about $650 at current prices, with marked differences among the countries). The size of this market is indicated in part by the volume of imports of goods and services from the rest of the world in 1976, which totaled almost $3,300 million. Thus, many of the projects whose viability was doubtful in the 1950s and 1960s could now be carried out under reasonably satisfactory economic conditions because of this growth.

Thirdly, most of the projects identified already have a firmer grounding than in the past, because of their extensive analysis by national planning

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[1] See, for example, ECLA, *The Economic Integration of Central America: Its Evolution and Prospects,* (E/CN.12/422, November 1956); ECLA, *Possibilities for Integrated Industrial Development in Central America,* (E/CN.12/CCE/323/Rev. 1, August 1965); SIECA, *Identificación de algunas industrias que prodrían incluirse en un sistema de programación industrial regional,* (SIECA/75/IND/21 April 1975).

offices, national development agencies, regional integration agencies or groups of private entrepreneurs. In this connection, while it is true that the projects have not been subjected to a rigorous process of priority ranking, an implicit selection has been made among those making up the list presented below. Furthermore, the fact that many of the projects are embodied in national development plans is bound to facilitate ultimate agreement on their location.

Finally, one of the most serious deficiencies of the integration process during the 1960s—often acknowledged by the governments and by the regional institutions themselves—was the limited promotional capacity of public institutions and the incipient development of business groups in the region. The Central American governments are convinced that the new climate that will result from the revitalizing of integration in Central America will contribute greatly to improving promotion mechanisms and to creating an environment in which private enterprise can operate with greater freedom of movement and decisiveness.

In summary the establishment of an economic community in Central America in itself will unquestionably be the significant change that will make it possible once more to consider objectively many initiatives that have not been viable in the past because of the conditions prevailing in the region.

The list of projects presented below,[1] which are planned for implementation from 1977 to 1985, should by no means be regarded as exhaustive. The new situation will give rise to countless possibilities for investment in the traditional branches of industry, such as textiles, footwear, food, fats and oils, nonmetallic minerals and the machinery industry. But the purpose of this document is only to indicate the projects of greatest importance, the implementation of which depends almost entirely on the impetus given to integration. Studies on the projects selected are in various stages of advance; many are still under review by the regional institutions (SIECA, CABEI and ICAITI), the regional office of ECLA in Mexico, and the national development agencies. In almost all of these cases further studies are required, including engineering studies, to confirm their feasibility. Nor is it considered that all of the projects indicated must be carried out in the next eight to ten years. Rather, the list is presented for illustrative purposes to demonstrate the enormous potential benefits that could be derived from economic integration through specific projects.

Finally, the projects themselves, with a total cost exceeding $4 billion, approximately half of which must be obtained from the official external financing agencies, together ensure that there will be real meaning in a regional action program aimed at revitalizing Central American integration.

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1 Because of the nature of this proposal, a deliberate effort has been made to summarize. Almost all of the projects listed are described in detail in documents prepared by SIECA, CABEI, ICAITI, other specialized agencies and the United Nations Economic Commission for Latin America.

2. *Industrial sector*

It has already been noted that the manufacturing sector offers the most obvious opportunities for economies of scale. The following is a brief description of some of the industrial projects that require a regional market for the implementation. The cost estimates given, at current prices, are merely indicative. Since many of the projects would not be initiated until the end of this decade or during the 1980s, it may be assumed that the figures—which are only orders of magnitude of the investments required—would be less than the actual costs of the final projects.

- Complex for production of vinyl monomers. The vertical integration of the chemicals industry of the region seems feasible, on the basis of the existing plant and expansion of the capacity for production of *PVC*. The objective is large-scale refining of *industrial alcohol* from sugarcane, which requires an investment of about $7.5 million to produce some 10 million gallons per year. The industrial alcohol would be the raw material for an ethylene plant costing an estimated $10 million. It will also be necessary to increase the capacity for production of sodium chloride through an additional investment of about $10 million. Finally, a *vinyl monomer* plant could be established using the ethylene and chlorine produced, which would require a further investment of about $20 million. In total, this project, which begins with the processing of a by-product of sugar refining and culminates with the expansion of *PVC* production capacity in the region, calls for investments totaling about $50 million.
- As a longer term undertaking, and if it proves feasible and desirable to substantially increase the production of industrial alcohol (which is closely related to the sugar industry and to the alternative use of land)—consideration could be given to one or more plants producing *polyethylene* of various densities. The investment required to produce about 50,000 tons per year—the projected demand for the next decade—is approximately $35 million.
- The demand for fertilizers projected for the mid-1980s justifies not only expansion of the capacity for production of *compound fertilizers* (or multinutrients), but also a concurrent movement toward a greater degree of vertical integration in this major industry. There are concrete possibilities for installing a production capacity of 1,800 tons per day of *ammonia*, 1,500 tons of *urea*, and 1,500 tons of *multinutrient fertilizers* (DAP, NP and NPK), in several plants and locations. Ammonia-urea would be produced from naphtha or heavy fuel oil imported from outside the region, e.g. Mexico and Venezuela. The multinutrient plant could be combined with the production of nitric acid or sulphuric acid, using imported phosphoric acid as phosphate raw material. The fixed investment for the gradual establishment of this industry during the next decade would be between $240 and $390 million, depending on the raw material used, the production process selected and the number of plants established.
- Another by-product of multinutrients could be *sodium sulphate*, a raw material required for pulp and paper production. The investment required for this purpose is estimated at about $8 million.

• The *synthetic fibers and chips* industry also offers excellent prospects for Central America. Two polyester fiber plants already are planned, with an investment estimated at about $10 million. When these plants are in operation the manufacture of chips will be feasible, with an additional investment of about $10 million. It would also be feasible to establish a *nylon fiber and filaments* plant using chips, at an estimated cost of $8 million. A project of lesser scale, but one that would be viable on the basis of the size of the regional market, is the manufacture of *dioctylphthalate plasticizers* (DOP) and *phthalic anhydride* as raw material for the various formulations of *PVC* used in the footwear industry, lamination, and the covering of electrical cables. The two processes, which should be contained in a single complex, require an investment of about $4 million.

• Another set of smaller-scale projects, also requiring the demand of the Central American Common Market in order to operate economically, includes *aluminum sulphate, hydrogen peroxide* (oxygenated water) and *formaldehyde.* The investment necessary for the production of these three raw materials is about $2 million.

• The *pulp and paper* industry also has excellent potential in Central America. The regional demand by the mid-1980s would easily support two or three complexes in the region, and with proper management of forest resources, at least three countries have abundant raw material for this purpose. A project is in an advanced stage of study for the production of 200,000 tons of pulp and draft paper and cardboard per year, with an investment estimated at over $200 million; a similar project for production of 100,000 tons per year is in the preliminary study stage, and would require an investment estimated at $100 million. In addition, an opportunity has been identified for the establishment of a modest plant using lemon grass residue or sugarcane husks to produce bond paper, with an estimated cost of $20 million. As a longer term project, it would be worthwhile to study the feasibility of a newsprint plant.

• The *steel industry*, the viability of which has yet to be proved because of the limited availability of mineral resources in the region, might possibly be developed during the 1980s if iron ore and ore-bearing sand were to become available. There are projects for an arc-furnace continuous casting steel mill, and for the manufacture of grey iron and porous iron. The estimated cost of these projects is $50 million. As an alternative, a study could be made of the integration of the steel industry in a single plant (blast furnace or direct reduction) of 500,000 tons capacity, located somewhere on the Pacific coast. This plant could be supplied with ore from several mines in Central America and possibly imported ore, and with charcoal from the region, in addition to imported coal. A plant of this size would require an investment of about $300 million.

• Another feasible project is that for the production of *window glass.* The investment in a plant with capacity of 60 tons per day is estimated at about $18 million.

• Several investment opportunities have been identified in the aluminum sector. One is for the manufacture of *aluminum structures and other rolled* *products* using imported raw material. The investment required for a plant of this kind would be about $50 million. A second and more ambitious project is the reduction of *imported alumina to produce aluminum*. Studies are now under way for a plant with capacity of 250,000 tons per year, the feasibility of which will depend largely on the availability of hydroelectric power. The estimated cost of this project is $400 million. For the longer term, consideration is still being given to the possibility of exploiting the bauxite resources of the region, possibly mixed with bauxite imported from the Caribbean, for the *production of alumina*.

Finally, the governments propose to concentrate *machine building* complexes in certain parts of the region, in order to obtain economies of scale. These include plants producing agricultural implements, sewing machines, cast iron pipe and electric transformers, all of which require a regional market for operation under economic conditions.

In addition to carrying forward the projects mentioned, the governments plan to implement the Consultative System for Industrial Development recommended by the Committee on Economic Cooperation at its 10th Meeting (Resolution CCE/X/155), in order to expand traditional industries such as footwear, oilseeds, packaged foods, textiles, nonmetallic minerals, coarse plant fibers and others, on a regional basis.

3. *Agricultural sector*

Among the projects under consideration is a *tuna fishing* company, with multinational Central American capital, to take advantage of economies of scale through a joint venture in this field. The required investment is between $30 million and $45 million, depending on the number and type of fishing vessels acquired. On-shore installations, which would have to be concentrated in a suitable place on the Central American Pacific coast, would require an investment of about $2.5 million.

Another project is a Central American company for the *production and marketing of vegetables and fruits* for sale in the northeastern United States and Canada. Joint action in marketing would enable the Central American countries to gain access to that market. The capital investment required for the company is estimated at about $7 million, mainly for packing equipment and warehouses. In a future stage this company could also engage in shipping, which would require an investment of $20 million in freight cars and other equipment.

- Expansion and strengthening of *animal and plant health programs*. The program comprises the following basic components: a) prevention and control of coffee diseases and pests; b) control of the Mediterranean fruit fly; c) prevention and control of foot-and-mouth disease; d) control of agricultural pests; e) anti-locust campaign; f) regional animal and plant health laboratory; and g) support for agricultural quarantine services. The cost of the program for the next three years is estimated at about $45 million, primarily for activities related to the control and eventual elimination of coffee rust.
- *Cultivation and processing of African palm*. CABEI has prepared a Cen-

tral American program for cultivation of African palm to develop this oilseed in the humid tropical zone of the region. The program calls for the planting of 20,000 hectares of African palm over a five-year period, at a cost estimated at $65 million. This project would make it possible to increase the annual production of vegetable oils by 80,000 tons.

- *Regional Agricultural Technology Center (CERTA).* This Center will be established to administer a number of agricultural research programs and to train personnel at the regional level. It will function as a coordination and agricultural research agency for the development of basic research projects, diversification of crops and of their combinations, and the use of resources in irrigated areas and humid tropical regions. The Center will be responsible for training middle and high level personnel for agricultural development. The initial investment and the operating costs of the Center have not yet been estimated; the cost of studies for this purpose is estimated at about $250,000.
- *Central American market information system.* In a first stage, a system of market information updated daily will be established covering a key group of agricultural products—vegetables, fruits, grains, oilseeds, livestock products, etc.—with special reference to prices and supply and demand in the market, both current and for the immediate future. In a later stage information will be added on market prospects and harvest forecasts.
- *Production of improved seed.* The purpose of this project is to meet the regional demand for improved seed and to compete in the international market, primarily in the export of basic grains. Regional cooperation will make it possible to substitute imports of seed and to improve agricultural productivity in the region. The estimated cost of the program is about $25 million.
- *Regional irrigation program.* Joint action will be taken to irrigate about 190,000 hectares in the next ten years, at an estimated cost of $230 million. The additional production will meet internal demand, including significant intra-Central American trade in some products, and will make it possible to increase exports. The timely implementation of the program requires the establishment of a regional structure for coordination and cooperation, and a group to advise the countries in the formulation of projects.
- Finally, other agricultural integration projects could result from the studies made in recent years by SIECA in the three multinational basins of Central America; the comprehensive development of the resources of the Lempa River basin; and the work of a group of consultants under contract to SIECA which is engaged in the preparation of agricultural projects (INTAGRO).

4. *Energy sector*

- When the interconnected system is completed it will be difficult to distinguish national electricity generation projects from those that are regional. For this reason, it seems logical to consider *all* generation projects as regional. The program in this field for the next decade, which is very tentative, is as follows:

Project	Country	Installed capacity (MW)	Estimated cost (millions of dollars)
Pueblo Viejo	Guatemala	300	285
San Lorenzo	El Salvador	180	110
El Cajón	Honduras	296	310
Corobicí	Costa Rica	163	120
Copalar	Nicaragua	330	300
Geothermal plants	Nicaragua	80	80
Geothermal plants	El Salvador	90	90
Geothermal plants	Guatemala	60	60

• In addition, and depending on the progress made in the development of aluminum projects in Costa Rica, that country could undertake the Boruca hydroelectric project, with installed power of 750,000 kilowatts at a cost estimated at $600 million.

• Plans also call for interconnection of the Central American electricity generation system with that of Panama, which means that this program will go beyond the regional context. Panama plans to carry out the Fortuna hydroelectric project, (278,000 kilowatts) with an estimated cost of about $200 million.

• Besides the investments that will be made to increase generating capacity, it is estimated that at least $50 million will be invested in transmission lines for the interconnected regional system.

• Finally, to serve the other subsectors of energy and ensure better coordination between them and electricity generation, the governments have established the Central American Energy Commission, whose work will include the identification of new projects of regional interest in the energy sector.

5. *Transport and communications*

The Central American Transportation Study (ECAT), recently completed, has identified a number of projects in the transportation sector which are regional from every standpoint. Among the projects planned for execution up to 1985, the following are of particular importance:

• The construction of a new port on the Pacific Coast of Guatemala, including one container wharf with two cranes, three wharves for general cargo, one wharf for dry bulk cargo and one wharf for liquid bulk cargo. The cost of this port is estimated at about $80 million. Plans also call for expansion of the port of Acajutla in El Salvador, with a new container and acquisition of equipment at an estimated cost of $30 million; expansion of Puerto Limón in Costa Rica, at an estimated cost of $27 million; and smaller scale expansion of ports in Honduras and Nicaragua. In total, the investments or expansion and specialization of ports in Central America through 1985 exceed $140 million.

- In addition to the new airport now under construction in El Salvador, the program for 1977–85 calls for the construction of a new airport at Tegucigalpa with a cost estimated at $25 million, and improvement and expansion of the other international airports of the region at an estimated cost of $15 million.
- There are also plans for gradual integration of the airline companies of the region, beginning with standardization of equipment, joint procurement of spare parts and coordination of schedules, and leading to the formation of a Central American airline consortium; this would require a significantly smaller investment in equipment than that required for the five national airlines operating independently. The required investment would be about $150 million between 1977 and 1985, for the acquisition of 14 airplanes.
- Similarly, important financial advantages could be derived from an integrated maritime fleet to handle part of the international trade of the region. Such a fleet would require investments totaling $50 million up to 1985.
- The improvement, reconstruction and expansion of the Central American regional highway system will require investments totaling about $440 million from 1977 to 1985. This program includes the construction of about 400 kilometers of new roads.
- Finally, plans call for expansion of the regional telecommunications network, at a total cost estimated at $22 million.

6. *Tourism*

- The countries are implementing a Regional Tourism Development Program, which was adopted at the first meeting of Directors of Tourism and of Planning Offices of Central America held in Guatemala in September 1972. While this program is very ambitious and quite preliminary, the Central American Tourism Council is preparing a more realistic and detailed version, calling for investments of about $120 million during the period indicated for the development of infrastructure and hotels.
- A project of apparent immediate feasibility is the establishment of a hotel-school for training at the regional level of workers for the field of tourism. The capital investment required for this project is approximately $1.5 million.

7. *External economic policy*

- Although the adoption of a policy of joint action *vis-a-vis* third parties does not involve a major financial commitment by the international community (aside from some technical cooperation projects), the discussion of an action program to revitalize Central American integration would be incomplete without mention of this aspect. The governments intend to increase their bargaining power with the rest of the world through joint action and coordination in matters of external trade policy. One example of the action to be taken appears in the recommendations approved by the Committee on Economic Cooperation at its 10th Meeting.

III. Mechanisms Required for Promotion and Execution

The implementation of the projects and activities mentioned obviously requires a concerted effort by the governments and the integration agencies, as well as the various entrepreneurial groups of Central America.

Attention has been called to the key role of planning offices and national development agencies in the identification of regional projects, and mention has been made of the role of the regional institution that will cooperate with those offices in project formulation. In addition, agreement has been reached on the procedure for consultations on industrial development, which will be the guiding mechanism for programming and in which the private sector will participate actively.

Nevertheless, this document would be incomplete without special mention of the four additional mechanisms that will be called upon to play a decisive part in reactivating the integration process through the specific projects that are being undertaken.

1. *Strengthening of the Central American Bank for Economic Integration (CABEI)*

The Central American governments are convinced that CABEI will play a decisive role in the promotion of the projects indicated, in the mobilization of resources for their timely financing, and in the motivation of the private sector for their support. Accordingly, plans call for providing that institution with the resources that it requires to carry out this mission and to strengthen its capacity for promotion.

2. *Training*

The implementation of the projects mentioned in this document will require a renewed effort in the field of project administration, on the part of both the public and private sectors. In this connection, the Central American Institute of Public Administration (ICAP) will be responsible for the training programs that the governments consider necessary to support the strategy for revitalizing Central American integration.

3. *External technical cooperation*

Passing reference has already been made to external technical cooperation projects as part of international assistance. It should be noted, however, that such cooperation plays a decisive part both in the formulation of the projects identified and in the implementation of programs aimed at improvement of the capacity for project execution and administration. For it is unquestionably of crucial importance that the projects identified have feasibility studies so that the governments will have the information necessary to decide upon a specific undertaking.

The advisory group on preparation of regional projects that will be established in Central America within the framework of CABEI, in cooperation with IDB, is a first step in the external cooperation that will help toward fulfillment of this purpose.

4. *International financial consortium*

Finally, the regional projects on the scale indicated in this document, together with the external financing programs envisaged in the national development plans of each country, will require a significant effort by the governments and the international financing agencies to mobilize the external financing necessary to bring about a greater degree of interdependence and a higher level of development in the region. It will also be a complex task to coordinate the activities of the financial agencies among themselves, and between them and international private capital markets.

For this reason, the establishment of an international financial consortium is considered advisable, so that the external credit needed to strengthen the Central American integration process can be obtained. Although the organization and methods of operation of such a consortium would have to be agreed upon at the proper time, it is felt that the consortium should be made up of all the governments, the Central American integration agencies, and the principal public and private international financing institutions. The consortium would be limited to activities related to projects of regional interest, and therefore should be coordinated by CABEI. Its functions would include acting as a forum for the exchange of information on external financing requirements for Central American integration. It could also propose the most suitable means of mobilizing that financing and coordinating sources of external credit.

The governments of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica are confident that their efforts to reactivate Central American economic integration will be complemented by the firm support of the international financial community, under the terms and through the mechanisms and procedures outlined in this joint proposal, with a view to cooperation in the economic and social development of each and every country of the region.

Guatemala, May 30, 1977

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House Committee on Banking, Finance and Urban Affairs

Charles Wilson
Member of Congress
House Appropriations Committee

Silvio Conte
Member of Congress
House Appropriations Committee

Elford Cederberg
Member of Congress
House Appropriations Committee

Fortney Stark
Member of Congress
House Ways and Means Committee

Advisors

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Executive Director
Inter-American Development Bank

E. Jay Finkel
Alternate Executive Director
Inter-American Development Bank

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Special Assistant to the Assistant Secretary for International Affairs
Treasury Department

Edward Bittner
Office of Developing Nations
Treasury Department

Nelson Coar
Technical Assistant to the Executive Director
Inter-American Development Bank

William Dixon
General Counsel
House Committee on Banking, Finance and Urban Affairs

Alice Dress
Office of International Development Banks
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Orman S. Fink
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House Committee on Banking, Finance and Urban Affairs

Michael Flaherty
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House Committee on Banking, Finance and Urban Affairs

Guadalupe Flores
Professional Staff Member
House Government Operations Committee

Louis Gasper
Minority Professional Staff
House Committee on Banking, Finance and Urban Affairs

Curt Hessler
Executive Assistant to the Secretary
Treasury Department

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1 Temporary

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Chief, Coordination Division, Latin America
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Gerald McMurray
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House Committee on Banking, Finance and Urban Affairs

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Treasury Department

Paul Nelson
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Carol Stitt
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Frank Thomas
Financial Economist
State Department

Uruguay

Governor

José D. Cardozo
Secretary of Planning Coordination and Dissemination

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Deputy Secretary
Ministry of Economy and Finance

Luis Pigurina[1]
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Ministry of Economy and Finance

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President
Banco Central del Uruguay

Juan César Pacchiotti
Secretary General
Banco Central del Uruguay

Venezuela

Governor

Héctor Hurtado
Minister of Finance

Alternate Governor

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Inter-American Development Bank

Eduardo Mayobre
Director of Research
Ministry of Finance

Heberto Urdaneta
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Fondo de Inversiones de Venezuela

Yugoslavia

Alternate Governors

Božidar Radunovíc[1]
Deputy Federal Secretary for Finance

Zlatko Muršec
Assistant Federal Secretary for Finance

Advisor

Danica Ostojic
Senior Advisor
Federal Secretariat for Finance

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[1] Temporary

OBSERVERS OF NONMEMBER COUNTRIES

Bahamas

Reginald L. Wood, C.B.E.
Financial Secretary

Finland

Osmo Kalliala
Cabinet Councellor
Ministry of Finance

Eero Asp
Managing Director
Finnish Export Credit Ltd.

Norway

Lars Tangeraas
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Embassy of Norway in the United States of America

Surinam

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Kenrich J. Texel
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Hans Ahlström
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African Development Bank

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Andean Development Corporation

Antonio Barberena
Vice President for Finance

Arab Fund for Economic and Social Development

Abdulkader Chanderli
Senior Advisor

Asian Development Bank

C. S. Krishna Moorthi
Vice President

Bank for International Settlements

Günther Schleiminger
Secretary General

Rémi Gros
Assistant Manager

Caribbean Community Secretariat

Joseph A. Tyndall
Deputy Secretary General

Caribbean Development Bank

Crispín A. Sorhaindo
Secretary

Cartagena Agreement, Board of

Edgar Camacho Omiste
Secretary Director

Central American Bank for Economic Integration

Héctor Villagrán Salazar
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Gilberto Secaira E.
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Francisco Bütching Palma
Director for Nicaragua

Alfredo Benjamín Noyola L.
Director for El Salvador

Antonio Membreño M.
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Félix Martínez Dacosta
Legal Advisor

Victoria A. de Díaz
Chief, Resource Procurement

Jorge Porras Zúñiga
Public Relations Officer

Francisco López Urzúa
Representative in Guatemala

Central American Institute of Industrial Research and Technology

Gabriel Dengo
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Luis Felipe Vettorazzi T.
Administrative and Financial Manager

Central American Institute of Public Administration

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Central American Monetary Council

Jorge González del Valle
Executive Secretary

Tomás Alfonso Medina
Executive Deputy Secretary

Manuel F. Chavarría A.
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Commission of the European Communities

Herman P. N. J. Van Der Loos
First Secretary
Delegation for Latin America

European Investment Bank

Yves Le Portz
Chairman

Inter-American Council of Commerce and Production

José Represas
Continental Vice President

Julio J. Gómez
Director Delegate—Banco Shaw S.A.
Argentina

Inter-American Institute of Agricultural Sciences

Enrique Blair-Fabrís
Advisor on External Coordination

Efraín Morales
Regional Director for the Northern Zone

Flavio Lazos
Action Plan Coordinator

Inter-American Regional Workers' Organization

Carlos Piñerúa
President
Federación Petrolera de Venezuela

International Investment Bank

Valentine V. Stepanov
Managing Director

International Monetary Fund

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Western Hemisphere Department

Luis Rubén Azocar
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Islamic Development Bank

Ahmed Mohamed Ali
President

Italo-Latin American Institute

Franz Ondarza Linares
Deputy Secretary for Economic and Social Affairs

Latin American Association of Development Finance Institutions

Carlos Garatea
Deputy Secretary

Latin American Economic System

Knowlson W. Gift
Permanent Deputy Secretary

Organization of American States

Santiago Meyer Picón
Assistant Secretary of Development Cooperation

Pan American Health Organization

Eusebio del Cid
Deputy Director

Luis Carlos Ochoa
Representative Area 3

Permanent Secretariat of the General Treaty on Central American Economic Integration

Roberto Mayorga-Cortés
Secretary General

Raúl Sierra Franco
Deputy Secretary General

Salvador Sánchez Aguillón
Deputy Secretary General

Rodolfo Trejos
Deputy Secretary General

Dante Ramírez
Deputy Secretary General

Alfonso Pimentel Rodríguez
Advisor to the Secretary General

Alfredo Guerra Borges
Director of the Industrial Department

Carlos Enrique Gutiérrez Luna
Coordinator of Project INTAGRO

Alberto Ordóñez Argüello
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United Nations

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World Bank Group

International Development Association
International Bank for Reconstruction and Development

International Finance Corporation

Adalbert Krieger Vasena
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International Bank for Reconstruction and Development

Carlos N. Quijano
Special Representative for Inter-American Organizations
International Bank for Reconstruction and Development

Guillermo Castañeda
Loan Officer
International Bank for Reconstruction and Development

Gordon McClure
Vice President—Operations
International Finance Corporation

Special Guests

The Eighteenth Annual Meeting of the Board of Governors was attended by 402 special guests from 36 countries.