



# **Proceedings**

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## **Nineteenth Annual Meeting of the Board of Governors**

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**Vancouver, Canada, April 1978**

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**INTER-AMERICAN DEVELOPMENT BANK**

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**PROCEEDINGS**

**Nineteenth Annual Meeting of the Board of Governors**

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## PRELIMINARY NOTE

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The Nineteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in the city of Vancouver, British Columbia, Canada, from April 17 to 19, 1978. The Inaugural Session as well as the other plenary sessions took place in the Regency Ball Room of the Hyatt Regency Hotel, while sessions of the working groups were held in the Social Suite and Waddington Room of the Hotel Vancouver and the Turner Room of the Hyatt Regency Hotel. The Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 met in the Social Suite of the Hotel Vancouver.

The Inaugural Session was attended by the Mayor of Vancouver, Mr. John G. Volrich. At that session the agenda of the Meeting was approved and Mr. Jean Chrétien, Governor for Canada and Minister of 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 Eighteenth and Nineteenth Meetings, as well as those approved in the course of the latter. It also includes an account of the decisions adopted by the Meeting, the Report of the Chairman of the Committee of the Board of Governors and the list of the delegations of the member countries and of observers from countries and international agencies in attendance.

Jorge Hazera  
Secretary

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## **AGENDA**

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1. Election of the Chairman of the Board of Governors
2. Eighteenth Annual Report of the Bank—financial statements for 1977:
  - Ordinary capital resources
  - Inter-regional capital resources
  - Fund for Special Operations
3. Election of Executive Directors for 1978–1981
4. Status of the Bank's resources
5. Evaluation of the objectives, functions and policies of the Bank

## SCHEDULE OF SESSIONS

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*Saturday, April 15, 1978*

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

*Sunday, April 16, 1978*

5:00 p.m. Preliminary Session (Chiefs of Delegations)

*Monday, April 17, 1978*

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 the Chairman of the Board of Governors and Governor for Canada
4. Statement by the President of the Inter-American Development Bank

3:00 p.m. Second Plenary Session

1. Eighteenth Annual Report of the Bank
  - a. Ordinary capital resources
  - b. Inter-regional capital resources
  - c. Fund for Special Operations
2. Address by the Alternate Governor for France
3. Address by the Alternate Governor for Peru
4. Address by the Governor for Colombia
5. Address of the Temporary Alternate Governor for Japan
6. Address by the Governor for the Dominican Republic
7. Address by the Temporary Alternate Governor for the Federal Republic of Germany
8. Address by the Governor for Brazil
9. Address by the Governor for Chile
10. Address by the Governor for Honduras, on behalf of the Central American countries
11. Address by the Governor for Venezuela

*Tuesday, April 18, 1978*

9:00 a.m. Third Plenary Session

1. Election of Executive Directors for the period 1978-1981
2. Address by the Alternate Governor for Panama
3. Address by the Governor for Mexico
4. Address by the Governor for Bolivia
5. Address by the Governor for Austria
6. Address by the Governor for Guyana
7. Address by the Temporary Alternate Governor for the Netherlands
8. Address by the Governor for Argentina
9. Address by the Alternate Governor for Spain
10. Address by the Temporary Alternate Governor for the United States
11. Address by the Alternate Governor for Ecuador
12. Address by the Governor for Sweden
13. Address by the Governor for Israel
14. Address by the Governor for Bahamas

*Wednesday, April 19, 1978*

9:00 a.m. Fourth Plenary Session

1. Address by the Governor for Paraguay
2. Address by the Governor for Switzerland
3. Address by the Temporary Alternate Governor for the United Kingdom
4. Address by the Governor for Finland
5. Address by the Alternate Governor for Yugoslavia
6. Address by the Governor for Barbados, on behalf of the countries of the Caribbean Subregional Group
7. Evaluation of the functions and policies of the Bank
8. Address by the Alternate Governor for Belgium
9. Address by the Alternate Governor for Italy
10. Address by the Temporary Alternate Governor for Denmark
11. Address by the Governor for Nicaragua

*Wednesday, April 19, 1978*

3:00 p.m. Fifth Plenary Session (Closing Session)

1. Address by the President of the Bank
2. Remarks by the Chairman of the Board

**ADDRESSES**

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**FIRST PLENARY SESSION**

**April 17, 1978**

**INAUGURAL SESSION**

**Address by Mr. Jean Chrétien,  
Chairman of the Meeting,  
Governor for Canada and Minister of Finance**

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I would, first of all, like to thank Ambassador Lamport Rodil, my distinguished predecessor as Chairman of the Board, for his thoughtfulness and courtesy to me. It is a great honor and privilege for me to assume the chairmanship in my turn as representative of the Canadian Government and as a Governor of the Inter-American Development Bank. In this double capacity, it gives me great pleasure to extend to all of you a most cordial welcome to the Nineteenth Annual Meeting of Governors.

We are very happy to welcome you to the beautiful city of Vancouver, which has become one of the most important cities in Canada. By introducing you to the Western gateway to our country, we also hope to show you a particularly fascinating aspect of the living reality of Canada and of a region whose ties with Latin America go back more than two centuries. As you know, Hispanic adventurers were the first to explore the western coast of our country. It was only after the voyages of Juan Pérez, Bodega Quadra and Martínez that Captain George Vancouver claimed these lands for England.

Canada and Latin America have maintained relations ever since. Since the Second World War, and especially in this decade, our contacts have developed at an unprecedented rate. You are no doubt aware of Canada's special ties with the Caribbean countries. Over the years I have had the privilege to visit a number of countries in Latin America. During my ministerial career I have noted firsthand the dynamism of the relations and the great and growing range of the interests we share. My first trip as a Minister of the Canadian Government was in 1967 to the meeting of the World Bank and IMF in Rio de Janeiro. I have tried to encourage these relations, first by a visit to Venezuela, which was my first trip abroad as Minister of Industry, Trade and Commerce, and, more recently to Barbados at the last conference of Commonwealth Finance Ministers.

In 1970, as part of our policy to diversify our foreign relations, we decided to develop and deepen our relations with Latin America and the Caribbean. We obtained permanent observer status in the Organization of American States. In terms of development policy, we set up major programs of multilateral economic cooperation. It is within this framework that the Inter-American Development Bank has become the principal mechanism for financial and technical cooperation between Canada and the rest of the hemisphere.

Let me address myself to the importance of this conference. The Nineteenth Meeting of Governors is being held at a crucial point in world development, when many efforts are being made either within the United Nations or under the auspices of other international organizations to continue the North-South dialogue and to reduce the economic disparity that still limits the economic development of all the countries of the world.

In this regard, I would like to recall our close collaboration with Latin America and the Caribbean during the Conference on International Economic Cooperation at which Canada and Venezuela were co-presidents. We are counting on continuing this cooperation.

Economically, we have all had to face a very serious crisis from which we have not yet fully recovered. But as Prime Minister Trudeau said before the Economic Club of New York only three weeks ago, we must all do everything we can despite current economic difficulties to reconcile the legitimate aspirations of the developing countries with the objectives of the most developed nations. In this context, there is no doubt that the Inter-American Development Bank has a major role to play in the economic and social development of Latin America and the Caribbean.

As Governors of the most important regional development bank in the world, we should take a close look at our common objectives and plans of action for achieving these objectives. At this stage of the Bank's development, we should redefine some of our priorities. Permit me, as Chairman of the Board, to formulate three questions that seem to me to be among the most pressing.

First, how can we increase the rate of economic and social progress in the least favored regions and population sectors and thereby increase opportunities for their development?

Second, how can we ensure that the Bank has the necessary resources to finance its programs?

Third, and this question is closely linked with the preceding question, what means could we adopt so that all member countries will be disposed to fulfill their commitments to the Bank?

Naturally, I do not claim that other questions are less important, or that it is possible to give definitive answers to the ones I have posed. But I would like to put forward a few ideas that could be the subject of our discussions during this conference.

The answer to my first question is obvious. Large segments of the population of Latin America and the Caribbean still subsist under marginal living conditions. Therefore our greatest priority remains to intensify the Bank's efforts on behalf of the least favored countries and sectors. It is true that in the past few years the Bank's lending policy has given increasing importance to the economically and socially least advantaged countries and sectors. I believe this policy should be strengthened, especially under the projects financed by the Fund for Special Operations.

Since the Fund's resources are very limited, it is necessary to encourage a greater number of countries to limit their requests for concessional financing as much as possible. In this connection, the decision by Argentina, Brazil, Mexico, Trinidad and Tobago and Venezuela not to apply for this type of financing is very significant, especially since these countries have at the same time agreed to subscribe part or all of their contributions to the Fund for Special Operations in convertible currencies. This clearly shows their deep feeling of intra-regional solidarity in giving priority to the pressing needs of our least developed partners.

Naturally, the broadening of the Bank's responsibilities must be accompanied by an increased support effort by the countries that subscribe to its activities. This brings me to the other two questions, which I raised earlier and which are complementary. We are currently going through a difficult period in the Bank's financing. This situation is especially paradoxical since it is happening at a time when the number of member countries, both regional and nonregional, has never been higher. In 1977 Austria, Finland, France, Italy, the Netherlands and Sweden

followed their European partners and Japan in joining the Bank. In addition, we would like to welcome particularly to the membership of the Bank the Bahamas, a country which has close relations with mine.

In addition to an increase in the number of members, which has made it possible to establish a more solid financial base, the Bank has made great strides in its complementary financing program with the international banking community. However, diversification of financing cannot be continued unless all the member countries guarantee continuity of their contributions. This continuity is an essential condition for the stability and dynamism of our institution.

In this respect, our American partner carries a considerable burden. The new arrears in its resource subscriptions have caused the Bank serious difficulties, which threaten to become worse by the end of the year. Unless the United States meets its commitments to the Bank, we will be forced to reconsider certain fundamental aspects of the Bank's financial organization. In view of the vital character of American participation in the Bank, we prefer to view this outcome as highly improbable. We should try to avert it in the best spirit of solidarity. We cannot allow the viability of the Inter-American Development Bank to be jeopardized by these difficulties.

A new financing exercise will have to be carried out to replenish the Bank's resources in the upcoming years. It is advisable that negotiations between the member countries for this next funding be begun soon. Of course, the level and distribution of financing required by the Bank will have to be studied carefully by each participating government. Moreover, there are a number of complex factors important for the future development of the Bank: the level of participation by the most advanced Latin American and Caribbean countries; access to international capital markets, and examination of new mechanisms of financial and technical cooperation. The Bank's recent initiatives in these areas show its capacity to bring the objectives and interests of our governments together with those of the business and financial world. This constructive and innovative approach can only be of benefit to all the countries who support the Bank. I am convinced that we will succeed in establishing a new equilibrium between the needs of Latin American nations for development resources and the availability of government and private funds.

I would like to stress that the Bank can count on the generous support of my Government in achieving the objectives and orientations that I have just outlined. The strengthening of our ties with the rest of the hemisphere has become one of the main aims of our foreign policy. The Bank, in its concern for international cooperation, is one of the most effective instruments for speeding up the economic and social development of Latin America and the Caribbean. In the past few years the Bank has pursued its goals with determination. From a number of points of view, its performance has achieved new records of activity. The Bank has also intensified its efforts to consolidate its financial and administrative management. As Chairman of the Board of Governors, and on behalf of my colleagues, I wish to pay tribute to the President of the Bank, Mr. Antonio Ortiz Mena, and to his colleagues for these many successes.

While it is essential that the member countries ensure their continuing support for the Bank's development objectives, the Bank for its part must make the best possible use of the financial and material resources that we make



available to it. Since its last annual meeting in Guatemala City, a number of successful reforms have been made in its operating policies. I am confident that in the areas where solutions still remain to be found, caution and realism will prevail in the common interest of all our countries.

Before concluding my address, I would like to say a few words to the Canadian participants and guests gathered here for this conference. Our joining the Bank in 1972 was a carefully considered decision made in order to increase the effectiveness of our trade, financial and technical cooperation with Latin America and the Caribbean. At present, these regions are Canada's fourth largest export market after the United States, the European Economic Community and Japan. In the field of investment, our interest in Latin America has been growing as impressively as our trade. However, this progress is only beginning to tap a practically boundless potential. In the future, we cannot overlook the importance of these valuable opportunities. I therefore encourage you to strengthen your ties with the Inter-American Development Bank and with the countries of Latin America and the Caribbean. We will support your efforts.

Finally, I would like to express to my colleagues, the Governors of the Bank, our great satisfaction with the honor you have bestowed on us by making us the hosts of this conference. On my own behalf and on behalf of the people of Canada I wish you and all the other participants here a very successful and pleasant stay in Canada.

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

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As the Board of Governors of the Inter-American Development Bank meets for the first time in Canada, to hold its Nineteenth Annual Meeting, I should like to express my appreciation to the people and to the authorities of this country for their most generous hospitality. I should also like to acknowledge the extraordinary cooperation extended for the organization of this event. Vancouver provides a very fitting setting for our discussions since it reflects the enterprising spirit and work ethic of its settlers, who, in a little over one century, transformed this progressive city into one of the major Pacific ports in the Americas and a primary development pole for the western region of this great nation.

It is particularly significant that this conference should take place in a country whose admission to the Bank in 1972 has contributed to making us a truly hemispheric institution and marked the start of a process that has led so far to the admission of 15 nonregional industrialized nations. This has significantly expanded our institution's capacity for service in furthering the development of Latin America, thereby enhancing one of the basic purposes for which the Bank was established.

It is my happy privilege on this occasion to extend a most cordial welcome to the Governors of three countries that are participating for the first time in these Annual Meetings of the Board: of Bahamas, whose admission underlines the growing ties of the Caribbean to the process of Latin American development; as well as of Finland and Sweden, which, through their presence, strengthen the participation of the nonregional members in the Bank. I am also pleased to state that Surinam will soon be joining our institution.

### **Bank Activities**

The Bank's activities in 1977 are described in detail in the Annual Report presented by the Board of Executive Directors to this Board for consideration, and duly distributed to the Governors. Without overlooking the most relevant aspects of this past fiscal period, I propose in this statement to refer to the Bank's operations taken as a whole. This will provide us with a broader view of the cooperation furnished by our agency in support of regional development since the growth of our institution and its contribution to the improvement of the living conditions of the Latin American peoples.

In 1977, the value of loans approved by the Bank came to more than \$1.8 billion. In real terms, this was the highest annual figure in the history of the Bank, and it raised our cumulative loan portfolio to nearly \$12 billion. This volume of resources is helping to finance one-fourth of the cost of projects which involve a total investment in excess of \$46 billion. The difference—\$34 billion—consists largely of domestic savings of the borrowing countries. It should be noted that during the past five years (1973-77) the Bank lent \$6.7 billion, which is more than the Bank's total credit activity during its first 12 years of operation.

Technical cooperation extended in 1977 on a grant or contingent recovery basis, amounting to nearly \$45 million, also reached unprecedented levels. The

increase in such operations during the 1973-77 period was even more significant than the expansion of our overall lending activity: \$129 million was committed, which was three times as much as we had authorized for technical cooperation during the preceding 12 years. In addition, since the start of our operations, the Bank has provided \$316 million in the form of technical cooperation credits, making the total of resources provided for technical cooperation close to \$490 million. I should like to take this opportunity to underscore the importance of the contribution made by the United Nations Development Programme in this area of development.

The composition of financing extended by the Bank in 1977 shows that 61 per cent came from the ordinary resources, 32 per cent from concessionary resources, and 7 per cent from trust funds. This indicates a rising trend in the utilization of ordinary resources in Bank operations. All indications are that this trend will continue and that, as a result, the use of concessionary resources should be authorized on the basis of increasingly more selective criteria.

I am happy to inform the Governors that in 1977 the Bank continued its policy of granting preferential treatment to the less developed countries and those with limited markets. They received 40 per cent of all the lending authorized, with three-fourths of that financing drawn from concessionary resources. Furthermore, those countries obtained 93 per cent of the foreign exchange component of loans from the Fund for Special Operations. The same emphasis is apparent in nonreimbursable and contingent recovery technical cooperation granted to those countries from the Bank's own resources in 1977.

Disbursements made in 1977 came to more than \$830 million, and repayments received exceeded \$270 million. Those amounts raised the cumulative value of disbursements to nearly \$6.8 billion and of repayments to over \$1.7 billion by the end of our last fiscal period. During the past five years (1973-77) the net flow of funds, that is, the difference between disbursements and repayments, has climbed steadily, from \$380 million in 1973 to \$560 million in 1977. Accordingly, the total of additional resources received from the Bank by our borrowing member countries in the course of the last five years came to \$2.4 billion.

### **Mobilization of Resources**

During the year, the Bank mobilized \$302 million in financial resources in the capital markets of the world and initiated the use of its inter-regional capital as a guarantee for its long-term placements. These borrowings took place in Germany, Italy, Japan, Switzerland, Trinidad and Tobago and the United States. For the very first time, two public issues of Bank securities were offered, one in Japan and the other in Trinidad and Tobago, denominated in their respective national currencies. The Trinidad and Tobago operation also provided us with an opportunity of collaborating in that country's effort to organize its capital market. Another short-term bond issue—the twelfth—was acquired by central banks and official agencies in 21 Latin American countries. A similar operation was completed this past March with the central banks of ten nonregional countries.

With the bond issues and loans authorized in 1977, current Bank borrowings came to almost \$2.4 billion at the end of the fiscal period. Recently it has been possible to mobilize resources in the capital market on more favorable conditions,

permitting a reduction of interest rates on ordinary operations from 8.35 per cent at the beginning of 1977 to 8 per cent in the second half of that year, and to 7.5 per cent since the first of January 1978.

This reduction was largely the result of the low interest rates secured by the Bank in mobilizing resources in German marks, Swiss francs and yen. In that connection, I should like to assure the Governors that in formulating lending and disbursement programs we have considered carefully the exchange risk assumed by borrowers. We have already made changes in disbursement procedures and are studying other measures with a view to ensuring equitable distribution of that risk among all our borrowers.

### **Financial Performance**

Total Bank receipts in 1977 from its capital resources and the Fund for Special Operations aggregated more than \$370 million, providing a net income of \$145 million that was added to the Bank's general reserves. This brought cumulative reserves by the end of the year to \$550 million for capital resources and \$274 million for the Fund for Special Operations.

### **Administrative Aspects**

I should like to note the effort made by the Management to contain administrative spending. Regular staff expansion has been minimal in recent fiscal periods, despite the considerable rise in loan operations and technical cooperation and the larger number of projects in progress that must be administered and supervised. These very favorable results in productivity indices have been made possible by staff effort, a strict contracting policy and internal training programs. However, it would be unrealistic to believe that this process can continue indefinitely, especially if adoption of a restrictive salary policy should make it very difficult or impossible to recruit highly qualified personnel. It should be pointed out that the administrative budget and therefore staff salaries are financed with proceeds generated by Bank operations. Since such proceeds are paid by the borrowers, they do not entail any charge to the lending countries. Furthermore, payments made by the countries to service their loans have also made possible the accumulation of the previously mentioned reserves of more than \$800 million.

### **Bank Fields of Action**

The Annual Report distributed to the Governors describes the Bank's action in each economic and social sector. In addition to those sectoral accomplishments, I should like to emphasize our participation in fields that are essential to development in the region's economy.

With regard to energy, projects financed by the Bank will expand generating capacity by 20 million kilowatts and facilitate the installation of 170,000 kilometers of transmission lines. In addition, we are helping to construct 3,900 kilometers of gas pipelines and an oil port. The impact of this action by the Bank on productive activities and social well-being can be better appreciated if we consider

that more than 40 per cent of the Latin American population is not yet supplied with electricity. For that reason the IDB, besides financing some of the most outstanding hydroelectric projects, has supported the establishment or extension of electrification systems in 2,700 rural communities.

Latin America is more heavily dependent on oil than any other part of the world. In 1975, 70 per cent of the total energy demand of the region, and over 90 per cent in some countries, was met through resort to that fuel. As a result of the spiraling price of oil, countries importing hydrocarbons were confronted with increases in their import accounts which, expressed as a share of all exports, rose, on the average, from 8 per cent in 1972 to 22 per cent in 1976.

The hydroelectric projects financed with Bank cooperation already in service have an installed capacity of nearly 7 million kilowatts and an annual energy output equivalent to 8.6 million tons of oil. Since 1974, following the fuel crisis, we have stepped up our support for hydroelectric power generation to a point where the capacity of projects under construction will nearly double that of projects already in operation. Consequently, once those plants come on line, total energy generated with Bank assistance will be equivalent to 25 million tons of oil a year. We will continue our strong support for this sector which is so critical to regional development.

In this area of activity I am pleased to observe that the region is rapidly becoming aware of the need to ensure comprehensive utilization of water resources. Accordingly, the projects are designed as a part of an integrated development of river basins that may include, in addition to power generation, major irrigation works, the regulation of water flow and its utilization for transportation, recovery of swamplands, development of forestation programs and of new fishery sources, and establishment of tourism centers.

I should like to refer now to rural development. The Bank has allocated \$4.1 billion for that purpose—\$2.8 billion to increase agricultural production, especially food, and \$1.3 billion to help finance works and services directed toward improving the quality of rural life. Our support for agricultural production calls for the preparation or improvement of 12 million hectares, a contribution that includes more than 1.2 million credit operations from small- and medium-size global loans implemented by local banks. This action, designed chiefly to improve the food supply, has been strengthened by the Bank's initiative in promoting fishery development. We have helped to finance seven fishery projects and provided technical cooperation to generate another 16. The implementation of these projects will result in a combined additional output of 700,000 tons a year, equivalent to a 30 per cent increase in current regional production.

I should also like to underline our achievements in support of integrated rural development projects. To date we have contributed more than \$260 million to the financing of ten projects of this type whose aggregate cost is nearly \$800 million. Their benefits extend to almost 6 million farmers and include productive investments in irrigation, livestock development, soil and water conservation, fruit production, rural arts and crafts and agricultural credit, investments to support production, such as access roads, rural electrification and marketing; and investments in social infrastructure such as training, research and farm extension, construction of schools and health centers and improvements in rural housing.

The Bank has strengthened significantly its ties with the cooperative sector. For example, while during the 1972-74 period loans totaling \$72 million benefited cooperative recipients, during the following three years this type of credit assistance increased to \$560 million, or almost eightfold. Moreover, in 1977 alone, loans benefiting cooperatives, credit unions and similar associations amounted to nearly \$280 million. These operations benefited 900,000 members of cooperatives involved with farm credit, rural electrification, irrigation, fishing, marketing and other areas.

Allow me to conclude my observations on the rural sector by referring to the International Group for Agricultural Development in Latin America (IGAD/LA), whose important work continues to focus on the identification and preparation of programs and projects affecting development of agricultural production and the improvement of food storage facilities. In this connection I might mention the program to prevent and eradicate foot-and-mouth disease and to organize a meat technology center in Argentina, together with the Central American project to store grain harvests by reducing the very high percentage of current losses and the dissemination of new technologies to expand food production. The Bank will continue to provide strong backing for the work performed by IGAD/LA.

I should like to refer now to the urban sector. The efforts of the Bank to improve the rural environment, described above, cannot be considered in isolation from the profound changes which have been transpiring in the region, and which are reflected in the rapid trend of urbanization of the Latin American countries. While in 1950 only one of every ten Latin Americans lived in cities with more than 1 million inhabitants, today that ratio is one to four. Unquestionably, both the increase in population and changes in its geographic distribution are exerting a great many complex economic and social pressures on the urban environment. These are reflected, in particular, in the escalating demand for employment and food, and in the impact on fiscal spending of growing education, health and housing needs.

This process is closely connected, of course, to the major transformation that has been taking place in the sectoral composition of production. While in the first half of the last decade the value of the manufacturing output was 30 per cent higher than that of the agricultural product, during the past five years the latter has doubled. The employment problem is directly related to this transformation. Although not always apparent, the growth rate of Latin America's labor supply is the highest in the world and industry has already displaced agriculture as the major source of employment in the region.

This is why Bank financing for the industrial sector has risen over the past three years from 14 per cent in 1975 to 20 per cent in 1976 and to 24 per cent in 1977. In addition to generating jobs, these projects strengthen the balance of payments. Manufactures now account for more than 20 per cent of Latin American exports, compared with only 10 per cent in 1960.

The financing of social projects has also been a primary concern of the Bank. In fact, our loans for education, health, low-cost housing, and water supply and sewage services represent 18 per cent of our portfolio. Given the scope and nature of those investments, external financing can contribute only a small share of their cost. Nevertheless, such financing plays a decisive role in planning and coordinat-

ing investments and in establishing and supporting an institutional base consistent with the complexity of urban development.

The Bank's support of an integral plan of urban development in Buenaventura, the principal port in Colombia, is a good example of this type of activity. A loan of \$41 million is helping to carry out the first stage of a plan designed to provide the city—which has unemployment of 16 per cent and underemployment of 40 per cent—with a physical and social infrastructure which will make possible the necessary relocation of part of the population and the creation of conditions designed to attract new enterprises. These resources are also being used to prepare the second stage of the plan which is aimed at the expansion of the city's industrial development and creation of additional employment opportunities which, together with the new urban infrastructure, will serve to improve the living standard of the population.

Finally, I should like to refer to our continuing support for regional integration, which, despite periodic crisis, is generally showing a very positive trend. For example, intra-regional trade has recorded substantial growth in spite of existing limitations and problems. In 1977 intra-regional exports amounted to \$7 billion, seven times the level at the beginning of the 1960s. For six countries, trade within the region represents from 25 to 30 per cent of their external trade. In another six, that ratio varies from 15 to 20 per cent. So it can be said that a regional market is forming whose importance is based not only on the volume of transactions but also on the growing participation of manufactures.

Our loans for integration projects total more than \$1.5 billion. Important border development programs are benefiting formerly isolated areas. The River Plate Basin is a good example of this type of program. In addition to the bilateral action best illustrated by Itaipú, a Brazilian-Paraguayan project that is one of the largest hydroelectric developments in the world, the IDB is supporting very large public and private investments. Installations such as Salto Grande being executed by Argentina and Uruguay, together with bridges, connecting roads and such vast projects as Yacyretá, on the Argentine-Paraguayan border, whose financing we are evaluating jointly with the World Bank, show what can be done when the political commitment to integration finds expression in concrete projects.

We reaffirm our continuing vigorous support for integration efforts and collaboration with the regional and subregional agencies guiding that process. In particular, we are following with the closest interest the activities being undertaken by the Latin American Economic System (SELA) and stand ready to assist, whenever possible, in the attainment of its stated goals. The reorganization of the Institute for Latin American Integration (INTAL), whose progress is well known to the Governors, will enable us to extend and broaden our contribution to the integration process. In that connection, I should like to underscore the broad collaboration of the Argentine Republic, where INTAL is located, whose financial contributions, together with those of the other member countries and the Bank, make its activities possible.

The results achieved in 1977 and the importance of the tasks performed by the Bank since it began activities are certainly a source of legitimate satisfaction to us all. But at the same time, they require a comprehensive and exact understanding of the significance and scope of problems in our region and of the new challenges and responsibilities they entail.

The situation in Latin America today is the result of the crisis of 1973 and 1974, whose consequences have unfortunately extended beyond early predictions. Over the past four years, most of our countries have had to take very serious steps in order to adapt the levels of these economic activities to conditions imposed by the recession in the major industrial centers and aggravated by continuing inflation of international prices. Basically, it has been necessary to reduce economic activity levels in order to restrict imports, step up the fight against inflation and promote the expansion and diversification of exports.

This has been a difficult task whose accomplishment requires a strong sense of political responsibility, since many times the measures that must be employed involve a high social cost in terms of unemployment and sacrifice of living standards.

Generally speaking, the results have been satisfactory. Considered as a whole, the region has entered upon a stage of recovery. Growth of the gross product, which declined to 3 per cent in 1975, came back to 4.8 per cent in 1976 and a similar rate in the year just past. Exports and monetary reserves also recorded significant improvements. However, it cannot be said that the crisis has been resolved, since continued recovery will be influenced decisively by the behavior of the industrialized economies. In this connection, we must recognize the fact that the signs are unfavorable. Reactivation has failed to keep up with the projected pace, inflation persists and it has not been possible to correct serious imbalances in foreign trade flows, which in turn produce sharp fluctuations in quotations of the major currencies. This has served to prolong a climate of uncertainty, seriously undermining economic recovery both internationally and within our own region.

At this point we need to restate the view we have expounded at this and other international forums to the effect that most of the Latin American countries were obliged to resort to private credit in order to deal in an orderly fashion with the impact of the international crisis. The aid granted by the International Monetary Fund, while significant, covered only a minor share of the balance-of-payments deficit. It is therefore fair to state that the private banks played a decisive role in meeting the emergency. However, our countries and the private banks themselves have been criticized for making excessive—and even irresponsible—use of medium- and short-term credit. I should like to observe that, generally speaking, the countries have acted with proper prudence and have, by more efficient management of external debt policy, restricted their obligations abroad to levels that are compatible with their payment capacity. This is confirmed by the growing access of the Latin American countries to international capital markets.

That situation lends greater importance to the role that official financial cooperation can play in the process to be followed by the countries in rationalizing development financing and their external debt structure. I shall refer to this matter in greater detail elsewhere. However, we must understand that the ultimate and most durable solution will be achieved through the efforts being made by the countries themselves to expand and diversify their exports.

In recent years, several countries have successfully promoted nontraditional exports, significantly reducing the vulnerability of their external sector to fluctuations in the basic commodity markets. As noted, the increase in trade flows between Latin American countries themselves has played a significant part in the



process. In addition, trade in manufactures and processed or semi-processed products has opened up—with the industrial centers, with other developing countries, and with the socialist world. Yet worrisome signs for Latin America are also appearing in this vital area as a result of growing protectionist tendencies in the industrial countries, stemming largely from domestic problems in those countries.

The Bank will continue to provide firm support for the efforts of its members to strengthen their external sectors, especially through policies designed to expand and diversify nontraditional exports of manufactures and other processed goods.

Within the context of these general observations, I should like to refer now to several matters I consider to be of particular importance to the evolution of our institution over the next few years.

### **Replenishment of Financial Resources**

So far in this decade, the Bank has had the resources needed to expand lending operations at an annual rate of 7 per cent in real terms. This has fulfilled our mandate from the Board of Governors and placed our institution in first place among the international agencies assisting development of most of the Latin American countries. Over the past five years, for example, IDB financial assistance to the 16 member countries that are less developed and have limited markets exceeded all aid authorized for those same countries by the other international agencies.

Despite the productive work accomplished, we cannot view the future without some apprehension. The delay by the United States in complying with the payment schedule under the fourth replenishment agreement, approved in 1976, has made it necessary to postpone the dates for activating relevant installments. Part of the installment of ordinary resources due at the end of 1977 still has not become effective, while the payment of the second installment of the increase in resources of the Fund for Special Operations also had to be deferred. Although we have been able to handle this situation to date without reducing the Bank's level of operations, such delays have involved us in many difficulties in mobilizing resources in the capital markets and in programming loan operations. We are aware of the repeated efforts made by the United States administration to solve these problems and trust that its actions will be successful in the very near future.

These difficulties give emphasis to the need for initiating the next increase in resources as promptly as possible. We cannot run the risk of being obliged to reduce—even temporarily—the amount of cooperation authorized by the Bank, much less so at a time when, as I noted, Latin America faces very serious problems deriving from the world economic situation. To that end, the proposed resolution initiating the fifth replenishment of the resources of our institution is being submitted at this meeting to the Governors for their consideration. For the first time, it is requested that the replenishment cover a period of four years, from 1979 to 1982.

I should like to make an observation here that I consider of the greatest importance. The Bank's successful performance as a regional development agency is contingent upon the continued interest of all member countries—borrowers and lenders—in participating actively in the institution's affairs. This consideration

prompts me to request that the replenishment negotiations be undertaken and structured in such a way that we can provide adequate and timely assistance to all borrower countries, whether they be classified as less developed or as having greater economic potential. We must be able to count on concessionary resources, in convertible currencies, to enable us to meet the needs of the economically weaker countries and, to a lesser extent, of the intermediate ones as well. I am confident that Argentina, Brazil, Mexico, Trinidad and Tobago and Venezuela will continue to participate in this effort so essential to a more harmonious development of the region.

The increase in ordinary resources is, however, the determining factor for the attainment of the fundamental goals of our institution. While the increase we require—about \$8 billion—is considerable, it is facilitated by the fact that paid-in capital would represent only a small percentage of the total and would be paid in four annual installments starting at the beginning of 1979. In this way, the major share of Bank operations would continue to be financed with private resources mobilized in the capital markets.

A change in the structure of the Bank's capital to increase the proportional share of ordinary resources, primarily through an increase in callable capital, is logical in the light of the growing participation of investment and private credit in the financing of regional development. Although official financial cooperation has increased in absolute terms, its relative share in total external financing has dropped sharply. This development places new demands on the international financial agencies by stressing the need to make loans which would have the maximum catalytic effect on the mobilization of local and foreign private resources. To that end, a careful selection of projects must be made in order to identify those with the capacity to absorb a large share of private resources.

In this connection, I should like to inform the Governors that in 1977 four complementary financing operations were concluded totaling \$115 million. Those operations are helping to finance two hydroelectric plants, one in El Salvador and the other in Panama, and two industrial projects in the petro-chemical and the pulp and paper sectors in Argentina.

Complementary financing has been furnished by banking syndicates in Canada, Europe, the United States and Japan, in the Euromarket, with fluctuating interest rates, and with maturities of from seven to eight years. Last year, we continued our efforts to expand this program by exploring, among others, the possibility of making placements with institutional investors at longer terms and at fixed interest rates. While it has not yet been possible to conclude operations of this type, we hope to be able to do so in the near future.

### **Trend of Future Operations and New Fields of Cooperation**

Development is a process of change in which the opening up of new investment areas supplements and enriches projects being carried out in the traditional sectors. For that reason while the proposed increase in resources is based primarily on the continuation of activities in fields in which the Bank already has considerable experience, it does not neglect the new demands likely to be generated by the evolving process of development.

In considering this matter, we must keep in mind that the economic

development of the region is not uniform. The Latin American countries have very different economic potentials and levels of development, and in each one of them, modern, highly efficient economic sectors generally coexist with areas, primarily rural, where large segments of the population live under substandard conditions.

The Bank's operations have had to adapt to demands imposed by these conditions. This explains the preferential attention which we give to the less developed member countries and those with limited markets, as well as the investment efforts which we support in order to help to correct the existing imbalances in the national economies. We must continue on this course and, consequently, as I noted, we must have both ordinary and concessionary resources on hand that can be utilized flexibly to meet the demands imposed by a broad range of very different requirements. Within our means, we will continue to support development of the basic sectors of the region's economy, at the same time giving special attention to programs and projects relating to the generation of energy and comprehensive utilization of water, as well as to rural development and food production.

*Without prejudice to the foregoing and in accordance with a now traditional policy, we will continue to try to satisfy new demands for external financing generated by the regional development process. In this connection, I should like to refer to two fields where we are already working with a view to stepping up our efforts in the near future.*

#### *1. Development of Basic Natural Resources*

On the part of the countries producing and consuming raw materials and fuels there is a growing concern with problems caused by the instability of markets and the atmosphere of conflict which often appears when foreign private capital exploits the natural resources of developing countries. A climate of uncertainty has been created which delays the utilization of resources which are of great value to the developing countries and, at the same time, upsets the orderly and economic provisioning of international markets. Accordingly, exploration for natural resources and investments for their exploitation, have increasingly been concentrated in recent times in the industrial countries. This is why the developing countries at present account for only 40 per cent of all known reserves of the major minerals, even though their share in probable reserves is much higher. Therefore, greater effort to explore the natural resources of the developing countries can be expected to be highly productive.

It is not surprising that in recent years the international agencies have given increasing attention to this important matter. This is demonstrated by the several initiatives of the World Bank and the United Nations Development Programme. This concern, however, has been no stranger to our institution. For some time now, through training programs and technical and financial cooperation, the Bank has been supporting initiatives to promote the use of remote sensors to identify natural resources and to improve soil use. More recently, when the Venezuelan Trust Fund was established, the IDB was able to expand its activities in the field of basic resources, with a project to develop a large-scale forestry reserve in Olancho, Honduras, becoming the first important result. Moreover, at

the Guatemala Meeting last year, I observed that the enormous natural resource potential of Latin America suggests that a joint effort by the Latin American countries and the industrial nations belonging to the Bank could produce highly successful results by increasing the exploitation of natural resources of basic interest to the industrial centers.

The Bank can play a key role in bringing about these types of agreements, particularly now when the major industrial nations in the Western World have joined our institution. We have the support and the confidence of countries which produce and those which consume raw materials, which enable us to contribute our capacity for an independent evaluation of projects and, at the same time, to extend financial assistance to the borrower countries.

The Bank's participation could cover a wide range of activities, among which I should like to note the following:

- To assist the Latin American countries in preparing a survey of the most important known deposits, including information on the status of prospecting studies. We have begun consultations with geologists with broad experience in Latin America in order to identify the information available and the best means of processing it for publication and dissemination.

- To collaborate with the Latin American countries in preparing comprehensive surveys of laws and regulations governing the exploitation and exportation of natural resources. Through INTAL, and in collaboration with specialized advisors, preparation of this information has already begun.

- To provide technical cooperation to the Latin American countries for determining the prefeasibility of projects relating to the exploitation of natural resources, including infrastructure investments. The Bank has authorized this type of aid to various member countries in connection with projects to develop mineral, forestry and sea resources.

- To cooperate with the host country in financing infrastructure projects and in establishing the capital stock of enterprises organized to develop natural resources. For the Olancho project, the Bank granted a loan to Honduras with resources from the Venezuelan Trust Fund to finance the purchase of shares in a mixed enterprise being formed with capital contributions from Honduras, a technical partner and, eventually, Central American and other Latin American enterprises. The IDB and the World Bank are contributing to the financing of highways, port installations and interconnections for electric energy supply for the same project.

The IDB cannot expand its participation in this type of activity without additional funds. The exploitation of natural resources generally requires heavy investments in both infrastructure and industrial installations. The need to provide financing for other sectors of the economy frequently means that the countries concerned do not have sufficient resources to undertake works of this scope. This underlies the importance of international financial assistance which serves as a catalyst in mobilizing additional resources from foreign and local private sources. At the same time, the presence of the international agencies helps the host country to strengthen its participation in the management of the enterprises and in the benefits derived from the exploitation of their natural wealth.

## *2. Promotion of Small and Intermediate Enterprises*

Over the past 20 years, Latin America has made significant progress in industrialization. It has developed a productive capacity that ranges from large-scale industrial and commercial enterprises, with technical and financial capacity comparable to that which obtains in the industrial countries, to small-scale enterprises, operating generally under precarious conditions. Within this broad range, small and intermediate enterprises are a highly important factor, not only as a source of jobs but also as an innovative element offering highly remunerative investment opportunities.

The weakness of the capital and medium- and long-term credit markets restricts the development of the latter type of enterprises in Latin America. Expansion and diversification of such productive facilities is usually financed with reinvested profits and reserves and with short-term revolving credits. Here we come on a vicious circle: credit is limited by the inadequacy of capital stock, while the latter can only expand through savings generated by the enterprise itself. Often the slowness of the process frustrates the creative capacity of the entrepreneur. For that reason, the mobilization of resources that can be used to strengthen the capital stock of small and intermediate enterprises would fulfill a purpose of the utmost importance to regional development.

The Bank has begun to operate in this field by utilizing the resources of the Venezuelan Trust Fund. While we have supported small-scale enterprises from the beginning through global loans, the Bank can now participate in the purchase of shares or extend loans to finance an increase in either the capital stock or the working capital. At the same time, the Bank can provide the entrepreneur with the technical cooperation required to ensure the most effective utilization of the funds.

To perform these tasks, we have organized a specialized unit which is already identifying and evaluating projects. As I shall report elsewhere, several nonregional member countries of the Bank have shown a keen interest in participating in this program, one of the most interesting aspects of which would be the establishment of joint enterprises in Latin America with the participation of foreign and regional capital. This is another step that can lead us to the organization of a finance corporation to promote the development of enterprises in Latin America.

### **Strengthening the Bank's Multilateral Nature**

The admission of nonregional countries to the Bank has transformed our institution into an international center generating initiatives of different sorts for the purpose of strengthening technical, economic and financial relations between Latin America and the major industrial centers in the Western World. It is therefore timely to report to the Governors on the activities in which we have been engaged within this broader framework.

We have set up a systematic exchange of information with the OECD, the DAC and the Development Center that is working to our mutual benefit. We will be able to make better use of the important work being done by those agencies in studying development problems and in preparing negotiations to resolve them.

They, in turn, will benefit from the information and experience our institution can provide on development efforts in this region.

We have also established closer contacts with the European Economic Community. During the past year, the Community has approved \$7.5 million to help finance three projects also supported by the Bank: a regional grain marketing program in Central America; a cooperative fishery project in Honduras, and a project involving farm development and nutrition in the Andean Group countries. Given the nature of those projects, the Community has decided to donate its resources for their support.

Our institution has also helped to organize two meetings, one in Montreux, Switzerland, in October of last year, and the other in Hamburg, Germany, in February. These were two outstanding events, in terms of the number and caliber of European and Latin American participants from the public and private sectors. I am pleased to note that several of the Governors here with us today were among that group.

These meetings were organized with a view to obtaining practical results in specific spheres of cooperation. The representatives of private European banks showed keen interest in participating in the complementary financing operation we initiated in 1975. In turn, European and Latin American entrepreneurs proved very interested in cooperation schemes that could lead to the organization of joint enterprises in Latin America. Also well received was the idea of setting up a multinational fund with contributions from the European countries to support IDB action already under way to strengthen and consolidate small and intermediate Latin American enterprises. We will do everything possible to implement those initiatives as promptly as possible.

While the relations between the European and Latin American entrepreneurs depend on their own initiative, their tasks would be facilitated by the agreement adopted at Montreux to form a European-Latin American Council on Business Cooperation, a proposal that we will endeavor to put into practice as soon as possible. For the same purpose, INTAL has already established contacts with the Business Cooperation Center, an agency specializing in such matters and operating within the sphere of the European Economic Community.

The meetings I have just mentioned are one example of the excellent reception accorded the Bank as a regional agency facilitating relations between Latin America and the nonregional countries. The standing of the Bank has also been reflected in the very favorable conditions on which Bank securities have been placed in the capital markets. I should like to re-state our firm intention of expanding such relations and extending them to all the countries now belonging to the Bank. In particular, we will continue to make every effort to conclude agreements with Japanese agencies responsible for furnishing technical and financial cooperation to the developing nations.

Special mention should also be made of the cooperation of the Saudi Arabian Development Fund, which in 1977 helped to finance two projects in which the IDB is participating, one in Brazil and the other in Ecuador. Likewise, the OPEC Special Fund recently approved two operations to finance most of the cost of two projects in the Dominican Republic. Moreover, the Board of Governors has just approved an agreement with the International Fund for Agricultural Development providing for joint financing with the IDB as well as

our cooperation in identifying projects to be financed for the purpose of increasing food production. We are also pleased to have collaborated with the Islamic Development Bank in that agency's effort to improve its operating policies and procedures. I hope that these relations will be even closer in the future and will be extended to other areas of cooperation.

May I conclude these observations with a reference to the broader perspective of our cooperation in the development of the Caribbean zone as a result of the admission to the Bank of Canada and of the nonregional countries. The geography of the region covering the Caribbean Sea and the Gulf of Mexico also links the United States and a group of Latin American nations which, despite their diverse economic potential, can make a valuable contribution to development of the Caribbean islands and territories. Canada has joined in this effort and is providing very valuable collaboration in the area. Furthermore, historic ties link the Caribbean area to France, the Netherlands and the United Kingdom, a relationship also projected within the framework of the European Economic Community.

Obviously, the development of this zone will become more dynamic to the extent that the two efforts—based on a strengthening of the economic and commercial relations with the American continent and supported by the Community countries—are coordinated. A meeting of the Presidents of Colombia, Costa Rica, Mexico, Panama and Venezuela and the Prime Minister of Jamaica, held in Bogotá in mid-1977, took the first step toward implementation of those ideas. Subsequently, the Governments of the United States and Trinidad and Tobago requested that the World Bank devise, in collaboration with the Caribbean Development Bank, the International Monetary Fund and our own institution, various actions designed to launch specific work programs to step up the pace of development in the Caribbean countries.

Without prejudice to active participation in this program of coordinated action, our institution will intensify its collaboration with the Caribbean member countries through both technical and financial cooperation and institutional support of agencies engaged in the development effort. In the execution of this work we will maintain close contacts with the Caribbean Development Bank and endeavor to furnish it with all possible support so that it can properly discharge its responsibilities in this great regional undertaking.

### **Purposes and Scope of International Financial Cooperation for Development**

Every so often doubts arise with regard to the purposes of international financial cooperation for development, and the policies of international agencies extending such cooperation come into question. This is undoubtedly one of those periods, and for that reason I should like to outline to the Governors our thinking on certain aspects of this vital question insofar as it concerns the activities of the Bank.

The long and difficult road traversed by the Latin American countries in setting up the IDB is common knowledge. It was necessary to overcome the objections of many who opposed the idea of establishing regional banks. So it is understandable that our institution was created with certain special features that distinguish it from other international agencies. Among those is what may be the

most important such characteristic, the composition of its capital stock, which reflects the multilateral nature of the institution and in turn establishes a balance of power between borrower and lender member countries so that the decision-making process effectively represents the consensus of both. This was a logical result since the very creation of the Bank was a product of consensus, initially on the hemispheric level, in which the parties concerned agreed on positive solutions acceptable in terms of their respective interests. On that basis were the purposes, the operating policies and the very organization of the Bank established. The work accomplished over the past 18 years shows that that consensus approach was not utopian. To the contrary, it has enabled the Bank to become a truly international institution while continuing to be the Bank of Latin America, for all Latin America, and to receive the support and cooperation of the United States and what is now a very large group of other industrialized countries. This has confirmed the view that different interests can be reconciled within a common task of financing regional development, with diversified resources for meeting the different needs of the members and at the same time facilitating regional and international trade.

Because of this characteristic, the purposes and operating policies of our institution must take into account economic and social conditions in the region and the demands they generate. So it was essential for the Bank to organize so as to maintain continuing and very close contacts with the borrower countries in order to select, jointly with them, those projects where Bank cooperation would be most effective. Therefore, except in very special cases, the Bank helps to finance only projects selected from among those which are assigned priority by the countries themselves.

We may well wonder how this order of priority is translated into a balanced development between economic and social aims. We must remember that, generally speaking, the Latin American countries have tended to establish a type of mixed economy with very particular features in which State participation is significantly greater than in the industrial countries of the Western World. The State receives a very high percentage of the national wealth and income, but this does not mean that it has sufficient resources to meet the many public demands still unattended in many of our countries.

Nevertheless, State participation in economic activity has been an important factor in promoting social development at a perhaps higher rate than could have been expected considering the evolutionary state of the economy. Since the 1950s, and particularly in the past decade, truly outstanding progress has been made. For example between 1950 and 1970, the school population rose from 58 to 72 per cent at the primary level, 35 to 49 per cent at the secondary level and 4 to 8 per cent in the universities. Moreover, between 1960 and 1977, the mortality rate dropped from 11 to 8 per thousand, while life expectancy at birth climbed from 57 to 65 years.

It is not surprising, therefore, that in Latin America and in our own institution arguments urging a greater effort to increase the benefits of development for the lowest-income groups should fall on sympathetic ears. This has been a major concern of the Bank since the beginning of its operations, as demonstrated by the fact that the first loan ever granted was to improve water supply service in the city of Arequipa, Peru. Since that time, the Bank's portfolio has



been augmented by a great many loans benefiting the most backward social groups, thanks to the availability of concessionary resources. Suffice it to note that over 50 per cent of the Bank's portfolio consists of technical and financial cooperation operations directly or indirectly linked to the promotion of rural development.

Ours has been a valuable experience. We have been able to perceive how difficult it is to improve the living standard of the lowest-income groups significantly and permanently. The effective inclusion of these groups within the economic system, through better paid jobs or aid to small producers to improve their efficiency, is in no way related to the execution of paternalistic programs that often result in the waste of resources and frustrate those who try to help.

We have supported and will continue to support firmly those member countries engaged in providing fuller benefits to their poorest sectors. The implementation of such programs generally requires multidisciplinary action in which each sector must participate through well organized institutions staffed with specialized personnel. The development of rural zones and the recovery of depressed urban areas require projects of very different sorts. It is not enough to supply resources to finance the construction of physical works. We must also extend credit to producers, together with technical cooperation and advisory services on the management of small enterprises. And it is not solely a question of improving productive activities and their support services but also of strengthening the social infrastructure: education, health, housing and cultural and recreation centers. This calls for efficient institutions that can only be established by means of lengthy and sustained effort.

At the risk of restating very familiar concepts I should like to recall that, in the final analysis, the welfare of a society is determined by its capacity to save and invest. This inexorable requirement of our economic system—capitalistic or socialistic as the case may be—assumes that the rate of improvement in living standards cannot be divorced from the need for capital stock formation. There are no magic formulas or economic miracles. The lack of sufficient resources to promote a dynamic development pace that can maintain the balance between economic and social goals illustrates the key role played by external cooperation as a mechanism for transferring savings from the capital-exporting centers to the developing countries. This contribution makes it possible for the borrower country to allocate its own savings more flexibly, earmarking a larger share to the financing of programs more directly benefiting the lower-income groups, and in turn promoting their incorporation within the modern sector of the economy. So it is clear that external cooperation is an instrument of the greatest importance in permitting the formation of capital stock without deferring progress by the most severely deprived groups.

During his recent visit to Venezuela and Brazil, the President of the United States defined his country's foreign aid goals, stressing the significance of the role assigned to international financial institutions and the importance of supplying them with resources as needed. For their part, Canada and our nonregional members have often declared their intention of continuing to furnish strong and sustained support for the Bank's activities.

For our part, we believe that the work accomplished by the Inter-American Development Bank has provided a concrete expression of how such goals of

international cooperation can be implemented. This valuable experience, together with the multilateral nature of the Bank—which now transcends the hemispheric level—is the best guarantee of effective utilization of its resources.

Thus we will all—the Bank, the countries and the international financial community—be contributing to the continued progress of Latin America toward its development goals, thereby realizing the ideal of the founders of our republics: that our region should be a land of work and peace, open to the productive participation of those who wish to share in our efforts, where all can enjoy the fundamental rights inherent in the human condition which can only be fully achieved through integrated development.

**ADDRESSES**

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**SECOND PLENARY SESSION**

**April 17, 1978**

**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**

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I do not know to what favorable circumstances I owe the privilege of being among the first speakers, for I have every intention of being present without fail at all our sessions. But this privilege gives me the opportunity of being the first to say what may be in the minds of many of my colleagues.

I should first like to thank the Canadian authorities and those of British Columbia for the especially cordial welcome extended to the delegations at this Meeting. What a fine idea to have chosen this beautifully situated city of Vancouver, which has developed so rapidly over the last century that it provides a model for our economic reflections.

Mr. René Menory, our recently appointed Minister of Economy and Finance and therefore Governor for France, has asked me to tender his regrets for being unable to attend the Annual Meeting of the Board of Governors.

My country, as you know, gives first priority in its policy to development problems, which is why it actively participates in the great international meetings that confirm this priority—that is, the Conference on International Economic Cooperation, the Development Committee, and the Council of Ministers of the OECD. The French Government not only speaks but it acts; for despite the world economic crisis and the slackening of our economy, the French Government has allocated 0.62 per cent of its GNP to development assistance, a percentage about double that of the other industrial countries which are members of the Development Assistance Committee of the OECD.

The French Government is very determined to maintain the level of aid, but it is on the other hand, pragmatic about the forms such aid will take. It is open to the proposals that are now being formulated in some of the international forums with a view to better adapting the flow of aid to the needs of the developing countries, provided, of course, that any new approach to the problem is approved by the recipient countries. It considers that the combination of multilateral and bilateral aids should be continued; this combination has the merit of having been tested and the example of Latin America is a good illustration.

I have observed that, for the second consecutive year, the growth of the GDP of Latin America as a whole has been good, although it still remains below the level it reached during the early years of this decade. Thanks to a lower rate of inflation, an improved trade balance and a favorable trend in the balance of payments, gross international reserves were \$25.5 billion in October 1977. The overall situation is therefore one of progress, it seems to me and Bank action has been a factor in this progress.

Which brings me to the subject of the Bank itself. Last year, in my first speech, I tended to be very brief in this matter. This year, with the experience I have acquired by close observation, carried out to some extent within the institution, I shall not hesitate to discuss it at greater length.

Bank activities in 1977, which are set forth in the excellent annual report, seem to have responded well to the needs of the beneficiary countries and especially of the least developed or limited market countries, inasmuch as these two groups of countries have received nearly 40 per cent of the loans by the Bank. This remarkable advance from one year to the next was made possible by a notable increase in the loans granted from ordinary and inter-regional capital. As regards the sectoral allocation of these operations, it should be pointed out that the amount assigned to the productive sector has not only been maintained but increased and that there has been a substantial increase in the volume allocated to social infrastructure, which is now 42 per cent more than it was in 1976.

The same concern with giving priority aid to the least developed sectors makes it imperative to intensify efforts to promote agricultural programs, especially those designed to integrate rural development. This interest in regional integration, for which the Bank has already developed some useful measures, must always be kept in mind.

These various and often pressing objectives will be more easily achieved if a number of precautions are taken as regards the utilization of resources that are of necessity limited and inadequate to the mass of needs. In this area, constant and careful attention should be paid to the cost of projects and to supervision of their execution, which would at the same time speed up the disbursements that continue to progress less rapidly than new authorizations.

Nonetheless, it should be observed that the granting of new loans reached \$1,809 million in 1977, as compared to \$1,528 million in 1976, and that disbursements reached \$832 million in 1977, against \$727 million in 1976. These figures are good but, in all honesty, our unit of account must be adjusted according to current inflation rates and exchange rates.

In 1977 the Bank continued to cooperate with the leading international organizations as well as with the European Economic Community. It also established links with the OPEC Special Fund. This is a direction that should be pursued, because joint financing is one of the most effective means of mobilizing the financial resources of organizations that are not familiar with the development problems of Latin America.

In the future, the Bank is going to study a new and important replenishment of its resources that bears on both the capital of the institution and the Fund for Special Operations.

The French Government approves the principle of this operation, which is necessary to maintain the rate of development of Latin America and the Caribbean region, and in which both regional and nonregional countries will participate for the first time, thereby clearly demonstrating their solidarity.

I should like to make six comments about the modalities of this operation:

- Since the order of magnitude originally envisaged sets as its goal a growth in loans over the next four years that is higher than that envisaged by other international organizations for multilateral aid, it seems advisable, before any decision is taken, to carefully gauge the absorptive capacity and rate of the beneficiary countries.
- It also seems essential to carry out a more detailed study on projected Bank revenues, because its liquidity policy should be as well-defined as possible.
- At the same time, some thought might be given to the criteria for

eligibility for the Fund for Special Operations before determining the share of that Fund in the replenishment of resources.

- The nonregional countries, aware of the needs of other continents, are called upon to consider, in relative terms, the levels of development and of financing capacity in the different parts of the world.

- Furthermore, it is highly advisable to ensure that a country which has recently joined should not in the same year have to bear the burden of its initial obligations as well as of its first payments into the replenishment of resources.

- It is evident that the confident solidarity of the regional and nonregional countries, so necessary to the success of this operation must be cemented by the nonregional countries sharing increasingly in the decision making of the Bank, in the form of a third seat on the Board of Executive Directors.

I have made a few observations about the problems of the next replenishment of resources. As regards the other problems, I am in agreement with the guidelines expressed by the Bank President in his excellent and lucid statement. We fully support the action of Mr. Antonio Ortiz Mena, and he knows that he can count on our support. To our confidence in him personally, which I extend in the name of the French Government, I wish to add our expression of appreciation to all the Bank staff. The Inter-American Development Bank is an exemplary international instrument, which has obviously been a force of attraction; for again this year we welcome the entrance of new members. We are proud to participate in such an undertaking.

**Address by Mr. Dick Alcántara Butterfield,  
Alternate Governor for Peru and Executive Director  
of the Ministry of Economy and Finance**

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I wish to express Peru's renewed faith and trust in the role of the Inter-American Development Bank as an effective instrument for financing the development of an integrated Latin America.

The exemplary organization and cordial hospitality of the Canadian people, which have been evident from the moment of our arrival, have created a favorable climate within which we will be able to undertake our task of review and analysis in a manner befitting the importance of the occasion.

As a result of the incorporation of Sweden, Finland and the Bahamas, whom we warmly welcome, this meeting now brings together representatives of 41 member countries. We have a record attendance of 1,900 participants, which shows the importance the international financial community attributes to the Bank's meetings. And in this series of "firsts," there is also an unspoken feeling that we are on the threshold of a period when our Bank will be faced with all kinds of difficulties, just when the region is most in need of international financing. We are certain, therefore, that our deliberations at this Nineteenth Annual Meeting of the Board of Governors will be carried out in an atmosphere of frankness and of an optimistic search for the solutions our American nations merit.

We especially wish to convey our country's appreciation for the important contribution being made by the Government of Canada, within the framework of bilateral cooperation, to the national development programs of my country, at a most important period in our history.

**Annual Report of the Bank**

The message delivered this morning by President Antonio Ortiz Mena has added to the Annual Report for 1977 some important observations on which we would like to comment.

The annual loan program, with an annual interest rate of 7.5 per cent in the ordinary capital, continues to grow as expected. High priority should be given to the financing of projects in the energy sector, under optimum terms and conditions, in view of the importance of this sector to the socioeconomic development of the region.

Technical cooperation, which has already been enhanced by the participation of highly regarded Latin American experts, shows a wide variety of programs which, despite the scarcity of available resources, will no doubt be remembered as valuable tools in the struggle against underdevelopment.

Commercial banks have been participating more actively every year, through parallel and complementary financing, thus showing that they can work together with development banks without prejudice to their short-term goals.

Export financing, on the other hand, has come to a dangerous standstill which can only be explained as being due to some concern on the part of certain developed countries. As if the increase of nontraditional exports were not an irreplaceable tool in development planning!

And, even worse, as if a development bank could have the goal of trying to help its member countries grow, but not enough to create sources of international competition. We earnestly hope that the review of the interest rate and the expansion of the program will allow for the improved utilization of new resources, particularly those so generously made available to the region by the Government of Venezuela.

A large portion of concessionary resources are earmarked for the relatively less developed countries; the Bank is thus faithfully performing its main function. But for the Group "B" countries it is a matter of deep concern that once again there is a decrease in the percentage due them within the overall loan portfolio. From a maximum 22.7 per cent per year obtained in better times by Colombia, Chile and Peru, the percentage for these countries dropped to a total of 8.7 per cent in 1977, the lowest in the history of the Bank. Whatever the reasons for this constant annual reduction may be, the time has come to correct a situation which has become unacceptable.

### **Increase in Resources**

The fourth increase of resources provided for in Resolutions AG-7/76 and AG-8/76 has not entered into force, according to the Report of the President of the Bank, due to the fact that as of December 31, 1977, the deadline for payment of the third installment of the callable capital, payment conditions have not been met, giving rise to a situation that makes it impossible to fulfill the voting percentages stipulated in the Agreement Establishing the Bank for contributions of the member countries.

This is not the first time in the history of the Bank that a deadline has not been met. But it is the first time that there has been such an evident lack of willingness to maintain the percentage of contributions that had prevailed heretofore. There has been a reluctance to provide new contributions in time to allow for an increase of 7 per cent per year in the Bank's loan portfolio.

The Administration of President Carter, on behalf of our majority member, has made a serious effort to enable the Bank to continue to have sufficient resources. The budget proposal for the 1978 fiscal year includes the necessary amounts to cover the balance due from previous periods plus the amounts originally envisaged for the current year. We still recall with appreciation the excellent defense of the Bank made by Messrs. Michael Blumenthal and Cyrus Vance in the House of Representatives, a defense which was complemented by the testimony of several other high-ranking officials. The conceptual clarity and sound basis in facts and figures that characterized those statements reflected positions held at the highest levels of the Departments of the Treasury and of State and were thus especially significant at the international level.

Unfortunately, the matter is so serious as to require a decision on the part of this Board. The loan portfolio is likely to decrease in 1978. The amount of that decrease will depend on the final decision in the fourth quarter of the current year, and on the ability of the Bank to obtain alternative sources of resources. In the meantime, Latin America will be undergoing a period of frustrating uncertainty, with all its negative consequences.



At any rate, the additional increase provided for in Resolution AG-2/78 and the fifth increase of resources anticipated for 1979-82, will remain pending until the fate of the fourth increase is decided.

### **Multilateral Nature of the Bank and Voting Power**

Despite the time that has elapsed since the founding of the Bank, there still exist periodically strong proposals, that disregard the multilateral nature of the institution and the exact significance of voting power.

We must therefore take this opportunity to reiterate the same basic concepts we have expounded at previous meetings:

1) The Inter-American Development Bank is a multilateral agency created exclusively for the purpose of collaborating in the financing of projects aimed at furthering the development of an integrated Latin America.

2) Although the Bank has only one single classification for member countries, there are, in practice, two classes of member countries; based on the use made of contributions: *lending countries*, i.e., developed countries that contribute 46.5 per cent of the ordinary capital resources, which do not receive loans but which may become suppliers of the goods and services financed by the loans; and *borrowing countries*, i.e., developing countries, which contribute the remaining 53.5 per cent of the ordinary capital resources, and receive loans but have only a limited possibility of becoming suppliers of local goods and services. The generic terms of *donor countries* and *recipient countries* are semantically useful and there may be no adequate grammatical substitute for them but they are not mentioned in the Agreement Establishing the Bank and actually have given rise to misinterpretation. By definition, both in Spanish and in English, the term "donor" carries the implication that someone has kindly given something for the direct benefit of a "recipient." In the Bank, however, the prevailing relationship is not one of giving and receiving gifts, but rather one of economic complementarity between member countries. As President Ortiz Mena has said, there is no reason to speak in terms of a more powerful member helping weaker countries for the sake of hemispheric solidarity; we have reached the point where aid is reciprocal, mutually beneficial, where markets complement each other in order to allow for the sustained growth of the productive elements. Within this scheme of complementarity, the borrowing countries undertake to pay the amounts disbursed by the Bank in order to carry out projects in which, on the average, two-thirds of the cost is financed by contributions from the country's own budget.

An outstanding example has been set by Venezuela, a developing country which, without neglecting its own problems, has set up a Trust Fund for the benefit of the region, without the immediate prospect of becoming a supplier of the goods and services financed with Fund resources.

3) There is a direct relationship between voting power and proportion of contributions. Whatever that proportion might be, in view of the multilateral nature of the Bank, no member country may take unilateral decisions or try to impose its own national legislation on the institution.

The Inter-American Development Bank must be directed and managed in keeping with its own operational procedures, which are set forth in the Agreement Establishing the Bank; this instrument is in force for all member countries without

exception. Peru views with special sympathy the position of the nonregional countries which like Germany, Japan, Italy, Israel, Spain, Switzerland, among others, have joined the Bank fully understanding the meaning of the multilateral nature of the institution. At the same time, Peru hopes that a calm appraisal on the part of all member countries will prevent political considerations, which have nothing to do with the feasibility of a project, from being included in project evaluations.

In the face of these concepts, the two-thirds majority requirement for certain types of votes will always be a source of friction and misunderstanding among member countries. The ideal solution would be that all decisions be taken by an absolute majority of votes. Any member country wishing to have a greater participation in decisions should maintain its contributions at a level directly proportionate to its desired participation.

Until such time as a new institutional structure is devised with a view to establishing a direct relationship between voting power and contributions of individual members, the Inter-American Development Bank will be open to all kinds of confrontations which may seriously hamper its efficiency.

### **Evaluation of Projects**

The history of the Inter-American Development Bank shows that all of its loan contracts refer to projects that were assigned national priority through the sovereign act of a member country and subsequently were given careful study by the Management of the Bank. The IDB enjoys the coveted classification of "AAA" in the capital markets of the world, in part because of the high quality of its projects. The Bank is free to reject projects that are not consonant with its operating policy. But no member country should attempt to set itself up as the supreme definer of that policy, all the more since in most cases the philosophy of development has been changeable and of transitory political motivation.

For this reason, attempts to question the quality of the Bank's projects cannot be accepted. We hear of good projects and bad projects, but nothing is said of the specific criteria on which these classifications are based. Rather, it seems that the acceptability of a project depends on the amount of machinery and equipment to be supplied in each case by the one who makes the classification.

Nor can we accept the contention that access to financing from the Bank's ordinary capital can be denied to countries of the region that are achieving a higher level of economic development. In this argument we see another attempt to restrict the Bank's sphere of action to a limited volume of resources. The IDB was established to assist the entire region, and there is no room for exceptions other than those agreed to by the member country itself. The enticement of access to a larger volume of resources for some countries, as a counterpart to the exclusion of others, should be firmly rejected by us and undoubtedly will find no support in the solidarity of the inter-American system on which the Bank is based.

In the administrative area as well, we are pleased to note the high technical level of the Bank's Management. Over the years the IDB has become a center bringing together professionals with very different academic backgrounds, but with the same spirit and devotion to service, meriting our greatest respect. The level of management compares with the best of any bank, in terms of relevant

preparation and personal experience. Moreover, care has been taken in recent years to avoid any unwarranted increase in the size of the staff, as evidenced by the Bank's statistics on staff increases in recent years in relation to the expansion of current operations. Comparison of the salaries and benefits of Bank employees with working conditions in a specific country ignores the facts of life, confuses judgments and helps to undermine staff morale, with regrettable repercussions in the short term. The reduction of staff salaries in constant terms may be a gratuitous issue for an electoral campaign, but in reality we have the impression that it is being used once more as a pretext for swaying the discussion of the key question of our time concerning the multilateral financing institution: the allocation of new resources.

### **Regional Integration**

In 1977 the process of Latin American integration continued its momentum through the formal arrangements and the bilateral and multilateral actions undertaken by the public and private sectors of the member countries of the Bank.

Exports among the countries of the Latin American Free Trade Association (LAFTA) reached \$4,583 million, an increase of 17 per cent over the previous year. The Andean Group regained part of the dynamism of its subregional trade in 1977; trade among the Andean Group countries reached \$710 million, with a growing participation and diversification of nontraditional exports. Peru reiterates its unqualified support for the process of Latin American integration and hopes that the Bank will step up the action required by the Latin American integration programs through increased cooperation with the institutions responsible for carrying this process forward.

We wish to call attention to the importance of strengthening the Institute for Latin American Integration (INTAL), which we hope will have the full support of the Bank so that it may continue as a key instrument for channeling the integration efforts of the Latin American countries.

### **Peru in the IDB**

We are well aware of the present external factors aggravating the economic problems of Latin America. The high standard of living achieved in the developed countries requires a lower annual growth rate than that needed by the developing nations. The result is a limited demand for raw materials in amounts that do not meet the income needs of the countries of origin, which are obliged to produce for themselves and to create sources of income permitting an annual rate of growth that will progressively reduce the gap. Demand falls short of supply, and the decrease in prices frustrates expectations of adequate earnings in the countries that produce raw materials.

For certain consumable and scarce raw materials, some supplier countries have the option of controlling the supply price. The impact of the new prices of these products is absorbed initially by the manufacturing countries, but they immediately pass on the increase to the rest of the international community.

This creates the chain of a trade deficit, inflation, a balance-of-payments deficit, and finally, difficulty in servicing the external debt. Looking for quick solutions, countries restrict imports of consumer goods and final goods, and when this is not sufficient they even limit imports of intermediate inputs with a significant impact on national output. This is why the developing countries have called for the establishment of a new international economic order that will put an end to an inequitable trade relationship.

The case of Peru falls within this general context, for we produce a wide range of raw materials—possibly the most varied in Latin America. Unexpectedly, as in a cataclysm, the prices of all these products fell without exception, and we experienced a disproportionate deficit in our balance of trade. The estimated value of our exports has dropped by one-third, precisely the same percentage that had been earmarked to service the external debt, at a time when the prices of the imported goods essential for development have continued to rise. Domestic aggregate demand has decreased, but we are feeling the effects of a standstill in the implementation of the National Development Plan.

It is not true that the problem lies essentially in internal imbalances or in an inadequate scheduling of the external debt, or in excessive debt commitments. Suffice it to note that with a few temporary exceptions, we have achieved the volume of exports projected; but export earnings have fallen short of the projected figures by one-third.

We do not intend to underestimate past errors, from which no nation in the world is immune. Nor do we intend to evade our responsibility for taking corrective measures at home, or the commitment to meet our obligations abroad. But at the same time we are concerned that the terms and conditions demanded of us in the short term not exceed the possibilities of the Peruvian people, that the foundations of domestic peace not be destroyed, and that there be no interruption to the orderly process of socioeconomic development which every civilized community has the right to demand in our time.

Our dilemma is that for several years we must set aside an excessive percentage of our foreign exchange earnings for the sole purpose of servicing the external debt, even though this, like a collective punishment, may bring a paralysis to the country's economic life; or, on the other hand, we must resume the stalled progress, within a context of strict budgetary discipline in which an acceptable proportion of new earnings is allocated for payment of the foreign debt. We are confident that the concerted action of the commercial banks and the development banks will make it possible to find a course of action that will be feasible in the short and medium term.

This is a challenge for the Inter-American Development Bank. The motion of the distinguished Delegation of Mexico, which all of us have seconded enthusiastically, is intended specifically to ascertain the extent to which the IDB can respond to the present day problems of the region. The problems of the sharp fall in export prices face Peru today, just as it has faced other member countries in the past—though for shorter periods—and as it inevitably must be faced by other countries in the future. Financing solely for imported components is not the sole response that Latin America expects of its regional bank.

The harsh judgment of history will tell whether all of us, acting together, were able to rise to our responsibilities in making decisions.

## Peru and Colombia

The 1975-78 term of the present Board of Executive Directors ends in June of this year. We offer our sincere congratulations to the Executive Directors who are completing their terms. The present Board will be remembered as the one that did the most to establish operating policy standards, so that the Bank will never again be without written criteria for the evaluation of projects. We extend our congratulations to the new Executive Directors, and our earnest wishes for their success at a time when the region expects much of the Bank.

On this occasion my country wishes to reaffirm its pleasure at having shared the office of Executive Director with our sister republic of Colombia. Augusto Ramírez Ocampo has earned the recognition of all for his personal qualities of efficiency, dynamism and professional expertise, qualities that we are sure will mark the work of our new principal Director, Luis Prieto Ocampo.

In these decisive moments in the life of the Inter-American Development Bank, much like those in its early days after its establishment two decades ago, we are pleased to state that we believe deeply in the importance of the IDB in financing the development of our countries; we believe that the Bank must be provided, in a timely manner, with the new resources required for its program; we believe that the idea of an Inter-American Development Bank in which the United States, Canada and countries outside the region take part continues to be valid, and finally, we believe that under the leadership of President Ortiz Mena, the Bank will add to its already significant record of accomplishments. In the final analysis, that is the earnest wish of all the peoples of America.

**Address by Mr. Alfonso Palacio Rudas,  
Governor for Colombia and  
Minister of Finance and Public Credit**

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In addressing this Nineteenth Annual Meeting of the Board of Governors of the IDB, I find myself hesitating as to whether or not to conform to the traditional pattern of meetings of this kind by delivering a report on the achievements and programs of my Government in such areas as the fight against inflation, the management of external debt, and the policies followed in regard to international trade and balance of payments. That would be an easy and pleasant task since I believe that what I would have to report would be very much on the positive side. Nevertheless, I shall abstain from doing so since I am wary of the excesses of benevolence that influence statements of that kind, in which self-analysis often disguises self-praise. Moreover, there are a number of international forums in which such analyses and dissertations are more appropriate.

Since this is the first time that I have had the honor to attend this Meeting as Governor for Colombia, I propose to frame questions, after the manner of Socrates, which will help clarify for me certain perplexities that stem perhaps from the same cause, that of never having examined aspects which, because they are familiar with them, many of the other Governors may not see from the same angle as I do. It is a matter of external manifestations which a recent initiate cannot allow to remain unidentified. As was said some time ago, with paradoxical perceptiveness, "only superficial minds refuse to allow themselves to be guided by appearances."

There could be no better occasion for departing from the conventional than this present Meeting, taking place as it does in Canada, a country whose wealth grows within a framework of social justice—a framework that dissipates fears of upsetting the popular masses of Vancouver, our host city, as might well happen if this meeting were to be held in other places where the characteristics of the democratic process are not the same. The fact that Canada's per capita income is seven times as high as the average for Latin America certainly authenticates beyond doubt Canada's altruistic motives in joining our Bank, not only in order to contribute funds but also because continental ties of solidarity led it to want to get closer to the needs and aspirations of the borrowing countries. This great nation has demonstrated in a number of ways its very special interest in the region, translating a broad and cordial spirit into concrete achievements. Its active participation in various inter-American institutions, its bilateral programs, its high-level visits, such as the one of the Minister of External Affairs, Mr. Donald Jamieson to Colombia last year, and the exchanges of students, research findings and experiences in the university field have crystallized into relations of various kinds, including in particular trade relations, to the point that Latin America is today Canada's fourth largest trading partner after the United States, the European Economic Community and Japan. These relations are growing closer, both through the official agency for assisting in the field of economic development, the International Development Research Center, which operates under an autonomous international board of directors but is financed from Canadian

government funds and through the Canadian Overseas University Service. Firm steps have been taken, all favorable to Latin America, in such fields as mining, energy, transportation, communications, science and technology, health, education, agriculture, fishing and forestry. So dynamic and active has this development assistance enterprise been that in less than a decade the Canadian Agency for International Development has increased the resources allocated to bilateral operations tenfold.

For all these reasons I understand and appreciate the kindness and affection with which Canada is receiving and welcoming us to its soil, making us forget we are away from home. The facilities being provided to us here are consistent with Canada's broad and deep economic well-being. And I stress this because when I have attended similar meetings held in poor countries, I have asked myself whether the stimulus to expenditure and to luxury consumption does not create, at least in its outward appearances, a sort of dichotomy in relation to development strategies and whether there is any justification for the cost of holding meetings and symposia which normally perform simple functions of approval of accounts and other routine activities. It is far from my intention to offer adverse criticism when I ask: Would the results of these meetings stand up to a cost-benefit analysis of the kind that IDB's experts apply so implacably and so tenaciously to projects it is asked to finance? Would it not be appropriate to ensure that we are not caught on the wrong side of the economic duality, for us to become the practice and symbol of the way of life and official activities of the countries of the Third World, to introduce an austerity more consistent with the precarious condition of our peoples?

It was hence with pleasure that I listened to the statement by the President of the Bank, Mr. Ortiz Mena, this morning regarding the efforts he is making to cut the administrative costs of the institution that he so ably directs. I imagine that if action of this kind were taken on a general scale it could well help to give greater moral substance to the claims of the disadvantaged peoples and to the goals of the institutions set up to further their development. I am not unaware that my suggestions may sound ingenuous in a world that is more and more given over to the pursuit of pleasure, turning its back on the enormous human masses that inhabit the globe, bereft of the political and economic powers that could enable them to improve their lot. If we trace the dynamics of development in the countries of the northern and southern parts of the continent to their source, the explanation for the different routes they have followed can be summed up in the word *austerity*, which means savings and which, owing to a wide range of factors, shows marked differences in the two groups of countries. I am convinced that if we were to take the path of austerity, the result would be to reduce the reluctances of parliaments which make it difficult for the governments of the rich nations to replenish promptly the flow of capital that is essential if the international financing agencies are to accomplish their mission fully.

In the times in which we are living we need a cementing factor. It would be vain to disregard the difficulties that frequently beset the region in arriving at unanimous joint positions, or its powerlessness to escape from its satellite position in the concert of nations. We live in a world of rapid change, and we have to try to prepare ourselves to meet sudden and unforeseen developments and not lose faith in the destiny of just causes. Martin Luther King, that great fighter for a cause

which not so long ago was far from realizing its goals, used to say, "I have a dream," and with this dream he aroused hopes that have begun to materialize in concrete victories. Thus we must not lose faith that sooner or later equity will win through in the internal and external relations of peoples, because, as someone so wisely has said, "life is right."

Let us examine, for example, what happens in the panorama of the world economy. The floating of currencies has become a hypersensitive thermometer regarding the perspectives of the great powers. An end has come to such rosy prospects as the United States enjoyed during the many years when it was unaware of the cost that its huge balance-of-payment deficits would mean. Deficits that are undermining confidence in spite of the supremacy that the dollar was expected to enjoy indefinitely when the Bretton Woods institutions were first created. The "realpolitik," or evidence of forces for the balance of power, now appears to be immunized against monetary myths while the imprecise and uncertain future carries along with it, as mute victims, the countries that Latin America called marginal countries when it began to state its problem-complex in the analytical terms that now prevail over the old strictly emotional positions. All of this gives rise to very concrete situations that are unfavorable to our countries. At the world level, the growth of trade fell from 11 per cent in 1976 to 4 per cent in 1977 and the ominous protectionist tendencies of the developed countries, tendencies that we believed were overcome, loom ever more darkly. The \$300 billion in surpluses floating around in the world increase in volume as fast as their purchasing power diminishes. Rarely in economic history has there been a monetary standard that has been so universally accepted as the dollar and which owing to the attacks to which it is exposed, has weakened so rapidly, with confidence in it diminishing every day.

Considering the low share of world trade in the total economic activity of the United States, the ones that are more harmed by the condition of the United States currency today, that of a shrunken, crumpled piece of speculative paper, are the rest of the countries, which have received it, are still receiving it and will no doubt continue to receive it in exchange for raw materials which in the case of the proletariat nations embody their national efforts and the sweat of their peoples, cheaply bought. We are forced to accept that these are the rules of the game between the developed and the undeveloped world since it is argued that it is the market that imposes its will. But would this not entitle us also when, fleetingly, we enjoy a seller's market (as in the recent case of coffee) to ask that the advanced nations refrain from using the instruments of distortion they have at their disposal? Is it not wrong to create through these instruments an image that makes this same functioning of the rules of exchange appear to the consumer as an abominable and detestable artifice? The truth is that the despotism of the market traditionally conspired against the purchasing power of our exports. And in making this observation I am imagining the future, for under the present structures the cost of goods that we import includes the cost of the living standards of well-off societies whose scale of priorities accords a very low place to any effective decision to give up small economic surpluses so that the two-thirds of humanity which knows so much wretchedness can increase its productive capacity and thereby its wage and demand levels, essential prerequisites if they are to attain a life worth living.



I congratulate President Antonio Ortiz Mena on the successful work which culminated in the accession to the Bank of the nonregional countries who are with us here today, sharing in the anxieties that stem from our immense problems. Their association with the Bank is destined to have a greater impact than the mere provision of credit facilities. "Man sees what he knows," said Goethe. The social and economic knowledge that derives from the problems that the projects presented to the IDB for financing should find its channel in the decision-making spheres of the more advanced countries. In making these comments I am expressing the hope that the necessary arousal of awareness with respect to the duties of ecumenical solidarity is not eclipsed by the prevalence of banking and mercantile interests being expressed at the present time in a return to pitiless and reactionary protectionism. Without these goals of solidarity, which go beyond those of simple financial efficiency, this agency brought into being with so much difficulty after many years in which it was no more than a distant illusion of a group of Latin American dreamers, would be forced to change into an intermediary bank whose costs could become so high that borrowers would find it easier and more convenient to resort directly to the international capital market.

I should like to voice a further concern before this Meeting in which many Governors face similar difficulties in our countries. In the performance of our everyday tasks, those responsible for managing the State's finances and for directing its monetary policy, in evaluating the volume of current resources in the light of the counterpart commitments and of the burdensome repayment mechanisms required by external loans, find it almost impossible to apply rigidly an anti-inflationary strategy in which budgetary equilibrium is the primary factor. In the particular case of Colombia, the difficulty is very relevant in view of the resolute fight we are waging against inflation, for whose high rate and rapid growth we are to a large extent not responsible. The fact that we are suffering from a worldwide inflation that very few countries have managed to bring under control, including the countries in which it originates, has destroyed the argument that commonly used to be voiced in international forums by the big countries, that financial incontinence, precarious taxation, reckless credit and fiscal irresponsibility in the backward countries are the cause of monetary disorder. It was then said that all countries who observed monetary hygiene rules were immune from that disease. I shall not be so imprudent as to ask any government or any international agency what has happened to this code of etiquette or rules of good monetary manners, nor why it is that those who now consider it appropriate to apply it are accused of not contributing sufficiently to the maintenance and expansion of world demand and, on the contrary, of provoking, through their own domestic equilibrium, the disequilibrium of others. I shall confine myself to pointing out that the disciplinary mission in the international monetary field, so severely assumed when the weak partner was on the receiving end, changed in both nature and methods of action when it had to be applied against the strong. This has happened throughout history and I consider that it is unlikely that it can be changed, as by a miracle, by simple meetings of international institutions or through reforms of the system based on nominalist conceptions of international currency or on power struggles between the more dominant countries of the world. We believe that the international monetary disorder and the injustices that stem from it will not be ended until we agree upon a currency standard that does

not give one country advantages over another and at the same time helps to correct the inequalities between rich and poor.

The conceptual absence of everything implied in the contemporary modern-day notion of underdevelopment prevented Adam Smith from perceiving that, for the victims of poverty, what he described as the "invisible hand" would more properly be called the "iron fist." Nor did he perceive that in contrast to what he assumed would lead to economic harmony, it accentuated social discord and strengthened the dominance of economic castes, at both national and international levels.

However, I assume that the purpose at these meetings is not to erect a sort of wailing wall at which we sterilely lament our cares, our burdens and our problems. What we have to do is reaffirm decisions with respect to efforts and dedication that enable the Inter-American Development Bank, through the projects that it promotes, to increase the levels of employment, productivity, production, income and well-being of the peoples of the developing countries. We therefore believe that we must not allow the Bank to be politicized or permit factors other than the soundness of the projects to be taken into account in its studies and decisions, since all states of the region that are members of the Bank are entitled to receive financing from it.

In offering our good wishes for the success of this Meeting, we should like to express our appreciation for the excellent work done by its distinguished President, Mr. Ortiz Mena, and his immediate colleagues. In addition, at this time when it falls to Colombia to occupy a seat on the Board of Executive Directors, we wish to express our thanks to Mr. Armando Prugue, who has represented our interests with unstinted loyalty and dedication. In so doing he has reaffirmed the traditional ties of brotherhood between Colombia and Peru.

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

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It gives me great pleasure to have a chance to address the Annual Meeting of the Board of Governors of the Inter-American Development Bank this year.

In the first place, let me express my heartfelt gratitude to the Government and the people of Canada who are hosting this meeting in the scenic city of Vancouver and extending warm hospitality to us.

I also would like to take this opportunity to extend our hearty welcome to the Delegations of Finland, Sweden, and the Bahamas, who are participating in this year's general assembly for the first time as full-fledged members of the Bank.

In spite of the difficulties in the world economy in recent years, the Bank has made utmost efforts for a steady expansion of its activity and played a leading role in the development of the region. I pay a high tribute to the excellent leadership of President Antonio Ortiz Mena and the untiring endeavors of the Bank staff who have achieved marvelous records in the Bank's activities in the past year.

**World Economy and the Position of Japan**

Mr. Chairman, the world economy is now under the adjustment process from the economic turbulences caused by the oil crisis and has not fully returned to a path of stable growth. In addition, an ominous sign of protectionism is looming from the prolonged disturbances. It is likewise feared that the recent unstable international monetary situation may endanger the steady growth of the world economy.

It is for this reason that any one of the problems faced by each nation of the world today is beyond the reach of the individual nation alone and could not be solved without international cooperation and solidarity.

It is on this ground that Japan has been making her best efforts for achieving a rapid economic growth in order to minimize external imbalance through the expansion of domestic demand. I would like to point out that, both in Fiscal Year 1976 and 1977, the rate of economic growth for Japan was higher than that of any other developed nations. Again in Fiscal Year 1978 which has just started this April, the Government of Japan is stepping up its efforts to stimulate its domestic economy with a view to achieving the highest economic growth among the advanced countries, aiming at 7 per cent in real terms.

Furthermore, the Government is making strenuous efforts by initiating various measures of external economic policies with a view to expanding imports which include, among others, actions to facilitate easier access of foreign products to the Japanese market. In particular, the Japanese dedication to international cooperation is amply indicated by its constructive stance in the Tokyo Round negotiations for tariff reductions which are now coming to the most important state and by accelerating the making effective of tariff cuts which were already enforced last March prior to the conclusion of those negotiations.

In the field of economic cooperation, Japan announced its intention to more than double its official development assistance in five years at the Conference on

International Economic Cooperation last year. Our efforts are shown in the budget appropriation for Fiscal Year 1978 where those for foreign aid are increased by 16 per cent from the previous year.

I am convinced that Japan will be contributing to the stability and the development of the world economy through these efforts for international joint actions as stated from the global viewpoint.

### **Reinforcement of Financial Resources of the IDB**

Mr. Chairman, despite the geographic distance between Japan and Latin America, Japan has been keeping close relations with Latin America for the past several decades. It is encouraging that the relationship has become even closer over the last few years as evidenced by the impressive fact that the number of Government leaders who visited Japan from Latin American countries far outnumbered those from other regions.

In the economic sector, the outstanding amount of Japan's investments in the Latin American region has reached \$3.6 billion and the international trade between the two regions has exceeded \$9 billion in 1977. Through these economic activities, my country has been contributing to the industrial development of the Latin American region. Furthermore, in 1977, the Latin American countries and the Bank issued yen-denominated bonds on the Tokyo market totaling some \$500 million. All these add up to closer economic interdependence between Latin America and Japan.

In view of our special relationship with Latin America, Japan has been cooperating, to the maximum extent possible, in the reinforcement of the financial resources of the Inter-American Development Bank. We will continue to be cooperative with the developing countries in the region through financial contributions of this kind.

In this respect, the replenishment of the financial resources of the Bank is most important. The fifth replenishment for the period starting in 1979 is now under study. In this context, I support the proposal to create a working group in order to work out a reasonable replenishment program. Japan will participate actively in the discussion of the working group, when established, for a fruitful outcome.

In connection with the fund replenishment, it is our strong desire that the issue of representation for the nonregional countries be reviewed simultaneously. The solution of this problem will certainly merit the attention of all of us if the Bank is to grow further through cooperative relationships with the nonregional countries.

Next is the access to the capital market. It is of vital importance to improve the fund raising capability of the Bank so that it can provide the financial resources on favorable terms, with response to the growing demand of the countries in the region. With this regard, I appreciate the efforts which the Bank Management has been tirelessly making toward this end.

In fiscal year 1977, about \$2.2 billion of yen-denominated bonds were floated on the Tokyo market by foreign governments and international institutions.

During the same period the Bank succeeded in floating yen-denominated bonds for 15 billion yen, equivalent to about \$56 million, for the first time in the

Tokyo market through a public offering. There is every reason to believe that the Tokyo market, as one of the leading international bond markets, will continue to meet the future capital demands of the Bank.

## **Conclusion**

Mr. Chairman, economic interdependence of the countries throughout the world is becoming closer year after year. Never before has international cooperation been so urgently needed to solve the variety of problems which confront us.

Needless to say, the success in the economic development of the Latin American region depends primarily on the willingness and efforts of the people in the region to struggle for themselves in their own way. We will continue to be ready to extend cooperation in response to the willingness and efforts of the people in the Latin American countries.

As pointed out in the inaugural address by President Ortiz Mena, Japan will explore the possibility of further cooperation with the Bank both in financial and technological aspects.

The activities of the Inter-American Development Bank will include an important role in linking the efforts of the developing countries in the region with the cooperation of the developed nations. The development of Latin America will be largely affected by how far the Bank carries out this type of function.

It is our firm belief that the Bank will be the symbol and the core of economic prosperity under the concerted actions of the member countries.

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

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First of all, we wish to express the friendship of the people and Government of the Dominican Republic for the people and Government of Canada, who have shown us such great hospitality. The members of my delegation have been most favorably impressed by the high level of development and organization that have been evident from the moment we arrived in this country.

Canada, with its vast natural resources and growing economy, has in a short time gained for itself a place among the countries that exercise world leadership. To the satisfaction of the relatively less developed nations and those with limited markets, it has shown that it understands that international balance can only be achieved, strengthened and consolidated by identifying the underlying reasons for the profound differences between the industrialized countries and the rest of the world particularly the manner and nature of interdependence that unites them, and by working to create the conditions necessary to reduce poverty, malnutrition, illiteracy and marginality that afflict the greater part of the population of the world. These are the dramatic and real problems that must be dealt with, from the financial standpoint, at our current meeting.

The Government of the Dominican Republic wishes to place on the record its appreciation for the generous cooperation extended to it by the Government of Canada, through the Inter-American Development Bank, in such varied areas as rural electrification and transportation and irrigation planning. We also wish to express our interest in continuing to receive this cooperation in the immediate future, for we believe that we can greatly benefit from this country's broad experience in forest management, fisheries, mining and other sectors.

May I also extend our warm welcome to Finland and Sweden, nonregional countries which joined the Bank after the Eighteenth Annual Meeting of the Board of Governors in Guatemala, as well as to the Bahamas, which joined in late 1977.

We heartily wish to congratulate the English-speaking Caribbean countries, Barbados, Guyana, Jamaica and Trinidad and Tobago, for having gained the opportunity to be represented as a group on the Board of Executive Directors of the Bank. The Dominican Republic was sympathetic to this proposal and, when it was under consideration, offered its full support to its fellow Caribbean countries.

Gentlemen, it is only fair that we should acknowledge the brilliant leadership exercised by Mr. Antonio Ortiz Mena in the management of the Bank, not only because of his efficient management, but also because of the personal interest he has shown in considering the requests and projects submitted by our countries to the institution. His success is evidenced by the fact that new loans were granted for a record amount of \$1,809 million, that the largest volume of resources to date were channeled toward technical cooperation and that the disbursements reached a record \$832 million. We wish to extend this recognition to all Bank authorities who, in one way or another, take part in the decision-making process and in the evaluation of requests and identification of projects.

The Bank's membership has grown to 41, and now includes most of the industrialized, high-income nations, thus creating a situation that encourages us

to hope that here will be a greater transfer of resources to the developing world. This transfer, which not infrequently has taken place in a manner contrary to the wishes of the developing countries, is one of the elements that could make a significant contribution towards the establishment of not only a just, but a stable international order. The incorporation of the nonregional countries places the Bank in a different perspective, since it will now have an increased capacity to generate additional resources while at the same time its multilateral nature will be strengthened. This will undoubtedly lead to greater balance in the decision-making process.

We will not attempt to summarize the most significant features of the Dominican economy over the past year. Actually, the terms of trade and the international flow of commerce and investments are variables that are so decisive in determining the behavior of the economy of the relatively less developed countries and those with limited markets, such as the Dominican Republic, that we would rather point out some of the aspects of the international picture which most concern us, since they directly affect our economic and social destinies. One of the questions that most seriously preoccupies us is the international price of certain commodities and the obvious revival of a trend among certain industrialized countries to apply protectionist policies which openly discriminate against commodities from the developing world. As you know, sugar is the main export of the Dominican Republic and has historically accounted for more than half its foreign exchange income, in addition to generating a high value added and providing jobs for thousands of workers. Its current price does not even cover the costs of production of a highly efficient producer and has brought about a drastic reduction in our foreign exchange income and severely strained our balance of payments. This price situation has been further aggravated by the protection some industrialized countries offer their own sugar producers, whose cost levels are above world standards.

In such a framework, the financial and technical cooperation of international agencies such as the Bank becomes particularly significant, for without it our countries would find it very hard to continue diversifying their economic structure and raising the standard of living and the purchasing power of their peoples. This cooperation is granted under terms and at financial costs that have tended to become harder and harder. In addition, although the volume of such loans is substantial, it does not cover the losses caused by erratic fluctuation in export income and the protectionism practiced by some industrialized countries.

Furthermore, the rapid increase in oil prices has so severely drained the scarce resources of the non-oil exporting developing countries that it has become imperative that new funds, in significant amounts and under very soft financial terms, should be recycled towards these countries, if we wish to prevent a resurgence of tensions that could seriously disrupt the precarious world balance.

We therefore suggest that the extraordinary income transferred from the developing world both to the industrialized countries in the form of tariffs and taxes aimed at protecting their commodities and to the oil exporting countries in the form of higher prices, should be partially returned to our countries through the establishment of new funds for projects aimed at diversifying the structure of production and identifying nonconventional sources of energy. Such funds should not involve financial costs and should not be tied to the import content of the pro-

ject. These funds should be channeled through the Bank or other international agencies, for which purpose flexible machinery should be created, and they should complement the other sources of income of the multilateral financing institutions.

We would now like to turn our attention to the Fund for Special Operations and to the *de facto* rules which govern the administration of its resources.

In the first place, we must point out the need for increasing the Bank's resources and particularly those of the Fund for Special Operations. In this respect, we agree wholeheartedly with the Governor for Honduras and support the proposed resolution he has introduced, requesting the Committee of the Board of Governors to suggest suitable measures for increasing the capital of the Bank and of the Fund for Special Operations.

In the second place, we believe it is not idle to insist that the assignment of priorities to projects must be exclusively within the competence of the Governments. In some cases, it would appear that barriers have been set up that favor the presentation of projects that are not in line with a country's priorities and that the granting of loans is made contingent upon the fulfillment of requirements that sometimes do not reflect the needs or circumstances of a borrower.

Finally, we believe that a review should be made of the practice of assigning FSO resources almost exclusively for projects which are understood *a priori* to have strong social content and orienting requests towards ordinary capital when a rate of recovery is envisaged that would make it possible to cover the major financial costs from the ordinary capital. We fully understand the logic of this reasoning, but we feel it is better suited to microeconomic situations, within the context of an enterprise, rather than to global macroeconomic situations. In our view, what really matters is the country that receives the resources. If because of its characteristics, economy, external situation and structure of production it is a relatively less developed country or a country with a limited market, it should automatically have access to these resources, because it still has the same problems, whether the project financed has a high or a low rate or return.

We would like to suggest to the Board of Governors that the relatively less developed countries or those with limited markets should automatically have access to FSO resources, regardless of the nature of the project for which financing is requested. This does not mean that we are not concerned that financing should benefit the most needy sectors, because what we propose is that whenever a project generates a high rate of return, the borrowing institution should be subject to the prevailing terms for resources from the ordinary capital, but not the recipient country which would benefit from softer terms and apply the differential thus obtained towards the implementation of projects of broad social content.

In conclusion, we wish to express our sincere hope that as a result of these deliberations, we may reach an agreement on the increase of capital resources in order that the Bank may continue growing at a rate commensurate with the needs of the region.



**Address by Mr. Horst Moltrecht, Temporary  
Alternate Governor for the Federal Republic of Germany  
and Under Secretary of the Ministry of Economic Cooperation**

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First and foremost I should like to thank the Government of Canada and the city of Vancouver for the kind reception we have enjoyed in this beautifully situated town. The excellent preparation for the Annual Meeting by the host country and the staff of the Bank, and the beautiful surroundings which many of the participants in the meeting are probably seeing for the first time, should help bring our comprehensive program for the next few days to a successful conclusion.

This is now the second Annual Meeting in which the Federal Republic of Germany and most of the new nonregional members of the Bank are taking part as full-fledged members. And I think that I can say that we are now a little more integrated into the IDB family. We have been able to gather wide experience from our cooperation with the Bank. As a new nonregional member in the IDB we have undergone a period of additional and important learning. It is our desire now to transform this newly acquired insight and knowledge into practice for the benefit of the Latin American member countries.

The fiscal year 1977 was extremely successful for the Bank. Therefore, we wish to thank you, Mr. President, and all the members of your staff for the outstanding work that was done and for the effort that was made to improve the economic and social situation of the Bank's Latin American member countries. The expansion of operations of the Bank, including the Fund for Special Operations in the past year was impressive. A remarkably large part of the activities consisted in lending from the inter-regional capital stock (67.7 per cent of all loans made from the Bank's regular capital resources). This development may be seen as due in no small degree to the contributions of the nonregional member countries. The new trend in the Bank's lending policy, under which concessionary funds are lent primarily to the less developed countries and countries of limited market, is strongly supported by the Federal Republic of Germany. What is particularly impressive is the enormous increase of projects in the field of technical cooperation. The Bank's activities in this sector are quite outstanding in comparison to the performance of other multilateral finance institutions in that respect. We regard these technical cooperation activities as an important means of paving the way for successful projects in the future. The endeavors of the Bank to pay increasing attention to basic human needs within the framework of infrastructure projects meet with very great appreciation on our side from the sectoral point of view.

The Inter-American Development Bank is not a static organization. Due to the innovative attitude of its President, it is engaged in a steady search for new forms of financial cooperation in response to the wishes of its members and to the specific needs of the Latin American continent. Deserving particular mention here are the fairly new instruments called "complementary financing" and "investment program for the promotion of small and medium-size firms." Meanwhile, private banks are taking increasing interest in "complementary financing." We hope that this mechanism for the mobilization of additional resources will be more widely

used as it brings developing countries closer to direct access to the capital markets. The Bank's new equity participation scheme, on the other hand, seems still to be in its infancy. As appeared from discussion which was held in Hamburg on this financing facility at the international conference on "European Cooperation in the Development of Private Industrial Enterprises in Latin America," the program in its present form still shows certain shortcomings. These should be eliminated by the Bank's staff. This might help to encourage more countries from the Latin American region and the nonregional member countries to participate in the investment program for small- and medium-size firms.

The good name which the Inter-American Development Bank earned for itself on the international capital market resulted—not unexpectedly—in a triple A rating for the Bank's new capital stock, the inter-regional capital. Incidentally, the German capital market was the first to enable the Bank to borrow 30 million DM on the inter-regional capital. With this issue, the Federal Republic of Germany ranks second as a source of funds, for out of total borrowing of \$2,852 million, \$505 million were raised in the German capital market. Also in the future, the IDB may expect good prospects and the support of our Government for further fund raising on the German capital market.

However, despite the Bank's sound financial structure and its commendable lending policy, there are, in some areas, signs of developments which give rise to some concern. Already at the IDB's last Annual Meeting in Guatemala City, we expressed certain misgivings that agreed to replenishment commitments were not implemented, commitments made parallel to those of the nonregional countries. Interim solutions should not be allowed to obscure the need for an early and complete settlement of the questions on hand. It is, in my opinion, urgent for *all* member countries, to meet their obligations to the Bank at the appointed time. Otherwise, we might be faced with situations in which the Bank becomes unable to continue its operations. Also from the point of view of Parliaments in the member countries, it is indispensable that all members take part on an equal footing and with equal obligations in accordance with certain principles. This applies not only to the IDB, but to all multilateral finance institutions. On the eve of new demands for replenishment, it is extremely difficult for the Government of the Federal Republic of Germany to explain to its Parliament the present situation which is marked by a lack of funds at the soft loan windows of the multilateral finance institutions due to failing contributions of one major donor country. Therefore, we should endeavor when new replenishment rounds come up, to have adequate safeguards built in to insure prompt payments.

Irrespective of the still outstanding contributions towards the capital of the Bank and towards the Fund for Special Operations from earlier replenishment exercises, the IDB will need new funds next year because at the end of calendar year 1978, the resources stemming from the fourth replenishment of the Fund and from the increase of the Bank's ordinary capital will be fully committed. Therefore, there should be no more delay in starting negotiations on the fifth increase of the ordinary and Special Fund resources in order to make sure that the continuity of operations is not jeopardized. The Federal Republic of Germany is prepared to cooperate and participate in a constructive way, on the understanding that the following principles are binding for all: Commitments for contributions by the member countries are mutual obligations. For these commitments to

become effective and to fall due for payment, a clear system of triggers must be introduced which is applicable to the contributions from all groups concerned. Equal treatment must be ensured. This means that the principles of burden-sharing and equal footing are inalienable for us. Incidentally, I should like to point out that the Government of the Federal Republic of Germany has already been authorized by the Parliament to take part in the Fifth increase of the capital stock and the replenishment of the Fund for Special Operations. I should like to add that within the context of *future* replenishment exercises more general questions could arise, such as that of an increased Board representation for nonregional countries.

In this connection, a problem arises which by now has become rather urgent, namely the valuation of the Bank's capital. Now that the Second Amendment of the IMF's Articles of Agreement has entered into force, the common denominator applied for the valuation of the Bank's capital up to now is no longer applicable. Therefore, we welcome the proposal of Management for introducing Special Drawing Rights as the unit of value in which to define the capital stock of the Bank.

By opening the Bank to nonregional member countries, additional financial resources have become available to the IDB in the last two years in the form of contributions to the ordinary capital and to the Fund for Special Operations. It is now possible to resort to our capital markets to a larger extent than in the past. The private banks and business enterprises of the Federal Republic of Germany, and of Europe generally, are showing an increasing interest in coöperation with the IDB. The two international conferences in Montreux and Hamburg have furnished proof of this. No doubt, there is room left for improvement in the cooperation with the IDB. At the moment, financial cooperation is still in the foreground, but technical know-how in particular will become increasingly available from public and private institutions. One way of taking advantage of the technical know-how and the wide-ranging expertise available in the Federal Republic of Germany as well as in all other nonregional member countries would be drawing more on these countries when it comes to filling vacant or new staff posts in the IDB, especially in higher positions. Notwithstanding its regional character, the Bank should make use of every possibility and recruit qualified personnel from all member countries. Unfortunately, as far as the Federal Republic of Germany and the IDB members from the European continent are concerned, there is an increasingly serious obstacle. For reasons which you all know, the salaries of the multilateral finance institutions including the IDB have become increasingly unattractive in recent years. We are watching with great concern the mounting disputes on salary questions in the World Bank and several regional finance institutions, and I cannot but repeat what has been stated on behalf of the Federal Republic of Germany on this subject elsewhere. If the multilateral finance institutions which are considered efficient by the Federal Republic of Germany, do not wish to deprive themselves of the opportunity to continue recruiting highly qualified personnel from *all* member countries in accordance with their international mandate, they must, jointly with their shareholders, establish a salary scale which is balanced, gives equitable treatment to all employees and is attractive also for qualified applicants from countries of continental Europe.

Mr. President, ladies and gentlemen, in conclusion I should like to say that I hope the Bank will continue along the path which it has taken. In our view, the combination of sound financial policy, the resultant considerable accumulation of reserves in its ordinary capital and a lending policy open to innovations, represents the best possible approach to promoting a wide variety of activities on the Latin American continent. Cooperation with the nonregional members of the Bank has introduced a new political dimension to the IDB's activities, and first results are beginning to show. The Federal Republic of Germany is resolved to continue supporting the multiplying effects of IDB's activities in Latin America and to intensify its cooperation with the IDB for the benefit of the Latin American member countries. In this sense, it gives me pleasure to assure you that the Management of the Bank will continue to enjoy the vigorous support of my Government.

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

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We should like first of all to express our appreciation for the warm welcome and generous hospitality extended to the Brazilian delegation by the Government and people of Canada in this beautiful city of Vancouver. Long-standing ties of affinity and friendship link Brazil and Canada, two nations located at opposite ends of the American continent but drawn even closer by their growing mutual trade interests and their common ideals of effective participation in the development of the region.

On this occasion we welcome the Governors for Finland, Sweden and the Bahamas who, as representatives of the Inter-American Development Bank's newest members, are attending their first Meeting of the Board of Governors. We also trust that formalities will soon be completed for the admission of Surinam to membership in the Bank. The cooperation of those countries will undoubtedly be very valuable, and we congratulate them on their decision to join our institution.

We also wish to voice our appreciation for the excellent work being done by the Inter-American Development Bank, as recorded in its Annual Report, and for its outstanding contribution to the progress of the peoples of Latin America and the Caribbean. On the occasion of this Nineteenth Meeting of the Board of Governors of the IDB we believe it only right to pay tribute, once again, to the ability and dedication of its Executive Directors and staff and to the leadership of Antonio Ortiz Mena, which have been decisive factors in consolidating the Bank's position in the most critical period experienced by the international financial system since the Great Depression.

Although our region as a whole achieved more rapid growth in 1977 than in 1976, the situation could be reversed unless recovery of the industrial countries proceeds at a faster pace than in the recent past. In fact, despite the additional incentives adopted by some of those countries, we are concerned by the reduction of their growth to levels lower than those projected and by the uncertainty looming ahead for development in the first half of 1978.

As we all know, the lower the growth rate of the developed nations the more difficult it becomes for the developing countries to maintain satisfactory rates of economic expansion, given the limitations imposed by the balance of payments. In this connection it is particularly worrisome that projected growth of imports by the industrial countries should be well below the average for 1962-72, for this will inevitably be reflected in the rate of increase of exports by the less developed nations. In 1977 some of the developing countries were able to overcome the problem by the physical expansion of exports or a temporary improvement in their terms of trade; others, however, saw their trade deteriorate and run the risk of a setback in 1978.

There was undoubtedly a considerable improvement in the current accounts of our region in 1977. That result was to a large extent made possible only by the drastic adjustments made by several of our countries at the cost of slower growth rates. Direct investments from private sources and the long-term loans from

official sources and international institutions, as well as medium-term lending by commercial banks not only covered the deficits on current account but made possible a significant accumulation of international reserves.

The elimination of the current account deficit projected for 1978 for the industrial countries as a whole and the persistence of a surplus in some of the major oil exporters is a source of concern. The accumulation of surpluses in some countries necessarily means that others will suffer deficits. The systematic concentration of such deficits in certain nations, whether developed or not, over long periods, can entail serious consequences for them and for the world economy as a whole. Therefore, in addition to devising adequate means of financing deficits, through direct investments and medium- and long-term loans, the deficits themselves should be shared by all the industrial countries. This, obviously, requires an expanded demand in countries with surpluses, which will not be inflationary if, contrary to the present trend toward greater protectionism, it were accompanied by a liberalization of imports. It is important to emphasize that if current protectionist practices by the industrialized nations persist, there can only be a downgrading of the growth rates of international production and trade.

At present, the role which will continue to be played by the IDB in meeting the growing financing requirements of the countries of the region is especially significant. To that end it is essential that all the member countries be aware of the need for complying, within stipulated schedules, with their subscription and contribution commitments to the capital of the Bank and the Fund for Special Operations so that the Fourth Replenishment of Bank resources can be completed as programmed.

We are pleased to note the decision taken to initiate immediately a study of the Fifth Replenishment so that the Bank can continue to operate as a catalyst for promoting the regional economy. This requires that the IDB contribution be expanded more rapidly than the growth indices for Latin America and the Caribbean.

Another problem that should be considered is the persistence of exchange fluctuations, of negative repercussions in the Bank's operations as the amount of its funded debt is increased, much of which consists of currencies whose value has suffered a strong devaluation, thereby reducing the Bank's lending availabilities. This prompts us to suggest the advisability of re-examining the problem of maintaining the value of currencies held by the Bank and of the standard to be adopted for that purpose, in accordance with the second amendment to the Agreement Establishing the International Monetary Fund.

As we had occasion to stress at another meeting of this Board of Governors, the Bank Management has done an imaginative and effective job of mobilizing external resources, particularly through the complementary financing mechanism. Since the Bank now counts 15 developed countries among its members, in addition to the United States and Canada, a natural improvement and expansion of those operating schemes can be expected. We are confident that better means will be devised for optimum collaboration by the nonregional members in the development of Latin America and the Caribbean.

Furthermore, we must continue with the review and consolidation of Bank operating policies, referred to in Resolution AG-5/76, extending them to other areas with a view to making its operations more flexible and efficient. In this

connection, also, we view with satisfaction and enthusiasm the recent decision of the Board of Executive Directors on suppliers' credits as set forth in the report being presented to the Board of Governors, a decision that is fully consistent with the spirit that led to that resolution.

The changes that have occurred in the world economic situation suggest that the Bank should expand its export financing program so as to provide effective assistance to the developing countries in solving, at least partly, their balance of payments problems. Such expansion need not prejudice the other normal operations of the Bank, since the necessary funds could be provided by the developing countries themselves through the purchase of short-term IDB bonds.

Again we would like to express our view that in expanding the Bank's operations it is necessary to balance the allocation of resources pragmatically among the more and the less developed countries, seeking thereby the gradual elimination of existing imbalances in the region. Within the principles of inter-American solidarity that we have consistently defended, we repeat that the less developed nations, especially those most severely affected by the world economic crisis, should continue to receive priority aid from the Bank on concessionary terms. Nevertheless, we should like to state once again that the need for strong financial support by the Bank for the more developed countries of the region as well should not be underestimated. Despite their enormous effort to adjust their balance of payments, those countries still require a large volume of foreign loans and risk capital. Moreover, despite their greater development, they still face serious structural problems and they contain pockets of poverty that call for special treatment.

We are certain that the IDB, with the interested and effective participation of all its members, whose numbers are steadily expanding, will continue to play a pre-eminent role in supporting development of the region by evolving pragmatic solutions to the problems of increased international cooperation for Latin America and the Caribbean.

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

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On behalf of the delegation of Chile, I wish to express our appreciation for the cordial and generous hospitality of the Canadian authorities and people. I am sure that the other delegations have shared our experience, as this hospitality shows once more how deeply rooted is the spirit of brotherhood among our nations. This places upon us an even greater responsibility for preventing short-term interests from blocking the road to true cooperation.

The Inter-American Development Bank is by definition the multilateral institution through which our countries contribute to and share in the challenge of developing our region. Chile has continued to maintain fruitful contact with the Bank, as evidenced in the valuable support provided for high priority projects for our country, which have taken the form of operations for social programs, infrastructure and certain programs aimed at strengthening the private sector. The various projects in Chile, now being considered by the Bank for this year and the years to come, are a good indication of the growing cooperation my country expects from the Bank in executing projects in various sectors of our economy, thus helping to improve the living conditions of the middle- and low-income groups of our population.

Chile fully appreciates the importance of the Bank in the joint development of our region. That is why we want it to be strengthened; we want it to continue to expand and—to repeat what we said at previous meetings of the Board of Governors—we feel that the Bank must be adapted to the particular circumstances prevailing in our respective countries. Those circumstances are different from those of other regions of the world that are less developed than ours and they are also different from those that prevailed in our own region when the Bank was established two decades ago. We have been, and will always be, prepared to cooperate in every way towards the attainment of these goals.

We note with increasing concern, however, that that is not the road being taken. Very important problems, stressed at previous Board meetings, are still with us, and are even becoming worse because of a stubborn insistence on distorting the true objectives of the Bank, which are so clearly set forth in the Agreement Establishing the Bank. In some cases the rules of the Agreement have been openly violated and in others the rules are used to justify noncompliance with the obligations undertaken. Those who do this should give more thought to the fact that in so doing they not only defraud the other signatories, but also damage their own credibility.

One of the problems affecting the Bank is insufficient resources. This insufficiency prevents it from operating normally and obliges it increasingly to finance operations with resources in local currency. Those difficulties are largely due to noncompliance with commitments entered into by one country, noncompliance which can be explained essentially by the fact that the Bank is not yielding, nor can it yield to pressures aimed at involving it in defining the over-all economic policies of the borrower countries. The object is to force them to accept the value



judgment of groups or persons who, although their vision exceeds their grasp, believe they are better qualified than the countries themselves to define the latter's development priorities.

Fortunately, most of the member countries and the Management of the Bank are aware that an agency of economic cooperation cannot serve the special economic or political interests of any one country. The member countries are just about unanimous on that point and they have so demonstrated on those occasions when they had an opportunity to do so.

Another more subtle, but equally harmful way of incorporating the special interests of international, economic or any other policy of one country in this multilateral institution is noncompliance with the rules on the use of foreign exchange in international bidding won by local enterprises and the restrictions placed on some loans on certain agricultural commodities which cannot compete on the markets with the products of that developed member country.

If that criterion should eventually be imposed, namely that the Bank should be relied upon as an instrument for imposing what is politically and economically expedient for one country, the member countries would have no alternative but to choose between their independence and the demands of the foreign political majorities of the hour. I have not the slightest doubt that given that choice, the member countries, as Chile recently did in a similar situation, would respond by making even greater adjustments in their economies to cope with those circumstances. Moreover, if that should happen, the Bank would inevitably become meaningless as an agency for promoting the economic and social development of the region and would lapse into institutional and financial stagnation.

At that point, the region, reacting with its traditional dynamism, would seek other ways of attaining the same objectives, which are still valid, but through other mechanisms which would prevent them from being distorted.

It should not be forgotten that the world has changed and only efficient international banking will prosper. That being so, the cumulative experience and international prestige laboriously built up by this Bank over 20 years, will deplorably be lost to everyone.

Our concern about the Bank's future is real; we know better than anyone the consequences of striking out on a path which mixes decisions and economic business with the vagaries of politics. If we fail to react in time, it will inexorably lead to the destruction of institutions and social and economic chaos for the countries of the region. Chile suffered the full impact of that mistake and it required the will and the efforts of a people eager to return to the path of order and responsibility to gradually reconstruct and lay the foundation for genuine and sound development.

Fortunately for the country, the most difficult times are behind us and we are now tasting the first fruits of a policy of realism and not illusions. The indicators show that our economy continued to recover and grow stronger in 1977, continuing the process begun in the previous years. Again there was a substantial drop in inflation, which declined by one-third over the 1976 rate and is expected to continue to decline in 1978.

Employment rose by 180,000, that is, over 6 per cent as compared with 1976, and wages improved in real purchasing power by a percentage significantly higher than the growth of the GDP. The balance of payments remained steady. Copper

exports increased by 22 per cent and this year represented 47 per cent of total exports. Foreign exchange reserves reached unprecedented highs, exceeding \$1 billion. The budget showed a consolidated deficit of something over 9 per cent, a figure which we do not expect to be any higher this year. The GDP grew by 8.5 per cent and a large increase is expected for 1978.

While this process was going on, the Government has not shirked its responsibility towards the most disadvantaged groups of the population and has sought permanently to re-channel its expenditure to benefit the sectors of extreme poverty.

Those results were made possible by the national effort and the implementation of a sound and coherent economic policy. The country gradually regained the confidence of international business and financial circles, a confidence indispensable for meeting a developing country's needs for capital and technology. Thus, Chile has once again demonstrated that there is a strong flow of private foreign investment and loans into a country when they have the security and support that can be offered by an expanding economy, financially balanced, efficient in allocating its own resources and open to everyone.

However the road has been a hard one, and our hope is that our experience of an excessive and disruptive politicization will not be repeated in other countries of the region or in the institutions of which they are members.

**Address by Mr. Benjamín Villanueva,  
Governor for Honduras and Minister of Economy  
and Trade, on Behalf of the Central American Countries**

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The five countries of Central America—again speaking with one voice in this great assembly—are convinced that integration enables us to undertake many activities in the fields of economic and social development much more economically and efficiently than if each country were to carry them out individually. We believe that integration is a much more effective means of reducing the external economic dependence and vulnerability that marks our present stage of development.

Unquestionably, the process of Central American economic integration has made a decisive contribution to the attainment of high levels of economic growth in the region and to the changes that have occurred in the structure of production during this period, especially as regards the level of industrialization, the strengthening of the links between industry and agriculture and the creation of new sources of employment and income.

Central America continues in the vanguard of the integration movement in Latin America. The countries of the region have benefited—though in varying degrees and ways—from the increase in investment and trade that has resulted from the establishment of the common market. This has spurred the diversification of the structure of production and the expansion of intraregional trade. Trade among the countries of the region grew from \$36.8 million in 1961 to nearly \$750 million in 1977.

Operations through the Central American Clearing House have represented a mobilization of financial resources in the region that has even exceed the value of that trade. The regional transportation and communications networks have permitted greater physical integration and expansion of the national systems of the countries.

In order to preserve the gains made through this process and to enable Central America as a whole to progress further toward economic and social integration, the countries of the region are working hard not only to solve pending problems and conflicts, but also to revitalize the economic integration process and to reactivate its procedures, organs and institutions.

At the last Annual Meeting of the Board of Governors of the IDB, held in Guatemala City in May 1977, the governments of the Central American countries presented to the Bank, and through it to the financial community, a proposal for the strengthening of subregional integration. In that proposal we reaffirmed the political intention of the governments of the Isthmus to reactivate the process of development and integration on new bases. The proposal included a number of ideas on how that goal might be achieved, with a set of priority regional projects in the sectors of industry, agriculture, energy, transportation, communications and tourism. It is clear to all that in order to effect the profound transformations and changes in the economic and social structure that this program entails, we must step up the rate of capital formation and increase the flow of external financing.

Since 1961 the IDB has become the leading source of external financing for the Central American countries, authorizing loans totaling \$1,638 million for the region. More than 56 per cent of that total—\$925 million—has been granted in the last three years, which has made it possible to accelerate the development process through projects aimed in particular at development of the natural resources of the region. The Olancho industrial-forest development project in Honduras, the agroindustry projects in Nicaragua, the Cerrón Grande and San Lorenzo hydroelectric projects in El Salvador, El Arenal hydroelectric project in Costa Rica and the Chixoy hydroelectric project in Guatemala are obvious examples of what can be achieved through the joining of efforts by governments and the regional activity of the Bank.

The combined population of the five countries exceeded 18 million in 1977 and is projected to reach 36 million in the year 2000. Such a high rate of population growth brings with it the need for more rapid economic development and social change in order to provide the food, education and social services required to meet the increase in population and to raise present standards of living for all the people.

As countries of less relative economic development and limited markets, the Central American nations are gradually breaking the vicious circle of underdevelopment. We are improving the use of our natural resources and employing the technologies that we need to develop our resources and integrate our markets so as to benefit the great masses of the population in a climate of equal opportunity for all.

Nevertheless, the Central American countries remain among those with the lowest level of development in Latin America, which is why we consider it necessary to further development and integration through large-scale projects that will permit the optimum utilization of our resources. To meet the energy needs of the region we must make maximum use of the resources available in the hydroelectric and geothermal sector through projects that will enable us to increase the availability of electric energy, substituting renewable energy resources for nonrenewable resources. We are sure that the IDB will continue its unstinting support for hydroelectric projects in the countries of the region. The Central American Energy Program has found that an interconnected electric power system would represent a saving of more than \$500 million for the five Central American countries and Panama from 1980 to 1999. The technical cooperation that the IDB has provided for electrical interconnection in Central America poses a challenge to the integration process. The program will be initiated with the installation of transmission lines linking the electric power systems of neighboring countries at the points nearest to their borders, with the more efficient transmission network that the integrated system requires.

The IDB is unquestionably an agent of change for the economic and social development of Latin America. This process of change demands maximum dynamism from the Bank as an institution whose horizons are ever broadening. The continuation of its dynamic role requires that the Bank be provided with sufficient resources to meet the demand for loans and technical cooperation for the countries of the area.

The Board of Executive Directors has presented a report to this Meeting of the Board of Governors on the implementation of Resolutions AG-7/76 and AG-

8/76, concerning the Fourth Replenishment of Resources. We find in this report that the situation of the Bank regarding resources merits particular attention. The extension of the dates for entry into effect of the planned increase, and of the dates for subscription and payment of quotas, has given rise to uncertainty in the Bank regarding compliance with the resolutions already approved by the Board of Governors.

It is desirable that the IDB be assured of an adequate volume of ordinary capital resources and resources of the Fund for Special Operations so that it can provide financing for projects of crucial importance in the Latin American countries. For this reason, we are greatly pleased that the Board has voted in favor of the proposal presented by Honduras and supported unanimously by Central America and by the member countries of the Committee of the Board of Governors, that a working group be formed within the Committee to study the situation regarding the Bank's resources. The increase in resources should not be less than 7 per cent per year if the Bank is to continue as the principal source of financing for Latin America. We wish to express our support for the efforts of the Board of Executive Directors to bring about a greater mobilization of financial resources to meet the demand for loans in the region. We also support the proposals of President Ortiz Mena for the establishment of further links with countries outside the region and for the formation of a multilateral fund to assist in the development of private enterprise in the countries of the area.

The Central American countries have sufficient debt capacity to carry out projects that will help step up their economic and social development. In 1977, the ratio of external debt service to the value of exports of goods and services for the Central American countries together was less than 10 per cent, which is very low in comparison with those of other developing countries. Nevertheless, Central America as a whole must mobilize a significant volume of external financing, especially concessional loans, in order to ensure the development of projects with a great social and economic impact in the countries of the region.

We are confident that the Bank will be in a position to continue providing us with financing in a timely and expeditious manner, since our studies indicate that a substantial flow of external resources is essential to maintain economic growth rates comparable to those achieved in the past decade and to carry forward the necessary social transformations at the same time. In this connection, we reaffirm our readiness to mobilize the domestic resources necessary to attain these objectives. We must insist that it is vital for the Central American countries to obtain loans on concessional terms in order to maintain an acceptable flow of the needed external capital without exceeding the prudent limits of our debt capacity.

At the same time, we are aware that we must increase our capacity for the absorption of external financing through the identification of projects of major regional content and importance, in both the public and private sectors. In this regard, we consider it timely to establish an international financial consortium through which we can obtain the external credit necessary to strengthen the integration process, and a Central American investment bank or corporation to mobilize additional financial resources for industrial development and to establish and strengthen the capital market in the region.

The proposal I have just mentioned is framed within the objectives and terms of reference of the group of Central American projects. Clearly, the coordination

of sources of external credit is of special importance, and this consortium or group can make a significant contribution to such activities related to projects of regional scope.

On behalf of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, I wish to thank the Inter-American Development Bank for its valuable cooperation in the development and integration of the Central American region. We hope that among its important functions, the IDB will continue to give particular attention to financing on concessional terms for the relatively less developed countries and those with limited markets, and financial institutions such as the Central American Bank for Economic Integration which have a decisive role to play in the balanced development and integration of the region. The Central American countries are providing CABEL with the resources it needs to perform its mission fully, but we consider it essential that the IDB continue its cooperation with CABEL, supplementing the resources of that institution for the development of integration projects.

At this Meeting we have designated the new Executive Directors for Central America and Haiti, Rodolfo Silva Vargas and Benjamín Vides Dénéke, to whom we offer our full support. We hope that they will continue the splendid work done by outgoing Directors Rodolfo Martínez Ferraté and Mario Rietti, who formed a true team working on behalf of Central America and to whom we extend our thanks for what they have accomplished.

To conclude, we have noted with particular satisfaction the report presented by the Board of Executive Directors and the President of the Bank, Antonio Ortiz Mena, on the activities of the Bank. We wish to express our appreciation to the President, the Executive Directors and the staff of the Bank for their work in behalf of inter-American relations. We hope that the IDB will be able to continue its efforts to advance the integration and development of Latin America in a spirit of renewal and with the imagination and flexibility that it needs to deal with the complex problems of economic and social underdevelopment.

We wish to see the Bank strengthened financially and to continue giving special attention to subregional economic integration and in general to the entire process of Latin American cooperation, thereby contributing to the great economic and social transformation to which all of our governments are committed. I am deeply grateful for the confidence shown in me by my Central American colleagues, and for the honor they have bestowed on me in appointing me as the spokesman for a region that looks to its future with increasing optimism.

**Address by Mr. Héctor Hurtado,  
Governor for Venezuela and President  
of the *Fondo de Inversiones de Venezuela***

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On behalf of the Government of Venezuela and in my personal capacity, I should like to associate myself with the Governors who have expressed their appreciation to the Government of Canada and to the authorities of this beautiful city of Vancouver for their hospitality as hosts of the Nineteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

Throughout its 19 years of existence, the Bank has played an extraordinary role in financing the development of Latin America. Its membership has increased as the de-colonization of Latin America has progressed and, after a negotiating process of more than five years, nonregional countries have joined, thus demonstrating through their contributions to this multilateral institution, international cooperation in today's world.

With the new members which have joined the founding countries of the IDB, the Bank now projects an image of a community which goes beyond the borders of our American continent, a community united by a common desire for progress and well-being. It might be said that, like other groups which emerge from time to time in the field of international cooperation and are identified by the size of their membership, there is now a new Group, but it already has a name of its own: the IDB.

Year after year the role of the Bank in financing the development of Latin America has become more significant: the 19.4 per cent of national and international official financing for which it accounted in the 1961-65 five-year period has risen to 26 per cent for the first five-year period of this decade.

In the last financial year, the Bank's loans reached a record figure of \$1,809 million. It should be noted that the figure includes \$117 million from the Trust Fund established by Venezuela in 1975, so that the total resources now committed from the Fund amount to \$223 million. Through direct loans from the *Fondo de Inversiones*, Venezuela has provided financing parallel to that of the Inter-American Development Bank for projects in Central America and the Caribbean countries which amounted to \$83 million between 1975 and 1977.

We also note with satisfaction the launching of the Equity Capital Program with funds of the Venezuelan Trust Fund, whose first operation to capitalize an enterprise with headquarters in Costa Rica was recently approved. This first step opens up a new field of activity for the Bank in an area where there is a notorious shortage of financing in nearly all the Latin American countries, and will have a favorable effect on the less developed or limited market member countries of the IDB.

The success of this new IDB program will determine whether other countries and institutions in the region, as well as nonregional members, should provide additional resources for the same purpose. The Equity Capital Program could influence the development of the Latin American capital market and become one of the most promising and prestigious activities of the Bank because of its effect on the mobilization of resources in countries which now lack sufficient risk capital.

In connection with the expansion of the Bank's activities, note should also be taken of the role it is playing in the Caribbean economic cooperation program by deciding to extend financing to the members of the Caribbean Development Bank whether or not they are members of the IDB. This change in the institution's policies, which required changes in the Agreement Establishing the Bank, provides extraordinary opportunities for the Bank at a time when a joint effort is being made by the international and regional financing agencies, including the Special Fund of the Organization of Petroleum Exporting Countries (OPEC) and a group of countries inside and outside the region, to expand their cooperation with this important zone of Latin America. Venezuela, to demonstrate its solidarity with that initiative, agreed with the Bank that the resources of the Venezuelan Trust Fund should be used as working capital for enterprises established or which may be established in the member countries and territories of the Caribbean Development Bank.

The IDB has become an extraordinary lever for the financing of Latin American development. Its function in that capacity will become increasingly important as Latin American financial requirements increase. Although the region has shown a growth in GNP of about 5 per cent in the past two years, which is higher than the world average in the same period, it is still lower than the growth shown during the 1960s and much lower than its growth in the first four years of the 1970s. As pointed out in the excellent report presented by the Bank, the countries of the region have overcome the 1974-75 crisis, but they are showing less capacity to react to another possible recession in the industrialized world.

The growing indebtedness of Latin America, a feature common to developing countries; the decline in prices of export commodities; continued inflationary pressures of external origin with their adverse effect on the cost of the equipment indispensable to promote accelerated development; the growing protectionist tendencies in the industrialized countries which affect Latin American exports, and the impact of the world monetary crisis are revealing symptoms of a disturbing situation.

Moreover, we have made little concrete progress in the establishment of the New International Economic Order. The fact is that the developed countries have shown little political will to honor the commitments made in the various areas of international cooperation. In that connection, it is a matter of concern that we have not yet been able to establish the Common Fund, an essential element of the Integrated Commodities Program.

The deterioration or insufficient growth in the Latin American economy in recent years tends to aggravate the social problems created by the population explosion, the absorption of the rural masses by the cities with its sequel of marginality and rising expectations. And along with that socioeconomic situation, we feel bound to point out that politically, Latin America is becoming restive under the impact of another wave of democratic institutionalization which recalls that of the post-war period and of the years following the 1950s. Like a modern Sisypheus, who has to go back and start all over again time after time, the democratic system appears as a solution to the political problems of most of the countries whose process of institutional growth was disrupted and it motivates and stimulates new forces which represent a challenge to entrenched power structures in other countries.



Those realities in Latin America make it more urgent to increase external financial support and it is up to the IDB to play a more important role in that undertaking. That is why the tight financial situation of the Bank due to the fact that the increases in the ordinary capital and in the Fund for Special Operations which had previously been approved have not been completely met is disturbing.

However, we recognize the efforts which the United States Administration has made to honor the commitments entered into in accordance with the so-called Paris Agreements. But, to repeat what I said at the last Annual Meeting of the Board of Governors in Guatemala: "... 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."

We think that the draft resolution submitted by Honduras deserves the support of this Board since its implementation will enable us to make a thorough analysis of the Bank's financial situation in order to correct it both as regards committed resources and ensuring the availability of the funds required for it to continue its activities.

We should learn from the experience acquired in these two decades of the Bank's activity. We should proceed with dedication and firmness to make an evaluation of the institution which will help us to develop the policies and procedures enabling the Bank to participate more boldly and more effectively in resolving Latin America's development problems. We have therefore joined with Mexico in submitting a draft resolution which would empower the Committee of the Board of Governors to establish a flexible mechanism for evaluating the objectives, functions and policies of the Bank and to recommend the necessary institutional, administrative, and operational changes.

We feel that the IDB's activities need to be re-structured in the light of the new world economic conditions, the progress accomplished by its Latin American members and the change in the Bank wrought by the accession of non-regional members. In this connection, the Bank's multilateral character, free from distorting hegemonies, must provide the framework for dialogue in which the decisions result from the reasoned conviction of the majority of its members. To this end it is necessary to review the policies the Bank has been applying with respect, *inter alia*, to project-eligibility requirements, the use of foreign exchange to finance local-currency expenditures, and bidding policies.

It would be premature to offer opinions on these topics on this occasion. Nevertheless, I should like with your kind indulgence, to voice my anxiety about two fundamental aspects. In the first place, the Bank's present operational policies tend to diminish its relationship with its developing member countries which are acquiring greater capacity to produce capital goods and greater access to capital markets. As regards the first point, this increased capacity has the effect of raising the "local-cost" percentage and thereby of reducing the external component

susceptible to being financed by the IDB to insignificant levels. On the second point, the argument is advanced that the countries with access to the capital markets require even less help from the Bank, which must reserve its resources for channeling to its less developed members.

So far as concessional resources are concerned, we agree with this latter premise, and Venezuela, along with four other member countries, has not only refrained from applying for such resources but has facilitated their use by consenting to the convertibility of its contributions to the Fund for Special Operations. However, we do not agree with those who consider that this principle should be applied to the Bank's ordinary resources. In line with the concept of a more dynamic Bank capable of becoming a great financial agent for Latin America, we must aspire to see the Bank grow along with its members just as a private bank grows along with its customers. This calls for policies, tailored to each specific case, that aim at the maintenance of close ties with its relatively more developed Latin American members.

There is an obvious need also to strengthen the Bank's role so that it may increase and improve its support for the integration efforts now going forward in Latin America, with the specific allocation of human and financial resources to a program of preinvestment and promotion of projects with an integration content.

Recently the Fourth Meeting of the Council of the Latin American Economic System (*SELA*)—a most important instrument for coordination and consultation between the Latin American countries and for the development, through the Action Committees, of mutual-interest programs and projects involving more than two countries—took place. We believe the Bank might contribute to the work of the Action Committees in the preparation of programs and projects, some of which might well qualify for financing. Of special importance to our countries within the programs being carried out is, we feel, the production of food with a high nutrition content for Latin America's children.

Mr. President, Governors: From the joint effort of the IDB community, of its officers, and of its technical and administrative staff, and from the political orientation of its member countries, expressed through the medium of this Meeting, depends the future destiny of the Bank and its greater operational impact on Latin America. May the decisions taken by this Nineteenth Meeting strengthen the Bank and help to unite our wills in pursuit of a common aspiration: the creation of the great Latin American nation.

**ADDRESSES**

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**THIRD PLENARY SESSION**

**April 18, 1978**

**Address by Mr. Luis M. Adames,  
Temporary Alternate Governor for Panama  
and Minister of Finance and Treasury**

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Let me first of all extend, in the name of my delegation, my sincere appreciation to the Government and people of Canada for the cordial welcome we have received in this beautiful and dynamic city of Vancouver.

Yesterday we had the opportunity to follow with great interest the cogent report on Bank activities, which was presented to us by the President and which highlighted the efforts of this institution to continue supporting development undertakings of the Latin American countries in spite of the well-known problems related to the situation of contributions of funds by some of the member countries.

The emphasis placed by the President of the IDB on infrastructure and development, as well as the energy and agricultural sectors, is highly significant. Our country can testify that, thanks to its own relations with the IDB and to the latter's efforts, we have benefited in several areas, especially in agriculture, the development of cooperatives and the use of the resources of the sea. We hope for continued support in order to carry on the progress made possible by this assistance and to encompass further aspects of an ambitious development plan by which our country intends to achieve total economic independence in the decade of the 1980s.

We fully agree with President Ortiz Mena on the importance of industrial development for Latin America as a factor in generating employment. The Bank has allocated 24 per cent of its financing to industrial development which, together with foreign trade and its growing component of industrial manufactures, is fundamental to the immediate development of Latin America as the only possible remedy for the economic difficulties resulting from the inflation-recession process that has afflicted us in recent years and has had such an adverse effect on our balance of payments.

Within this context, although it is true that the highest authorities of the Inter-American Bank have always viewed such undertakings with understanding and encouragement, it is also true that the structure of the Bank and the composition of its funds have not allowed it to devote the volume of resources to the export-financing program and sustained effort that the region requires. In any event, it is undeniable that the element of export financing is essential to any plan designed to encourage and support industrial development. It was therefore imperative that the Latin American countries should take their own initiative in coping with this need.

This was the intent of the proposal of Panama to establish a multinational Latin American agency to finance the exports of this region.

On the occasion of the Meeting of the Governors of the Latin American Central Banks held in Panama in May 1975, the Government of Panama, through the National Banking Commission, used that forum to recommend that an entity be established that could avail itself of the banking facilities centered in Panama. This would make it possible to group together the entities of the Latin American

countries and the international commercial banks, as well as the commercial banks of the Latin American countries, in order to provide additional resources for the financing of our exports. This would effectively use the available resources of the banking system of Panama, where 83 of the principal banks of the world operate with deposits of more than \$11 billion.

This proposal was warmly received by the central banks and firmly supported by the IDB through nonreimbursable technical assistance.

The plan, which was worked out by the Banking Commission of Panama over the past two years, resulted in the establishment of the *Banco Latinoamericano de Exportaciones, S.A. (BLADEX)*, whose contract and statutes were signed by 20 Latin American countries in September 1977 in the city of Cartagena, Colombia.

Member countries of *BLADEX* are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela, through the agencies or entities duly authorized for this purpose.

*BLADEX* has been set up as a Bank established under the legislation of the Bank of the Republic of Panama, the country in which it has its headquarters.

Its capital stock is \$99 million equally divided among its three classes of members: members (a) made up the central banks and other official agencies of the member countries; members (b) composed of the commercial banks of the Latin American countries, and members (c) made up of the international commercial banks, primarily those that have their Latin American offices in the Republic of Panama, as well as other international bodies still not represented in our country.

The primary objective of *BLADEX* is to provide additional resources for financing the exports of Latin American countries, making available credit facilities to exporters through their respective banks, which in turn allows the exporters to extend credit to purchases of their products, as an essential element in any scheme to open up and penetrate markets.

The basic guidelines of *BLADEX* are as follows:

1. The financing granted by *BLADEX* will cover all types of products, that is, there will be no preconceived list of products to be financed. Preference will be given to nontraditional commodities, with the clear understanding in that case that the concept of nontraditional exports will be defined by the country concerned.

2. *BLADEX* financing will, from the beginning, cover short- medium- and long-term needs in response to the diverse nature of requirements of the several area countries, in accordance with their own particular development status.

3. *BLADEX* financing will cover exports of Latin American products to any part of the world and not just intra-regional trade operations, which are of course also covered.

4. *BLADEX* financing will be in addition to those resources currently available to the countries on their own account for their operations.

5. *BLADEX* will cover pre-export and post-export financing.

It is with satisfaction that we can announce that the Latin American Export Bank, *BLADEX*, is now a reality. On April 13 it held its first General Shareholders Meeting in the Dominican Republic with a large group of participating partners in attendance. There, as a reflection of the enthusiasm shown by all the

parties involved, among other pertinent administrative matters, its Board of Executive Directors decided to increase the initial issue of paid-in capital, originally set at \$20 million at the rate of \$6.7 million for each category of partner, to the sum of \$9.4 million for each category, since the amounts initially set had been oversubscribed.

With the holding of this first General Shareholders Meeting and the appointment of its permanent Board of Directors and Executive Vice President, *BLADEX* has now become a factor that will exert an impact on the Latin American scene during the current year.

We are confident that the staunch ties of cooperation and collaboration of the IDB in the performance of these tasks will become even stronger, and that a close inter-relationship will develop between the industrialization and foreign trade programs which the IDB will continue to foster ever more rapidly in response to the growing demands of the countries of the area following the start-up and accelerated provision of services that the Latin American Export Bank must satisfy successfully in order to meet the external financing requirements generated by its own programs. This will serve to meet both the need to generate new jobs and the need for easing the balance-of-payments situation in a great many Latin American countries.

Finally, I cannot fail to take advantage of this forum to restate once more to the representatives of the Latin American countries our sincere appreciation for the strong support we Panamanians have received from all the Latin American countries and from the international community of nations at this culmination in our struggle for historical repossession of our principal natural resource, an asset which cannot be renounced by any people and which, independently of the outcome, the people and the Government of Panama will cherish for all time within their hearts this gesture of fraternal solidarity. For our sister nations have shared our pain from the deep wound to Panama's dignity and pride caused by its submission to a cruel destiny from the very dawn of its independence. As long as there are Latin American hearts beating in this world we will look anxiously to the future in the expectation that, by God's inexorable design, the just redemption so far denied us will one day be ours.

**Address by Mr. David Ibarra Muñoz,  
Governor for Mexico  
and Secretary of Finance and Public Credit**

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For the first time the Inter-American Development Bank holds its Meeting in Canada. The hospitable city of Vancouver is a vivid symbol of the enterprising spirit of a young and vigorous nation. For six years the Bank has benefited from the participation of the second most important industrial country of the American continent. This participation has substantially increased the flow of external resources for the development of Latin America and it has also promoted a closer association between Canada and our region in the economic, technological and cultural spheres. All this is evidence of the decision of the Canadian Government and people to help bring about a more just and equitable cooperation.

The relationship between Mexico and Canada has become closer in every way. Our two countries share basic affinities in terms of historical tradition and an equally promising future. Furthermore, the geographical location of both nations provides them with an extensive border with one of the most powerful countries of the world, with all the range of effects produced by this territorial proximity. The many affinities between Canada and Mexico offer ample possibilities of economic complementarity originating in our similar objectives and different resources. I hope that this meeting will represent one more step toward strengthening the ties between our peoples.

The Bank's activities in 1977 have been objectively described in the Report presented by the Management. The increase in the number of member countries is of special interest. I take this opportunity to extend our congratulations on the entrance of the two nonregional countries, Sweden and Finland, as well as the Bahamas. I also welcome the Executive Director for the Caribbean and the new members of the Board of Directors.

Unquestionably, important efforts have been made to support the development process of the region. Special mention should be made of the work of the Board of Directors and of all the Bank staff. Testimony to the productive work of its President, Mr. Antonio Ortiz Mena, is the fact that the acute shortage of resources in this past year did not prevent the Bank from extending its largest volume of loans in history to the countries of the region.

We are worried about the present state of the international economy because of its negative effects on the development of Latin America as a whole and of each of our countries individually. In spite of the measures taken by some of the industrialized nations, the world economy has not recovered its normal growth rate and there continue to be inflationary pressures, unemployment, and financial disequilibria. Structural problems in the functioning of the international economy have resulted in a growing trend towards protectionism, exchange instability, and inadequate investment, all of which are cause for concern because of their long-term adverse effects.

The capital market maintains high liquidity due, in part, to the weak demand for private credit in the most advanced countries. Paradoxically, there is a lag in investment in basic activities. Added to this are unpromising prospects for international trade.

With some exceptions, Latin American countries currently suffer an inability to obtain foreign savings in the international capital markets in such a way as to supplement the national effort. Although this concern has been expressed over and over before the Board of Governors, we are now facing an even more difficult situation because of the widespread decline in the growth rates of the world economy and trade.

Few combinations of circumstances would be less favorable to Latin America than a decline in world trade combined with restrictive measures on the flow of external financing. Therefore, it is necessary to stress the need to redouble efforts to make sure that sufficient supplementary savings are channeled and to make international financing more flexible. This action will benefit not only the economies of all the member countries of the Bank, but also the Bank itself.

Every common undertaking undergoes a process of evolution and faces problems that arise out of its own growth. Now that the Inter-American Development Bank has been in existence for almost 20 years, it is a good time to initiate an analysis of its accomplishments, of the problems faced and of its future prospects. In the last two decades, the international economic system has changed substantially. Given these changes, we cannot permit the Bank to remain static. The member states must help the Bank to change and modernize. It is our responsibility, individually and collectively, to establish the instruments that will ensure that the Bank adapts to the new circumstances. It is essential that at the beginning of its third decade as a regional financial agency, the Bank should complete a process of adjustment and renewal that will permit it to adapt to the past and future realities of our countries.

The pattern followed in other international forums can serve as an example to the IDB in reshaping itself. The requirements arising from the widespread balance-of-payments deficits have encouraged the devising of new mechanisms to alleviate this problem. The crisis in the system of exchange rates gave rise to a search for formulas different from those established in Bretton Woods. In all these cases, the international institutions have tried to adjust to the new conditions, discarding schemes that with time have become obsolete or inoperative. This gradual reform has been accomplished with imagination and a creative spirit that have been reflected in the ability and the will to change. An important factor has been the interest of the industrialized nations. A similar willingness and determination to change is needed to expand the frontiers and transform the structure of the Inter-American Development Bank.

In our judgment, there are several major problems that affect the future evolution of the Inter-American Development Bank. For the moment, we shall mention the chronic shortage of resources, the need for a more flexible and prompt response to the demands and requirements of the member countries, and the danger of introducing internal political considerations into an area where multilateral economic cooperation and the collective interest should prevail. There is also a need for a general policy statement on the future role of the agency and on the mechanisms that will be used to adapt the institution to present and foreseeable needs.

A subject of high priority is the limitations on the capital of the Bank, which is essential to financing the programmed operations. In 1978 the Bank's normal income, the contributions of other countries, and the use of its reserves totaled



\$860 million, an amount that is obviously inadequate to carry out the annual loan program, which comes to \$1.04 billion as approved by the Board of Governors.

In spite of its important efforts, the IDB suffers from a shortage of resources, a situation that has worsened recently due to a combination of factors such as the expansion of the region's credit needs, the slow growth in new contributions and the loss in purchasing power of financial resources.

The Mexican Delegation has proposed, jointly with other representatives, that the Committee of the Board of Governors be assigned the task of evaluating the functions and the policies of the Bank and, in the light of the information it collects, to draw up recommendations for adapting Bank functions to the future needs of the member States. The proposal includes an examination of the policy of development financing that the agency will adopt, including various ways in which resources will be allocated; the new mechanisms for obtaining financial resources; and, finally, the institutional, administrative, cost, and operative adjustments that are considered necessary.

To achieve this aim, it was decided to establish a working group of the Committee of the Board of Governors. The Committee will duly submit to the Board the result of its recommendations and conclusions. I am convinced that this is a constructive proposal and that it will be an effective way to strengthen and revitalize the Bank.

Mexico welcomes the proposal of the Delegation of Honduras concerning the situation of Bank resources. We share the point of view of this distinguished delegation that the Bank's efforts on behalf of the economic and social development of the Latin American countries will be able to continue only if prompt measures are taken to give it the necessary additional resources.

The difficulties associated with the Fourth Replenishment of the resources of the institution call for a basic solution. The commitments acquired by the member States should be consistent with the measures they take in order to implement these commitments. The internal process of the political decisions made by the governments represented here should not affect the financial health of the Bank. We must get rid of the tendencies that make multilateral mechanisms less worthwhile and operational as suitable formulas to promote the transfer of real resources to the developing countries and to help stimulate the economy of the industrialized nations.

We must also get rid of the budgetary decisions and protectionist policies that make it difficult for Latin America to have a sound position in world trade. We should renew our confidence in the systems of multilateral cooperation as a means of promoting development, of encouraging its financing, and of supporting the national demands that are the basis of all world trade, including the exports of the creditor countries.

We consider it extremely important to update and revise the operational policies of the Bank, so that this agency will be more efficient and so that it may profit from past experiences. Among these experiences may be mentioned those related to international public bidding and to the import component, both direct and indirect, on the basis of which Mexico confirms its position that it be allowed to finance, with direct foreign exchange from the Bank, such goods and services of local origin as are subject to public bidding. We are also concerned that the problem of the effects of foreign-exchange risk has not been completely solved.

The lack of clear operational rules can directly affect the cost of the financed projects, hamper the disbursement of loans, and complicate the administrative procedures of their execution.

The study of operational policies is a complex and delicate matter. We realize that progress may still be limited following approval of Resolution AG-5/76. This should not, however, keep us from examining and discussing questions closely related to modernizing the functional procedures of the Bank. At the meetings held in Cancún and Guatemala, the Governors expressed opinions that agree with ours. We do not seek hasty reforms that have not been given the necessary technical evaluation; we ask only for clear and precise rules.

We reaffirm our judgment that the Bank, as a multilateral institution, should not try to settle unilaterally questions whose discussion and solution is the responsibility of more suitable forums and mechanisms.

Bank policies should maintain the principle of equality on which this agency was founded. All the countries of Latin America, without exception, are in urgent need of additional external resources to finance their development. All the Latin American countries must be guaranteed access to the resources of the Bank. It should also be stressed that it is the countries themselves which best know their development priorities and objectives; therefore, they are the ones to determine how the loan programs should be used.

In the last two years the Bank has given priority to financing such activities as agriculture, industry, and mining—sectors which have received almost 50 per cent of total loans granted, while lesser amounts have gone to the economic infrastructure. In the 1961-76 period a larger volume of resources was allocated to the latter. The foregoing implies a change that, given the shortage of funds for lending, may signify less support for either of these two basic sectors of the region's economies.

There has been progress, as is evidenced by the incorporation of new countries into the Inter-American Development Bank, and innovative formulas have been advanced such as the one to sell participations to countries with excess liquidity, and to grant collateral guarantees to facilitate direct access to the capital markets as well as technical cooperation in presenting projects to banking consortia. With perseverance we can overcome other obstacles, propose new solutions, and prevent the imposition of baseless credit restrictions.

Latin America faces an uncertain economic future. Its situation calls for the cooperation of other nations of the world and of agencies like the IDB, which are essential to building a just, modern, and balanced society. The presence of nonregional countries encourages us, because it explicitly recognizes the most constructive principles of international cooperation.

Mexico invites all of the member States to join together in action to revitalize the Bank. We propose reinforcing its institutional and operational structure, increasing its capital, and giving a new impulse to the transfer of real resources to the developing countries of the region. In this way, Latin America will be able to contribute to strengthening the international flow of trade and finance and to serve as an example of what can be achieved through understanding and cooperation. This is the fundamental task that confronts us. Let us hope that a spirit of unity will prevail that will rise above biased or transient interests.

**Address by Mr. David Blanco Zabala,  
Governor for Bolivia  
and Minister of Finance**

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It gives me great pleasure to convey to the Government and people of Canada the special greetings of the Government and people of Bolivia. Canada is a country with which my own maintains the most cordial and fruitful relations. The great sensitivity that characterizes the Canadian Government and people is manifested in its decision to cooperate with the developing countries as part of a new human philosophy which is widely recognized. I wish also to express my deep appreciation for the magnificent hospitality with which Canada is today welcoming us to her soil.

I want to take this opportunity to extend a warm welcome to the Bahamas, Finland and Sweden, which recently became members of the Inter-American Development Bank. We are sure that the active participation of these countries will greatly benefit the institution.

Once again we are meeting to evaluate a year of activity of the Inter-American Development Bank and to reflect upon its future action. Loans approved last year totaled \$1,809 million, 18 per cent higher than in 1976. This is a truly laudable effort of assistance to our countries. The same is true of the Bank's technical cooperation activities, which in 1977 reached the record figure of \$44.5 million. We are pleased also to note that disbursements, which are the true measure of effective assistance by the Bank, totaled \$832 million in 1977, also a record. Nevertheless, cumulative disbursements (\$6,777 million) represent only 57 per cent of total loans approved; we believe a need thus remains for decisive action to raise this percentage, since the commitment fee paid on undisbursed loan funds represents an additional financial burden for the borrowing countries.

On this matter, we wish to draw attention to the continued low share of total IDB lending that goes to the relatively less developed countries. Of total loans approved between 1961 and 1977 (\$11,945 million), the three countries of the URUPABOL Group—Uruguay, Paraguay and Bolivia—together received only \$852 million (7 per cent), a very small proportion in comparison with the amounts received by other countries. While all the member countries are of course entitled to draw upon the Bank's resources, there is need for a more rational policy that would narrow rather than widen the great disparities between them in level of development. The emphasis on attention to the less developed regions and countries and to the more disadvantaged social sectors called for by previous Meetings of Governors makes it essential to devise more flexible mechanisms in order to ensure more effective cooperation with these countries in the presentation and approval of their projects.

Nevertheless, from the regional development trends we note with satisfaction that the Bank is making a growing contribution to the economic progress of Latin America as a whole. We accordingly wish to congratulate the officers and staff of the Bank on another successful year of work under the able leadership of Mr. Antonio Ortiz Mena.

Our explanation of our reasons for requesting more resources would not be

complete without a reference to the efforts being made by our people to improve their standards of living and social conditions.

During the past five years, the average growth rate of Bolivia's gross domestic product was 6 per cent per annum in real terms, and the investment coefficient was approximately 20 per cent. In 1977 Bolivia continued to make substantial progress in its development; total investment amounted to some 16,000 million pesos, equal to 23 per cent of GDP, which places Bolivia high on the list of countries in terms of development effort. These achievements were made within a framework of financial stability, free convertibility, equilibrium in the balance of payments, minimum unemployment levels and low rates of inflation. In 1978 we expect to have a GDP growth rate matching those of previous years and we plan to make some fundamental changes in our economic-financial and institutional systems in order to permit continued socioeconomic development on firmer foundations.

We should like, for example, to strengthen even further our integrated project selection and financing system, in order to progressively establish a cohesive methodology that will earn us greater confidence on the part of governments and institutions that cooperate in our development. We should also like to rationalize public expenditure in order to remedy the fiscal deficit, which would tend to worsen as a consequence of external factors.

On this matter, allow me to mention an aspect which has been, and continues to be, in our view, the main concern of the developing countries and particularly of Latin America: the need for fair and equitable prices for our raw material exports in order to ensure that we will have the real and financial resources necessary to achieve the goals of development policy.

As you know, Bolivia is a major producer of tin, which is still the mainstay of our economy, despite the many efforts we have made to diversify our non-traditional exports. In this regard, the recent announcement by the United States that it will sell 45,000 metric tons from its tin reserves caused an immediate drop in the price of tin ore, causing serious harm to our economy. It is worth noting that such events could hamper the internal efforts of the various countries as well as the cooperation of multilateral assistance agencies such as that provided by the Inter-American Development Bank.

Another matter of deep concern to us, as well as to the other members of the Bank, is the increasing strain on the Bank's resources position. At the Cancún Meeting in 1976, we drew attention in frank terms to the fact that the shareholders that are best able and should honor their financial commitments to the Bank were not doing so promptly and in a spirit of solidarity. Should this delay continue in the payment of committed contributions, the Bank will be obliged to restrict its operations or raise the cost of loans to our countries.

We must stress that the establishment of the Bank represented a victory for the understanding and cooperation in our hemisphere and that the IDB is the major source of development financing for many of the Latin American countries. We trust, therefore, that there will be a return to an understanding of responsibilities and honoring of commitments. This is particularly important if we are to strengthen the flow of resources to the Fund for Special Operations and the capital structure, in order to lay a firm foundation for the Fifth Replenishment of Resources.

As far as the resources of the Bank are concerned, we agree that new ways should be explored for increasing them and that we should assume a greater proportion of the increase even if we have to strain our respective capacities. We therefore support the proposed resolution presented by Honduras at this Meeting.

We should also like to express an opinion to which we alluded at the meeting of the Consultative Group for Bolivia held recently in La Paz under the sponsorship of the World Bank as a follow-up to the one held in Paris last year.

In the last few years my country has been disqualified for soft loans from international agencies on the basis of its per capita income. This indicator is not sufficient because the conditions which actually characterize under-development have not disappeared and, in some cases, have not even improved to any significant extent. Illiteracy, malnutrition and infant mortality are still rampant. In the case of Bolivia, a further factor is the presence of a large rural population which has still not been brought into the mainstream of the economy. We therefore believe that there is a case for revising our thinking on this subject and for approaching the question of the treatment to be accorded the developing countries on a more realistic basis which will actually help to improve existing conditions. Otherwise, some countries like my own find themselves disqualified for concessional assistance.

I would like to take this opportunity to inform the Governors that next month (May 1978) the *Fondo Financiero para el Desarrollo de la Cuenca del Plata* (Fund for the Development of the River Plate Basin), a scheme which involves Argentina, Bolivia, Brazil, Paraguay and Uruguay, will approve its first loan operations. The Inter-American Development Bank has already provided technical cooperation on institutional matters, but we should like to suggest on this occasion the possibility of further cooperation in order to enable the Fund to expand its operations rapidly. This cooperation might take the form of a loan, as was the case for the Central American Bank for Economic Integration and the Caribbean Development Bank, without prejudice to such technical assistance as might be necessary.

Lastly, there is a matter of concern regarding the functioning of our Bank which should be given prompt consideration by the Governors. The difficulties besetting the United States dollar, the currency to which our contributions to the Bank are tied, are resulting in an intrinsic decapitalization of the Bank and are creating parallel problems because many loans are expressed in strong currencies which cost more at the time of repayment. We therefore believe that it is important for the Management to present us with a study of the situation and its implications in quantitative terms, for the Bank and its borrowers and to suggest the corrective measures we should consider. In that connection, we would remind you that as a result of the two official devaluations of the United States dollar, the method adopted for the adjustment of assessed contributions is still reflected in the false picture of the contributions to the Fund for Special Operations, a situation we never agreed to, as we have stated clearly at previous meetings of the Board of Governors.

Before concluding my remarks, I would like to mention one aspect of our development, namely the disadvantage we suffer from being deprived of a sea-coast. This year Bolivia is to return to constitutional government, presidential elections having been called for July 8, 1978. Through the broad democratic process

that this involves we shall be able, through constitutional means, to take resolute action to secure our legitimate rights to an outlet to the sea, since next year we shall have been unjustly landlocked for a century. We are confident that all the countries meeting here today, as well as all the other countries of the world, will understand the rightness of our cause and support us in our demand.

Finally, we wish to express our confidence that the Bank will continue to grow with the same dynamism it has shown to date, thus fulfilling the essential purpose of development, which is to achieve better standards of living and well-being for the people of the Americas.

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

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Let me join other speakers in expressing our thanks to the Government of the Commonwealth of Canada and to the municipality and the people of this beautiful city of Vancouver for the generous hospitality extended to us. We are very glad to meet on the territory of a regional country that is a very important contributor to the funds of our Bank.

It is with great satisfaction that we note the very considerable progress that has been made in the region during the last year. The Annual Report shows the improvement in many member countries and we are proud to state that the Bank was one of the important factors which led to this auspicious development. The fact that IDA funds are not channeled anymore into the region on a large scale demonstrates also the improvement of the general situation in the region. Nevertheless, Mr. Chairman, there is much work to be done, there is still large-scale poverty and substandard living in wide areas. There is still a tremendous need for food, potable water, health and education in vast areas; and the Bank and Fund for Special Operations will have to deal with these problems even on a wider scale than before. But it is gratifying to see that our efforts have not been in vain and the Bank could contribute substantially to this improvement.

My Government realizes that the future work of Bank and Fund requires additional resources and we are willing to bear our share of the common burden on an equal footing with other member countries. We are recognizing the fact that the Bank is a regional institution and it should remain so. On the other hand, the non-regional countries are playing an increasing role in meeting the Bank's capital requirements. We therefore think that the claim of the nonregional countries for a better representation in the board is fair and legitimate and that the fulfillment of this claim would show that all member countries are treated as equals. That is not only a matter of self-respect; it is a matter of substance. In many countries there are difficulties for the executive branch to get the necessary financial appropriations from the legislators. And legislators do ask questions. One of these questions is always the status of the country within the framework of the international institution. We know how much depends on the administration's ability to answer the questions of the legislators in a satisfying way.

We do not want to introduce politics into the business of the Bank. We think that we must be guided by the spirit of the Articles of Agreement and by our commitment towards the millions of poor and helpless to which we are supposed to bring help and a better life. My country is known to be a constant defender of human rights and our policy is based on the preservation and promulgation of human rights. My country is aware, also, of the complexity of this problem and of the different points of view regarding the definition of human rights. What we have to avoid at any cost is that the quarrel about definitions should impede quick help to the poorest and most despondent people in whose favor the world expects us to work.

Let me now turn, Mr. Chairman, to the efficiency of our Bank. We noted with deep satisfaction at the group meeting in Geneva in February that the Bank

has made further progress in stimulating capital mobilization. We were told that at the beginning one dollar spent by the Bank used to mobilize about two dollars of other sources. Now this relationship stands at one to four. This is very gratifying result. As the developing countries of the region are bound to reach the ceiling for further indebtedness in the mid-eighties and as debt-servicing becomes a very heavy burden, the Bank's credits will inevitably play a more important role to the recipients. It is clear that we are in full agreement with those who favor help to the most seriously affected countries with the lowest per capita income. We cannot, however, overlook the fact that in better developed countries of the region there are geographic and demographic areas and pockets with a dire need of help from our institution. We trust that the skill of the Bank's Management will find a fair and equitable solution to this problem.

May I just make a short remark concerning the site of further annual meetings. As many of us will proceed shortly to my home country to attend the Annual Meeting of the Asian Development Bank, I would like to tell you that whenever the Bank should wish to hold its meeting outside the region, Austria and her capital Vienna would be honored and delighted to host such a meeting.

In concluding, Mr. Chairman, I want to thank our President, Don Antonio Ortiz Mena, his able staff and all those who consecrated their devotion and work to the noble end of our common efforts for their performance in the last year. We trust that the Bank will also prosper in the future.



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

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Allow me first of all to join with my fellow Governors in expressing our appreciation to the Government and people of Canada and the Mayor and citizens of the picturesque city of Vancouver for the hospitality which has been made available to us and also for the obviously excellent arrangements which have been made for this Nineteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank

I wish also to extend a special word of welcome to the Bahamas which has, since our last annual meeting, joined the Bank as a regional member. Let me in addition welcome the nonregional countries, Finland and Sweden, which have also joined us since the occasion of our last annual meeting.

Mr. Chairman, before continuing, I would like on behalf of my country to put on the record our appreciation to the Board of Governors which has approved the resolution for the creation of an additional executive directorship to accommodate the joint representation of Barbados, Guyana, Jamaica, Trinidad and Tobago, and the Bahamas. Let me assure this distinguished gathering of Governors that the opportunity, so far as Guyana is concerned, will be used to participate constructively in all of the deliberations of the Bank in order to make the institution as responsive as possible to the development needs of the regional member countries.

The question of development needs, Mr. Chairman, must undoubtedly be examined in conjunction with the issue of availability of resources. The fact that in 1977 the Bank attained a level of \$1,809 million in new loans is indeed commendable, especially since this represented an increase of some 18 percent over the comparable figure for 1977. However, the continued creditable performance of the Bank could be in doubt if the anticipated resources on the basis of which commitments have indeed been made and lending has been programmed did not materialize. Guyana hopes that the transfer of resources already committed to the Bank will not be much longer delayed, and that the Bank will be able to continue its role as a major source of development capital for the less developed countries of Latin America.

It is well known, Mr. Chairman, that during 1977 the prices of a number of export commodities of the region suffered significant reductions on the export markets. For example, in the case of sugar and copper, prices have been deteriorating over a prolonged period of time. This situation, of course, severely limits the ability of many developing countries of the region to finance development primarily from export earnings. The position has been made more difficult due to the failure of the Conference for International Economic Cooperation to agree on the fundamental aspects of the establishment of a Common Fund although there has been agreement, in principle, for the Fund's establishment. In the meantime, and for the foreseeable future, it would seem necessary to do everything possible to strengthen development institutions, such as ours, for increased participation in the development of the member countries of the region. In this regard, we welcome the success of the Bank in raising some \$300 million in

resources from certain capital markets, notably Japan, the Federal Republic of Germany and a member of the Caribbean Regional Integration Movement, namely Trinidad and Tobago. Such borrowings should be supplemented by the further mobilization of resources from direct contributions of members. In this respect, Guyana places great store on the successful negotiations for the Fifth Replenishment of the resources of the Bank. We therefore, support the resolution on this matter submitted by the distinguished Governor for Honduras and look forward to the submission of the report by the Committee within the time limit set in the resolution. Indeed we endorse the President's proposal that the replenishment be made to cover an extended period of four years.

Mr. Chairman, we are all aware of the problems posed for some countries of the region by underdevelopment, rural poverty, large-scale unemployment, particularly among the young, and the need to pursue development strategies that could lead to the satisfaction of basic needs for food, shelter, clothing and the creation of opportunities to work.

These desirable objectives, however, cannot be fully achieved except in the context of rapid balanced and diversified development of our economies and substantial resource flows on very concessional terms that would not create unbearable burdens for the recipient countries later.

It is for this reason that Guyana regards the augmentation of the Fund for Special Operations of the Bank as a matter of highest priority. In the Fifth Replenishment therefore, the FSO must continue to receive subscriptions on an even more generous scale than in the past.

There are two other occurrences in 1977 to which I would like to make special reference. The first pertains to the amendment of the Agreement Establishing the Bank which enables the Bank to extend loans to the Caribbean Development Bank for on-lending to its members whether or not they belong to the Inter-American Development Bank. This is a most welcome development and we trust that the Caribbean Development Bank would be able to conclude its first loan with the IDB at an early date for on-lending to its members, particularly, to the less developed member countries of the Caribbean region.

In 1977, also, the Bank participated as a coordinating institution along with the World Bank, the International Monetary Fund and the Caribbean Development Bank in discussions aimed at formulating a program designed to increase the flow of additional financial resources to accelerate the development of the Caribbean region. We look forward to the active and meaningful participation and collaboration of the Inter-American Development Bank in the Caribbean Group for Economic Cooperation.

It is clear from what I have said Mr. Chairman that, potentially the IDB has the capacity to assume an even greater role as a vehicle for the accelerated development of the countries of Latin America. I urge on those who are our partners in development to do everything possible to help the Bank fulfill to the maximum the great potential it has for contributing to the development of the region.

Finally Mr. Chairman, I wish to congratulate the President, Mr. Ortiz Mena, the staff of the Bank as well as the Board of Directors for a successful year's operations. Guyana has had very cordial relations with the staff of the Bank and looks forward to continued cooperation and collaboration with the Bank for the benefit of all the people of Guyana.

**Address by Mr. J. Nierstrasz,  
Temporary Alternate Governor for the Netherlands  
and Head of the Development Assistance Department,  
Ministry of Finance**

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It is a great pleasure for me to address, on behalf of the Netherlands, the Nineteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank. I wish to express the gratitude of our Delegation for the hospitality extended to us by our Canadian hosts.

Last year for the first time a Delegation of the Netherlands, one of the then newly accepted nonregional members of the Bank, attended this distinguished gathering. In his address the Governor expressed the hope that the Republic of Surinam, with which we continue to have a close relationship, would soon be welcomed as a new member of the Bank. We are happy indeed that recently Surinam has been admitted.

Mr. Chairman, from the 1977 Annual Report we learn that the increase in the yearly volume of operations was sustained during the year under review. The Bank posted new highs in lending and technical cooperation to its member countries. In the accomplishment of these results sound principles of financial management continue to be applied. The Netherlands is pleased with the reputation in development finance the Bank has built up under the able and dedicated leadership of its President, Mr. Ortiz Mena. The Bank's triple A credit rating bears testimony to the confidence the financial markets have in its Management. We trust that in order to enable the Bank to uphold its standing and to continue its operations all member countries understand they have to meet their obligations to the Bank.

The Netherlands Government attaches great importance to the economic and social development of the poorest and most seriously affected developing countries. Therefore we observed with great interest the reflection in the Annual Report of the emphasis by the Bank as a matter of policy on promoting projects in the lesser developed member countries and projects of socioeconomic impact.

Mr. Chairman, in this context I feel obliged to make the following observation. The Netherlands is of the opinion that the vast differences among the developing countries with respect to their economic situation, domestic financing, availability of natural resources and export opportunities call for differentiation in the development policies. Forecasts of future developments point to the necessity of measures to be taken promptly in aid of notably the poorest developing countries. Thus we feel that within our country's budget for development cooperation the resources mobilized to combat poverty—our concessional loans—should be increasingly directed towards the lower income countries of Asia and Africa. As compared with these countries, the Latin American countries are more developed. For this reason the Netherlands is likely to contribute more to the forthcoming expansion of IDB's conventional resources than to the expansion of its concessional resources.

Mr. Chairman, I should like to stress the important role the IDB can play in helping the relatively more developed countries of Latin America to gain access to

the world capital markets by making use of its guarantee authority and actively considering requests for guarantees of bond issues from interested developing countries.

In addition to this guarantee authority, the Bank's interesting initiative of establishing a complementary financing mechanism, under which additional private financial resources are channeled to projects in Latin America through parallel Bank loans, will help these relatively more developed countries establish themselves as creditworthy borrowers in the bond markets. In this context I wish to stress that a thorough evaluation of the projects, including a study of the country's macro-economic situation and creditworthiness, is of the utmost importance. We would welcome it if a clear policy would be developed for the allocation of the soft and hard funds to the recipient countries on the basis of unambiguous criteria. My country's capital market is open to foreign borrowers and we have traditionally welcomed capital issues of international institutions. The Netherlands authorities will be most willing to cooperate with the IDB in the event of an operation of the Bank in our capital market. I should also like to encourage the Management to further study and develop the possibilities for a closer cooperation between the IDB and the European Economic Community.

Mr. Chairman, let me conclude by expressing my Government's congratulations to the President, Mr. Ortiz Mena, and his dedicated staff for their excellent performance during the year and conviction that the Inter-American Development Bank will play an ever more important part in the economic and social development of Latin America. We ourselves are happy to participate in this institution.

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

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The Annual Meeting of the Inter-American Development Bank takes place this year in Canada, a country which in becoming a member of the Bank enabled the institution to become a truly hemispheric organization, covering the American Continent from the north to the extreme south. Our expression of thanks to our host country is therefore double: firstly, for the understanding it has shown in wishing to accompany us in this effort to promote the economic and social development of the Americas; secondly, for the reception it has given us here in this progressive city of Vancouver.

The year 1977 has been particularly significant for the Inter-American Development Bank. During the year, the annual lending authorizations, as well as the disbursements, reached the highest figures in the history of the institution.

This indicates its vitality, as well as the vigorous action of its authorities and staff in mobilizing its own and other resources to further the progress of our nations. Allow me therefore to express our recognition for the work that has been accomplished. For my part, in the particular case of Argentina, I would specially like to place on the record the support we have received from the Bank at a crucial moment in our economic development.

In order to achieve these goals, the IDB has been able to mobilize not only regional financial resources but also nonregional ones and the success of its bond issues in the various capital markets are proof of the prestige achieved by the institution, as well as of the interest of the countries in which these issues have been made in adding their efforts to the economic and social progress of the American Continent.

This has demonstrated the wisdom of the trend which has developed over the last few years of placing the accent on multilateral financial assistance in preference to bilateral assistance. In addition to obtaining in this way a better distribution of the development financing effort, a greater sense of responsibility is achieved in the more developed parts of the world to participate in the promotion of the development of others.

At the same time, a new form of financing through the Bank's action has recently become important. I refer to the complementary financing provided by private financial institutions in projects supported by the Bank, which has a catalytic effect, promoting and attracting private funds for these purposes.

From the point of view of the borrowers of these loans, we must also express our satisfaction for the support given to the private sector of our countries which have benefited from an important part of the credits granted. In this way a proper balance and coordination is achieved between the public and private effort for promoting economic and social development.

The necessity of preserving the multilateral character in the activities of the Bank, which has proved to be so beneficial, obliges us to place on the record of this meeting our concern that the Bank's decisions should be kept apart from all political considerations that might distort its purely economic and social functions.

The Agreement under which the Inter-American Bank was founded was wise in precisely establishing this norm, and we should not allow circumstantial issues, however worthy they might be in theory, to disturb the operation of the Bank and its positive effects which, in the long run, will have a favorable effect on the very matters which are at the bottom of those issues.

Similarly, and as part of this same concern, we consider that the Bank's action should not be circumscribed by the existence on the world market or in certain countries of temporary surpluses of certain products. These indiscriminated limitations can harm the more efficient nations, which even with low prices can obtain adequate returns.

In order to carry out its functions effectively, the Bank not only needs to exercise the greatest imagination in mobilizing all types of financial resources, but must also be able to rely with assurance on its own ordinary funds, in respect both to the compliance of the amounts required for the integration of capital, as in the increase which is needed to carry out its mission without facing stumbling blocks.

In this respect we wish to mention the effort carried out by the countries denominated "A" in relation to the Fund for Special Operations. In the first place they agreed to renounce the use of hard currency for this type of credit and secondly, to make at least 25 per cent of their contributions to this Fund in freely convertible currencies. It is, therefore, fair that they also should be beneficiaries of the credits granted from the Fund for Special Operations, bearing strictly in mind the socioeconomic effects of these loans.

Similarly, in the constant search of the Bank for new resources to support the expansion of its activities, we believe that serious consideration should be given to the possibility that, without affecting the special reserve, the destiny of the general reserves might be reviewed so that they might be used in financing projects.

In regard to those countries which have a relatively greater degree of development, in relation to their eligibility to benefit from the Bank's loans I would like to make two comments. First, even in these countries there are geographical or sectoral areas which have a considerably lower degree of development similar to that of other countries considered to be less developed. Second, the allocation of financial resources to these countries brings about a higher multiplier effect and more rapid progress, due precisely to their greater degree of development, which will allow them to reach higher stages sooner. This has very positive results not only because of the demonstration effect, but also by the indirect influence on more backward countries or areas.

With respect to the relative importance that the Bank should attach to loans for projects with economic or so-called social effects, without prejudice to paying due attention to those which might be considered purely social, it is convenient to bear in mind that every economic project has important social effects and that the most important and permanent way of raising the standard of living of peoples, even of the lowest income levels, is of furnishing them not only with social assistance but also of productive capacity, so that the multiplier effect of the latter will allow them to rise by means of their own efforts to higher standards of living.

As to the Bank's policy on the use of foreign exchange, we believe that the violent fluctuations which have recently taken place in the quotations of the principal convertible currencies, make it now more necessary than ever to adopt a procedure which does not imply transferring to the borrowers the exchange risk

originating in disbursements which are made in the more stable currencies. Similarly, the fixed rates of interest which the Bank applies to its credits, regardless of the currency disbursed constitutes a burdensome and unfair situation which we consider should be reviewed.

With respect to the use of Latin American currencies, we have been pleased to notice the decision of the Board of Executive Directors which clearly establishes the principle that the local monetary authorities are exclusively competent to determine when and in what amounts the funds in the currency of the borrower country are to be used. The use of our currencies to pay for goods from one country of one region to another in projects financed by the Bank would be contradictory to this sound principle. It should be recalled that the governments of the countries of the region have established mechanisms for cancelling their current accounts and that these function without problems.

Similarly, we would like to express our satisfaction with the present policy of the Inter-American Development Bank of paying in foreign currency local suppliers who have won international bids.

We have been particularly pleased to note the emphasis the President of the Bank has placed in giving preferential attention to the development of the basic natural resources of the region. In the present context of world crisis in the supply of many of these products, it is absolutely necessary that the Bank should provide its support for this purpose.

As to INTAL, its first stage of reorganization has already been completed and we hope that with its new structure and working in close contact with the private sector, it may strengthen and carry out an even more useful function in our countries.

I cannot conclude these remarks on the activities of the Inter-American Development Bank without referring again to the irreplaceable role it plays as a catalizer and promoter of regional development and of the financial and technical cooperation among Latin American countries. In this respect, as nations progress in their economic growth and undertake even more ambitious projects, it is evident that they in some way exceed the amounts which the Bank can regularly supply by itself. But this is no reason for excluding these countries or these projects from the Bank's activities. It is precisely in these cases in which the IDB, in association with other international credit institutions such as the World Bank and with other public and private sources of finance, can generate the financial effort which otherwise would not be available or would only partially be so, or would be so under more onerous conditions.

In this respect I would like to mention as an example, the activity which the IDB has displayed in the River Plate Basin, particularly in regard to the hydroelectric project of Salto Grande, which has been the object of the joint efforts of Argentina and Uruguay, as well as that which we intend to carry out with Paraguay, the Yacyretá dam.

### **Present Conditions and Prospects of the Argentine Economy**

At the last two meetings of the Board of Governors of the Inter-American Development Bank held in Cancún and Guatemala in which—as on this occasion—I was privileged to represent Argentina, I availed myself of the

opportunity to share with my colleagues of the American Continent as well as with our friends from other IDB member countries, our concern, our cares and our determination to press forward with the program, begun April 2, 1976, to achieve the recovery, reorganization and expansion of the Argentine economy.

On this third occasion in which I again have the privilege to address the Board of Governors, I would like to describe the basic characteristics of the economy we are attempting to establish in Argentina.

### *1. A Modern Production-Oriented Economy*

One of our main objectives has been that of transforming an economy in which the factors of production had been paralyzed, investment had been discouraged and speculation had been fostered, into a truly modern production-oriented economy, in which private enterprise is recognized as its basic driving force, with the State's functions reoriented to perform in a subsidiary role. The State retains, however, the overall control of the economy and the adoption of its basic guidelines by means of budget, monetary credit, currency, tariff, exchange and tax policies. To achieve this target we have introduced fundamental changes in the price, foreign exchange, tax, financial and budget systems.

The elimination of price controls by the State, replacing them with the control achieved by competition in a free market; the elimination of foreign exchange controls and of artificial rates of exchange, replacing them with a free exchange market and by a single free exchange rate, not only did away with scarcity, undersupply and the black market, both in goods and in foreign exchange, but also acted as a powerful stimulus for all the factors of production.

Thus, in 1977 gross fixed investment grew by over 20 per cent and rose to the highest annual absolute level attained in recent times. The gross domestic product, after showing a negative rate of growth for two years running, as did the investment, recovered and reached the highest absolute level ever attained, and increased at a rate of 4.4 per cent in 1977.

As to the agricultural sector, the largest grain crops in our history have been harvested in the last two years. In addition, in this sector we are promoting the modernization of the sector both in technology and increased yields, as well as by broadening the agricultural frontier so as to bring hitherto unproductive land into production.

Special legislation designed to increase forest planting and production has been enacted. Fishing has also been given new support and exports of fish products in 1977 almost doubled the 1976 figures.

Regarding industry, investment has been promoted for both modernizing and expanding existing facilities, as well as for setting up new projects. A trend towards re-equipment of this sector is clearly indicated by the fact that the machinery and equipment sector shows the highest growth as regards both private investment and gross domestic product. Moreover, imports of capital goods represented in 1977 a quarter of total imports. As to the new industrial projects, under the promotion system currently in force, total investment authorized in the last two years has exceeded \$3 billion.

The regime for promoting industrial exports has also been updated and is now based upon a system which guarantees stability and continuity. In this respect, exports of manufactured goods have risen to nearly half of total exports. Some



29.5 per cent is represented by manufactures of agricultural origin and 21.4 per cent by manufactures of non-agricultural origin. On the other hand, 49.1 per cent of our exports consist mainly of agricultural and livestock products.

A new system for the temporary importation of raw materials and intermediate goods for processing and subsequent export will soon be enacted and will greatly broaden the scope of this activity. Anti-dumping legislation, updated and capable of being quickly and adequately enforced completes this series of measures. On a parallel basis, the importation of capital goods has been facilitated, without affecting corresponding local industry.

A committee has been set up to study far reaching changes designed to implement a short- and long-term tariff reduction program, prior consultation with the private sectors involved and an analysis of the structure of industrial costs, with a view to strengthening our manufacturing production and reducing its cost, thus enabling it to attain an economy of scale, gaining access to world markets under competitive conditions.

The modernization of the industrial sector has also been favored by the approval of the foreign investment law and another which facilitates the transfer of technology under satisfactory and fair conditions for the investors and in accordance with the interests of the national economy.

Under this legislation, foreign investment has shown a renewed interest in Argentina and new investment capital has already begun to flow in. The reinvestment of profits and capitalization of credits is also taking place to a significant extent.

The Argentine industrial sector, which represents approximately 37 per cent of gross domestic product, faces the present challenge by means of a process of modernization, re-equipment and expansion which, although it will require a strenuous effort, will finally benefit this same sector as well as the country at large. In this context, basic industries have not been overlooked: they have been assigned preferential treatment by promoting their growth on a sound and firm basis.

## *2. Modernizing and Expanding the Economic Infrastructure*

### *A) The Energy Sector*

The Energy Program for the 1977-85 period has projected a total investment estimated at more than \$24 billion, approximately equally divided between the electric and fuel sectors. Regarding the first, at the end of that period the nation's installed capacity will have been doubled and in achieving this the emphasis will continue to be placed in developing hydroelectrical and nuclear power. This program will double the percentage of participation of hydroelectric power in the country's electricity production and covers the termination and initiation of 14 important hydroelectric power stations including binational projects such as Salto Grande, jointly undertaken with Uruguay, and Yacretá, a joint venture with Paraguay.

In the fuel sector, the State-owned oil company has been turned into a corporation or stock company with a view to greater efficiency and accountability, although its shares are owned exclusively by the State. Furthermore, in order to move from an 85 per cent domestic supply towards self-sufficiency in oil by 1985, this field has been opened up to participation by private enterprise, both

local and foreign. Adequate competition will be assured as contracts will be awarded under the public tender system. Contractors will undertake with the State oil corporation to carry out drilling, secondary exploitation, exploitation and exploration. Under the risk contracts law bids will be carried out for risk exploration contracts by private enterprise of extensive on-shore and off-shore areas.

Extraction and use of natural gas has also been singled out for special attention, both for use as fuel and as a raw material for the petrochemical and steel industries. Our own resources in this area are supplemented by means of agreements signed with the sister republics of Bolivia and Chile covering supplies of natural gas in the northern and southern extremes of our country, supplied by means of pipelines linking Argentina with gas-fields in these two neighbor nations.

In this respect, it should be noted that important works are being carried out with IDB financing for laying down the Southern gas pipeline, from its well-head in Tierra del Fuego, down under and across the Straits of Magellan, and linking up with pipelines situated further north. Simultaneously with this project, the construction of a center-west gas pipeline is envisaged, by means of which the entire gas supply system, from North to South and East to West will have been interconnected.

#### B) The Highway Sector

In so vast a territory as Argentina's, communication by road is of the highest importance and we are thus paying particular attention to this sector. In 1977, the National Highway Administration completed works covering more than 3,000 kilometers of roads and 5,000 meters of bridges, including the termination of the large Zárate-Brazo Largo complex, over 150 kilometers long. For 1978 an important number of projects will be continued and we shall begin to implement the \$100-million credit granted by the World Bank for this purpose.

#### C) The Telecommunications Sector

In this sector, which seriously dropped behind in the years prior to the advent of the present Administration, a five-year plan has been put into effect for production of telephone exchanges and receivers, which had been paralyzed, and the telex, microwave and radio networks will be improved and expanded. We shall also start using the most up-to-date semi-electronic systems, for which we shall resort to the most advanced technologies available on the world market in the most favorable conditions, bearing in mind the possibilities of local production of this equipment.

#### D) National Transportation and Marine Equipment Plans

In this sector a study for coordinating the development of transportation throughout Argentina is envisaged, aimed at securing a well-balanced fulfillment of the variety of needs in various regions. At the same time the railway system's reorganization and rationalization plan is being pursued and has already given excellent results as regards the reduction of the operating deficit and its adjustment to the requirements of the modern Argentine economy, as also to reinforce the railway system's most profitable lines by implementing an important plan of investment and re-equipment.

The shipping sector has also been considered and re-equipping plans are being carried out to replace obsolete tonnage. We are also gradually expanding the overall tonnage and capacity of our merchant marine. Procedures leading to a feasibility study for the building of a deep-water port are also being actively pursued.

### *3. Modernization of the Financial System*

The Argentine economy was seriously obstructed by the lack of a modern and efficient financial system which could adequately cope with its development requirements. In this respect a new law regulating the activities of financial institutions came into effect June 1, 1977, bringing about a revolution in this crucial sector of the economy and finance of the country.

The law was designed to encourage competition in this sector, as also the use of the most modern banking and financial techniques.

Simultaneously the practice of setting official limits to bank interest rates was abolished. These interest rates had always been negative, that is to say below the rate of inflation. This benefited creditors, thus subsidizing their costs, but at the expense of the investor who was thereby discouraged from investing in local currency, thus causing a flight of capital due to investment in foreign currency. With the freeing of interest rates, this process was drastically reversed and in a few months the fundamental object of achieving a tendency to invest in Argentine pesos as a basis for national investment was achieved. The rate of internal investment has now reached the record figure of almost 30 per cent of the Gross Domestic Product. We have thus established one of the basic pillars for the economic growth of the country, as there cannot be a strong economy without a strong process of national investment to induce economic progress.

### *4. Decentralization of Economic Growth*

Argentina is, according to the political system of our Constitution, a federal nation. Over many years, the tendency towards economic and political centralism has resulted in the absorption by the National Government of more and more powers to the detriment of the Provinces.

The present economic program includes, as one of its fundamental principles, the promotion of a genuine economic federalism in the modern sense of the word. Although the fundamental principles of economic policy must be the same for the whole country, their implementation must be decentralized in order to adapt them to local needs.

In all aspects of the economic policy mentioned above we have placed particular care in promoting this tendency towards decentralization, not only in regard to primary and industrial production, but also in the supply of basic services, the improvement of the general economic infrastructure and in the use of energy resources. The previous centralizing tendency has been reverted in the financial, credit and taxation fields, thus promoting the development of a genuine economic federalism.

### *5. Strengthening the External Sector*

The aforementioned freeing of the exchange system, as well as the policy of promoting exportable production, allowed us to drastically revert the negative

situation of the balance of trade and payments which existed at the beginning of 1976 and to further strengthen this tendency in 1977.

During this last year exports reached the record figure of more than \$5.6 billion, which is 25 per cent above the highest figure attained previously. Similarly, imports reached their highest level of slightly more than \$4 billion.

The positive result of the balance of payments in its current transactions item was of nearly \$1.3 billion, while in 1975 this figure was almost identical but represented a negative balance.

With respect to the variation of international reserves, we have passed from a negative balance of nearly \$800 million in 1975 to a positive balance of more than \$2.2 billion in 1977. This implies a swing of the pendulum of more than \$3 billion from negative to positive in less than two years.

Simultaneously, the reserves of the Central Bank have been restored, as foreign assets have reached the record figure of more than \$5.5 billion, while freely available reserves, which in March 1976 were practically nil, have reached the also record level of \$4.5 billion.

These reserves are not only strengthening the external situation of the country, but they are also allowing us to repay in advance part of our foreign debt.

The total amount of the Argentine external debt, of somewhat less than \$10 billion, considered both in relation to these reserves and to the annual export volume, does not present any problem. With respect to the profile of this debt, that is, to the maturity dates, we have been striving to improve it. The substantial volume of credit granted by international organizations such as the Inter-American Development Bank and the World Bank have greatly contributed to the attainment of this objective, as also the renewal of the practice of issuing bonds of the public debt of the Argentine State in the world financial markets. This has allowed us to obtain financing for our public works and economic development in better conditions with respect to maturity and interest rates.

In this way, by continuing the policy of strengthening the external sector, we have eliminated the recurrent cyclical crisis of the balance of payments to which our country was accustomed, and the external sector has ceased being a limiting factor for the growth of our economy.

Moreover, we have established a strict control of foreign indebtedness, particularly that of the public sector, with the object of ensuring that it is maintained within the established limits and under the best financing conditions.

#### *6. Modernization and Reorganization of the State's Functions*

One of the fundamental bases of the economic program is—as has already been mentioned—a redefinition of the State's role, establishing its subsidiary function with respect to the action of private enterprise. This is without detriment to its maintaining the overall control and guidelines of the economy and the adoption of the main economic and financial policies.

This has led to the establishment of the principle that the State should not invest in those sectors in which private capital is available, with the few exceptions of areas such as security of national defense.

In this way a better use will be made of the resources of the State, which will be directed to satisfy its own specific requirements, and especially to establish a strict order of priorities in order to achieve a better allocation of public funds:

This principle has been adopted in preparing the 1977 and 1978 budgets, thus improving the soundness of decisions related to public investment. The latter has reached the highest level ever of over 12 per cent with respect to gross domestic product.

At the same time we have acted with firmness and vigor in reducing the deficit of the national budget, which had reached the extraordinary level of 13.5 per cent of the Gross Domestic Product. Thanks to the various measures which were implemented in 1976, both in respect to the re-structuring of the tax system and the reduction of public expenditure, it was possible to comply with the target set for the 1977 budget of not exceeding a deficit of 3 per cent of the Gross Domestic Product. This target was reached and for the 1978 budget the even more ambitious target of 1 per cent of the Gross Domestic Product has been set.

Even more important than the reduction of the deficit is the decision that in 1978 it will be financed exclusively by means of internal and external credit. This means that for the first time in over 20 years there will be no net annual emission by the Central Bank to finance the budget deficit. In this way the most important cause of Argentina's inflation during recent years will be eliminated. With respect to the improvement and reconstruction of the tax system, in 1977 taxes collected by the Tax Department increased in real terms, i.e. in terms of money of constant value, by 108 per cent with respect to 1975.

Regarding the reduction of Treasury expenditure, despite the rigidity of the administrative and budgetary structure which permits that definitive results can only be obtained as a result of persistent efforts carried out over several fiscal years. However, a reduction of 54 per cent in the Treasury deficit was achieved in 1977 with respect to 1975, a year in which there was a drop of 40 per cent compared with the previous year.

In this endeavor the reorganization of state companies has had an important influence. For example, whereas in 1976 out of a total of 15 state public service companies, 14 received grants or subsidies from the National Treasury, in 1977 this number had been reduced to 8, and in the 1978 budget only two state companies, i.e. the railways and the postal service will receive these subsidies. Moreover, in the case of the railways, which received a subsidy from the National Treasury of \$2 million a day, this figure decreased by more than half in 1977 and will be reduced by a similar amount in 1978.

This marked improvement in the condition of state companies has been, and will continue to be, achieved by various means. On the one hand the reduction of their expenses and of investments which can be carried out more effectively by private enterprise in those cases in which this is feasible. Furthermore, in order to rationalize their operations, several of them have gradually been transformed into corporations or stock companies, a trend which will be followed in the future so that they might enjoy the flexibility and benefits of a private company, but with the corresponding obligations, such as presenting balance sheets, having inventories and meeting established goals, operating efficiently and not burdening the population with the cost of inefficient operations. Simultaneously, the rates for public services and the prices of fuel, which had been kept for many years at a political level in order to disguise inflation, have been readjusted. The delusion into which the population was induced by paying a bill below the real cost of these services, was offset several times over through the incidence of the worst of all

taxes, inflation. This came about because the deficit in the operations of the companies had to be covered by the National Treasury by means of monetary issues. The lack of an adequate level of rates and prices not only made it impossible to improve and expand such services but also did not allow for adequate maintenance and avoidance of the obsolescence of their equipment.

Simultaneously we have continued the process of returning to the private sector a considerable number of companies which were previously in this sector and which had been intervened or their management taken over by the State due to the fact that they were bankrupt. The majority of these companies required subsidies from the National Treasury in order to subsist, due to the losses with which they were operating.

As part of this process it is worth mentioning that the National Development Bank and the National Savings and Insurance Fund have already sold back to the private sector 75 per cent of their holdings of shares in private companies, a process which will continue until it is completed.

### *7. Incomes Policy*

With the freeing of prices, their control by the State has been replaced by the control exercised by the free play of the market.

With respect to salaries, the continual loss of their purchasing power, notwithstanding constant massive increases has shown the uselessness of this policy. After an initial period of wage restraint to break the wage-price spiral and allow the economic recovery to make possible the payment of a better level of wages, during the course of the past year this policy has been made more flexible, thus allowing companies to pay additional increases above those established by the government in relation to greater output and increased labor productivity. In this way, we consider that the purchasing power of salaries will gradually continue to recover, without these periodic increases causing inflation.

At the same time, we have succeeded in maintaining a high level of employment which has served the double purpose, on the one hand, of compensation for the wage restraint policy and, on the other, of making possible the transfer of personnel from the unproductive public sector to productive private business. The rate of unemployment in April 1976 was 4.8 per cent and declined throughout the period. According to the last official survey, which is carried out three times a year, unemployment in October 1977 reached 2.2 per cent—the lowest figure of all time. Although this level is exceptionally low and we expect that it may increase somewhat later on, the future trends of the economy do not give rise to any undue worry in this respect.

### *8. Inflation*

In regard to inflation, we will continue to carry out all necessary measures to reduce it to an acceptable level.

It is worth recalling that two years ago we had reached the highest rate in our history of 920 per cent per annum. Bearing in mind that the wholesale price index of March 1976 showed the extraordinary increase of 54 per cent for this month alone, this implies an annual figure of 17,000 per cent, which gives an idea of the magnitude of the effort which had to be carried out and which still needs to be continued.

We are convinced that with the elimination of inflationary financing of the budget's deficit by means of monetary emission and the reduction of this deficit to a minimum level we have eliminated the main, although not the only, factor causing inflation in Argentina. However, we are still at an annual level somewhat above 100 per cent which, although it implies a substantial reduction with respect to the peak figures mentioned, evidently requires that we should persist in our efforts so that it may be substantially reduced.

This will, no doubt, require considerable efforts in continuing the process of readjusting the economy. We also require a change in mentality and in general business practices which have been deformed, due to having had to operate in a highly inflationary atmosphere—with its up and downs—during a period of 30 years.

We trust that as the inflationary expectations of the population decrease and that it is recognized that the basic tendencies of the economy are developing soundly and will not allow the previous inflationary pressures to reappear, we will succeed in reducing this deforming factor in the economic and social life of the country.

## Conclusion

As a summary of this process we can say that Argentina, as well as carrying out a reorganization of the economy to eliminate the enormous existing distortions caused by an artificial system which created great structural deformities, is attacking short-term problems bearing in mind medium- and long-term objectives, in order to achieve our goals of transforming and modernizing the economy. This can only be achieved by a global and coherent program such as the one we are implementing, which simultaneously attacks the causes and not just the effects of existing evils, and has as its main objective the harmonious and balanced growth of all economic and social sectors on sound and solid bases.

It is evident that this requires a great effort and that this effort should have the necessary continuity in order to achieve success. But we are convinced that the Argentine people are ready to face the sacrifice which is required to bring about this readjustment and reorganization, however painful it may be in some aspects, with the final objective of attaining the established goals and end the process of cyclical frustrations to which we have been accustomed during the last 30 years.

We know that this does not depend exclusively on the Government, which only sets the general framework and the basic rules of the game, together with the necessary reforms of the public sector. But it is all the inhabitants of the country, all the economic, social and professional sectors which, by their persistent daily efforts must play the leading role; and success will depend on their understanding and decision to face the changes required.

We must also remember that Argentina is facing this internal challenge in a moment in which the world is affected by serious difficulties caused by the energy crisis and international monetary instability. This makes it all the more difficult for us, as many of our most important markets are passing through a situation of recession and unemployment, which not only affects the volume of their imports but also triggers protectionist trade practices, in the context of a generalized decline of international market prices. On this subject we wish to take advantage of this

opportunity, as we did at last year's annual meeting of the World Bank and the International Monetary Fund, to add our voice to all of those who are alerting public opinion to the danger which the proliferation of restrictive trade practices implies for world economic development.

In spite of all these negative factors today when Argentina has practically overcome with blood, effort and sacrifice the sad and painful period during which subversive terrorism imperiled the foundations of our Nation, and lawful order and peace again prevail, we believe that adequate conditions now exist to be able to carry out the profound change in our economy to which we are directing our efforts and that with clearly defined objectives the majority of Argentines are convinced of the necessity of carrying out this process with faith, perseverance, disciplined effort and broad social solidarity, with private interests subject to the general welfare.

In this way we intend to recover lost time, so that Argentina will again occupy the place she should in the development and progress of the modern world.



**Address by Mr. José Ramón Álvarez Rendueles,  
Alternate Governor for Spain  
and Governor of the *Banco de España***

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As the Seventeenth Year of Operations of the Inter-American Development Bank draws to a close, we are experiencing difficult times. The world economy has continued to show a trend of weakness and vacillation in the past few years. Our hopes two years ago that a reactivation of world demand and activity would lead to a consolidated expansion of the world economy have not been borne out. The projections for 1977 have had to be revised downwards several times, there were clear symptoms of a deceleration in the pace of activity in the second part of the year and there are serious reasons to question whether the industrial countries and, behind them, the world economy, will succeed in avoiding another recession in the final months of 1978.

Productive investment cannot see its way clear through the uncertainties with which the energy crisis and the resulting transformation in the relative price structure have clouded the future industrial horizon. The consumers of the industrial countries, distressed or disturbed by the threat of high unemployment which cannot be absorbed, are maintaining unusually high rates of savings. Governments feel hamstrung in their effort to pursue policies of reactivation of the economy by the fear of setting off more inflation, which time and again rears its head like an evil which does not seem prepared to disappear. The disturbances in balances of payment on current account are continuing to raise a depressing question concerning the mechanisms of the world economy. And, like a longer-term spectre rises the fear that unemployment may become an endemic disease in a foreseeable future for economies accustomed to live with full employment for decades.

Different countries may be experiencing variations on these problems, but it would be pointless to examine, diagnose or try to cure their difficulties outside that world context, which conditions and limits their possibilities for action.

In Spain, we are particularly aware of that broader context. Spain is acutely sensitive to those complex world problems and is in the throes of profound political change. It has tried to attack its difficulties, after the general elections of June 1977, through consensus and concurrence between the various political forces on a basic economic policy. That policy calls for the establishment of a sound financial structure, a deceleration in expansion of the money market, a planned reduction in the rate of growth of income and the application of drastic socioeconomic reforms based on the principle of solidarity and the idea that all social groups should participate on an equal basis in the effort required to overcome our problems.

We can already report that the results achieved are very satisfying. The balance-of-payments deficit on current account, which amounted to \$4.3 billion, was reduced in 1977 to \$2.5 billion and we hope that it will not be much over \$1 billion in 1978. The inflation rate, which was about 30 per cent in the summer of 1977, has come down in the past few months to about 18 per cent, and we expect consumer prices not to increase more than 16 per cent from January to December

1978, as compared with a 26.5 per cent increase throughout 1977. Those results obviously cannot be obtained without compressing demand, with effects on economic activity and employment. In any case, the rate of growth of the GDP in real terms in 1977 was 2.8 per cent and we hope to reach a rate of 1 per cent in real growth in 1978. Unemployment has risen to about 6 per cent of the economically active population and is the main concern of the Government at this time. However, only if the inflation rate can be brought down to acceptable levels can we hope to launch an effective attack on the unemployment problem. In any case, we feel that the hardest times for economic activity and employment are behind us and that in the next few months our economy will make a gradual recovery.

I have taken the liberty of presenting a brief sketch of the world economic situation and its future prospects as well as the conditions in which my own country is developing. My object was to draw attention to the unfavorable climate in which our Bank has had to conduct its activities these last few years. That is why the efforts, no less than the achievements of the Inter-American Development Bank in the last year are doubly commendable. It can only be a matter of satisfaction to note that in the past year of its activities, the Bank—as its Annual Report rightly points out—has made an unprecedented contribution to the economic and social development of its member countries in Latin America approving a volume of new loans 18 per cent higher than the preceding year, authorizing the highest volume ever of resources for nonreimbursable technical cooperation operations and concentrating a larger percentage of its loan activity in convertible currencies in the less developed countries. A cumulative figure of \$11,945 million in approved loans clearly indicates the vigor and importance of our institution in contributing to the development of the countries of the region.

In view of those results, we wish to convey our thanks and congratulations to President Ortiz Mena for his able management, with the request that he extend them to his staff. I consider the able leadership of our President to be a model of how to preserve the difficult balance between prudence and dynamism.

The results obtained, which I am pleased to underscore once again, should not, however, make us complacent. Nor should they induce us to disregard the thorny problems which becloud the immediate future of our institution. There are difficulties arising both from the uncertainty surrounding the evolution of the world economy and from the specific problems of the Bank, particularly how it should be financed. Without dramatizing the situation, it should be said that the Inter-American Development Bank has now reached a complicated crossroad so that the decisions which have to be taken at this point should be examined and thought through very meticulously and realistically because they are going to be the major decisive elements in its future. However, I have not the slightest doubt about our capacity to overcome the difficulties and to select the best options because we bring to the task the invaluable assets of the Bank Management's imagination, competence and dedication and the cooperation and unselfishness of all the member countries.

And this brings me to the decisive question of the Fifth Replenishment of funds: how large the amount should be, how it should be apportioned among the members and even among the regional and nonregional members and how much of it should be ordinary capital and how much Fund for Special Operations.

With regard to the amount, let me say at the outset that Spain firmly believes that there should be a substantial increase in the Bank's resources while maintaining that the percentage increase being proposed in principle by the staff should be the subject of subsequent negotiation. And we should also consider whether in these difficult and uncertain times, a cautious and not unduly expansive policy may not be preferable to a sudden growth.

Broadly speaking, I personally favor a gradual, but sustained growth of financial institutions rather than irregular and erratic increases in their resources which run the risk of distorting loan programs and sometimes, if the burden is excessive, of generating a dangerous impatience in selecting where resources should be placed.

I can say as of now that Spain is prepared to contribute to the Fifth Replenishment within the limits of its possibilities and as part of the contribution of the nonregional members. But I should like to emphasize that the staff of the Bank should make a further effort to think the problem through so that it can propose contribution levels which will be realistic and in line with the economic conditions of each member country. That would no doubt greatly facilitate the arduous task of the democratic governments in presenting and defending those contributions to their respective parliaments. I should also like to point out that in recognition of the fact that the nonregional countries are well disposed towards the Fifth Replenishment, the Bank should ensure that those countries are represented on the Board of Executive Directors. That *quid pro quo* response of the Bank could be given expression by the immediate creation of a third executive director position for the nonregional countries.

Another controversial and very important question is that of the relative weight to be given in the proposed increase in resources to the ordinary capital and the Fund for Special Operations. The problem here goes beyond the mere apportionment of a specific replenishment and strikes at the conceptual nature of the institution which will be needed by the Latin American and Caribbean countries in the years to come. It is to be a financial agency in the strict sense of the term, a development assistance agency or a mixed entity which, taking into account the diversity in development levels of its borrower countries, must embody an appropriate combination of the two concepts.

Thus, it is not a question of opting for a single all-inclusive solution, but of reconsidering whether the combination adopted thus far should not in some way, given the varied circumstances, be replaced by another in which the ordinary capital resources might have greater relative weight. In rethinking the problem, one element of analysis should be to what extent, if any, the volume of possible resources depends precisely on the combination selected.

Those are some of the reflections which seem relevant at this time. It remains for me only to extend a welcome to the new member countries of the Bank and among our group of nonregional members, to France, and to express my personal thanks and my delegation's appreciation for the hospitality extended to us by the Canadian Government at this Annual Meeting in the beautiful city of Vancouver.

**Address by Mr. Robert Carswell,  
Temporary Alternate Governor for the United States  
and Deputy Secretary of the Treasury**

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This afternoon the United States Senate will vote on the second Panama Canal Treaty. That vote will be the culmination of efforts that began over 14 years ago to resolve the divisive issues about control of the Canal that have long complicated relations in this hemisphere. Our hope and expectation is that these treaties will finally settle these issues in the hemisphere and establish a more just and equitable relationship between the United States and Panama.

President Carter has personally led the efforts to conclude a successful negotiation, to win its acceptance by our citizens and to gain Senate ratification. The Senate itself has set aside many other important matters and has devoted more than two months to a careful consideration of the treaties' merits and of their historic implications. I would suggest that this record clearly establishes the important priority that this Administration assigns to its relations in the hemisphere.

The treaties are also visible evidence of the substance of U.S. policy toward Latin America and illustrate three major principles that guide us:

- First, respect by every nation for the political integrity and economic and social aspirations of every other nation.
- Second, recognition of the essential interdependence of developed and developing economies.
- Third, impressive progress in many of the world's developing countries—especially in Latin America—which enables them, by ability as well as right, to play an increasingly important role on the international economic scene.

This Vancouver meeting is itself a reflection of the inexorable currents at work. The Inter-American Development Bank now embraces not only this most hospitable of host countries, Canada, but many other developed countries around the world. What was originally a regional institution has acquired a global base, and become part of a world-wide system of highly important financial and development institutions.

United States support of the Bank, like our other responses to Latin American aspirations, is an element in our global approach to the problems of the international economic order—global growth and prosperity, making optimum use of material and human resources in a livable environment, ensuring the essential justice of the international system as a whole.

### **U.S. Policies for Development**

Last year, Secretary Blumenthal outlined for you the comprehensive nature of U.S. policies and actions benefitting the developing world. He deeply regrets that he is unable to be here today to renew the many warm contacts with other Governors he made in Guatemala. He recently was the host at a luncheon in Washington with President Ortiz Mena and representatives of many of your countries in order to maintain his personal involvement in U.S.-Latin American

economic relations. And he has asked me to emphasize that the United States remains absolutely committed both to the implementation of policies beneficial to the developing world, and to the constant search for additional ways in which U.S. interests and the interests of developing nations can be harmonized and better served.

This search for a convergence of interests, a sharing of responsibility for solutions to common problems, a commitment to partnership, was a central theme of President Carter's recent journey to Latin America. During his visit to Venezuela, one of the great democracies of the hemisphere, he said:

Our specific obligations will be different, our interests and emphases will vary—but all of us, North and South, East and West, must bear our part of the burden. If the responsibility for global progress is not shared, our efforts will certainly fail; only if the responsibility is shared, can we attain the goals that our people want and that our times demand.

We believe that the IDB has long symbolized this aspiration. The Bank is a unique cooperative effort between donors and recipients and its policies are shaped by both.

For the United States, an important part of the joint responsibility of which President Carter spoke is maintaining the strength of the dollar and the monetary system. The United States is deeply concerned about the value of the dollar and recognizes that currency stability is in the interest of the U.S. and the world economy. A stable dollar can only be achieved by dealing with the fundamental U.S. economic situation.

On April 11 the President announced comprehensive new measures to combat inflation. These included a series of measures designed to: (1) limit the size of the 1979 and future federal budget deficits, (2) restrict the salary increase of federal government employees, freeze the salaries of Executive appointees for another year, and urge similar wage restraint on state and local governments and private businesses, (3) seek voluntary price restraint in various economic sectors, and (4) reduce the inflationary effect of past and future regulatory actions by the government, while resisting proposed legislation in several fields which would contribute to inflation.

In the energy field the President once again urged the U.S. Congress to adopt meaningful energy legislation without further delay and indicated that, if Congress did not act, oil imports would have to be limited by administrative action under present law.

A third area of priority action is export expansion. We are encouraging American firms to become more export conscious. The Administration is supporting a sharp increase in the lending activities of the Export-Import Bank. Also in his address on April 11 the President called for a Cabinet-level task force to develop additional measures to promote exports, and to report back to him within 60 days.

The recent disorders in the foreign exchange market have reflected doubts about the U.S. ability to reduce its trade deficit. Once markets see that we are proceeding in the right direction on the fundamentals—by curbing inflation, reducing oil imports, and promoting exports—I would expect markets to calm. The U.S. will, however, continue to intervene to the extent necessary to counter disorderly conditions in the market and to curb destabilizing speculation.

The international monetary system is also being strengthened by measures to enhance the role and resources of the International Monetary Fund. The amended IMF Articles have just entered into force. They provide a new legal framework for international financial relations, including expanded IMF authority over exchange rate practices. The resources of the Fund have been increased by one-third, to about \$48 billion, through implementation of new quotas. The Supplementary Financing Facility will provide an additional \$10.5 billion in resources for use in assisting those members with severe balance of payments problems, including of course, developing countries. Legislation authorizing U.S. participation is now before Congress, and final action should be completed in the near future.

World payments are largely a reflection of world trade. In this key area, the Administration has demonstrated concretely its dedication to the avoidance of new barriers to imports from developing countries, and to further reduction of existing barriers through the Multilateral Trade Negotiations. We reject protectionism; where problems exist, our reliance is on strengthened domestic adjustment policies or on negotiation of temporary relief measures in specific cases. We do insist on fairness in trading practices; in such problem areas as export subsidies, we must work together to avoid economic conflict.

In the main, however, the U.S. offers a solid and growing market for goods at all stages of processing from developing countries. More than 25 per cent of our imports of manufactures now come from non-oil developing countries, compared to just 15 per cent in 1972. The Generalized System of Preferences allowed \$3.9 billion worth of goods to enter the U.S. duty-free in 1977, including \$1.1 billion from Latin America. Keeping our markets open has not been an easy task for the Administration in face of the high unemployment situation and a sizable trade deficit. But the reasons for maintaining a liberal trading stance are sound: minimizing inflation, creating trade-related jobs, avoiding international conflict. These considerations will continue to guide our policy.

Trade in commodities has been a special area of concern to developing countries, including many in Latin America. The United States has responded actively and constructively in this area. We understand the concern of developing countries over excessive price fluctuations and resultant disruptions in foreign exchange earnings, domestic investment and employment. We agree that it is desirable to seek international measures to stabilize prices around market trends, and believe that it is in our own national economic interest as well as that of the world community to do so wherever feasible. Thus we are participating in world stabilization agreements covering coffee, tin, and sugar and are taking part in discussions of possible arrangements for rubber, wheat and copper.

The foreign investment policy of the United States has likewise been attuned to the needs and interests of the developing world. Basic decisions remain with private investors but we will continue to facilitate capital flows through the Overseas Private Investment Corporation which will have a special focus in its operations toward the poorer countries.

Through this far-reaching array of policies, the United States is making a major contribution to economic progress and the alleviation of human want in developing countries around the world. We do so for reasons both practical and idealistic. We take great satisfaction in observing the impressive progress of those

more advanced of the less developed countries, whose billion or so inhabitants are beginning to enjoy more acceptable conditions of daily life and who are assuming a growing importance in the functioning of the world economy. These countries are emerging as full participants in the whole fabric of international exchange—as well as responsible participants in the international political framework necessary for a peaceful planet.

At the same time, our humanitarian instincts are disturbed at the continuing plight of large numbers of people in these countries, as well as those in the least developed countries, who have vastly different endowments, attainments and prospects. The most elemental requirements for sustaining human life itself are often unmet in these countries. Heroic struggles will be necessary to break the grip of stagnation and prevent poverty from feeding on poverty. These are the situations where external help on concessional terms must be concentrated, and where our greatest efforts must be directed.

To help in this endeavor the United States increased its foreign assistance by 31 per cent in 1977—20 per cent for bilateral aid, and a massive 69 per cent for multilateral aid including for the IDB. President Carter has proposed a further 24 per cent rise in 1978, including another 70 per cent increase in our contributions to the development banks.

### **The Growing Dynamism of Latin America**

Last year, Latin American GDP expanded by more than 5 per cent after growing by 4.8 per cent in 1976. Back in 1975, when the industrialized world had plunged into deep recession, Latin American economies continued to grow at an impressive rate of almost 3 per cent.

Latin American growth would have been even higher in 1977 if several major countries including Brazil, Mexico and Argentina had not been implementing necessary stabilization programs under which all made significant progress. Long-term trends have also been favorable. The average rate of expansion since 1965 has been slightly over 6 per cent—considerably better than the world as a whole, which grew at about 4 per cent if oil producing countries are excluded. The GDP of the region stood at over \$340 billion last year, or a per capita level of about \$1,100. This was far above the level of Africa and Asia (excluding Japan).

On the external side, Latin American exports grew at a rapid pace in 1977—rising by about \$9 billion to more than \$50 billion. The current account in the regional balance of payments improved by about \$2.5 billion, aided by a large trade surplus of \$3.2 billion with the United States, as compared to a slight deficit the year before. By the end of the year, combined international reserves were \$22 billion—nearly quadruple the level of only six years earlier.

These favorable developments in the aggregate statistics do not mean, of course, the solution of all of Latin America's problems. The region is much too diverse for that to be the case. Much poverty remains—an estimated 42 per cent of the people in Latin America live in poverty, irregularly distributed between and within countries. Much still needs to be done to improve domestic resources mobilization and income distribution.

We believe this can be done. Latin American nations in general have reached a level of maturity—in their planning capabilities, in the quality of their public administration, in the sophistication and vitality of their private sectors, and in

the provision of essential services to their citizens—that places the consolidation of development progress within their grasp. In no other region of the developing world is this phenomenon so widespread as in Latin America.

### **The Future Role of the IDB**

This assessment of Latin America's relatively advanced position along the spectrum of development has major implications for the future activity of the Inter-American Development Bank. In particular, it affects the balance between hard loan and soft loan resource requirements, compared to institutions serving other areas of the developing world. It is, inevitably, a central issue for discussion in the context of the next replenishment of the Bank's resources.

In terms of country distributions, further progress was made in 1977 in directing resources on the Bank's most favorable terms to the smaller and poorer countries. In the Bank's hard window, however, further efforts are necessary to assure an equitable distribution of resources to countries and to projects requiring development assistance.

Some of the other lending during the year may fairly be questioned in terms of priorities. For example, the export credit program is utilized principally by the countries best able to rely on traditional private sources of such financing. We believe that the Bank should devote its resources primarily to those sectors and projects for which private sources of financing on appropriate terms are not available. More resources would thereby be made available for projects of direct benefit to the poorer sectors of society.

Several other aspects of the Bank's 1977 activities deserve comment:

- Complementary financing, drawing directly on private market sources for project loans, took on significant dimensions during the year and opened the way for further development in the future.
- The effort to ensure that appropriate technologies are employed in projects financed by the Bank continued to gather momentum during the year.
- The Bank's internal capacity to evaluate the effectiveness of its loans was strengthened in various ways. In addition, the Group of Controllers, as an independent evaluation mechanism, initiated several subsector reviews that will shed further light on the project lending process. We believe that an independent evaluation mechanism is essential to maintain desirable standards of performance.

### **U.S. Policy Toward the IDB**

I have already noted the sharp increase in U.S. financial contributions to the multilateral financial institutions in 1977. In the IDB, our contribution climbed to a total of \$797 million in calendar year 1977—a three-fold increase during the first year of the Carter Administration.

In the Inter-American Development Bank during the year, as in other similar institutions, U.S. representatives have used both their voice and their vote on behalf of the cause of human rights. We believe that the goals and purposes of the Bank encompass a broad range of fundamental concerns. We also believe that scarce development funds generally can be best utilized to promote economic and social objectives by governments which have manifested a commitment to protecting and promoting the rights of their people.



As Secretary Blumenthal emphasized last year, we seek to cooperate with all members in finding ways to best advance our common commitment to human rights and the fulfillment of basic human needs while at the same time insuring the integrity and effectiveness of all the development banks. But no nation can continue to have a domestic consensus in favor of providing assistance to other countries if its own sense of decency is offended by the activities of the governments of the countries receiving assistance.

Another and quite different matter that affects the ability of the U.S. Government to maintain public support for international development institutions is that of administrative arrangements, especially the salaries and benefits enjoyed by the staffs of these institutions. The Banks are widely viewed in the United States as public agencies, and are therefore measured against standards appropriate for the use of taxpayer's funds. We believe that the Bank should pursue policies that gradually bring the compensation of its staff more in line with that of representative public and private sectors.

To the credit of the institution, corrective action has been taken in a number of other administrative areas—such as first class travel, spouse travel and annual meeting arrangements. But the central issue of staff compensation continues to require action urgently. A special committee is at work on the issue in the World Bank and the International Monetary Fund; its conclusions will provide a useful reference for action which we hope all the international financial institutions will promptly follow.

Dissatisfaction on matters such as human rights and salaries, along with the sheer increase in the magnitude of money involved, have led to the reluctance in our Congress to fund fully our recent appropriations requests. In addition to the \$650 million which we are seeking as new appropriations this year, there remain carryover appropriations requests for \$264 million of funds whose original due dates have passed. Of the latter amount, \$125 million is for the Fund for Special Operations.

We are making an intensive effort with the Congress to obtain the funds to cover all pledges past due, as well as to obtain the full amount of current appropriations. This effort engages the highest levels of our Administration, and there is reason to hope that a large measure of success will be realized.

### **The Future of the IDB**

There must also be a replenishment of the resources of the Bank. We have already agreed on arrangements for detailed discussion of the next replenishment of funds. The discussions will concentrate on the replenishment size, its composition by window, the purposes to which the funds are applied and where, the criteria for determining who within a borrowing country shall benefit from them, as well as certain administrative issues. Needless to say, the U.S. Administration will work in closest contact with our Congress as the replenishment discussions proceed; we have committed ourselves to do so, and no replenishment understanding would be of practical value without it.

Although we have no fixed views yet as to the specifics of the replenishment, it may be useful to put forward some issues which we believe should be considered during the coming discussions.

First, in light of Latin America's advanced stage of economic development compared to other areas of the world, we foresee a replenishment in which FSO resources will decline in relative importance to capital resources. Latin America has progressed to a point where the need for rising levels of concessional financing may no longer be justified. This relative scarcity of FSO funds will force on us hard choices in the allocation process.

Second, we must be ever mindful of the needs of the disadvantaged people in the area. We anticipate that an increasing proportion of the Bank's resources will be devoted to benefitting low-income beneficiaries in both rural and urban areas. There is a strong need to improve the definitions of who within a society is poor and what types of loans are considered as primarily serving their needs.

Third, we believe it would be appropriate to make available all replenishment resources in convertible currencies freely usable by the Bank. Although the Bank has made use of FSO national currency contributions, and to a limited degree of subscribed OC national currencies as well, resources in this form have given rise to numerous administrative complications. Rather than add to these, it might be preferable for the contributions to the FSO replenishment to consist exclusively of convertible currency. To achieve this change might require a different method of determining contributions in order to ensure equitable burden sharing.

## **Conclusion**

The original establishment of the Bank 18 years ago was an act of vision, even idealism, by pragmatic financial leaders of that time. Our task now, as financial leaders concerned with the architecture of the international economy in the approaching decade of the 1980s, is to demonstrate again a similar mix of pragmatism and vision. We need to replenish the resources of the Bank, but equally important we must utilize those resources with efficiency, flexibility and wisdom.

It is in this spirit of support and creativity that we approach the future of this Bank.

**Address by Mr. Francisco Swett,  
Alternate Governor for Ecuador and Chairman of  
the National Planning and Economic Coordination Board**

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My delegation finds it very significant that six years after the Meeting of the Board of Governors, held in Quito, and which witnessed the entrance of Canada into the Inter-American Development Bank, we Ecuadorans should enjoy the incomparable hospitality of this lovely country.

It was on that occasion that the Governor for Canada, Mr. Paul Martin, stated that while Ecuador is the line dividing two geographically equal hemispheres, it is also, unfortunately, the world line of poverty. Today, Mr. Chairman, there continues to be that profound division between affluence and poverty, social well-being and human suffering, power and dependence. Despite this continuing division, the resolute and united work of the Inter-American Development Bank and, in our own particular case, the magnificent cooperation of our sister nation on the Board of Directors, Brazil, is authentic proof that our countries realize that the task of development is arduous, and that systematic and continuous action, expressed in programs and projects, can extricate us from underdevelopment.

Relations between the Bank and Ecuador have been singularly fruitful, taking a direction that with time has become better defined through fulfillment of our mutual commitments and that started out from the basic priorities established by the Ecuadoran Government. We have had the assistance of the IDB in such areas of far-reaching importance as planning and the development of our National Preinvestment Fund (FONAPRE), which is carrying out a pioneering role in Ecuador with projections for all Latin America and the Caribbean. It is also encouraging to stress that, having completed the first stage of the Pisayambo Hydroelectric Plant, we have a concrete example of joint action in a project that is helping to narrow the gap in energy and technology between Ecuador and the other countries of the region. It is also worth pointing out that this joint action was recently strengthened when the Bank supported us in such important projects as the development of agriculture, irrigation and support services for the rural area. These projects reflect the national priority of directing our major activities toward the rural sector, which is the basis for Ecuador's economic and social development.

Our country's progress in the last five years has been substantial. The most common economic indicators confirm that between 1972 and 1977 the total product increased by 11.1 per cent in real terms, total investment by 17 per cent, and exports of goods and services by 17.4 per cent. Our industrial growth was remarkable thanks to our development policy; our agricultural and livestock sector, which has traditionally suffered from long-standing problems of stagnation, rose by an average rate of 5.3 per cent annually, thereby ensuring, to some extent, an expanded supply of food for domestic consumption and a greater agricultural surplus for export.

In spite of these achievements, the level of well-being of the Ecuadorans is low. There continue to be problems of illiteracy, health and housing and insufficient opportunities for productive employment. The development we have experienced,

however, implies greater challenges and much more complex problems of technology, policy planning and financing. Once the present favorable economic spurt has passed, prospects for growth in the immediate future are very limited and there is a pressing need to solve emerging development problems. How to achieve the objective of social justice while maintaining high rates of economic growth within a satisfactory framework of self-reliance is a difficult task but one of far-reaching importance for our future.

Looking to the future, to our continuing and productive relationship with the IDB, what should be the moving spirit behind the work of the member countries and the Bank?

Our principles are based on the premise that the governments, reflecting the sovereign status of the States, are responsible for setting decision-making guidelines. In that connection, the procedure of having the Bank respond to our initiatives and help to shape our national priorities remains unchanged. We believe that the work of the Bank should contrive to be primarily technical and wholly unaffected by any political considerations. For that reason we strongly support multilateralism. We also believe that the Bank is an inter-American enterprise, that it was created in response to a felt need of the region and that the regional mystique of development must be sustained. Yet we applaud nonregional participation, for we are aware of the many benefits we receive from the attraction of new technological and financial resources from countries outside of the region, which leads us to express our satisfaction with the presence of those friendly nations.

Ecuador is deeply committed to integration, Mr. Chairman. For that reason we are active members of the Latin American Free Trade Association (LAFTA) and the Andean Pact and for that reason, also, we have dedicated our efforts to vigorous and specific support of the action of the Latin American Economic System (SELA). We have urged in international forums the need for liberalizing trade and for dismantling the political and administrative obstacles that unfairly discriminate against our countries' exports.

In the same way, in consonance with this line of policy and projecting our desires for development within the regional action of the Bank, we note that needs are becoming urgent and costs prodigious. Therefore, we consider essential an increase in financial resources for Bank operations by at least the same margin by which programs have expanded in recent years.

Furthermore, in the light of complete fulfillment of our institutional, financial and political commitments, we claim our rights as supported by those commitments. We insist on unconditional access by the less developed countries and those with limited markets to the concessionary resources consecrated under IDB policy to continue the current effort to secure effective economic and social development.

In closing, Mr. Chairman, I should like to state our support and admiration for Mr. Antonio Ortiz Mena, the President of the Bank. May I further restate my respect and esteem for you and for your noble country. Like Canada, Ecuador firmly believes in cooperation and justice in international relations among peoples. It is particularly gratifying that on this occasion Canada's hemispheric dedication should be manifested once again within the Inter-American Development Bank, an institution loved and respected by the community of nations.

**Address by Mr. Johan Nordenfalk,  
Governor for Sweden  
and Under Secretary of Commerce**

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Allow me first to join my colleagues in expressing my sincere thanks and appreciation to the Government of Canada and to the authorities and people of British Columbia, for the warm welcome and generous hospitality extended here to all of us. Your arrangements are indeed excellent and on behalf of the Swedish Delegation I would like to subscribe to all the praise and admiration which has so eloquently been pronounced by the previous speakers.

This is, as you know, the first Annual Meeting in which the Swedish Delegation participates as a full-fledged member of the Inter-American Development Bank. It is therefore a particular honor and pleasure for me to address all of you here in Vancouver today and I thank you for all the kind words of welcome extended to us.

In spite of the fact that Sweden has only recently joined the Bank I would like to recall that our relationship with the Bank dates back more than a decade. Already in 1966 Sweden entered into an agreement according to which the IDB was to administer a \$5 million Swedish Development Fund for Latin America. My country has also for many years participated as an observer at the annual meetings of the Bank. We have consequently already gained some experience of the efficient and dedicated work of this institution.

Since it is the first time we address this assembly I think it might be worthwhile to briefly present some views of the Swedish Government on economic cooperation in general between developed and developing countries.

Sweden is deeply committed to the idea of international cooperation between sovereign nations. We believe firmly in the importance of an increased division of labor in the world economy, which not only binds the nations more closely together but which also promotes economic growth by enabling each nation to develop its particular capacities and talents.

To achieve this we have constantly tried to promote greater liberalization of world trade. It is therefore with great concern that we view the threatening tide of protectionism. The present protectionist trends could be extremely damaging to all of us, not least to the developing nations. It would indeed be a tragic development if the industrialized countries were now to close their borders to the goods of the developing nations at the very moment when some of them are in effect on the threshold of success in their industrialization process.

From this point of view we attach the greatest importance to the present round of multilateral negotiations in the GATT. These negotiations must serve to reinforce the system of free trade and give the developing countries an increased access to the markets of the industrialized countries. At a time when we are otherwise facing the risk of having new barriers created this could, to my mind, very well prove to be the most important element of our present development efforts.

Such efforts, however, are essential not only to the developing nations. We must bear in mind that in a long range perspective the economic health of

traditionally rich countries is dependent on the success of the present economic efforts in the developing countries. They provide growing and interesting markets for many of our products, just as well as their raw materials and more and more of their manufactured goods have become increasingly important to us. Thus the much quoted notion of interdependence has become a tangible reality. This is true not least in our relations with Latin America.

In this context I would like to make a reference to the increasing heterogeneity of the developing nations. In the past decade we have seen some of the developing nations take decisive and successful steps on the road to industrialization. Others however, are still lagging behind and are suffering from continued and severe poverty. To our mind, it is only reasonable that the increasing strength of the newly emerging industrialized countries be reflected in their gradual assumption of the reciprocal obligations, which are one of the cornerstones of the GATT system.

We are pleased to note that some of these more successful nations have already shown signs of accepting this philosophy. This could undoubtedly help to enlarge the team of nations which are in a position to assist the development efforts of the less favored nations.

Mr. Chairman, improved conditions in the field of trade is but one of the ideas behind the demand for a new international economic order. Others include claims for an increased transfer of resources to the developing countries, for more efficient industrialization of these countries and for means to stabilize their export incomes.

Recognizing our increasing interdependence, Sweden at an early stage already gave her firm support to the basic aims and ideas underlying the demand for a new international economic order. The developing countries are in our view justified in demanding substantially increased assistance from the rich world in achieving these goals.

This philosophy is an expression of our deeply rooted feeling of solidarity. This is also reflected in our view that development assistance should give priority to the least developed among the developing nations, to the peoples which are in the most evident need of help from those who are better off.

Likewise we feel that development undertakings on the part of the industrialized world must go hand in hand with conscious national policies on the part of the developing nations themselves, policies designed to meet the basic needs of all their citizens so as to give also the poorest segments of their population a socially acceptable existence.

This leads me to the question of human rights. In our view, it is unlikely that there can be permanent and real economic and social development in any country in the absence of due respect for the dignity of man.

We are, of course, fully aware that it would indeed be presumptuous to believe that our own values and assessments should always prevail. Countries start from different geographical and historical premises and often have different political, social and economic systems. But I must underline that we for our part look for certain fundamental and internationally recognized norms to be observed in all countries in order to enable a truly fruitful international cooperation.

Mr. Chairman, after this general outline of Swedish policies I would now like to make some comments on the work of the IDB.

We are impressed by the fact that the IDB, since its inception, has lent a total of \$12 billion in support of more than 1,000 Latin American economic and social development projects whose total value exceeds \$46 billion.

This is indeed a substantial effort in the field of economic cooperation and we feel convinced that the Bank—given adequate financial resources also in the future—will continue to effectively promote the development process in Latin America and thereby also the possibilities for increased trade between member countries. Sweden's economic relations with Latin America date back for centuries. We are glad that by cooperating within the Bank we can contribute further to the economic development of this highly important Continent. We find it promising that we have already been able to actively participate in some of the projects financed by the Bank and we are convinced that there is scope for an enlarged economic cooperation among our countries.

With respect to the lending policies of the Bank we are pleased to note that the Bank has placed increasing emphasis on projects which are clearly geared towards basic needs. This applies especially to the Fund for Special Operations, which according to the Annual Report for 1977 gave 93 per cent of its loans in convertible currencies to the less developed member countries and the countries of limited market.

We also welcome the fact that the stronger borrowing member countries of the Bank voluntarily refrain from requesting concessionary loans in convertible currencies and only take such loans in their own currencies. This could be viewed as a step in line with the policy I previously referred to, namely that the more advanced developing nations should assume larger responsibilities within the world economic community.

We are of course also fully aware of the necessity that the Bank use part of its resources to assist the higher income developing countries. Such assistance, which tends to be directed to growth-oriented projects, is indeed important also for the overall promotion of the world economy and will in the long run benefit all of us, developed and developing nations alike. We find the hard loan windows of the ordinary and inter-regional capitals suitable for funding of these purposes.

It is natural that loans for such projects be primarily judged on the basis of their long term economic viability. Likewise, it seems logical that in the case of loans to projects designed to meet basic human needs, social criteria be given greater weight. We realize that in individual cases it will not always be easy to reconcile such economic and social goals. In a world that is continuously changing also the priorities may change. We are glad to note that steps are now under way to further study the objectives and policies of the Bank. We trust that we can make fruitful contributions to these discussions.

Mr. Chairman, may I end by saying that with the efficiency that the Secretariat of the Bank has shown under the inspiring leadership of its distinguished president Mr. Ortiz Mena, and with the direction of its future activities that we can discern, I am convinced that there is ample scope for a continued successful work within the framework of a mutually beneficial cooperation between us and the Bank and its other members.

**Address by Mr. Arnon Gafny,  
Governor for Israel  
and Governor of The Bank of Israel**

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At the outset, may I express the sincere gratitude of the Israeli Delegation both to the Government and to the people of Canada. We shall long remember our visit to this beautiful city of Vancouver, and the gracious hospitality which has been extended to us all.

Analysis of the Annual Report for 1977 makes it clear that President Ortiz Mena and the Bank's staff are to be warmly congratulated for the Bank's remarkable record in fostering Latin American development, both social and economic. Particularly noteworthy has been the Bank's assistance—in loans and in technical cooperation programs—to the lesser developed among its member countries. The limited ability of these countries to mobilize development resources, internally and externally, makes it incumbent upon the Bank to devote special concern to their financial needs.

Today, our attention must be focussed more and more upon direct improvement in the living conditions of the broad masses of rural and urban poor. This end cannot be achieved, with long-term effectiveness, if the approach taken is one of granting charity. It can be achieved by a dual program of enhancing the productivity—and thus, the income—of existing labor inputs in agriculture, and by the creation of new employment opportunities, both in rural and in urban areas.

In an attempt to escape from the poverty of the rural regions of Latin America, more and more people are flocking to the cities. For a minority the escape may prove successful, but for most it merely replaces rural poverty with that found in urban slums. Within the framework of the Bank's lending policy, therefore, the alleviation of rural poverty, with its growing spill-over effect on to urban problems, constitutes the heart of the matter.

More than a decade of joint IDB-Israel cooperation in a wide variety of development programs has brought Israel into close, continuous contact with the basic socioeconomic problems confronting Latin America. Only a few short decades ago, many of these same problems confronted us. Given the opportunity, we would like to share with fellow Bank members the experience gained in coping with the long-standing problems as well as some of the newer ones which have emerged from increased energy costs.

Hampered by limited financial resources and an underdeveloped economic infrastructure, Israel has had to evolve appropriate technologies and training methods, so that hundreds of thousands of illiterate, unskilled refugees could become productive farmers and industrial workers, in the shortest possible time and at the lowest possible cost. This task was, literally, a matter of national survival. With independence in 1948, came a flood of immigrants from Asia, Africa and Europe, few of whom had any previous agricultural or industrial experience. (The enormity of the problem becomes all the more clear when one bears in mind that Israel's population doubled in its first three years of existence, and trebled in its first decade.)



Those who are knowledgeable in the field of socioeconomic development know full well that development experience cannot be uncritically transferred from one country to another. However, our recent activities in several Asian, as well as Latin American developing countries, have amply proven that the Israeli experience in agricultural training and extension services can be very successfully adapted and implemented in other countries. In fact, these methods have shown such outstanding results as a tenfold real increase in average family income in less than two years in the joint Haitian-Israeli project in Cul-de-Sac.

Israel's approach has been, and continues to be, centered upon fostering internal leadership, while developing appropriate technologies through modification of our methods and techniques to meet the needs and conditions of each region. The development of trained indigenous personnel, which is an essential element in Israeli extension methodology, can serve as the backbone for low-cost massive-impact projects appropriate to Latin America, leading to substantial and direct benefit to broad masses of rural poor. It is our understanding that, in principle, the Bank views this approach favorably, and we trust that the coming months may see the beginning of its implementation, with the aid of Bank financing, in several Latin American countries.

We believe that in other areas as well, Israel and Latin American countries can mutually gain from working together to solve their shared problems. One example: the need to provide the population with an inexpensive source of animal protein. As Israel's experience indicates, aquaculture can answer this problem in many Latin American regions. Using unarable land, brackish water, and minimal capital, large scale aquaculture could be developed in Latin America to provide both fish for local consumption and specialized items (e.g. shrimp) for export. Having developed a type of aquaculture appropriate to Latin American conditions, Israel stands ready to place her experience in pond design, management, and services, at the disposal of her fellow Bank members, as well as enter into joint aquaculture research and development projects with interested parties.

To turn to another area of mutual interest: the current high cost of fuel has caused many of us who are dependent upon imported sources of energy, to focus our attention upon developing and exploiting alternative sources of energy. Obviously, hydroelectric power is not Israel's forte, but gas production from agricultural waste and solar energy exploitation are. Even before oil prices quadrupled, solar energy had been broadly harnessed in Israel, where one-third of all households use solar energy for domestic purposes. Work is currently moving forward in Israeli industry and academic institutions, aimed at expanding new, inexpensive techniques for harnessing non-conventional sources of energy for both agricultural and industrial use. Here, once more, we have an area for joint Latin American-Israel activity which warrants the Bank's support.

One could go on to cite many additional areas of mutual interest—agroindustrial development; water resources planning and irrigation technology; harvesting and marketing systems using appropriate technology; arid zone rural development, etc.—but this will surely suffice for the moment.

In closing, therefore, may I say that in its role as a member of the Inter-American Development Bank, Israel would welcome the opportunity to participate to an ever-growing degree in the socioeconomic development of Latin America.

**Address by Mr. Arthur D. Hanna,  
Governor for the Bahamas and Deputy Prime Minister  
and Minister of Finance**

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I have the distinct honor and privilege of addressing this distinguished gathering, for the first time, at this, the Nineteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

It is with pleasure that I join those previous speakers who have expressed their appreciation to the Government of Canada for the gracious hospitality extended to me and members of the Bahamas Delegation.

I take this opportunity to express my country's deepest appreciation to the President, Mr. Ortiz Mena, and officials of the Bank for the assistance, understanding and support given to the Bahamas during its drive for membership and which enabled us in December 1977 to become a full-fledged member of the Bank and an accepted relative in the Latin American family.

I do not propose to speak on the operations of the Bank, as a joint statement on behalf of the Caribbean Group is being made by the Honorable Prime Minister of Barbados. I support that statement.

Through the good graces of the President and officers of the Bank my country was permitted to participate in two annual meetings prior to obtaining membership. These opportunities permitted us not only to acquaint ourselves with the operations of the Bank, but also to establish those associations and relationships which are bound to be of much value to us both in the periods ahead.

My heartfelt thanks to you, Mr. Chairman, Mr. President and fellow Governors, for your warm expressions of welcome. We are indeed proud to join you. The Bank since its inception 18 years ago has contributed much to the acceleration of economic development in member countries and a review of the Report for 1977 confirms its dedication to the continuing process. We are, Mr. President, well aware of your personal dedication and sincerity which have guided and will continue to guide the Bank towards its goal.

An examination of the economies of the membership of this organization indicates that the majority of the countries would be classified as developing or underdeveloped. We will also see that the economies of such countries are beset by many problems which seem to present a commonality in trends, even though such problems vary in degree. Developing countries are, in terms of growth, stymied and even paralyzed by various socioeconomic maladies such as increasing poverty, tremendous population increases, food and energy shortages, inadequate development capital and for many, inflationary pressures. Such economic woes definitely slow down and might, in some cases, even derail the economic machine. It then follows, and logically, that the more impoverished the countries (in terms of resource availability, level of technology, level and composition of the educational skills) the higher the probability for the occurrence of such socioeconomic and psychological ailments which would very probably result in economic chaos.

At the risk of being labeled idealistic, I put forth that the objective of all nations should be the amelioration of all social and economic problems, not only

within a respective country, but throughout the world of economic deprivation. This is, of course, a long-term objective. However, efforts must now be made to lessen the disparity between the countries within our organization. The more affluent should therefore act as catalysts to such endeavors. Such efforts would ignite those apparently stalled economic machines and facilitate smoother movement along the developmental tracks.

Developing countries are faced with the colossal task of effecting socioeconomic development in terms of aspirations and goals within the binding constraints of very limited resources. In this regard, I must point out, the Bahamas is no exception.

The Bahamas, though sometimes considered to be more developed, in some aspects, than many of its Caribbean counterparts, is in a rather precarious position in terms of economic structure. Many of our neighbors, though less developed, have much stronger and more diversified economic bases. While the Bahamas is now moving toward diversification of its economic base, the tourist industry is still the most important and will continue to be for some time. It is mainly upon the tourist industry that economic growth and development depends.

The Bahamas is not a producer nation and as such, imports the majority of consumer goods—durable as well as non-durable. Imports of goods and services represent for the Bahamas, and most developing countries for that matter, the primary utilization of its foreign exchange spendings. A country which is dependent in large measure on imports for its economic survival is certainly more vulnerable than one with a more fully integrated economy. Importation of goods into the Bahamas accounts for about 65 per cent of the Gross National Revenue by means of Tariff. A country in our position could experience extreme economic pressure if its net foreign exchange reserves and earnings were to fall to a point where it could no longer pay for essential imports.

A major task for lesser developed countries today, is to devise policies that will interrupt the cycle of poverty—poverty that has been unresponsive to economic growth and has persisted over the years. The choice of an appropriate development strategy is certainly not easy but it must seek to fulfill the aspirations and merit wants of a nation. A long-term development policy for the Bahamas has been drawn up and has as its overall economic goal, the diversification of the economy and the broadening of the economic base. There are some short-phased programs which are of priority. The implementation of these will act to establish a basis for economic expansion and diversification. However, the Bahamas Government is aware of the task confronting the planning process underway and realizes that, to be successful, it must achieve consistency and balance between the different economic and political factors at play.

The Bahamas, like its neighbors in Latin America and the Caribbean, is well aware of the fact that success depends largely upon its own efforts towards solving its social and economic problems. However, countries such as ours expect those developed countries of the same persuasion and which are blessed with an abundance of resources, technological expertise and developed skills, to exercise a sense of helpfulness and commitment—a commitment to the uplift and economic betterment of all.

We have struggled valiantly to maintain a reasonable standard of living and have experienced some measure of success in this regard. This, we have done mainly on

our own and with a minimum of external support.

However, we have for sometime been faced with regional problems which have created severe domestic, social and economic stresses on our economy. Today, I focus on two of these problems, both of relatively great magnitude, and both arising from external causes. These problems which impose great burdens on the Bahamian economy by biting greedily into its limited resources are the flow of undocumented or illegal aliens into the Bahamas and the trafficking in illegal drugs through Bahamian waters.

The effects of this uncontrolled inflow of illegal immigrants into the country are many, but the following are the most significant which have clearly and visibly created problems within the Bahamian economy.

Firstly, it displaces Bahamian workers in the labor market because of the willingness of the immigrant worker to accept wage levels and working conditions which are unacceptable to the Bahamian. There is increasing concern as the country's unemployment level, especially among the youth, soars and shows little evidence of declining.

Secondly, it imposes heavy demands on already overburdened health care, law enforcement and other social services. It creates additional costs which the Bahamas is forced to bear, can ill-afford and has no recourse for reimbursement. Such costs absorb scarce funds desperately needed for improvement and development in other areas. Substantial sums must also be spent on apprehension, detention and repatriation.

Despite the additional financial and socioeconomic burdens created by this problem, but realizing that the universal motivation for such migration is the desire for economic betterment, we have endeavored to handle the problem in the most humane manner possible as we are firm believers in the philosophy of human rights and the integrity of mankind.

Thirdly, it increases the work pressure on government agencies, which must be always on the lookout for, and provide protection against, the possible victimization, exploitation and inhumane treatment by sometimes unscrupulous employers, landlords and others because of the limitation imposed by the status of illegal immigrants.

With the drug traffic situation—as opposed to the problem of the undocumented alien—the Bahamas is not primarily the market destination, but has become an unfortunate victim because of its geographical position and its proximity to North America. Thousands of tons of the illegal commodity, intended for other destinations, are apprehended in the Bahamas and while market values have been placed in the hundreds of millions of dollars, the cost to the Bahamas in terms of real dollars as well as the harm it does in terms of moral pollution and decadence, is substantial.

The Bahamas looks unkindly upon this traffic in illegal drugs through its waters by other countries, and considers such action to be in violation of its national sovereignty and an affront to its moral integrity. Those countries whence these shipments originate must do more to control and discourage these activities.

I know that the countries involved, and their governments, are respectable and honest and I feel that so long as they are made aware of the hardships such operations are inflicting upon their non-involved, friendly and peace loving neighbors such as the Bahamas, they will take speedy and effective action to stem

it. One might suggest that since apprehension of such cargoes and the processing of such incidents are costing the Bahamas so much, we should just close our eyes, pretend that no violation is occurring and let such vessels ply on to their intended destination. We feel that if we were to do this, it would be nothing short of a betrayal of our nation's trust and a shirking of responsibility. It would, furthermore make us a silent accomplice to, and part and parcel of, the whole unconscionable and illegal affair. Thus, before we compromise our principles we prefer to remain victims—the unfortunate. The net effect this activity has on our economy is definitely a negative one. Nevertheless, the Bahamas is caught in the middle of this extremely costly situation over which it has no choice nor decision. If I can infer (and I subject myself to correction) that those countries involved in the drug trade, from the production side, are trapped into a socioeconomic vicious circle of deprivation, then we should all feel morally obligated to do something about it. We are all fellow members of a noble organization which has as one of its main objectives the easement and amelioration of the economic ills, afflicting the membership.

Mr. Chairman, if the quality of life among our more economically deprived members is improved, the Inter-American Development Bank, as an organization, would certainly have achieved its primary objective and fulfilled the dreams of its founding fathers.

While the primary goal of the Bank is the continued progress of its member countries towards their development goals, yet it provides a forum for the exchanging of ideas, the creation of closer ties of friendship and understanding and, above all, provides a place for the promotion and sustaining of political progress, happiness and peace in an atmosphere where our people, whose representatives we are, can enjoy their traditional fundamental rights to which the Bahamas and, I believe, all of us are committed.

In closing, I appeal to members of this organization to reaffirm their commitment to the goal of total and equitable betterment of its membership. Such a commitment, which we now share, is the only salvation for the region.

**ADDRESSES**

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**FOURTH PLENARY SESSION**

**April 19, 1978**

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

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The Delegation of Paraguay, which is attending this Nineteenth Annual Meeting of the Board of Governors of the Inter-American Development Bank in this hospitable and beautiful country and gracious city of Vancouver, would like to convey the warm greetings of the Government and people of Paraguay, headed by General Alfredo Stroessner, to the national authorities of Canada, the Chairman of this Board, the Governors and the delegates of friendly countries, the dynamic President of the Bank, Mr. Antonio Ortiz Mena, and the officials of our great institution.

It is gratifying to recall briefly the philosophy and principal objectives which motivated the Latin American countries when they conceived and created an institution which had the strength and capacity to provide technical and financial support for efforts to promote the economic and social development of the region as the best way of fulfilling the rising expectations of millions of Latin Americans. Those objectives were *inter alia*:

To contribute to the acceleration of the process of economic and social development of the developing member countries, individually and collectively, by utilizing its own capital, funds raised by it in financial markets and other available resources for financing the development of the member countries.

It has been a matter of pride to us over the years to see how our great institution has been giving effect to that philosophy and fulfilling those objectives, with the result that it has grown rapidly and become a strong force in international financing.

Under the very able leadership of its President, Mr. Antonio Ortiz Mena, a worthy successor to Mr. Felipe Herrera, our Bank has actually become very strong, with resources mobilized during the 1961-77 period amounting to more than \$46 billion, of which the member countries of the region contributed 74 per cent and the IDB 26 per cent, or \$11,945 million. Those resources were intended for the priority sectors of the economic and social development of the member countries.

My country, Paraguay, has been helped by the Bank through loans and technical assistance aimed at complementing our national effort to attain higher standards of living. From 1961 to December 31, 1977, the Bank authorized loans to Paraguay in the amount of \$216.7 million, or 2 per cent of the total of \$11,945 million for Latin America over the same period. The cost of the projects which the Bank financed in that period was \$376.4 million, of which the IDB financed \$216.7 million, or 57 per cent, with counterpart funds amounting to \$160 million, or 43 per cent.

The investments made were channeled mainly to development of electric power (42 per cent), agriculture (20 per cent), sanitary installations (15 per cent), transportation (12 per cent), industry (7 per cent), housing (2 per cent) and other sectors (2 per cent).

At this Nineteenth Annual Meeting of the Board of Governors, attention should be drawn to the need to revise and adjust the mechanisms for granting

loans by a meticulous examination of the economic realities in the member countries without interjecting factors which are not relevant to the objectives and functions of the institution.

In that connection, one of the basic needs is to strengthen and expand the Bank's resources and that will mean greater efforts on the part of the member countries as a way of obtaining greater financial means to support investment programs vital to their economies. On that point, we should like to express our gratification at the decision to increase the assessed contributions of callable ordinary capital in pursuance of Resolution AG-7/76 and the other relevant documents.

However, it has unfortunately not been possible to implement that Resolution in its entirety because all the contributions pledged have not been forthcoming. In any case, our Bank should adopt the most prudent measures to overcome that difficulty and develop mechanisms to increase the availability of financial means, as well as seek another way of integrating and utilizing the Fund for Special Operations. It is also important to emphasize the increasing participation of nonregional countries in the Bank's capital, which strengthens the institution and broadens its operational capacity.

I should like to refer briefly to the most relevant economic and financial achievements of my country, the result of the national effort and the peace and tranquillity in which all its people live, united by common development ideals in a representative democracy under the patriotic leadership of the Government of General Alfredo Stroessner.

- Exports (fob) for 1977 amounted to \$278.9 million, i.e. \$97.1 million (53 per cent) higher than in 1976, when they came to \$181.8 million. The volume of exports for that period was 623,200 tons, i.e. 79,900 tons (15 per cent) higher than for 1976 when it came to 543,300 tons. The value of 1977 imports (fob) was \$250.4 million, an increase of \$70.2 million, or 39 per cent over the value of 1976 imports, which amounted to \$180.2 million. The volume of 1977 imports was 562,900 tons, i.e. 49,700 tons (9.7 per cent) higher than for 1976, when the volume was 513,200 tons.

- Monetary reserves came to \$259.6 million in 1977, an increase of \$108.2 million (71.4 per cent) over 1976, when they reached \$151.4 million.

- The money supply rose in 1977 to \$310.6 million, an increase of \$96.4 million (45 per cent) over the 1976 figure of \$214.2 million.

- The index of general growth of domestic prices rose 9.4 per cent in 1977.

- GDP growth in 1977 was 8.1 per cent, an increase of 0.6 per cent (1976: 7.5 per cent).

- Per capita GDP rose to \$391 in 1977, from \$372 in 1976.

- Budgetary equilibrium has been maintained in recent years, thanks to an appropriate fiscal policy.

The favorable development of Paraguay's economic situation in 1977 led the international financial agencies to apply similar treatment to it as to a more developed country. Nevertheless, we accomplished two well-defined objectives: rational utilization of the resources obtained, and the achievement of higher goals, making it possible for us to continue to receive preferential treatment until our basic development objectives have been attained.



We wish to stress the need to reconsider the criterion applied to classify countries according to level of development, i.e. that of per capita income, so far as the granting of loans is concerned. This should be replaced by other indicators, or else the index used should be updated periodically so that it reflects a country's true degree of development.

I should like also to refer to another important and very topical matter. The international financial institutions, to which the member countries have committed their national interests, must be completely free from political influences that directly or indirectly affect decisions concerning the granting of loans for the execution of projects to speed up and strengthen national development programs.

The Agreements establishing our financial organizations provide, with the concurrence of all their members, that there shall be no interference of that kind in their management and administration; this is a salutary measure of respect for national principles and sovereignty.

It is accordingly totally illogical to restrict the effort to provide greater and better development opportunities to our peoples, which have committed themselves to improving their living conditions in accordance with the underlying principles of human rights.

If human rights means possession of the necessary material, social and spiritual means to provide people with opportunities and at the same time enable them to promote and share in the destinies of their own countries without infringement of their primary and inalienable rights to life and wellbeing, then any attitudes that seek to restrict the accomplishment and consolidation of those principles are incomprehensible to our peoples.

We must, therefore, ask ourselves: in what way, by whom and by what means would it be possible to prescribe suitable indices for measuring failure to honor those rights, in a world in which hostile attitudes seek to undermine the very foundations of democratic institutions, constantly violating the sanctity of human life?

These questions, based on subjective evaluations and attitudes that belong to other spheres, must not be confused with the objectives, purposes and functions of the international financial institutions or be allowed to interfere with the taking of decisions within those institutions concerning the granting of the loans that the developing countries need in their struggle to promote development.

The consolidation of Latin American unity is absolutely indispensable to ensure that no flank is left exposed that can be exploited by ideas and attitudes that conflict with our democratic principles and development objectives, particularly within a banking institution which is at the same time a true regional agency.

As the following figures show, the Government of Paraguay is able to point to concrete results from the efforts accomplished, precisely in those areas of social goals to which we have referred:

Roads: The total length of roads in Paraguay was 2,865.6 kilometers in 1962; 7,129.9 kilometers in 1972, and 8,200 kilometers in 1977.

Primary schools and secondary education centers: We had 2,911 education centers, with 355,621 pupils in 1962; 3,925 centers, with 514,408 pupils in 1972, and 4,234 centers, with 557,871 pupils, in 1977.

Hospitals and health centers: There were 117 in 1954; 251 in 1973 and 361 in 1977.

Housing: 328,308 units in 1962; 438,111 in 1972, and 490,537 in 1977.

Gross Domestic Product: 1962: \$360.7 million; 1972: \$769.0 million; 1977: \$1,085.8 million.

Per capita GDP: 1962: \$192; 1972: \$316; 1977: \$391.

Exports (fob): 1962: \$33.5 million; 1972: \$86.2 million; 1977: \$278.9 million.

Monetary reserves: 1962: \$469,000; 1972: \$30.6 million; 1977: \$259.6 million.

We have also been able to maintain a sound foreign policy based on peace and friendship with all the nations of the free world. An excellent example is our harmonious collaboration with neighboring countries in the execution of physical integration projects, such as the great Itaipú hydroelectric project (with Brazil) and the impending Yacyretá project (with Argentina).

In closing, I should like to convey the very cordial greetings and sincere appreciation of the Government and people of Paraguay to the Chairman of this Meeting, to the President of the Bank, Antonio Ortiz Mena, to the Governors and Delegates of friendly countries and to the staff of the Bank. May I also offer my best wishes for the continued success of the work of this great institution in pursuit of its high objectives.

I wish to reiterate my deep and special appreciation to the President of the Inter-American Development Bank, Antonio Ortiz Mena, for the great honor paid to me by the Bank at the reception given last Sunday evening.

Permit me also to express the very sincere thanks of the Delegation of Paraguay to the Canadian Government and people for the excellent hospitality they are extending to us during our very pleasant stay in this beautiful city.

**Address By Mr. Klaus Jacobi,  
Governor for Switzerland and Ambassador Delegate  
of the Federal Council for Trade Agreements**

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Joining previous speakers, I wish to express my gratitude to the Government and people of Canada for the very warm hospitality extended to us. I feel particularly comfortable here in Vancouver, this beautiful city, which, thanks to its geographic location, is a symbol of opening to the external world which, as you know, lies at the heart of the economic policy of Switzerland.

I am going to concentrate on four themes:

- The international economic situation.
- The activities of the Bank in 1977.
- The Fifth replenishment of IDB resources.
- The question of representation of non-regional member countries.

*1. International Economic Situation*

First, I wish to consider the international economic situation. There is a very interesting passage in the latest annual report of the Bank stressing the interdependence between the Latin American economies and those of the member countries of the Organization for Economic Cooperation and Development (OECD). The economic events of the past years have clearly shown that the Latin American countries and the countries of our Western World have a common interest in the harmonious development of the world economy. It cannot escape our notice, for example, that slower rates of economic growth in OECD countries affect economic life all over the world and more particularly the countries of Latin America, which have very close economic ties with OECD countries. This convergence of interest calls for a joint effort by developed and developing countries in practically every field of economic cooperation. Such concerted action requires, in particular, that goods and services be exchanged as freely as possible in the mutual interest of all concerned. Our common effort also implies that everything should be done to create such a climate that foreign investors can be genuine partners in the national economic life, contributing to the economic and social development of the host country. At this juncture we have to realize that regional cooperation between developing countries and the effective mobilization of their own resources are factors of ever increasing importance.

Import requirements to promote the economic growth of Latin America still demand substantial external financing, both public and private. The public funds available for development purposes being limited by nature, external financing is to a large extent private in character and will certainly continue to be so for some time to come. Consequently, the international community should intensify cooperation with a view to facilitating access to capital markets for the benefit of developing countries. Swiss authorities are prepared as in the past to participate actively in this endeavor.

It may be of interest to you to know that in Switzerland capital exports amounted to 18.3 billion Swiss francs (\$7.6 billion) in 1977. Of this sum, total flows to developing countries exceeded 5 billion Swiss francs (\$2 billion), of which more than a third went to Latin America.

## *2. Activities of the Bank in 1977*

As far as the activities of the Bank in 1977 are concerned, it may be remembered that last year I singled out four essential principles of the policy of the Bank which closely resemble similar guidelines observed in Swiss development cooperation and which should, in our opinion, be strictly adhered to. I note with satisfaction that, on the whole, the Bank followed these principles in 1977.

- A. Preferential attention granted to the least developed countries of the region and to countries with limited markets.

In 1977 these two groups received 93 per cent of external resources on concessional conditions from the Bank. We feel, for our part, that the special funds which will be made available by the Fifth Replenishment should continue to benefit mainly the poorer countries of the region.

- B. Development of technical assistance supplied by the Bank.

In 1977 funds used for technical assistance exceeded by almost 50 per cent the total amount for 1976; an increase of this magnitude constitutes a favorable development and should contribute to increase substantially the absorptive capacity of borrowing countries. It is particularly gratifying that loans granted to the least developed countries of the region frequently comprise a component of technical assistance aimed at achieving optimal implementation of the projects.

- C. The high priority accorded by the Bank to agricultural development in Latin America.

I note with regret that, in 1977, the agricultural share of total loans not only declined by comparison with 1976, but is even below the average for the 17 years of Bank activity; it is to be hoped that this trend will be reversed. On the other hand, I have learnt with satisfaction that the Bank intends to place greater emphasis on food production and on assistance to small and medium sized farming operations.

- D. The increasing activity of the Bank in the social sector (education, urban development, water supply).

In 1977 Bank loans in this sector made good progress not only in absolute figures but also in relative importance by comparison with the total loans granted by the Bank.

## *3. Fifth Replenishment*

I now turn to the Fifth replenishment of Bank resources. The importance of the subject first derives from the fact that the sums involved are indeed considerable. Important also is the fact that the regional and nonregional countries are to negotiate for the first time a replenishment of the resources of our institution. Without wishing in any way to prejudge the course of the forthcoming negotiations, I should like to submit some preliminary observations.

To ensure that negotiations for the Fifth replenishment be conducted on a sound basis, it is necessary that the management of the Bank be in a position to

supply member countries with a detailed analysis of the real foreign exchange needs of borrowing countries required to promote their economic and social development and their effective absorptive capacity. An overall survey of probabilities of external financing during the replenishment period should likewise be undertaken. The rate of growth envisaged for the operations of the Bank over the coming years should indeed be based on a well-founded economic justification.

Finally, it seems essential to me to study with particular care the relation between ordinary resources and special funds, between ordinary loans and special loans. It is of the greatest importance for our institution to maintain, in the future, an appropriate balance between the priority attention given to the least developed countries of the region on the one hand, and the attention given to specific needs of relatively advanced countries on the other. I recognize the legitimate priority granted to the least developed countries of the region with regard to the granting of funds at concessional conditions, but we should not go to the extreme of neglecting the specific financing requirements of the relatively more advanced countries of the region. Those countries have the possibility to create or maintain the conditions which attract private foreign investments, and also to have recourse to the capital markets of developed countries. But they still require, at varying degrees, a certain volume of public external financing.

Switzerland enters the negotiations on the Fifth replenishment in a positive and constructive frame of mind. Mr. Chairman, I particularly appreciate that the Working Group which has been created for this purpose includes all the member countries which contribute in convertible currencies.

#### *4. Participation of Nonregional Countries in the Activities of the Bank.*

Before coming to the last item of my statement, I wish to express to President Ortiz Mena and his staff all my appreciation for the real improvements made in the last year in the fields of information and coordination. These improvements will, no doubt, greatly contribute to the progressive development of a common spirit among all member countries of the Bank.

Mr. Chairman, I finally come to the question of the representation within the Bank of the nonregional countries. At this juncture, I would simply like to put before the Assembly some observations for reflection.

First, it will come as no surprise that within a constituency of seven or eight countries it is often difficult to establish coordination and to assure a sufficiently rapid rotation within the Board of Directors.

A second important facet to the question of representation is this: At present, Parliament and public opinion in developed countries are very sensitive as to the use made of public funds for development. It is important that the financial effort accomplished by the nonregional countries be paralleled by greater participation in the decision-making process of the Bank. To mention just one example: according to the Bank's proposal for the Fifth replenishment, the nonregional countries are themselves called upon to supply 37 per cent of the financial resources in convertible currencies, required for the Fund for Special Operations; their total voting right, however, only amounts to 5 per cent.

In the light of what I just mentioned and as a representative of a country with a referendum democracy I am convinced that it is in the very interest of the Bank to grant the nonregional countries a better representation. It would therefore

appear justified to us that, while fully respecting the regional character of the Inter-American Development Bank, these countries be given a third seat on the Board of Directors.

In conclusion, no effort should be spared to seize each opportunity to strengthen and deepen relations between Latin America and nonregional countries. I know that President Ortiz Mena and his staff will assist us with their usual energy and competence and I would like to assure them of our full support.

**Address by Mr. C.R.O. Jones,  
Temporary Alternate Governor for the United Kingdom  
and Assistant Secretary of  
the Ministry of Overseas Development**

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I should first like to convey to this distinguished gathering the warmest good wishes of the Governor for the United Kingdom, our Minister for Overseas Development, Mrs. Judith Hart. She greatly regrets her inability to be present at this occasion, especially as her recent visit to five member countries of the Bank has deepened her interest in the economic and social development of this continent, which the Bank is doing so much to encourage and support. I should also like to convey the regrets of my country's Alternate Governor, Mr. C. R. A. Rae, who is prevented from attending through indisposition.

This is only the second meeting of the Board of Governors which my country has been able to attend as a full nonregional member and it is, therefore, perhaps presumptuous for me to welcome still newer members, but I cannot resist saying how particularly warmly we welcome the admission to membership of the Bahamas, a country with which our links have been so close for so many years. We are also pleased to note this Board's adoption of the Resolution approving the representation of the Caribbean Regional Group by an Executive Director. I very much welcome also, of course, the Governors for Finland and Sweden.

Although my country has continued to develop its own bilateral program to assist and cooperate in the economic development of member countries of the Bank, we have come to realize that our admittance to nonregional membership of the Bank was one of the most useful advances we have made in our involvement with the development of Latin America and the Caribbean. My own country's development policy has in recent years been increasingly directed towards the poorer countries and towards the projects which have a direct connection with the alleviation of poverty. We are therefore particularly glad to have joined this Bank at a time when its own activities have been directed towards assisting the least developed of its member countries, towards the most underdeveloped regions and towards disadvantaged sections of society. We welcome the increasing emphasis which the Bank is placing on basic human needs and especially on nutrition, education and health. I was glad to note from our distinguished President's speech the very substantial efforts which the Bank is making in support of integrated rural development and cooperatives. We hope that the Bank will continue to consolidate and expand its progress in these areas.

The experience and enthusiasm of the Bank staff, the thoroughness of investigation they are able to give to the preparation of projects and the close relationship which the Bank has built up with all its members: all these factors give one confidence that the Bank will continue to cope sufficiently with its increasing burden of work. Having said this, I should like to suggest that the Bank should devote some attention to securing a more even work flow and in particular towards avoiding the concentration of new projects, for consideration by the Executive Board, at one particular time of the year.

The Bank is to be congratulated on the very large increase, during 1977, in its technical cooperation activities. In this particular respect the Bank has, in relation

to other financial institutions, been a pioneer. I am sure that all here would accept that the economic and social returns from a well-organized technical cooperation program can be out of all proportion to the finances involved. My own authorities will try to coordinate our own bilateral activities with those of the Bank, wherever that is possible.

Last year, at the Guatemala meeting, my country joined with others in welcoming the resolution which empowered lending by this Bank to the Caribbean Development Bank. I am glad to note that good progress has been made since then and that, after agreement between the two Banks, the first commitments have been made. I should also like to mention our appreciation of the fact that the Bank was able to participate fully in those useful and important discussions which led to the decision to create a Caribbean Group for Economic Cooperation.

Turning to a more general subject which is of deep concern to all Bank members, regional and nonregional, I note that several speakers have referred to the depressing prospects facing the world economy and the danger we all face from moves towards protectionism. It is true that the recovery from the deep recession of 1974 and 1975 has been far from adequate. In all major developed countries there are high and unacceptable levels of unemployment; and the business confidence needed to revive investment and economic growth has not materialized. The consequences for the developing world are most serious. Although they have succeeded in improving their financial position quite strikingly in the past year, their real economies cannot make satisfactory progress while demand from the industrialized countries is so slack. In this connection I would refer to the proposals which the Prime Minister of the United Kingdom has recently advanced for a cooperative effort in a number of related fields—trade, monetary and development assistance—in order to get the world out of its continuing depression.

I hope that, despite the comparatively short period of membership by nonregional countries, we have as a group been able to show that we can make a useful contribution to the Bank's work. Nonregional contributions to capital resources and to the Fund for Special Operations are now coming into active use for loan commitments. Nonregional institutions have shown an active interest in participating in the Bank's complementary financing scheme. This scheme is an innovation which promises to be very successful and on which the management is to be congratulated. We have much appreciated the vigorous way in which the Bank has made its activities and its opportunities known in the nonregional countries, through technical missions and otherwise. Those in my country interested in investment and commercial activity in Latin America welcomed the opportunities to exchange views on general Latin American commercial topics through meetings such as those held recently in Hamburg and Montreux. They will continue to welcome further opportunities for closer contact on these topics, in particular those which relate to the Bank's own operations.

A central financial preoccupation for the Bank and all its members is of course, at this moment, the problem of replenishing the Bank's capital and Fund for Special Operations. The fourth general replenishment and the separate flow of initial contributions from the new nonregional members will soon, with a few exceptions, be complete. But even with the recently agreed further increase of \$1.3



billion of callable capital, the Bank's presently available resources will mostly have been committed by the end of this year or early in 1979. All members are concerned with the next general replenishment and my own country, together with the other nonregional members, hopes to take an active and helpful part in the complicated negotiations on which we have already embarked. I hope that by September we shall find a solution which we can all accept and one which will enable the Bank to continue and to strengthen its efforts along the direction it has been following.

Lastly, I join with my many colleagues who have already expressed their gratitude to you, Mr. Chairman, and to the Government of Canada and to the authorities of British Columbia and of this beautiful city, who have shown us so much kindness and hospitality. For the efficiency and smoothness with which this meeting has been organized I should like to thank not only them, but also our distinguished President, Antonio Ortiz Mena, and his indefatigable staff.

**Address by Mr. Osmo Kalliala,  
Governor for Finland and Cabinet Counselor,  
Ministry of Finance**

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It is both a pleasure and honor for me to address this Meeting of the Board of Governors of the Inter-American Development Bank. Let me, on behalf of the Government of Finland, convey to you the sincere wishes for a prosperous year for the Bank and its leadership. Let me also take this opportunity of saying how much I appreciated the kind words of welcome addressed to me by the President of the Bank Mr. Ortiz Mena and by so many colleagues in their statements. I should also like to express the gratitude of my Delegation for the warm welcome and hospitality, which the Canadian authorities have extended to us.

This year's Annual Meeting is of special significance to Finland. This is the first time that we participate at the Annual Meeting as a nonregional member of the IDB. I represent a country which is perhaps the furthest removed from the region of the Bank. However we are furthest removed only in a geographical sense. In today's world of political, economic and social interdependence between nations no country can afford isolating itself from the problems or prospects of others. By joining the Bank, Finland, on her part, has wished to give expression of its commitment to this global interdependence.

Our material resources may not be of decisive importance in the efforts of the Bank to promote economic and social progress on the great continent of Latin America. But by combining our financial contribution with our particular skills and technical know-how we believe that we can inject a constructive and worthwhile input to the work of the Bank. We believe furthermore that Finland without jeopardizing the regional character of the Bank can contribute to its activities not only financially and technologically but also conceptually in the formulation of the development policies of the Bank.

But Mr. Chairman, economic and social development is a two-way street. In joining the IDB, Finland also fully recognized the benefits which we can and will derive from a closer cooperation with the member states of the Bank. We are convinced that our membership will offer us possibilities for further strengthening our ties with the economies and the great cultures of Latin America.

Our membership represents, in an institutional sense, a completion our participation in the joint international efforts of development financing. Earlier, Finland was already a member of the World Bank Group, the Asian Development Bank and the African Development Fund.

Only a week ago a Parliamentary committee charged with exploring the future guidelines of Finland's policies of development cooperation submitted its report to the Government. Among others the report contained a recommendation that in the future Finland should intensify its development cooperation with the least developed Latin American countries. I'm sure that the IDB will in this respect prove a most efficient channel. This is because the Bank is the institution proper of the Latin American region. It has over the years successfully undertaken a remarkable number of projects and operations and acquired an immense wealth of knowledge and experience of the problems facing its member states.

Latin America represents different levels of development. Many of its countries are already at a stage of economic development at which future sustained growth can for the main part be based on financing on regular commercial terms. However, the region includes also a number of poorer countries and segments of population who are in need of extensive financial assistance. In order to assist these countries and the people whose basic needs remain to be met the Bank and its Fund for Special Operations have an important role to play. I'm referring particularly to the financing of such activities as rural development and other social infrastructures which usually do not attract the necessary capital from other sources. On the other hand the Bank has an important role to play also for the countries that have a greater economic potential. The Bank, due to its role as a catalyst for outside capital, must continue to use its knowledge and expertise to channel such capital to viable projects which meet the priorities set by the countries in question. Only thus can we ensure that the economic growth will take place in a balanced manner and in such a way that all segments of the population will ultimately benefit from progress. Mr. Chairman, we have noted with appreciation that the Bank in its lending policies has put an increased emphasis on the needs of the least developed member countries and the most disadvantaged segments of the population of the region.

These are the considerations against which we in Finland look upon our own possibilities to participate as a nonregional member in the work of the Bank. We stand ready to offer, through the Bank, our technological know-how and experience particularly in areas where the priorities set by the regional members themselves coincide with our international competitiveness. Such are sectors like forestry and wood processing, mining and electrification, to mention but a few. I was particularly encouraged by the emphasis in President Ortiz Mena's statement yesterday of the importance of the cooperative sector. This is a sector in which we, in Finland, have a long experience and which we have in our bilateral aid programs shared with developing countries.

In this context I should also like to mention a new possibility which was opened up through the new nonregional form of membership for the channeling of funds to the Bank. I'm referring to the Nordic Investment Bank, which has its headquarters in Finland. This joint financial institution of the Governments of the five Nordic countries was established two years ago.

Mr. Chairman, let me, in conclusion, once again express the sincere appreciation of my Government at this new form of cooperation between Finland and the countries of Latin America, which has come into being through our membership in the Inter-American Development Bank. I'm convinced that our cooperation will be fruitful and mutually beneficial.

**Address by Mr. Zlatko Muršec,  
Alternate Governor for Yugoslavia  
and Assistant Federal Secretary of Finance**

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Allow me, on behalf of the Government of Yugoslavia and our delegation, to express our thanks to the Government of Canada for the warm hospitality we are enjoying and to congratulate it for the excellent arrangements of this Annual Meeting in the beautiful city of Vancouver.

It is my special pleasure as the Alternate Governor for Yugoslavia to address the Annual Meeting of the Bank, which my country joined as a member together with the first group of nonregional countries on July 9, 1976. Already today, despite the fact that not even two years have yet passed since that important date in the history of the Bank, we have the pleasure to greet in our circle a new group of nonregional member countries, participating for the first time in the work of this eminent gathering.

I would like to begin by emphasizing that Yugoslavia, together with other developing countries, in conformity with its policy of promoting cooperation with developing countries and their respective financial institutions, and in accordance with its possibilities, supports the further strengthening of the capital and funds of the regional development banks. They represent an important multilateral channel of real financial flows into the developing countries, mostly under concessional terms; and an ever-increasing factor in attracting capital from international capital and markets for placement under convenient terms into the developing countries.

In those relations the Inter-American Development Bank has a distinguished place among other regional development banks, proved by the results achieved during the 17 years of operation of the Bank and by its efforts to contribute to economic progress of developing countries in Latin America.

The Annual Report of the operations of the Bank in 1977 presented and the outstanding analysis given by the President, Mr. Ortiz Mena, at the Annual Meeting illustrate such conclusions about the place and role of the Bank in the development of the region, the efforts for further strengthening of cooperation among the developing countries and the efforts of the international community to put order. Briefly, the Annual Report on the operations of the Bank in 1977 shows: (a) further expansion of the loan activity of the Bank and directing the funds toward projects in productive sectors and the least developed countries of the region; (b) further diversification of other activities of the Bank, particularly in financing technical assistance, export credits, complementary financing and various forms of financial connections with member countries and international, regional and subregional financial development institutions; (c) further improvement in the conditions of approved loans and improvement of relations of the approved loans from the concessional to the ordinary sources of funds; (d) further increase of the Bank's capital base through the memberships of new nonregional and regional members; (e) in addition to all these, the very successful financial and operational results.

The time elapsed since the period when Yugoslavia became a member of the

Bank, although comparatively short for any visible results, shows mutual efforts, both on the part of the Bank and on the part of the Yugoslav Government, in raising possibilities of cooperation offered through the Bank's membership to a nonregional country which itself at the same time is a developing-country.

The visits paid to Yugoslavia by the President, Mr. Ortiz Mena, Vice President Mr. Sternfield and other personalities from the Bank proved to be very productive and we used them to show the capability of certain Yugoslav economic organizations for inclusion into the construction of projects financed by the Bank in Latin America. In accordance with the concrete measures which Yugoslavia has been undertaking aimed at strengthening the cooperation with developing countries and development financial institutions, one of which is the Yugoslav membership in the Inter-American Development Bank, the Yugoslav economic organizations tried in the past to create conditions for cooperation with the Bank. Some of them have been registered with the Bank as planning and contracting organizations for all kinds of works involved in big projects of infrastructure, which have, as it has been mentioned in the Annual Report of the Bank, an outstanding and important place in the Bank's policy of distribution among sectors. Yugoslav organizations are known for their experience, as they have been engaged in construction of many big projects based on bilateral arrangements in the Latin American countries and in the developing countries of Africa, the Middle East and Asia, and they have been accomplished successfully.

In view of all that has been done so far in implementing the agreed and possible forms of cooperation, the Yugoslav side would still suggest certain additional efforts on both sides. The Government of Yugoslavia believes that further measures should be taken by the Bank in order to realize the cooperation with nonregional countries, which is not yet satisfactory, so that this would increase the already successful activities of the Bank in the field of the promotion of cooperation between the Latin American developing countries and other developing countries, adding to the Bank a new, broader and more significant dimension.

Finally, it is my desire to express to the President, Mr. Ortiz Mena, personalities of the Bank and to their associates our recognition for the extraordinary results achieved in the activities of the Inter-American Development Bank and the assurances, which I feel I share with my colleagues, that they enjoy our full support in implementing their difficult and responsible task embodied in the Charter of the Bank—the promotion of the economic and social development of the developing countries in Latin America.

**Address by Mr. J.M.G.M. Adams,  
Governor for Barbados and Prime Minister  
and Minister of Finance and Planning  
on Behalf of the Caribbean Group**

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On behalf of the governments and peoples of the English-speaking Caribbean countries which I have the honor and privilege to represent, I wish to express our deep appreciation for the welcome and hospitality shown to us in this beautiful city of Vancouver by the Government and people of Canada and the Province of British Columbia.

I wish also to welcome Bahamas—a member of the Caribbean Group—Sweden and Finland to membership in the Bank, and particularly to thank Mr. Antonio Ortiz Mena and the Management of the Bank for their dedication during the past year.

Mr. Chairman, it is particularly appropriate that at this time of uncertainty in the attitudes and commitments to assistance for development, we are meeting to review the achievements, policies and objectives of the Bank. I would be pleased, indeed, if my own remarks on behalf of the Caribbean Group could be viewed as a contribution to a better understanding of the role of development assistance and an attempt to facilitate a wider appreciation of the Caribbean dimension of the problem.

Even though the countries comprising the Caribbean Group are relatively new members of the IDB a detailed description of their economies is not necessary since the pertinent features are by now generally known. Nevertheless, it is interesting to note that the small Caribbean economies are characterized by many of the features and structural problems common to the Latin American region. For example, although the Caribbean economies are collectively endowed with a surprisingly wide range of natural resources including, in particular, oil, natural gas and bauxite, they are nonetheless highly dependent on a narrow range of primary commodity exports to sustain the standards of living which they have already achieved. It is of course well-known that the international prices of these commodities, for example sugar and bananas, are subject to the vagaries and vicissitudes of international market conditions. Accordingly we are at a disadvantage in our relationships with the international development agencies which tend to focus on per capita income levels as a principal measure of development and, therefore, of the level and type of assistance they are willing to provide.

Perhaps no country better illustrates this point than the economically strongest of the sub-Group, namely Trinidad and Tobago. In the case of that country there is a strong temptation to confuse a healthy resource surplus with structural diversification or an advanced stage of economic development.

I would like to take this opportunity to say a special word of thanks to the President of the Bank, Mr. Ortiz Mena, who has shown a keen appreciation of these distinctions and has given his support to our efforts to obtain the necessary assistance to implement programs for the continued development of our economies and the improved welfare of our peoples. That he has manifested this interest at a time when it has become fashionable to define development in rather narrow

and restricted terms is, for us in the Caribbean, a source of encouragement and hope.

The fundamental purpose of the Inter-American Development Bank is to contribute to the acceleration of the economic and social development of the region.

In this regard it is encouraging to note that the Bank has been continuously increasing its level of assistance to its developing member countries and achieved in 1977 a record level of loan approvals and disbursements of \$1,809 million and \$832 million respectively. In respect to the Caribbean region, a significant achievement of the IDB in 1977 was the commitment of \$1.5 million to the Caribbean Development Bank on terms and conditions which permits this Sub-Regional institution to use these funds for preparing development projects in those English-speaking Caribbean countries which are not themselves members of the IDB. Many of these countries are among the less developed economies in Latin America and have been in the past outside the orbit of the IDB's lending operations. As many other delegations have observed, the IDB's resource position, and hence lending capacity, is seriously constrained by the failure of a major member country to fulfill its commitments with regard to the Fourth Replenishment. We are therefore concerned that the Bank will be unable to continue the long-established trend of providing increasing resources for development activities at a time when the need for additional real resources has become critical.

We are especially concerned at the prospective shortage of concessionary aid from the Fund for Special Operations which is an important source of assistance in our member countries for providing projects which cater to the basic needs of their populations. We urge all concerned to make every effort to rectify the situation as soon as possible.

Mr. Chairman, the members of the Caribbean Group stand ready to provide additional capital resources to the Bank under the Fifth Replenishment. Indeed Trinidad and Tobago, one of the member countries of this Group has over the last few years made special efforts to increase the flow of resources to the region and to the IDB. As noted in the Annual Report, the IDB in September 1977 was able to float a total of \$10.4 million in medium- and long-term bonds in Trinidad and Tobago. In addition, the same country has refrained from any new borrowings from the Bank since 1974, thereby freeing resources for other member countries. Finally, Trinidad and Tobago has also made loans to other members of the Caribbean Group which are currently experiencing economic difficulties and has expressed its intention to continue these efforts. This initiative will be facilitated by the Project Preparation activities of the Caribbean Development Bank to be funded from the IDB loan mentioned previously.

In the same vein, we note with particular interest the expression of support of our distinguished President for the Latin American Economic System (SELA). The Latin American Council, supreme organ of that organization, recently adopted a decision to establish a preinvestment funding device for the identification and preparation of specific projects resulting from the Action Committees. Trinidad and Tobago, Jamaica and Guyana are already active participants in several of these Committees, with Surinam soon to become a member of the Organization. Any support therefore which the Bank could offer to this auspicious

decision of SELA would not only rebound to the benefit of the Caribbean but also the development goals of Latin America as a whole.

Mr. Chairman, we observe several disturbing factors which may adversely affect the ability of our institution to continue to play an effective role in the development of Latin America. The use of non-economic criteria in determining the eligibility of countries for official development assistance seems particularly inappropriate. The resurgence of protectionist sentiments in industrialized countries could impair the economic transformation of developing countries which indeed is a primary function of our Bank.

The recent sharp changes in the parity of the U.S. dollar against some currencies is a cause of great concern to all of us, since it reduces the real resources of the Bank as well as the purchasing power of funds disbursed to member countries for expenditure on goods and services.

For its part, the Caribbean will continue to function as part of the fraternity for international economic cooperation and to do so in a responsible way. Above all, we would hope to do so in the best interest of the peoples of the region. The creation of a Directorship for the Caribbean and the election of our first Director will, we believe, demand that we accept this responsibility. The recent approval of the first loan from the Inter-American Development Bank to the Caribbean Development Bank is for us a clear indication of the commitment of the members of the wider inter-American region in the advancement of all its peoples. After so many years of uncertainty and indeed of frustration there is finally reason to hope that the future development efforts of this region will be marked by a more coordinated and united approach.

Mr. Chairman, we in the developing world will recognize that we have no monopoly claim on the supply of resources. We however continue to hope that those more fortunate than ourselves will demonstrate by their actions that the poor have no monopoly in the generation of imaginative ideas.



**Address by Mr. Ludovicus Meulemans,  
Alternate Governor for Belgium  
and Inspector General of  
the Ministry of Finance**

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The new Governor for Belgium, Mr. Gaston Geens, Minister of Finance, has unfortunately been unable to leave Brussels because of a budget debate in Parliament. He has instructed me to represent him and to convey his interest in our institution and his best wishes for the success of its action on behalf of the economic and social development of Latin America.

I should also like to join the other Governors in welcoming the Bahamas, Finland and Sweden and in expressing through you, Mr. Chairman, to the Government of Canada my sincere gratitude for the hospitality it has extended to our Meeting and the warmth of its welcome to our several delegations in this city of Vancouver, whose beauty and captivating charm have contributed in large measure to the solid progress and complete success of our gathering, and have made our all too brief sojourn here in Canada so enjoyable and memorable.

Allow me also to extend the congratulations of the Belgian authorities to President Ortiz Mena and the staff of the Bank, not only for their unflagging efforts, but especially for their successes throughout the past year.

Although the over-all situation of the Bank's regional member countries improved over the year just past—the President has called the results satisfactory—I believe that, considering the uncertain and hesitant performance of a number of factors on the international level, in both the monetary and the trade areas, we must all admit that the situation remains a source of concern for a number of our member countries. They continue to encounter serious problems, not only in their balances of payments, but also in the implementation of their development while maintaining a reasonable growth rate. It is primarily within the latter context that we must view the activities of the Bank, which can play an important role in transferring resources from the industrialized countries to the countries of this region. These transfers help them to mobilize more of their own domestic resources, still the essential factor in their economic progress. Thus transfers play a significant part in operation of the process of international adjustment.

As President Ortiz Mena said in his speech last Monday, the Bank has obtained remarkable results within this context:

a) The Bank's loans in 1977 totaled \$1,809 million—18 per cent more than the previous year—raising the cumulative lending total to nearly \$12 billion.

b) The special funds were largely reserved for the less advanced countries of the region.

c) Insofar as sectoral distribution is concerned, there was a fairly balanced distribution among the major sectors.

Many of the loans made by the Bank in the different sectors, have served to aid the most deprived social groups, the low-income sectors, to satisfy basic human needs. To fulfill that last goal, the Bank might seek to diversify its action, but we believe this should be done without compromising the priority that must be assigned

to the infrastructure and other basic sectors for which sufficient local savings are not generally available and whose development exerts a multiplier effect, I mean, a more rapid and more certain one, on income.

Another kind of action in which the Bank has strengthened its participation is technical cooperation, with the borrowing countries in implementing their development programs and investment policies.

In the various fields where we would like to see the Bank's role strengthened, we must make a greater effort than in the past to judge the effectiveness of our action. It should be evaluated definitively in terms of a single criterion: have the countries helped by the Bank been able, because of that help, to improve the mobilization of their own domestic resources, thus drawing closer to the self-financing of development which is the ultimate goal of our Bank policy?

I have also noted with satisfaction the success of the Bank during 1977 in implementing the complementary financing mechanism and intensifying contacts with the several regional, international or national institutions also concerned with Latin American development. On this point the President reported last Monday in his speech on the start of collaboration with the European Economic Community, the Saudi Arabian Fund, the Special OPEC Fund and the International Fund for Agricultural Development.

Following the example of the World Bank Group, I feel that implementation of the cofinancing formula should be further encouraged, for this will undoubtedly prove one of the most effective means of mobilizing additional multilateral or bilateral financing from either public or private sources in favor of the regional members of the Bank. Thus, the Bank will ensure the overall coordination of projects and continue to affirm its role as development instrument in this part of the world.

I have also observed the steps taken by the Bank with a view to promoting regional integration of the Latin American countries and intensification of collaboration with the regional and subregional agencies guiding that process. Expansion of the Bank's development assistance to the Caribbean through direct contacts with countries in the area or through the Caribbean Development Bank is envisaged. My country supports these initiatives for it believes that its collaboration with those countries and, more generally, with the subregional development institutions, can be best accomplished through regional banks, like the Inter-American Development Bank.

Finally, I should like to draw the attention of the working group which will over the next few months examine the procurement policy as it concerns bid calls to the importance of this problem. While awaiting the findings of that study, we should like to urge that the Bank ensure strict application of the rules on international awards. The principle of the call for international bids is one of the three principle bases for each multilateral exercise. It is just as important as the other two principles, namely, regular replenishment of resources of the agency and burden sharing among the donor countries based on objective criteria.

Allow me again, Mr. Chairman, before concluding my remarks, to express the interest of my country's authorities in the problems of replenishment of the Bank's resources, in both its capital and the Fund for Special Operations, and to share some preliminary thoughts on certain basic aspects of the exercise in question.

### *First Aspect: The Amount of the Replenishment*

In his speech of Monday, President Ortiz Mena mentioned a figure of \$8 billion dollars. That figure can pertain, on the one hand, to the lending program projected by the Bank for the next four years and, on the other, to the amount of the increase in capital.

In presenting this amount or another figure the Bank considers various factors such as the growth rate of its lending program over the period of replenishment, as expressed in real terms; the financing requirements of member countries of the Bank benefiting from those loans, and the Bank's administrative capacity for handling a program for the size presented.

I believe that now and in the immediate future the Bank can play an increasingly important role in financing the development of most of its member countries.

In effect, the most advanced countries sorely need Bank loans to finance their development projects aimed at stimulating their exports or reducing their dependence on imports of foreign products. Direct investments have declined. Certain countries, because of the growth of their external indebtedness, find greater difficulties in obtaining the credits from private banks. It is almost certain that these countries will be turning more and more to the Inter-American Development Bank, whose loans will thus be a significant and complementary source of financing to the credit furnished by the World Bank.

The less advanced regional member countries also need financing by the Bank to carry out a number of development projects, especially on concessionary conditions.

While it is hard to compare the situation in the latter countries with that of the less advanced Asian and African nations, I feel, nevertheless, that the following two factors should be kept in mind:

- First, the Fund for Special Operations is one of the few channels or windows, accessible to the Latin American countries for obtaining soft loans.
- Second, the conditions on which special loans are granted by the Fund differ greatly from those on which the IDA or the Asian Fund or African Development Fund grant theirs (in regard to interest rates, terms of loans and grace period).

While we can have sympathetic understanding, on the one hand, of these needs of the regional member countries of our Bank for financing from it and from the Fund, and on the other, of the important role the Bank can play in the transfer of additional resources to those countries, I believe that we should also take into account the contributory capacity of the donor countries in terms of their global multilateral and bilateral aid policy.

As a result, the amount of the replenishment operation should be not only reasonable and realistic, but above all reachable. Moreover, we cannot ignore the fact that the amount should be examined in connection with the problem of burden-sharing, one of the basic elements of each multilateral exercise.

### *Second Aspect: The Ratio Between the Increase in Capital and the Replenishment of Resources of the Fund for Special Operations*

In examining this problem, we must take into account the various factors I have

already mentioned. Based on the 1977 situation, the ratio between loans from the Bank's capital and those from the Fund for Special Operations was about 2:1 (\$1,107 million to \$577 million), or 64 per cent to 34 per cent.

While it is difficult to use a single carefully defined year as a basis, I should like to recall that in my speech last year in Guatemala City, I expressed fears regarding future maintenance of a balance between the two categories of loans. President Ortiz Mena in his speech last Monday, said much the same thing.

I add here that the current situation is still more favorable than what we find in the World Bank Group and the Asian Development Bank.

#### *Third Aspect: The Ratio of Paid-in Capital to Callable Capital*

The payable portion should be decided in function of certain financial indicators and of the liquidity reserve and loan interest rate policies, there are so many financial ratios which the Bank considers: reserve/loan, reserve/borrowing, public interest.

I should like, however, to remark at this point that we should make every effort to see that the Bank retains its image as a first-rate financial institution, together with its international credit worthiness or credibility, so it *can continue to attract resources on optimum conditions in the financial market* of our respective countries in the coming years.

Without wishing to prejudge the results of any study the Bank may make of this subject, I think I can favorably view the maintenance of a payable quota which should not exceed 10 per cent.

#### *Fourth Aspect: Denomination, Evaluation of the Bank's Capital*

Following the entry into force on April 1 of the second amendment of the statutes of the International Monetary Fund, we think it would be appropriate to adopt the special drawing rights as the standard of value to replace the 1959 gold/dollar in redefining the Bank's capital.

This change could be accomplished by an interim action while awaiting completion of the procedure for amending the statutes.

With reference to the replenishment of resources, especially those of the Fund for Special Operations, we feel it fitting to follow in regard to contributions to be made to that Fund, the same procedure applicable to contributions to the IDA, and the Asian Development Fund and to think in terms of not applying a maintenance-of-value clause to those contributions.

Such are, Mr. Chairman, the observations I should like to make on this operation of such importance to the future of our Bank.

My country is willing to participate in it, and we hope that negotiations will, in the time allowed in the resolution presented by the Governor for Honduras, be crowned with success so that the operation can enter into effect during the first half of 1979. That would be, to my mind, the finest present we could offer to our institution on the eve of the third decade of its existence.

**Address by Mr. Giuliano Monterastelli,  
Alternate Governor for Italy  
and General Director of The Bank of Italy**

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The recently appointed Italian Minister of the Treasury, Mr. Filippo Maria Pandolfi, has asked me to express his sincere regrets for being unable to attend the meeting. As Alternate Governor it is my great privilege to represent my country here for the second time.

During 1977 the cyclical recovery of the industrial countries after the 1974-75 recession has been slower than predicted in the official forecasts. The disequilibria created by the rise in oil prices have not yet been completely absorbed, even by the economies of the industrialized countries. The world economy is not proceeding along a satisfactory course of development. The volume of world trade has risen by around 4 per cent, a much lower rate than the medium term one and insufficient to justify the small- and medium-sized countries' expectations of export led growth. The process of investment is not showing a vigorous recovery which could lead to a fast reduction of unemployment, which on the contrary, in many countries has shown a worrying tendency to increase, especially among the young. By contrast, the performance on prices has pointed to a widespread slowdown of inflation which nevertheless remains at high levels, and there has been a certain improvement in the balance of payments of some deficit countries.

In this context, Italy has had to overcome additional difficulties in conducting a program of adjustment to new real and financial equilibria, succeeding in reversing the balance on current account (which recorded a surplus of \$2 billion in 1977, against a \$2.8 billion deficit in 1976), and in reducing the rate of inflation (from 22 to 14 per cent). The price that the country has had to pay has been a growth rate of the GDP of 1.7 per cent (5.7 per cent in 1976), with adverse effects on unemployment and the development of Southern Italy, which remain our priority targets. The improved situation as regards the balance of payments and hence Italy's foreign exchange reserves enable my country to meet the repayment of foreign loans worth more than \$4 billion coming to maturity this year, which were mainly contracted because of the oil price rises.

We are aware that the Latin American countries, whose economies are closely tied to those of the industrial countries and world trade, have also suffered from the slowness of the world economic recovery. Consequently, we also understand the need for the world community, and particularly for the OECD and OPEC countries, to make a more efficient contribution, according to individual possibilities, to the Latin American countries. Not only would this achieve the primary objective of encouraging the growth of these countries, but sustaining their imports could not fail to have positive effects on world trade and the world economic situation. For these reasons my country is disposed to participate in initiatives that are taken in the interest of the developing nations within the wider scope of international monetary and financial organizations such as the International Monetary Fund, the World Bank and the European Economic Community.

Our Bank's activity in 1977 appears to be in line with the targets set down in

its four-year program. New loan approvals reached a total of \$1.8 billion representing an 18 per cent increase over 1976. This evolution was accompanied by a faster rhythm of disbursements.

While the pattern of priorities has been maintained as regards the allocation of resources, in 1977 there was a considerable improvement in technical cooperation, with a favorable impact on the realization of projects which help to accelerate the process of economic integration in Latin America.

The new financial lending means acquired by our Bank in 1977 amounted to about \$600 million, half of which came from capital markets.

Over the year my country has underwritten \$15 million worth of ten-year notes of the Bank and in 1978 participated in the last IDB issue of short-term bonds with a contribution of \$5 million, thus providing, since 1962, an amount of more than \$130 million.

Now my country, in order to maintain continuity in the role of the IDB for the progress of Latin American and Caribbean countries, is ready to participate in the envisaged studies on a new replenishment of its resources, in regard to which my Government shares the favorable attitude expressed by other nonregional countries.

Italy has also made an important contribution to the development of the Latin American countries in the form of medium-term export credits. At the end of 1977 outstanding loans amounted to \$880 million, representing a net increase of \$140 million over the previous year.

In the present state of the Italian economy, where part of productive capacity is unutilized, measures have been taken to increase exports of capital goods, a sector where Italian enterprises have acquired a name for quality, capability and technological progress. Unfortunately, the current adjustment process constitutes an obstacle to these measures for two reasons: first, we must avoid further burdening the already large budget deficit with Government subsidies to reduce interest payments, and second, when collecting funds of the Italian capital market we must be careful not to deprive domestic productive investment of finance. It follows that exports of machinery and the construction of plants can be expanded if Italian credit institutions on the one hand and/or importers of goods and services, assisted by the international credit institutions involved in their development, on the other, are able to gather more financial resources on foreign and international markets.

As to the financial policies pursued by our Bank during the year under review, I would like to mention not only the success in terms of cost, but also the satisfactory development of complementary loans, which accounted for more than \$100 million in 1977. This financing mechanism will enable our Bank to maintain and strengthen its role of catalyst to the benefit of the Latin American countries as regards availability and cost of funds, especially in view of the present evolution of capital markets which is affected by uncertainty concerning the exchange rate and hence interest rates and the average life of loans.

For promoting initiatives for the economic and social progress of the Latin American countries and discovering new methods of channeling additional private funds to this objective, and for increasing the productivity of the personnel, I wish to express my appreciation to the President of the Bank, Mr. Ortiz Mena, the Vice President, Mr. Sternfeld, and to all their collaborators.

Mr. Chairman, to conclude, I would like to say how glad the Italian delegation is to be in Canada, a vast and generous country, rich in natural beauty and resources. Finally, I wish to express our warm thanks for the way the host Authorities of British Columbia and of the city of Vancouver organized this meeting.

**Address by Mr. Soeren Voss,  
Temporary Alternate Governor for Denmark  
and Deputy Head of Division,  
Ministry of Foreign Affairs**

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It is a great privilege for me to represent Denmark at this Annual Meeting, and my first duty would be to convey to you, Mr. President, the sincere regrets of our Governor, Minister without portfolio, Mrs. Lise Ostergaard, for not being able to participate in this important meeting.

I would like to associate myself wholeheartedly with the many words of appreciation and thanks expressed by previous speakers to the Canadian Government and to the people and authorities of British Columbia for the very warm welcome and for the hospitality extended to my delegation.

My Government welcomes the new members of the Bank, the Bahamas, Finland and Sweden. Through the membership of Finland and Sweden, the Nordic representation in the Bank has been strengthened and we are looking forward to carry on with the well-established cooperation among the Nordic countries, now in the context of the IDB.

This is only the second time Denmark as a nonregional member of the Inter-American Development Bank is represented at an Annual Meeting. We have gained valuable experience from these first years of cooperation with the Bank. We have also gained more insight as to the position and specific nature of the Latin American development problems. My Government has noted with satisfaction the sustained increase of previous years' growth in the volume of the operations of the Bank. It fully supports the increasing emphasis by the Bank on concessional financing of projects in the least developed of the developing member countries and on projects with a basic socio-economic impact. This policy of the Bank is fully in line with principles guiding Denmark's cooperation with the developing countries. As stated by the Danish representative at the last Annual Meeting in Guatemala City, the Danish Government and the Danish public put great emphasis on the fact that official development assistance goes to projects and to other kind of activities designed to meet basic human needs by improving the economic and social conditions for the poorest segments of the populations. High priority should therefore be given to cooperation on primary health and nutrition programs and on projects in the educational and agricultural sectors. Special attention should be paid to projects improving the position of women in the developmental process.

A further increase in the activities of the Bank and of its Fund for Special Operations depend on the availability of new financial contributions as of next year. The Danish Government is taking part in a constructive spirit in the negotiations officially opened yesterday in the group of 22 on the Fifth capital replenishment of the Bank's resources. We do so from a strong wish that all countries participate in this exercise in a balanced way and on an equal footing. We also hope that problems related to the fulfillment of previous commitments by a major member of the Bank are soon to be solved in a positive way.

In spite of the adverse economic situation still prevailing in several industrial-



ized countries including my own, there is a wide public support in Denmark to adhere to the planned growth rate in our international development cooperation, though emphasis—as just mentioned—now seems to be the move on assisting the poorest countries and the poorest segments of the populations. Denmark expects now to reach by 1979 the 0.7 per cent target in official development transfers set by the United Nations. This year we will reach the figure of 0.67 per cent of our GNP. My Government hopes that other industrialized countries will soon be in a position to do the same.

Mr. Chairman, I will take this opportunity to make a comment briefly on the human rights issue, which increasingly has raised international attention since the last Annual Meeting. Gross violations of internationally recognized human rights—wherever they occur—is a matter of growing concern to the Danish public. Our concern is reflected in the Danish attitude in the UN which, in our opinion, should remain the central forum for the discussion of this issue. In respect to the international development finance institutions, Denmark has no wish to politicize the work of these institutions but we may—in order that continued public support to international development cooperation not be impaired and in exceptional cases—have to refrain from supporting projects, in particular, where we are not convinced that such assistance will be to the benefit of the poorest segments of the populations.

Facing a depressed economy and distressingly high unemployment figures, we feel that an international development finance institution like the IDB (without losing sight of the overall principles for development cooperation) could in the years ahead become instrumental in facilitating and promoting cooperation between industries in the regional developing member states and in the nonregional member states. Increased cooperation of that kind would no doubt be beneficial to the international course of development cooperation in the longer term, since it would justify the endeavor of the governments of industrialized countries to maintain and to increase the flow of funds for development purposes.

In this connection we find it of particular importance that the requirement for international competitive bidding on Bank projects, currently under study by the Board of Executive Directors, be defined and executed in such a manner that legitimate interests of all member countries are taken fully into consideration.

Danish industrial know-how and expertise is available to a growing extent. With a view to maximizing the utility of our potential for the UN development system and for the international financial institutions, an international project Secretariat—or clearing house—has recently been established in the Danish Ministry of Foreign Affairs. The Secretariat is open for cooperation also on IDB projects.

Mr. Chairman, I should like to conclude my statement by saying that the Danish Government's initial impression of the IDB as a highly efficient and competent development institution has been fully confirmed in the past year. My Government is pleased to acknowledge the excellent leadership of President Ortiz Mena and its appreciation of the work done by our Executive Directors and the staff of the Bank. My Government therefore looks forward confidently to a new period of excellent cooperation with the Bank in the important task of furthering the social and economic development of Latin America.

**Address by Mr. Roger Blandón Velásquez,  
Governor for Nicaragua and Minister of Economy,  
Industry and Commerce**

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On behalf of the people and Government of the Republic of Nicaragua, I would like to begin my remarks by congratulating the President of the Inter-American Development Bank, Antonio Ortiz Mena, the Board of Executive Directors and the staff of the Bank upon the fruitful and efficient work accomplished in 1977, which attests to the dedication of Mr. Ortiz Mena to our Bank, and to his competence and leadership in furthering the economic and social development of Latin America.

In 1977 our regional bank saw its lending operations reach a cumulative total of some \$12 billion, an increase of 18 per cent over the previous year. Loans authorized in 1977 totaled \$1.8 billion.

The accomplishments of 1977 confirm once more that our regional institution has become one of the most effective instruments for promotion of the economic and social development of our hemisphere, not only in terms of the volume of resources provided but also in the philosophy that guides its financing policies for the solution of the economic and social development problems of Latin America.

Thus, the Inter-American Development Bank achieved percentages of financing that had never before been reached by the international financial agencies. It incorporated new financial criteria in the strategy for our development, and we can now state with great satisfaction that its example is being emulated by other international and regional development institutions.

We should also call attention to the growing importance of the participation of countries outside the region, which not only have augmented the resources of the IDB, but also have contributed new approaches in the policies of our institution so that it may work more effectively for the growth of the less developed countries.

The Delegation of Nicaragua is in full agreement with the statement made by the Governor for Honduras and Minister of Economy, Mr. Benjamín Villanueva, who has spoken eloquently of the activities of the IDB in the Central American Common Market and in its five member countries.

Nevertheless, the Delegation of Nicaragua has decided to address this Meeting separately, in order to discuss some aspects of the Nicaraguan economy and its relationship to the Inter-American Development Bank and to the international financial community within the general context of national and international efforts to help us deal with our present economic problems.

Eighteen years of IDB activity in Nicaragua have been reflected in a visible improvement in the standard of living of Nicaraguans, particularly in the areas of housing, health, education and the conditions of the lowest-income groups.

During this period loans approved for Nicaragua totaled \$212 million, for projects which mobilized domestic funds totaling \$128 million. Our outstanding debt to the IDB at the end of 1977 stood at \$85 million, representing 10 per cent of our combined external debt to foreign commercial sources and international institutions.

From the sectoral point of view, special mention should be made of the results of the Bank's financial support for our stockraising sector, which in ten years has risen to third place in our total exports. It should be noted further that the IDB has provided financing for the rest of the agricultural sector, notably for programs aimed at increasing the productivity of the small-scale farmer. The rural credit program, together with other financing for this sector and for agrarian reform, have benefited more than 200,000 rural dwellers.

Likewise, the Bank has contributed to the development of one of our leading integration agro-industries, powdered milk, which is sold in the Common Market and guarantees a stable market for over 4,000 small-scale stockfarmers, who are making improvements in their herds and their facilities because of this incentive.

IDB support for Nicaragua in the productive sectors has been highly beneficial to small-scale producers through programs such as those I have mentioned, which thereby take on social importance.

As part of this same policy of favoring low-income groups, the social sectors have received adequate attention from the Bank. We have provided potable water supply service for all communities of over 4,000 inhabitants, embracing almost 80 per cent of the urban population of Nicaragua, and sewage service for the ten largest cities.

We have modified our system of university education, especially our medical education, through expansion and modernization.

We have been able to meet a large proportion of the demand for housing for the neediest sectors of our urban population.

All of this progress has been achieved both because of the revolutionary approach that the IDB has taken to the problems of our underdevelopment, and because of the efforts made by the Government of Nicaragua in conjunction with the Bank's loans through our fiscal policy, which has made it possible for our country to mobilize the counterpart resources required for these financial operations.

As a result of the priority efforts of our government, the indicators of social progress in Nicaragua can be summarized as follows: Of our 37 urban communities of over 4,000 inhabitants, representing 80 per cent of the urban population, all have electricity, only two lack potable water supply, and only three do not have secondary schools; 27 have hospital facilities and all have health centers. We expect substantial progress in the years ahead through the extension of social security to the rural area, through agricultural technological institutions which will provide access to secondary education for a large proportion of the rural population, and the program of rural health stations which will give almost all of that population access, in their own communities, to most of the health services now available only in urban hospital centers.

As a continuation of these efforts, in 1978 the IDB has granted us a loan of \$20 million from the resources of the Fund for Special Operations to provide equipment for the rural sanitation program which the Government of Nicaragua will extend to the entire rural population. This program, together with the health programs in the cities, ensures full coverage of medical services for the entire population of Nicaragua.

I would like to use the occasion of this Nineteenth Meeting of the Board of

Governors of the IDB to speak to the international financial community present here about recent events in Nicaragua in relation to political problems.

The political events that began in July 1977 with the illness of the President of the Republic have been reported in a distorted fashion by certain elements of the national and international press, encouraged by a group of Nicaraguan and foreign ultra-radicals who are characterized by their unremitting opposition to the constitutional Government of Nicaragua.

In January of this year, as a result of the reprehensible murder of the journalist Dr. Pedro Joaquín Chamorro, an important segment of the urban business sector announced a stoppage of activities as a civil protest against that evil deed and the ensuing judicial proceedings. Nevertheless, the strike, which took place within a context of respect for individual rights on the part of the Government, ended when interested political groups attempted to use it as a means of disrupting the constitutional and legal order of the country and overthrowing the government. These events demonstrated once more that the majority of the Nicaraguan people believe that stability and order are the forces that should prevail in the social and economic life of Nicaragua.

In response to this attitude and mindful of its legal obligations, the Government of Nicaragua is determined to ensure that the constitutional precepts by which we are governed shall prevail and that the change of government in 1981 shall take place according to the decision of the Nicaraguan people and the rules of our laws, thus eliminating any possibility that subversion might lead to the establishment of a *de facto* régime.

With this in mind, the Government has taken certain steps in the political and social fields aimed at strengthening democracy with a greater degree of social justice. In the political field, a process of constitutional reform has been initiated in order to allow for greater openness through a plurality of parties of all ideologies. In the social field, benefits for all employees and workers in the public and private sectors will be increased considerably, both in the cities and in the country, free health services in the country will be improved and the social security system will be extended universally.

Despite the aforementioned political events, prospects for the Nicaraguan economy in 1978 are quite favorable. Exports for 1978 are estimated, in conservative terms, at about \$680 million; this represents an increase of 6.1 per cent over 1977 and can be explained by the interaction of a wide variety of factors. Thus, while the over-all growth is modest, as reflected particularly with regard to meats and seafoods, the price effect in certain traditional commodities is substantial. Nevertheless, the increase of 20 per cent in exports to the Central American Common Market is due to increases in volume, mainly of chemical products and powdered milk.

It is hoped that the value of imports will decrease with respect to 1977. This will be due not to any decrease in real requirements for imported goods but rather to the fact that during 1977 there were speculative imports. This is confirmed by the fact that 1977 imports exceeded 1976 imports by \$226 million, an increase of 43 per cent. The resulting accumulation of inventories will cause a definite drop in imports for 1978. Furthermore, it is worth mentioning that during 1977, road construction equipment valued at \$40 million was imported, mainly to replace existing equipment; thus, this was a nonrecurring transaction.

The behavior of Nicaragua's balance of trade will of course depend on monetary, credit and fiscal policies which, in 1978 as in previous years, have been designed to maintain the economic stability of the country, particularly its monetary stability. The decision of the monetary and fiscal authorities is aimed at maintaining an adequate level of international reserves, particularly of net reserves, which will be strengthened as a result of decreased short-term commercial external debts.

The growth of the economy in 1978 will bring about an increase in the liquid assets of the financial system compatible with the balance of payments, mentioned above. Even though there has been a reduction in the growth rate of resources from private citizens, brought about mainly by speculative transfers outside the country, the anticipated dynamism of exports will help maintain private liquid assets at acceptable levels.

At the same time, fiscal policies are aimed at maintaining government investments and current expenditures at a rate compatible with the revenues of the central government, which this year will be strengthened by the administrative measures that have been adopted, particularly with a view to improving income tax collections.

On the other hand, payments on the debt incurred as a result of the earthquake have increased the service of the over-all external debt since 1977, the ratio between it and exports has stayed within manageable levels. It is hoped, however, that with the disappearance of those occasional elements, the ratio can be restored to normal levels by 1980.

The support of the Bank, as well as of other international institutions, will enable Nicaragua to maintain an investment rate conducive to adequate economic growth. This year, Nicaragua will concentrate its efforts on the implementation of programs with a broad social content that will benefit the lower-income classes, particularly in the rural areas. Accordingly, our Government has submitted for the Bank consideration several projects designed to meet the priority needs of small industrial and agricultural producers, as well as to improve health services for these sectors.

One of these projects, of great strategic importance and social impact, is the construction of the Río Blanco-Siuna highway, covering 112 kilometers, which will connect the center of Nicaragua, from the Camabocho Plan system—which was built with IDB funds—to the Siuna-Puerto Cabezas highway. This project is of great importance to the nation, not only because it will integrate the Atlantic region with the rest of the country, but also because the Congress of the Republic has decided that the lands located within the area affected by the highway are to be distributed among the rural dwellers, through the land title programs that have been initiated by the Nicaraguan Agrarian Institute. In view of the nature of these projects, which are not production-oriented, they should be considered for financing from the Fund for Special Operations.

It is worthwhile stressing, in this regard, that Nicaragua has faithfully complied with all the obligations imposed by the various decisions of the Board of Governors aimed at strengthening the development of our regional institution, whether through contributions to the ordinary capital or to the callable capital or through adjustments which have had to be made for various reasons. We therefore hope that the other countries, particularly the developed countries will take a

similar approach in order to allow for greater and continuing technical and financial assistance to meet the needs of the relatively less developed countries.

We have had a wonderful opportunity to see with our own eyes how the determination of people and their government have made it possible to build not only a beautiful and modern city such as Vancouver, but to convert this area into an important center of development. We wish to express to the Finance Minister of Canada and to the Mayor of Vancouver our sincere appreciation for your beautiful city, which has been our home during our stay here. Our sincere thanks to you and to your people for your warm hospitality.

**ADDRESSES**

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**FIFTH PLENARY SESSION**

**April 19, 1978**

**CLOSING SESSION**

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

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We are now coming to the end of the Nineteenth Annual Meeting of the Board of Governors, which has fully accomplished the purposes for which it was convened. We have been able to deal promptly with a heavy agenda, while devoting the necessary attention to each item. These achievements are due in large part to the excellent organization of this meeting which has been significant not only for the importance of the topics we have dealt with but also for the number and the broad range of expertise reflected in its participants. Our Nineteenth Annual Meeting has been attended by national delegations of 43 countries and by distinguished representatives of the international banking community, of Latin American commercial and investment banks, of the press, and of other communications media from all over the world. In sum, the meeting has brought together 2,000 persons who are interested in the region's development and who wish to establish contact conducive to the realization of new initiatives in many different fields of productive endeavors.

Is noteworthy that 13 loan and technical cooperation agreements, involving a total of nearly \$300 million, benefitting 10 countries in addition to a regional loan to Central America, were signed during the meeting. This technical and financial cooperation embraces projects in the fields of infrastructure, of industrial, agricultural and mining production, and of social development—education, and rural and urban water supply.

I wish to express again our appreciation to the authorities of this great country, and of the beautiful Province of British Columbia, for the very warm hospitality extended to us. It is my pleasure to request the Chairman of the Board, the Honorable Jean Chrétien, Minister of Finance of Canada, to convey these sentiments to the authorities of his country and at the same time to accept our congratulations for the outstanding manner in which he has chaired our discussions at this meeting. I should also like to express our appreciation to the Governor for Guatemala, Ambassador Jorge Lamport Rodil, for the impartial and effective way in which he discharged the responsibilities of the office of Chairman of the Board of Governors during the term which ended at the start of this meeting.

I also want to take this opportunity to welcome the new Executive Directors and Alternates and to wish them every success in their important work, as well as express the thanks of our Bank to the departing Executive Directors who, I am certain, will continue their interest in the developmental undertakings of their countries and of Latin America as a whole.

Now I would like to review briefly the major topics that we have discussed at this meeting, as well as some of the very valuable comments that have been offered by the Governors.

The Fifth Replenishment of the Bank's resources has been initiated. The resolution approved by the Governors embodies a working procedure which, I am confident, will enable the negotiations to be completed in time for a decision to be made next September, when the Governors attend the Annual Meeting of the World Bank and the International Monetary Fund. I trust that the results of these



negotiations will make available to the Bank resources—both ordinary and concessional—sufficient to enable it to move forward in carrying out its mission of service to its member countries during what is expected to be a very difficult period and one that will call for sacrifices and renewed efforts on the part of the region.

The resolution recommending that the Committee of the Board of Governors perform an evaluation of the Bank's functions and policies represents an initiative of particular importance. It acknowledges the fact that development is a process of change which affects both the countries and the institutions which, like ours, participate in it. The nature of the issues involved will undoubtedly require technical inputs from the most outstanding experts in the relevant fields and decisions from authorities at high political levels. The Bank will lend its broad and unstinted support to the Committee of Governors in the execution of this task.

A number of Governors have expressed concern about tendencies in some countries which contribute funds to international institutions to make the utilization of such funds conditional on political considerations. This question has been raised in the past. The Agreement Establishing the Bank explicitly and unequivocally states that all borrower member countries are eligible to receive technical and financial cooperation and that loans should be made exclusively on the basis of the merits of projects and the capacity of the borrower countries and institutions to repay them. Those provisions cannot be changed by the unilateral decisions of one country or a group of countries. They are a part of an international agreement which resulted from a process of negotiations reflecting the consensus of political decisions. They are part and parcel of the very nature of international organizations, and cannot be disregarded without jeopardizing the *raison d'être* of institutions like ours.

Many Governors have drawn attention to problems relating to the allocation of resources in currencies which have different degrees of stability through loans bearing a uniform rate of interest. It has been suggested that consideration be given to the advisability of resorting to variable interest rates. Together with this proposal, we are studying the alternative of operating with a basket of currencies whose composition would be adjusted once or twice a year, depending on the proportion of resources the Bank mobilizes in each currency. In that way, the Bank would denominate the loans in dollar equivalents with a single interest rate which would be adjusted periodically, depending on the contents of the currency basket.

We have taken note of the views expressed by a number of Governors to the effect that the establishment of development priorities is the exclusive domain of the countries concerned.

We note with special interest the ideas put forward by a number of Governors concerning the financing of Latin American exports as a logical complement of the industrialization process. In that context, we are pleased that the Latin American Export Bank (BLADEX), with which our institution has had continuing links, has become a reality, with headquarters in Panama. It has also been said that public resources should not be used to finance exports and that this function should be left to private resources. In that connection, it is worth recalling that most of the industrialized countries have financial mechanisms or instruments for the promotion of exports which are supported by public funds.

We are gratified that new undertakings continue to take shape in our member countries, which facilitate the Bank's cooperation in the field of integration, such as the *Fondo Financiero de la Cuenca del Plata*, to which the Governor for Bolivia referred. The IDB will give special consideration to the possibility of cooperating in the specific projects promoted by the Fund. Moreover, we share the interest expressed by the Governor for Venezuela in having the Bank participate in the financing of projects developed by the Action Committees of the Latin American Economic System (*SELA*).

The Governors for Bolivia and El Salvador have asked the Bank for a technical cooperation mission to give preliminary consideration to the feasibility and possible characteristics of a new program of rural development in certain areas of Bolivia which would involve the resettlement of Salvadoran farmers. The Governors are surely aware of the tremendous significance of such an initiative. We are actually being asked to explore the possibility of initiating programs of intra-regional human resettlement which would resolve very serious problems that hamper developmental efforts and at times have a distressing effect on the lives of very large groups of people. We shall do everything possible to support this interesting initiative.

In my address at the Inaugural Session, I referred to the cooperation our Bank provides for programs and projects which directly benefit low-income groups. I pointed out that we are doing this work in the context of integrated development undertakings which combine economic and social objectives. We are gratified by the remarks made on this subject by many Governors. At this point, I should merely like to add how pleased we were to receive a cable from the Latin American Confederation of Savings and Credit Cooperatives (COLAC), expressing its support and appreciation for the assistance it has received from the Bank. This organization embraces 1.6 million handicraft workers and small businessmen from both urban and rural areas.

Finally, let me say that I share the pleasure expressed by the Governor for Mexico regarding the ratification by the United States Senate of the treaties on the inter-oceanic canal, which is such an important factor in the economy of Panama. I am greatly pleased to voice the general satisfaction of the meeting with this agreement of far-reaching significance for the hemisphere.

I shall conclude these brief remarks by expressing our firm resolve to intensify our efforts in support of the development of the region. We are aware that in the next few years the world will have to grapple with serious problems which, far from intimidating us, will stimulate the capacity of Latin America to accomplish, with the support of the international community, the great undertakings required of it at this stage in its development process.

**Address by Mr. Jean Chrétien  
Chairman of the Board of Governors,  
Governor for Canada and Minister of Finance**

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First, let me express to you the great satisfaction I feel at the accomplishments of this Nineteenth Annual Meeting of Governors of the Inter-American Development Bank. I have been interested particularly by the way in which our discussions have developed. I have tried to give this work as much time and attention as I could, because I believe that the Bank's undertakings are of prime importance to Canada in fulfilling our policy of cooperation with Latin America and the Caribbean. I am convinced that the results will be equally significant for all other member countries in the collective support they will ensure for the economic and social development of Latin America.

Specifically, we have agreed on a procedure and a timetable to achieve the Fifth replenishment of the Bank's resources. The support already announced by member countries demonstrates beyond any doubt the political will of our governments to secure the financial future of the Bank.

As a result of important initiatives of the Government of Mexico, we have also ensured that the Bank's long-term policies and activities will be looked at to make sure that this institution continues to respond in a dynamic fashion to the changing economics and social patterns of the region. In Vancouver we have laid the basis so that the Bank can move forward from the 1970s to meet the challenges of the next decade.

Finally, this meeting has also provided an opportunity to bring together a great many individuals from both the public and private sectors, all devoted to common objectives and all working within the framework of multilateral development. These closer working relationships will serve us well in the future.

In accordance with the wishes expressed by the countries of South America at this morning's meeting, I want to underline the historical importance of the favorable vote which took place yesterday in the United States Senate completing the process of the ratification of the Panama Canal Treaty. As Chairman of this Meeting, I wish to express in your name and in the name of my Government, our warmest congratulations and our deep satisfaction to the Governments of the United States and Panama. This event will no doubt contribute to further strengthen the already close relations which unite the countries of this hemisphere.

As we conclude our work, I would also like to reaffirm Canada's commitment to the Bank and to greater cooperation with the other member countries. This Nineteenth Meeting that we have had the honor of host in Canada symbolizes our deep attachment.

Mr. President, ladies and gentlemen, it has been a great pleasure and honor to have served as chairman of this assembly. I have found it personally rewarding. It has given me an opportunity to get a better appreciation of the key role the Bank plays and its operations. My experience here will serve me well in carrying out my duties as your chairman until we meet again.

In closing, let me repeat once more on behalf of the Government and of the people of Canada our very great pleasure in having been able to have you here in

Vancouver for this Nineteenth Annual Meeting. Mr. President, it remains only for me to thank you personally for the good-will you have expressed towards my country. Your close cooperation and that of the Secretary and his colleagues has helped to assure the success of our conference. I also want to thank the governors and delegates for their participation in our work.

Finally, let me express on behalf of the Governors of the Bank our profound gratitude to the Mayor and people of Vancouver and the Province of British Columbia for the warm welcome they have extended to us.

I look forward to seeing all of you at the Twentieth Annual Meeting of the Inter-American Development Bank.

**RESOLUTIONS APPROVED  
BY THE BOARD OF GOVERNORS  
BETWEEN ITS EIGHTEENTH AND  
NINETEENTH ANNUAL MEETINGS**

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## **Resolution AG-8/77**

### **Admission of Sweden 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 subscription 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;”

Sweden 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 Sweden, has made recommendations to the Board of Governors with regard to the application of Sweden for admission to membership in the Bank;

The Board of Governors

#### **RESOLVES:**

1. That Sweden shall become a member of the Bank when the President shall have declared that Sweden has fulfilled all the following requirements:

- (a) It shall have subscribed to 906 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 150 paid-in shares and 756 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\$500,000, 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 Sweden, 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, Sweden shall give assurances satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid of December 17, 1974. Unless Sweden 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, respectively, in three annual installments of 252 shares each, on the dates for payment of the installments of the paid-in inter-regional capital stock. 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\$10,929,471, 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, each of US\$3,643,157, of the weight and fineness above specified, 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.
    - (ii) The contribution shall be entirely in the currency of Sweden 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 Sweden 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 encash-

ment. With respect to its contribution Sweden 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 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. Sweden may accept the conditions and fulfill the requirements established for membership until November 30, 1977, provided, however, that if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

3. The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to this resolution, with the same force and effect as if fully set forth herein.

(Approved August 26, 1977)



**Resolution AG-9/77**  
**Amendment of the Regulations for the Election**  
**of Executive Directors**

**WHEREAS:**

Pursuant to Resolution AG-7/77, the Committee of the Board of Governors has studied the proposal submitted by the Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago concerning the possibility of increasing the number of Executive Directors so that these countries can be represented jointly by an Executive Director; and

The Committee of the Board of Governors, taking into account the special situation of these countries and such other countries as may wish to associate themselves with the integrated Caribbean regional group, as well as the report of the Board of Executive Directors contained in documents CA-99 and CA-99-1, has recommended that the Board of Governors increase by one the number of Executive Directors to be elected by the regional developing member countries under Section 3(d) of the Regulations for the Election of Executive Directors,

The Board of Governors

**RESOLVES:**

To amend the Regulations for the Election of Executive Directors as follows:

1. The introduction of Section 3 shall read:

“The Governors for the regional developing member countries shall elect eight Executive Directors in accordance with the following provisions:”

2. Paragraph (d) of Section 3 shall read:

“In the second place, Governors whose votes have not been cast in favor of any of the Directors elected under paragraph (c) shall elect three Executive Directors on the basis that only countries individually having not more than two and one-half percent (2-1/2%) of the total eligible votes may present candidates and vote. The three candidates who receive the greatest number of votes shall be deemed elected, provided that one candidate receive the votes of at least four countries and the other two candidates receive the votes of not less than three countries each. As many ballots shall be taken as are necessary to reach this result.”

3. Paragraph (a) of Section 8 shall read:

“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 three Directors mentioned in Section 3(d) thereof in the third, and the two Directors referred to in Section 4 in the fourth.”

(Approved November 3, 1977)

**Resolution AG-1/78**  
**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 1978 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 January 3, 1978)

**Resolution AG-2/78**  
**Additional Increase of US\$1.3 Billion in the Authorized Callable Capital Stock and Subscriptions Thereto as Provided in Resolution AG-7/76**

WHEREAS Resolution AG-7/76 approved June 1, 1976 by the Board of Governors recommended, in addition to the capital increase adopted therein, a further increase of US\$1.3 billion in the authorized callable capital stock of the Bank, which would take effect upon approval by the Board of Governors;

WHEREAS the Board of Governors of the Bank has concluded that action to increase the authorized callable capital stock of the Bank would be desirable;

WHEREAS Article II, Section 2(e), and Article IIA, Section 1(c), of the Agreement Establishing the Bank, provide for increases in the capital stock of the Bank;

The Board of Governors

**RESOLVES THAT:**

*Section 1. Increase in the Authorized Capital*

- (a) Subject to the provisions of paragraph (c) hereof, the authorized callable capital stock of the Bank shall be increased by US\$1,302,850,697 in terms of current United States dollars, divided into 108,000 shares, each having a par value as provided in Resolution AG-7/76.
- (b) Any country which becomes a member of the Bank prior to the effective date of this increase shall have the right to subscribe to a proportionate share of such increase pursuant to Article II, Section 3(b), of the Agreement Establishing the Bank.
- (c) Such increase shall become effective only if, on or before December 31, 1977 or such date thereafter as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank

appropriate instruments, by which they agree to subscribe, observing such legal requirements as may be appropriate in the respective countries, to at least 81,000 shares of the increase in accordance with Section 2 of this resolution.

## Section 2. *Subscriptions*

- (a) In accordance with Article II, Section 3(b), of the Agreement Establishing the Bank, each member may subscribe to the respective number of shares of callable capital as follows:

	<i>Shares</i>	<i>Amounts Expressed in Current U.S. Dollars</i>
<b><i>Regional Members</i></b>		
Argentina	12,908	\$155,714,785
Barbados	154	1,857,769
Bolivia	1,036	12,497,716
Brazil	12,908	155,714,785
Canada	5,050	60,920,334
Chile	3,544	42,752,804
Colombia	3,541	42,716,614
Costa Rica	518	6,248,858
Dominican Republic	692	8,347,895
Ecuador	692	8,347,895
El Salvador	518	6,248,858
Guatemala	692	8,347,895
Guyana	192	2,316,179
Haiti	518	6,248,858
Honduras	518	6,248,858
Jamaica	692	8,347,895
Mexico	8,297	100,090,298
Nicaragua	518	6,248,858
Panama	518	6,248,858
Paraguay	518	6,248,858
Peru	1,730	20,869,738
Trinidad & Tobago	518	6,248,858
United States	37,303	450,002,218
Uruguay	1,384	16,695,790
Venezuela	6,916	83,430,698
<b>Total regional members</b>	<b>101,875</b>	<b>1,228,962,172</b>
<b><i>Nonregional Members</i></b>		
Austria	52	627,298
Belgium	129	1,556,183
Denmark	56	675,552
Finland	52	627,298
France	637	7,684,407
Germany, Federal Republic of	652	7,865,358
Israel	52	627,298
Italy	637	7,684,407
Japan	710	8,565,037
Netherlands	97	1,170,153
Spain	637	7,684,407
Switzerland	142	1,713,008
United Kingdom	637	7,684,407
Yugoslavia	52	627,298
<b>Total nonregional members</b>	<b>4,542</b>	<b>54,792,111</b>
Unallocated	1,583	19,096,414
<b>Grand Total</b>	<b>108,000</b>	<b>\$1,302,850,697</b>

- (b) The subscription of each member shall be on the following terms and conditions:
- (i) The subscription price per share shall be as provided in Resolution AG-7/76.
  - (ii) The increase with respect to each member shall be subscribed on or before October 1, 1978 or such date thereafter as the Board of Executive Directors shall determine, except that any country which shall have become a member of the Bank after the approval of Resolution AG-7/76 on June 1, 1976 but before the effective date of this increase shall have the right to make its subscription on or before December 31, 1979 or such date thereafter as the Board of Executive Directors shall determine.
  - (iii) Each 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.
  - (iv) The subscription of each member shall become effective as of the date when all the terms and conditions specified in this paragraph (b) shall have been fulfilled with regard to at least 75,000 shares of the increase.

### *Section 3. Voting Power*

The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to the capital increase provided for in this resolution, with the same force and effect as if fully set forth herein.

(Approved February 28, 1978)

## **Resolution AG-3/78**

### **Admission of Surinam to Membership in the Bank**

WHEREAS Surinam is a member of the Organization of American States and membership in the Inter-American Development Bank (hereinafter referred to as the "Bank") is thereby open to said country in accordance with Article II, Section 1(b) of the Agreement Establishing the Bank (hereinafter referred to as the "Agreement"),

WHEREAS Surinam 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 Surinam, has made recommendations to the Board of Governors with regard to the application of Surinam for admission to membership in the Bank.

The Board of Governors

RESOLVES:

1. That Surinam shall become a member of the Bank when the President shall have declared that Surinam 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) The subscription to paid-in shares shall become effective in five equal annual installments. The first installment shall become effective on the date the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution and the remaining installments shall become effective one, two, three and four years, respectively, after such date. Payment of the amount due on each installment shall be made not later than the respective date established above except that the first installment may be paid within 30 days from the respective date. Of each installment, 50 per cent shall be paid in gold and/or US dollars and 50 per cent in the currency of Surinam in accordance with Article II, Section 4(b) of the Agreement.
  - (ii) The subscription to callable capital shall become effective in a single installment on the date the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution. This 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 US dollars, and the equivalent of US\$5,000,000 in the currency of Surinam, 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 contribution shall be made in five equal annual 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 Section 1(d) of this resolution and the remaining installments one, two, three and four years, respectively, after the date of deposit of the instrument.
  - (iii) The currency of Surinam 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 copy 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. Surinam may accept the conditions and fulfill the requirements established for membership in the Bank until September 13, 1978. However, if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

3. The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to this resolution, with the same force and effect as if fully set forth herein.

(Approved March 2, 1978)

#### **Resolution AG-4/78**

#### **General Agreement for Cooperation with the International Fund for Agricultural Development**

The Board of Governors

#### **RESOLVES:**

That the President of the Bank, or such representative as he shall designate, is authorized in the name and on behalf of the Bank to conclude a general agreement for cooperation with the International Fund for Agricultural Development substantially in the form attached to the memorandum dated March 3, 1978, of the Board of Executive Directors to the Board of Governors.

(Approved April 3, 1978)

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

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## **Resolution AG-5/78**

### **Status of Bank Resources**

#### **WHEREAS:**

The replenishment of the resources of the Bank is of fundamental importance for the future of the Bank's operations and it is therefore urgent to reach agreement on such replenishment in order to avoid any interruption in the Bank's activities in support of the economic and social development of the region, and

It is of primary importance for the member countries that the Bank continue to perform, and, to the extent possible, strengthen its role as a multilateral instrument for channeling the transfer of real resources for development purposes,

The Board of Governors

#### **RESOLVES:**

1. That the Committee of the Board of Governors, established pursuant to Resolution AG-5/70, study the status of the resources of the Bank and submit recommendations on measures to be taken for an increase in the Bank's capital and in the Fund for Special Operations and on such other matters related to the increase of resources as the Committee may deem advisable.

2. That the Committee meet as promptly as possible and as often as necessary to present the final report and recommendations to the Board of Governors, with a view to its consideration by the Board of Governors at a special meeting to take place at Headquarters of the Bank not later than September 29, 1978.

(Approved April 16, 1978)

## **Resolution AG-6/78**

### **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, 1977, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 17, 1978)



## **Resolution AG-7/78**

### **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, 1977, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 17, 1978)

## **Resolution AG-8/78**

### **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, 1977, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 17, 1978)

## **Resolution AG-9/78**

### **Evaluation of the Functions and Policies of the Bank**

#### **WHEREAS:**

The purpose of the Bank is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively;

The changes that have taken place in the world economy since the establishment of the Bank call for the strengthening of its multilateral role and a review of its functions and policies;

Such a review involves consideration of the Bank's long-term capacity to help meet the future needs of the developing member countries in order to strengthen its role without interrupting the current flow of policy development;

Account should be taken of the existing international economic cooperation mechanisms with a view to ensuring their future ability, particularly that of the Bank, to assure an effective and adequate transfer of real resources to the developing member countries of the Bank, and

The Committee of the Board of Governors is charged with performing the work entrusted to it by the Board and with submitting for its consideration the pertinent reports and recommendations,

The Board of Governors

RESOLVES:

1. To recommend that the Committee of the Board of Governors evaluate the functions and policies of the Bank on the basis of the experience acquired and submit appropriate recommendations taking into account the purpose of the Bank, the changes that have taken place in the economic situation of Latin America and the world, and the resulting future needs of the members. To that end, the Committee of the Board of Governors shall study the following questions, *inter alia*:

- (a) The functions and policies of the Bank;
- (b) Development financing policy of the Bank, including the various procedures and criteria for allocating resources;
- (c) Mechanisms and procedures for obtaining financial resources, and
- (d) The institutional, administrative and operational changes that may be required in the Bank.

2. To recommend that, to fulfill this mandate, the Committee of the Board of Governors form a working group composed of Governors or Alternate Governors, or representatives of either. In carrying out its task, the working group shall have the assistance of the Board of Executive Directors and the Management of the Bank. The group shall meet as frequently as it deems necessary and submit such reports as it considers appropriate.

3. To recommend that the Committee of the Board of Governors report to the Board at its next Annual Meeting on the work accomplished thus far and the recommendations that may have resulted therefrom.

(Approved April 19, 1978)

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

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## **Decisions Adopted by the Board of Governors during the Nineteenth Annual Meeting**

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An account of the decisions adopted by the Board of Governors during the Meeting is presented below:

### **Status of Bank Resources**

#### ***A. Status of Fourth Replenishment of Resources***

At the Preliminary Session the Board of Governors took note of the report by the President of the Bank on the current status of the fourth replenishment of resources pursuant to Resolution AG-7/76 for the ordinary capital, Resolution AG-8/76 for the Fund for Special Operations and Resolution AG-2/78 for the additional increase of US\$1.3 billion in the authorized callable capital.

During the Meeting several Governors expressed their concern because of delays in the subscription and payment of contributions to those increases by some countries. While they recognized the efforts being made by those countries to fulfill their commitments, they called for a short-range solution that would enable the Bank to continue to carry on its activities in a normal fashion.

#### ***B. Fifth Replenishment of Resources***

At the Preliminary Session the Board of Governors considered a proposed resolution presented by the Governor for Honduras concerning the provision of additional resources for the Bank whereby the Board would instruct the Committee of the Board of Governors to study the status of Bank resources and submit recommendations on measures to be adopted in order to increase the capital of

the Bank and the Fund for Special Operations and on such other matters relating to the increase in resources as the Committee might deem advisable.

At the same session the Board of Governors approved the proposal as set forth in Resolution AG-5/78.

In order to initiate fulfillment of that mandate as soon as possible the Committee appointed, on the same occasion, a working group consisting of the 22 countries contributing freely convertible resources to the Fund for Special Operations. The group would consider the total amount and distribution of contributions they would be willing to make to the capital of the Bank and the Fund for Special Operations, as well as such other matters relating to the increase as it might deem advisable. The working group took up its duties in Vancouver on Tuesday, April 18, electing Mr. Héctor Hurtado, Governor for Venezuela, as chairman and the Governors for Canada and Spain as vice chairmen. The group accepted the invitation extended by the Governor for Spain to hold its second meeting in Madrid at the end of May.

### **1977 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 during 1977.

At the Second Plenary Session the Governors approved the financial statements for the ordinary capital resources, the inter-regional capital resources and the Fund for Special Operations for the fiscal year ending December 31, 1977, as set forth in Resolutions AG-6/78, AG-7/78, and AG-8/78, respectively.

### **Evaluation of Bank Functions and Policies**

During the Preliminary Session the Board of Governors received a request from the Governors for Argentina, Bolivia, Costa Rica, the Dominican Republic, Honduras, Mexico and Venezuela to include the evaluation of functions and policies of the Bank in the Meeting agenda.

The Board included this topic in the agenda and appointed a working group to study the proposed resolution presented by the above-named countries, which appears on page 184.

At the Fourth Plenary Session the Board of Governors received the report by the working group and approved the proposal as set forth in Resolution AG-9/78. The text of this Resolution appears on page 177.

### **Report by the Committee of the Board of Governors**

At the Preliminary Session, the Board of Governors took cognizance of the report presented by the Committee of the Board of Governors on work done by the Committee between the Eighteenth and Nineteenth Annual Meetings. The report appears on page 189. It makes particular mention of action carried out with reference to Resolution AG-7/77 concerning membership of the Board of Executive Directors, as well as the measures adopted in fulfillment of Resolution AG-5/76, which instructed the Board of Executives Directors to study certain aspects of Bank operating policy.

### **Election of Executive Directors**

The sixth general election of Executive Directors, who would serve from July 1, 1978 to June 30, 1981, was held during the Third Plenary Session. This election was carried out in accordance with the Regulations for the Election of Executive Directors as amended by Resolution AG-9/77 which appears on page 169. The following persons were elected by the countries listed:

Torao Aoki	Austria France Israel Japan Spain Switzerland Yugoslavia
John D. Blackwood	Canada
José Carlos Fonseca	Brazil Ecuador
Juan Pablo Pérez Castillo	Panama Venezuela
Luis Prieto Ocampo	Colombia Peru
Jesús Rodríguez y Rodríguez	Dominican Republic Mexico
Carlos Schroeder	Bolivia Paraguay Uruguay
Günther Schulz	Belgium Denmark Federal Republic of Germany Finland Italy Netherlands Sweden United Kingdom
Rodolfo Silva	Costa Rica El Salvador Guatemala Haiti Honduras Nicaragua
Charles A. T. Skeete	Bahamas Barbados Guyana Jamaica Trinidad and Tobago
Guillermo Zubarán	Argentina Chile

Pursuant to Article VIII, Section 3 (b) of the Agreement Establishing the Bank, Mr. Ralph A. Dungan serves as Executive Director for the United States by appointment of the government of that country.

## PROPOSED RESOLUTION

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### **Evaluation of the Objectives, Functions and Policies of the Bank**

(Submitted by the Governors for Argentina, Bolivia, Costa Rica, Dominican Republic, Honduras, Mexico and Venezuela)

#### **WHEREAS:**

The fundamental purpose of the Inter-American Development Bank is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively;

Since the establishment of the Bank, changes have taken place in the world economy which make it necessary to strengthen the role of multilateral institutions in promoting a more adequate transfer of real resources to the developing countries, thereby helping to stimulate the economies of the industrialized countries that are members of the Bank;

It is necessary to evaluate the work of the Bank so that it will meet the needs of the member countries, taking into account international economic cooperation now under way in the review of development strategy and the role that should be played by multilateral institutions;

The Committee of the Board of Governors should carry out the tasks entrusted to it by the Board and submit the pertinent reports and recommendations to the Board for its consideration;

The Board of Governors

#### **RESOLVES:**

1. To request the Committee of the Board of Governors to evaluate the objectives, functions and policies of the Bank on the basis of the experience acquired and to submit recommendations for bringing them into line with the future needs of the members, taking into account the changes that have taken place in the world economic situation and in Latin America. To that end, the Committee of the Board of Governors should study the following questions, *inter alia*:
  - (a) The objectives, functions and policies of the Bank;
  - (b) Development financing policy, including the various procedures for allocating resources;
  - (c) New mechanisms for obtaining financial resources; and
  - (d) The institutional, administrative and operational changes that may be required in the Bank.
2. To recommend that a program of financing for the region and its requirements be drawn up when the new objectives, functions and policies of the Bank are decided upon.

3. To recommend that, to fulfill this mandate, the Committee of the Board of Governors form a working group composed of the Alternate Governors, or their representatives, and the Executive Directors. In carrying out its task, the working group shall have the assistance of the Management of the Bank, and may contract high-level experts, taking the necessary budgetary measures. The group shall meet and submit reports as frequently as required.
4. To instruct the Committee of the Board of Governors to report to the Board of Governors at its next Annual Meeting on the work accomplished and the recommendations resulting therefrom.



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

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

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The following is a summary of the work done by the Committee of the Board of Governors since the Eighteenth Annual Meeting of the Board of Governors, held in Guatemala City in May 1977.

*Election of Committee Chairman.* The Committee elected the Governor for Mexico, Mr. David Ibarra Muñoz, as its Chairman for 1978-1979.

*Composition of the Board of Executive Directors.* In accordance with the request made by the Board of Governors in Resolution AG-7/77, the Committee met in Washington, D.C. on September 30, 1977, to consider the proposal submitted by the Governors for Barbados, Guyana, Jamaica and Trinidad and Tobago, in order to recommend to the Board of Governors the action to be taken concerning the matter of adequate representation of the Caribbean subregional group on the Board of Executive Directors. On that occasion, the Committee decided to recommend to the Board of Governors that the Regulations for the Election of Executive Directors be amended to increase by one the number of Directors elected by the regional developing member countries, in order to take into account the special situation of the countries forming the Caribbean subregional group. On November 3, 1977, the Board of Governors approved the proposed amendment to the Regulations in the terms set forth in Resolution AG-9/77. This Resolution appears on page 169.

*Review of operating policies of the Bank provided for by Resolution AG-5/76. Second Report of the Board of Executive Directors.* By Resolution AG-5/76 of May 19, 1976, the Board of Governors instructed the Board of Executive Directors to examine certain aspects of the operating policies of the Bank and to report to the Committee concerning the measures it had taken.

The Board of Executive Directors studied the matter and submitted its first report to the Committee at its meeting in Guatemala in May 1977. At its meeting on Saturday, April 15, 1978, the Committee received the second report of the Board of Executive Directors (Document CA-95-2), concerning pending matters.

The Committee noted that the Board of Executive Directors had taken decisions regarding the effects of the exchange risk, the Bank's role in procurement and the awarding of contracts financed with supplier's credit and complementary lines of credit. Also, on the specific question of the scope of bidding, the Committee noted that the Board of Executive Directors had established a working group to make an exhaustive study of the matter and that, once it had reached its conclusions it would submit the pertinent report to the Committee.

*Other matters.* The Committee took note of the report of the President of the Bank concerning the current status of the fourth increase of resources provided for by Resolution AG-7/76 for the ordinary capital, by Resolution AG-8/76 for the Fund for Special Operations and by Resolution 2/78 for an additional increase of US\$1,300 million in the authorized callable capital (Document AB-592).

It also took note of the draft resolution submitted by the Delegation of Honduras to the Chairman of the Board of Governors under which the Committee would undertake a study of the measures to be taken in order to initiate the fifth replenishment of the Bank's resources.

The consensus of the Committee was that in the event that the Board of Governors should request it to undertake that study, the first step would be to establish a working group, composed of the member countries contributing resources in freely convertible currencies to the Fund for Special Operations, to consider the total amount of contributions they would be prepared to make and the other matters relating to the increase it might deem appropriate. The Committee would then meet to receive the report of the working group and to draft the final proposal to be put to the Board of Governors.

The Committee further noted that the delegations of Mexico, Venezuela and other countries intend to submit a proposal to the Board under which the Committee would be requested to make an over-all evaluation of the Bank's objectives, functions and policies in the light of the changes in the international economic situation and in that of Latin America.

## **PARTICIPANTS**

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## OFFICERS

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### CHAIRMAN OF THE MEETING

Jean Chrétien  
Governor for Canada

### PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK

Antonio Ortiz Mena

### EXECUTIVE VICE PRESIDENT

Reuben Sternfeld

### SECRETARY

Jorge Hazera

## DELEGATIONS

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### Argentina

#### *Governor*

José Alfredo Martínez de Hoz  
Minister of Economy

#### *Alternate Governor*

Adolfo César Diz  
President  
Banco Central de la República Argentina

#### *Advisors*

Juan María Ocampo  
President  
Banco de la Nación Argentina

Carlos Fabián Echeberrigaray  
Vice President  
Banco de la Nación Argentina

Carlos Furlotti  
Vice President  
Banco Nacional de Desarrollo

Juan Alfredo Etchebarne  
President  
Comisión Nacional de Valores

Máximo Vázquez Llona  
President  
Banco Hipotecario Nacional and  
Secretary of Housing

Francisco P. Soldati

Director  
Banco Central de la República Argentina

Guillermo Blanco  
Director General of External Financing  
Ministry of Economy

Dante Simone  
Executive Director  
International Monetary Fund

Eduardo R. Conesa  
Alternate Executive Director  
International Bank for  
Reconstruction and Development

Jorge Alberto Pegoraro  
Executive Director  
Ente Binacional YACYRETA-APIPE

Alberto J. Camps  
General Manager  
Banco Central de la República Argentina

Pedro C. López  
Deputy General Manager  
Banco Central de la República Argentina

Roberto Ancarola  
Chief, Department of International  
Agreements and Agencies  
Banco Central de la República Argentina

**Juan Carlos Iarezza**

Alternate Financial Representative in the  
United States and Canada

**Jorge E. Bustamante**

Chairman, Administrative Council  
Ente Binacional YACYRETA-APIPE

**Santiago E. J. Gilotau**

Director  
Banco Hipotecario Nacional

**S. Agustín Pieroni**

Second Vice President  
Banco Hipotecario Nacional

**Atilio Lirusso**

Deputy Foreign General Manager  
Banco Nacional de Desarrollo

**Alberto P. Barda**

Advisor, Minister of Economy

**Domingo Torea Paz**

Advisor, Minister of Economy

**Hugo G. Montagnani**

Advisor, Minister of Economy

**Faustino Altamirano**

Press Department  
Ministry of Economy

**Austria***Alternate Governor*

Walter Neudoerfer  
Director General  
Federal Ministry of Finance

**Bahamas***Governor*

Arthur D. Hanna  
Deputy Prime Minister and  
Minister of Finance

*Alternate Governor*

Reginald L. Wood  
Financial Secretary  
Ministry of Finance

*Advisor*

Livingston B. Johnson  
Ambassador of the Commonwealth of the  
Bahamas to the United States of America

**Barbados***Governor*

J.M.G.M. Adams  
Prime Minister and Minister of  
Finance and Planning

*Alternate Governor*

Steve Emtage  
Director of Finance and Planning  
Ministry of Finance and Planning

*Advisors*

Charles A. T. Skeete  
Alternate Executive Director  
Inter-American Development Bank

**Athelstan D. Edey**

First Secretary, Embassy of Barbados  
in the United States of America

**Belgium***Alternate Governor*

Ludovicus Meulemans  
Inspector General  
Ministry of Finance

**Bolivia***Governor*

David Blanco Zabala  
Minister of Finance

*Alternate Governors*

José Justiniano Aguilera  
President  
Banco Central de Bolivia

Marcelo Zalles\*  
Deputy Secretary of Finance  
Ministry of Finance

Jorge Balcazar\*  
Executive Director  
Instituto Nacional de Financiamiento

*Advisor*

Milton Paz Cardozo  
General Manager  
Banco Central de Bolivia

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\*Temporary

## **Brazil**

### *Governor*

Mario Henrique Simonsen  
Minister of Financial Affairs

### *Alternate Governors*

Paulo Hortensio Pereira Lira  
President  
Banco Central do Brasil

Fernão Carlos Botelho Bracher\*  
Director, Foreign Sector  
Banco Central do Brasil

Ary dos Santos Pinto\*  
Coordinator of International Affairs for  
the Finance Minister

### *Advisors*

José Carlos P. M. da Fonseca  
Executive Director  
Inter-American Development Bank

Heraldo Alves Costa  
Deputy Secretary General  
Planning Secretariat  
Office of the President

Pedro Paulo Pinto Assumpção  
Chief, Financial Policy Division  
Ministry of Foreign Affairs

Alexandre Kafka  
Executive Director  
International Monetary Fund

Didimo Fonseca Figueiredo  
Deputy Coordinator  
Economic Advisory Office  
Ministry of Industry and Commerce

Luiz Barbosa  
Advisor to the Director, Foreign Sector  
Banco Central do Brasil

## **Canada**

### *Governor*

Jean Chrétien  
Minister of Finance

### *Alternate Governors*

Michel Dupuy  
President  
Canadian International Development  
Agency

## **Robert K. Joyce\***

Assistant Deputy Minister  
International Trade and Finance Branch  
Department of Finance

### *Advisor*

David A. Hilton  
Director  
International Programmes Division  
Department of Finance

Jean-Michel Houde  
Financial Economist  
International Programmes Division  
Department of Finance

Margaret Catley-Carson  
Acting Vice President  
Multilateral Programmes Branch  
Canadian International Development  
Agency

Fred Haack  
Financial Institutions Division  
Canadian International Development  
Agency

Jacques Gignac  
Assistant Under-Secretary of State for  
External Affairs  
Department of External Affairs

Raymond Roy  
Director  
Development and Export Financing  
Policy Division  
Department of External Affairs

James C. Walz  
Director General  
Department of Industry, Trade and  
Commerce

Frank R. Petrie  
Director-General  
Office of Overseas Projects  
Department of Industry, Trade and  
Commerce

## **Chile**

### *Governor*

Pablo Baraona Urzúa  
Minister of Economy, Development and  
Reconstruction

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\*Temporary

### *Alternate Governor*

Sergio Undurraga Saavedra  
President, New York Office  
Corporación de Fomento de la  
Producción

Alvaro Bardón Muñoz\*  
President  
Banco Central de Chile

### *Advisors*

Hernán Buchi Buc  
Chief, Office of the Minister of Economy,  
Development and Reconstruction

Camilo Carrasco Alfonso  
Director of Foreign Currency Operations  
Banco Central de Chile

Benjamín Mira Montt  
Alternate Executive Director  
Inter-American Development Bank

Andrés Vásquez Salas  
Chief, Department of Financial Agencies  
Banco Central de Chile

## **Colombia**

### *Governor*

Alfonso Palacio Rudas  
Minister of Finance and Public Credit

### *Alternate Governor*

Germán Botero de los Ríos  
General Manager  
Banco de la República

### *Advisors*

Gabriel Turbay  
Director General of Public Credit  
Ministry of Finance and Public Credit

Leonel Torres  
Deputy Manager for International  
Economy  
Banco de la República

Leonor Montoya  
Chief, Office of Planning and Economic  
and Fiscal Analysis  
Ministry of Finance and Public Credit

## **Costa Rica**

### *Governor*

Federico Vargas Peralta  
Minister of Finance

### *Alternate Governor*

Juan Arrea E.  
Executive President  
Banco Central de Costa Rica

### *Advisors*

Rigoberto Navarro M.  
Manager  
Banco Central de Costa Rica

Porfirio Morera Batres  
General Manager  
Banco Nacional de Costa Rica

Rodolfo Silva Vargas  
Ambassador of Costa Rica to the  
United States

Marco Antonio Gómez  
Advisor to the Finance Minister  
Ministry of Finance

Hernán Sáenz Jiménez  
Dean  
School of Economics  
University of Costa Rica

Guillermo González Truque  
Consultant  
Banco Central de Costa Rica

William Heyden Q.  
Advisor, Office of the Executive President  
Banco Central de Costa Rica

Carlos Formoso H.  
Advisor  
Banco Central de Costa Rica

Alfonso Guzmán  
Director, Legal Department  
Banco Central de Costa Rica

## **Denmark**

### *Alternate Governor\**

Soeren Voss  
Deputy Head of Division  
Ministry of Foreign Affairs

### *Advisor*

Ivar L. Andersen  
Technical Assistant to the Executive  
Director  
Inter-American Development Bank

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\*Temporary



## **Dominican Republic**

### *Governor*

Fernando Periche Vidal  
Governor  
Banco Central de la República  
Dominicana

### *Alternate Governor\**

José Manuel Armenteros  
Member, Monetary Board  
Banco Central de la República  
Dominicana

### *Advisors*

Manuel R. Aristy  
Alternate Executive Director  
Inter-American Development Bank

Eduardo García Michel  
Assistant to the Management  
Banco Central de la República  
Dominicana

Maritza Amalia Guerrero Ibarra  
Coordinator, Department of Economic  
Studies

José Farias Cabral  
Executive Director  
Instituto Nacional de Recursos  
Hidráulicos

## **Ecuador**

### *Alternate Governor*

Francisco Swett  
President  
Junta Nacional de Planificación y  
Coordinación Económica

### *Advisor*

Galo Salvador  
Deputy Director of Sectorial Planning  
Junta Nacional de Planificación y  
Coordinación Económica

## **El Salvador**

### *Governor*

Eduardo Reyes  
Minister of Planning and Coordination  
of Economic and Social Development

### *Alternate Governor\**

Victor Hugo Hurtarte  
President  
Banco Central de Reserva de El Salvador

### *Advisors*

Roberto Quiñonez Meza  
Ambassador of El Salvador to the  
United States of America

Benjamín Vides Deneke

Rafael Coto  
Chief, External Financing Department  
Ministry of Planning and Coordination of  
Economic and Social Development

## **Finland**

### *Governor*

Osmo Kalliala  
Cabinet Counselor  
Ministry of Finance

### *Alternate Governor*

Wilhelm Breitenstein  
Ambassador, Director of the Department  
for International Development  
Cooperation  
Ministry of Foreign Affairs

### *Advisor*

Pertti Ripatti  
Commercial Counselor  
Embassy of Finland in the United States  
of America

## **France**

### *Alternate Governor*

Jean-Yves Haberer  
Mission Chief and Chief, International  
Affairs Service  
Ministry of Treasury Bureau

### *Advisors*

Isabelle Chayvialle  
Civil Administrator  
Ministry of Economy and Finance

Henri Pezant  
Financial Counselor for Latin America  
Embassy of France in Argentina

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\*Temporary

Jean Jacques Galabru  
Consul General of France in Vancouver  
M. L'Helias  
Commercial Attache  
Consulate General of France in Vancouver

### **Germany, Federal Republic of**

#### *Alternate Governor\**

Horst Moltrecht  
Under Secretary  
Federal Ministry for Economic Cooperation

#### *Advisors*

Winfried Heck  
Deputy Director General  
Federal Ministry of Finance  
Günther Schulz  
Executive Director  
Inter-American Development Bank

Wolfgang Rieke  
Department Head  
Deutsche Bundesbank

Ursula Schaefer  
Deputy Division Chief  
Federal Ministry for Economic  
Cooperation

Hubert Grotz  
Consul, Acting Head  
Consulate General of the Federal Republic  
of Germany in Vancouver

### **Guatemala**

#### *Governor*

Jorge Lamport Rodil  
Ambassador of Guatemala to the  
United States of America

#### *Alternate Governors*

Manuel Méndez Escobar  
President  
Banco de Guatemala

Roberto Mazariegos Godoy\*  
Manager  
Banco de Guatemala

#### *Advisors*

Héctor Menéndez de la Riva  
Legal and Financial Advisor  
Ministry of Public Finance

Mario Mejía  
Exchange Director  
Banco de Guatemala  
Alexey de Synegub  
President  
Banco Nacional de la Vivienda

### **Guyana**

#### *Governor*

Franklin E. Hope  
Minister of Finance

#### *Alternate Governor*

W. S. Murray  
Deputy Secretary to the Treasury

### **Haiti**

#### *Governor*

Emmanuel Bros  
Secretary of Finance and Economic  
Affairs

#### *Alternate Governor*

Antonio André  
President-Director General  
Banque Nationale de la République  
d'Haiti

### **Honduras**

#### *Governor*

Benjamín Villanueva  
Minister of Economy and Commerce

#### *Alternate Governors\**

Porfirio Zavala Sandoval  
Minister of Finance and Public Credit

Rafael Leonardo Callejas  
Minister of Natural Resources

Juan C. Marinakys  
Executive President  
Corporación Nacional de Inversiones

#### *Advisor*

René Cruz Ucles  
President  
Banco Nacional de Fomento

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**Mario Rietti Matheu**  
Alternate Executive Director  
Inter-American Development Bank  
**J. Vicente Díaz**  
Executive President  
Corporación Hondureña del Banano

**Gonzalo Carías**  
Advisor  
Banco Central de Honduras

**Miguel Leyva**  
Executive Vice President  
Corporación Forestal Industrial de  
Olancho

**Jaime Rosenthal**  
President  
Banco Continental, S. A.

**Gabriel A. Mejía**  
President  
Banco Financiera Hondureña, S. A.

**Paul Vinelli**  
General Manager  
Banco Atlántida, S. A.

**Luis Cosenza Jiménez**  
Manager  
Empresa Nacional de Energía Eléctrica

**Gautama Fonseca**  
Assistant, Office of the President  
Banco Central de Honduras

**Oscar Bueso**  
Advisor  
Corporación Forestal Industrial de  
Olancho

## **Israel**

*Governor*  
**Arnon Gafny**  
Governor  
Bank of Israel

*Alternate Governors*  
**Dov Kantorowitz**  
Controller of Foreign Exchange  
Ministry of Finance  
**Channa Weinberg\***  
Economic Adviser  
Bank of Israel

*Advisor*  
**Saul Hanono**  
Technical Assistant to the Executive  
Director  
Inter-American Development Bank

## **Italy**

*Alternate Governor*  
**Giuliano Monterastelli**  
Central Director  
Bank of Italy

*Advisors*  
**Alfredo Ginex**  
Director  
Bank of Italy  
**Maria Adele Verona**  
Advisor  
Ministry of Treasury

## **Jamaica**

*Alternate Governor*  
**Richard Fletcher**  
Minister of State in the Ministry of  
Finance and Planning  
**Ainsley Elliot\***  
Deputy Secretary of Finance  
Ministry of Finance and Planning

*Advisors*  
**Owen Jefferson**  
Director  
Projects Division  
Ministry of Finance and Planning  
**G. B. Johnson**  
Director and Deputy Manager  
Jamaica Development Bank

## **Japan**

*Alternate Governor*  
**Michiya Matsukawa\***  
Vice Minister of Finance for International  
Affairs

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\*Temporary

**Koichi Kakimizu\***

Deputy Director General  
International Finance Bureau  
Ministry of Finance

**Genso Fujimoto\***

Senior Adviser to the Governor of  
The Bank of Japan

*Advisors*

**Tadao Chino**

Special Assistant to the Vice Minister of  
Finance for International Affairs

**Kozo Yamamoto**

Deputy Director  
Overseas Investment Division  
International Finance Bureau  
Ministry of Finance

**Torao Aoki**

Executive Director  
Inter-American Development Bank

**Mamoru Ozaki**

Counsellor  
Embassy of Japan in the United States  
of America

**Matsushiro Horiguchi**

Deputy Director  
Multilateral Cooperation Division  
Economic Cooperation Bureau  
Ministry of Foreign Affairs

**Yoshihara Uematsu**

Consul General of Japan in Vancouver

**Yoshiharu Obata**

Assistant Representative  
Bank of Japan  
New York

**Mexico**

*Governor*

**David Ibarra Muñoz**

Secretary of Finance and Public Credit

**Gustavo Romero Kolbeck**

Director General  
Banco de Mexico, S. A.

**Jorge Espinosa de los Reyes\***

Director General  
Nacional Financiera, S. A.

*Advisors*

**Enrique Olivares Santana**

Director General  
Banco Nacional de Obras y Servicios  
Públicos

**Jesus Silva-Herzog F.**

Director General of Public Credit  
Department of Finance and Public Credit

**Bernardo Sepúlveda Amor**

Director General of International  
Financial Affairs  
Department of Finance and Public Credit

**Leopoldo Solís**

Deputy Director General  
Banco de Mexico, S. A.

**Alfredo Phillips Olmedo**

Deputy Director for International Affairs  
Banco de Mexico, S. A.

**Alfonso García Macías**

Financial Director  
Nacional Financiera, S. A.

**Jesus Rodríguez y Rodríguez**

Executive Director  
Inter-American Development Bank

**Pedro Galicia Estrada**

General Manager for Official Financing  
Nacional Financiera, S. A.

**Francisco Suarez Dávila**

Manager for International Economic  
Affairs  
Banco de Mexico, S. A.

**Francisco Arellano Belloc**

Press Director General  
Department of Finance and Public Credit

**Oscar Levin Coppel**

Private Secretary to the Secretary of  
Finance and Public Credit

**Antonio Aspra R.**

Deputy Director of Public Debt  
Department of Finance and Public Credit

**Salvador Arreola**

Deputy Director General of International  
Financial Affairs

Department of Finance and Public Credit

**Ricardo Peñaloza Webb**

Chief, International Financial Agencies  
Banco de Mexico, S. A.

**Netherlands**

*Alternate Governor*

**J. Nierstrasz\***

Senior Advisor on Development  
Cooperation  
Ministry of Finance

---

\*Temporary

### *Advisors*

**E. Van Lent**  
Officer, Banking and Investment Division  
Ministry of Foreign Affairs

**J. S. Hilbers**  
Financial Attache  
Embassy of the Netherlands in the  
United States of America

### **Nicaragua**

#### *Governor*

**Roger Blandón Velásquez**  
Minister of Economy, Industry and  
Commerce

#### *Alternate Governors*

**Roberto Incer Barquero**  
President  
Banco Central de Nicaragua

**Samuel Genie Amaya\***  
Minister of Finance and Public Credit

**Armel González Espinoza\***  
Minister Director of Planning

**Ricardo Parrales Sánchez\***  
President  
Banco de la Vivienda de Nicaragua

**Rodolfo Bojorge Moreira\***  
President  
Banco Nacional de Nicaragua

**Donald Spencer\***  
President  
Instituto de Fomento Municipal

#### *Advisors*

**Denis Gallo Lacayo**  
Member, Board of Directors  
Banco Central de Nicaragua

**Roberto Argüello Tefel**  
President  
Centroamericana de Ahorro y Préstamo

**Mario B. Alonso I.**  
Director  
Development Fund  
Banco Central de Nicaragua

**Eduardo Mendoza Jarquín**  
Director of International Agencies  
Ministry of Economy, Industry and  
Commerce

### **Heberto Sánchez**

Director of Telecommunications  
Ministry of Economy, Industry and  
Commerce

### **José Luis Montiel**

Chief, Technical Project Division  
Dirección Nacional de Planificación

### **Mauricio Baca Muñoz**

Advisor to the Minister of Economy,  
Industry and Commerce

### **Francisco Pereira Salazar**

Advisor to the Minister of Economy,  
Industry and Commerce

### **Noé R. Beltrand S.**

Chief, Department of Economic and Tax  
Studies  
Ministry of Finance and Public Credit

### **Guillermo Solórzano A.**

Assistant, Office of the President  
Banco Central de Nicaragua

### **Ernesto Argüello**

Chief, Sales Department  
Instituto de Fomento Nacional

### **Panama**

#### *Alternate Governor*

**Luis M. Adames\***  
Minister of Finance and Treasury

#### *Advisors*

**Gustavo González**  
Vice Minister of Planning

**Antonio Dudley**  
Executive Director  
Comisión Bancaria

### **Paraguay**

#### *Governor*

**César Barrientos**  
Minister of Finance

#### *Alternate Governor*

**Oscar Jacinto Obelar\***  
Under Secretary of Finance

---

\*Temporary

### *Advisors*

Julio Rejis Sanguina  
President  
Banco Nacional de Fomento  
Marco Aurelio Galanti  
Advisor  
Ministry of Finance  
Crispiniño Sandoval  
Director  
Department of Economic Studies  
Banco Central del Paraguay  
Faustino Ramón Silvero  
Chief  
Division of Monetary Studies  
Banco Central del Paraguay  
Francisco Solano Benítez  
Council Chairman  
Entidad Binacional Yacyreta  
Magno Ferreira Falcón  
Council Director  
Entidad Binacional Yacyreta  
Julio C. Gutiérrez  
Executive Director  
International Bank for Reconstruction and  
Development

### **Peru**

#### *Alternate Governor*

Dick Alcántara Butterfield  
Senior Director  
Ministry of Economy and Finance  
José Luis Brousset Escobar\*  
Board Chairman  
Banco Popular del Peru

#### *Advisors*

Armando Prugue  
Executive Director  
Inter-American Development Bank  
Oscar G. Espinosa  
Alternate Executive Director  
International Bank for Reconstruction  
and Development  
Guillermo Crosby  
Consul  
Consulate General of Peru in Vancouver

### **Spain**

#### *Alternate Governor*

José Ramón Alvarez Rendueles  
Governor  
Banco de España

#### *Temporary Alternate Governors*

Gregorio Gutiérrez Escudero  
Technical Secretary General  
Ministry of Commerce and Tourism

Luis de Pedrosa y Frost  
Observer  
Permanent Ambassador of Spain to the  
Organization of American States

José M. Moro  
President  
Centro Iberoamericano de Cooperación

Antonio Sánchez Pedreño y Martínez  
Director General  
Banco de España

#### *Advisors*

Agustín de Alcocer Moreno  
Secretary General  
Banco de España

Mercedes Rubio Domínguez  
Director, International Agencies Bureau  
Ministry of Commerce and Tourism

Ignacio G. Badell  
Alternate Executive Director  
Inter-American Development Bank

Germán Calvillo Urabayern  
Chief, Office of the Under Secretary of  
Commerce and Tourism

### **Sweden**

#### *Governor*

Johan Nordenfalk  
Under Secretary of State  
Ministry of Commerce

#### *Alternate Governor*

Bjørn Skala\*  
Department Head  
Ministry of Foreign Affairs

---

\*Temporary

### *Advisors*

Ulf Dinkelspiel  
Counselor  
Embassy of Sweden in the United States  
of America  
Carolina Fleetwood  
Second Secretary  
Ministries of Foreign Affairs and  
Commerce

### **Switzerland**

#### *Governor*

Klaus Jacobi  
Ambassador, Delegate of the Federal  
Council for Trade Agreements, Division  
of Commerce  
Federal Department of Public Economy

#### *Advisor*

Roger Grossenbacher  
First Secretary  
Embassy of Switzerland in the  
United States of America

### **Trinidad and Tobago**

#### *Alternate Governor*

Frank Barsotti  
Permanent Secretary  
Ministry of Finance

#### *Advisors*

R. Yearwood  
Director, Finance and Economics Division  
Ministry of Finance  
E. Bobb  
Deputy Governor  
Central Bank of Trinidad and Tobago  
G. García  
Secretary

### **United Kingdom**

#### *Temporary Alternate Governor*

C. R. O. Jones  
Assistant Secretary  
Ministry of Overseas Development

### *Advisors*

G. J. MacGillivray  
First Deputy Chief, Overseas Department  
Bank of England  
C. J. A. Chivers  
First Secretary Financial  
Embassy of Great Britain in the  
United States

### **United States of America**

#### *Temporary Alternate Governor*

Robert Carswell  
Deputy Secretary  
Department of the Treasury  
Arnold Nachmanoff  
Deputy Assistant Secretary for  
Developing Nations  
Department of the Treasury  
Richard Arellano  
Deputy Assistant Secretary for Inter-  
American Affairs  
Department of State

#### *Advisors*

Ralph A. Dungan  
Executive Director  
Inter-American Development Bank  
E. Jay Finkel  
Alternate Executive Director  
Inter-American Development Bank  
Abelardo L. Valdez  
Assistant Administrator for Latin America  
and the Caribbean  
Agency for International Development  
Robert Free  
Office of International Development Banks  
Department of Treasury  
Richard Jones  
Financial Economist, Office of  
Development Finance  
Department of State  
Van Dyne McCutcheon  
Office of the International Development  
Banks  
Department of Treasury

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\*Temporary

Eva Meigher  
Attorney Advisor  
Department of Treasury  
John V. Sweeney  
Office of Developing Nations Finance  
Department of Treasury

## Uruguay

### *Alternate Governors*

Ernesto Rosso Falderín  
Under Secretary of Economy and Finance

Luis Figurina  
Advisor, Division of International Agencies  
Ministry of Economy and Finance

Juan César Pacchiotti\*  
Secretary General, Banco Central del  
Uruguay

### *Advisor*

Ana María Pintos  
Chief, Department of International  
Agencies  
Department of Planning

## Venezuela

### *Governor*

Héctor Hurtado  
President, Fondo de Inversiones de  
Venezuela

### *Alternate Governor*

Heberto Urdaneta\*  
General Manager  
Fondo de Inversiones de Venezuela

### *Advisors*

Juan Pablo Pérez-Castillo  
Executive Director Inter-American  
Development Bank

Pedro Sorensen  
Director of International Policy  
Ministry of Foreign Affairs

Aquiles Vilorio  
Manager, International Financial  
Cooperation  
Fondo de Inversiones de Venezuela

## Yugoslavia

### *Alternate Governor*

Zlatko Muršec  
Assistant Federal Secretary for Finance

### *Advisor*

Danica Ostojic  
Senior Advisor  
Federal Secretariat for Finance

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\* Temporary



## OBSERVERS OF INTERNATIONAL INSTITUTIONS

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### **African Development Bank**

Mouloud Tiab  
Executive Director

### **Andean Development Corporation**

Germanico Espinosa  
Vice President for Projects

### **Asian Development Bank**

Soesilo Sardadi  
Secretary

Wolf Preuss  
Treasurer

### **Bank for International Settlements**

Maurice Toussaint  
Manager

### **Caribbean Development Bank**

Neville V. Nicholls  
Vice President and General Counsel

### **Central American Bank for Economic Integration**

Alberto Galeano Madrid  
President

Alfredo Benjamín Noyola  
Director for El Salvador

Francisco Butching Palma  
Director for Nicaragua

Félix Martínez Dacosta  
Legal Advisor

Victoria A. de Díaz  
Chief, Resource Procurement

### **Central American Institute of Public Administration**

Carlos Cordero D'Aubuisson  
Director

### **Central American Monetary Council**

Tomás A. Medina  
Deputy Executive Secretary

### **Central American Research Institute For Industry**

Louis F. Vettorazzi T.  
Administrative and Financial  
Manager

### **Commission of the European Communities**

Gisele Delhaye  
Principal Administrator

### **Inter-American Council of Commerce and Production**

Eric H. Campbell  
Representative in Canada

Jorge Dellepiane  
President  
Buenos Aires Security Exchange

Julio J. Gómez  
Director Delegate  
Banco Shaw

### **International Investment Bank**

O. Kiltz  
Deputy Chairman

V. Stepanov  
Managing Director

I. Novikov  
Senior Adviser

### **International Monetary Fund**

E. Walter Robichek  
Director  
Western Hemisphere Department

Luis Rubén Azocar  
Assistant Director of Information

### **Islamic Development Bank**

Saeed Ahmad Meenai  
Vice President

**Joint Ministerial Committee of the  
Boards of Governors of the Bank  
and Fund on the Transfer of Real  
Resources to Developing Countries  
(Development Committee)**

Richard King  
Executive Secretary

Luis Escobar  
Deputy Executive Secretary

**Latin American Association of  
Development Finance Institutions**

José Andrés Bellido  
Deputy Secretary

Ignacio Copete-Lizarralde  
General Manager  
Banco Arabe Latinoamericano S.A.

Ernesto Rohrmoser García  
General Manager  
Corporación Costarricense de  
Financiamiento Industrial S.A.

**Latin American Economic System**

Knowlson Gift  
Deputy Permanent Secretary

Angel Serrano  
Director, Financial Cooperation

**Organization of Petroleum Exporting  
Countries, OPEC Special Fund**

Mehdi Garadaghpour  
Assistant Director-General

**Organization for Economic Coopera-  
tion and Development**

Yves Berthelot  
Head of Research, Development  
Centre

**Organization of American States**

Dorel M. Callender  
Technical Coordinator, Executive  
Secretariat for Economic and  
Social Affairs

**Inter-American Institute of Agricul-  
tural Sciences**

Jefferson Firth Rangel  
Representative in the United States  
and Canada

**Pan-American Health Organization**

José María Salazar B.  
Chief-Office of Liaison with  
International Organizations

**United Nations**

**United Nations Conference on Trade and  
Development**

Alfonso Inostroza  
Inter-Regional Adviser, Division for  
Trade Expansion and Economic  
Integration

**United Nations Economic Commission for  
Latin America**

David H. Pollock  
Director  
Washington, D.C.

**United Nations Educational, Scientific  
and Cultural Organization**

Christian Vieyra  
Chief of Section

**United Nations Food and Agricultural  
Organization**

J. M. Clark  
Deputy Director  
Investment Centre

**World Bank Group**

**International Bank for Reconstruction  
and Development  
International Development Association  
International Finance Corporation**

J. Burke Knapp  
Senior Vice President, Operations  
International Bank for Reconstruction  
and Development

Adalbert Krieger  
Vice President, Latin America and  
Caribbean Region  
International Bank for Reconstruction  
and Development

**Carlos N. Quijano**  
Special Representative for Inter-American  
Organizations  
International Bank for Reconstruction  
and Development

**Kurt B. Eckrich**  
Director, Department of Investments  
Latin America and Caribbean I  
International Finance Corporation

**José M. Ruisanchez**  
Director, Department of Investments  
Latin America and Caribbean II  
International Finance Corporation

## **OBSERVERS FROM NON-MEMBER COUNTRIES**

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### **Norway**

**Bernt Stangholm**  
Counselor, Embassy of Norway in the  
United States of America

### **Surinam**

**Roel E. Karamat**  
Ambassador of the Republic of Surinam  
in the United States of America

## **SPECIAL GUESTS**

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The Nineteenth Annual Meeting of the Board of Governors was attended by 783 special guests from 42 countries.



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GO-Meeting-Annual Proceedings  
GO - 19th Meeting Board of 1978 -1978  
Vancouver, Canada, 1978

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