

Bank



Annual Proceedings
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Jamaica 1979

PROCEEDINGS

Twentieth Annual Meeting of the Board of Governors

Montego Bay, Jamaica, May 1979

INTER-AMERICAN DEVELOPMENT BANK

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FOREWORD

The Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in Montego Bay, Jamaica, from May 28 to 30, 1979. The Inaugural Session as well as the other plenary sessions were held in the Grand Cornwall Ballroom of the Rose Hall Inter-Continental Hotel. Meetings of the Committee of the Board of Governors and the Working Group on Functions and Policies of the Bank took place in the St. James Room of the same hotel.

The Inaugural Session was attended by the Prime Minister of Jamaica, Mr. Michael Manley. At that session the agenda of the Meeting was approved and Mr. Eric O. Bell, Governor for Jamaica and Minister of Finance and Planning, 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 Nineteenth and the Twentieth Annual Meetings, as well as those approved in the course of the latter. It also includes an account of the decisions adopted during the Meeting, the reports 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.

In addition, it contains summaries of the meetings of the Governors for the two groups of nonregional countries held on May 29, to elect Executive Directors to represent each group.

Jorge Hazera
Secretary

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AGENDA

1. Election of the Chairman of the Board of Governors
2. Annual Report of the Bank: Financial statements for 1978:
 - Ordinary capital resources
 - Inter-regional capital resources
 - Fund for Special Operations
3. Establishment of reserves in the inter-regional capital
4. Report of the Committee of the Board of Governors on its activities since the previous Annual Meeting
5. Selection of the site of the Annual Meeting. Amendment of Section 1(a) of the Regulations of the Board of Governors. Report of the Board of Executive Directors

SCHEDULE OF SESSIONS

Saturday, May 26, 1979

- 10:00 a.m. Fourth Meeting of the Working Group on Functions and Policies of the Bank (First Session)
- 4:00 p.m. Fourth Meeting of the Working Group on Functions and Policies of the Bank (Second Session)
- 5:00 p.m. Twenty-Second Meeting of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 (First Session)

Sunday, May 27, 1979

- 4:00 p.m. Preliminary Session (Chiefs of Delegations)
- 5:30 p.m. Fourth Meeting of the Working Group on Functions and Policies of the Bank (Third Session)
- 6:00 p.m. Twenty-Second Meeting of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 (Second Session)

Monday, May 28, 1979

- 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. Remarks of the Chairman of the Board of Governors and Governor for Jamaica
 4. Address by the Prime Minister of Jamaica
 5. Statement by the President of the Inter-American Development Bank
- 3:00 p.m. Second Plenary Session
1. Address by the Temporary Alternate Governor for the Federal Republic of Germany
 2. Address by the Governor for Peru
 3. Address by the Governor for Sweden
 4. Address by the Temporary Alternate Governor for Japan
 5. Address by the Alternate Governor for France
 6. Address by the Temporary Alternate Governor for Chile
 7. Address by the Alternate Governor for Spain
 8. Address by the Alternate Governor for Canada
 9. Address by the Governor for Finland
 10. Address by the Governor for the Dominican Republic
- 5:30 p.m. Fourth Meeting of the Working Group on Functions and Policies of the Bank (Fourth Session)
- 6:00 p.m. Twenty-Second Meeting of the Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 (Third Session)

Tuesday, May 29, 1979

- 9:00 p.m.
1. Address by the Governor for Argentina
 2. Address by the Temporary Alternate Governor for the United States of America
 3. Address by the Governor for Mexico
 4. Address by the Governor for Brazil
 5. Address by the Temporary Alternate Governor for the Netherlands
 6. Address by the Governor for Ecuador
 7. Address by the Alternate Governor for Austria
 8. Address by the Governor for Bolivia
 9. Address by the Temporary Alternate Governor for Belgium
 10. Address by the Governor for Colombia
 11. Address by the Alternate Governor for Switzerland
 12. Address by the Temporary Alternate Governor for Paraguay
 13. Address by the Governor for Costa Rica, on behalf of the Central American countries
 14. Address by the Governor for Guyana, on behalf of the Caribbean Group
- 3:30 p.m. Meeting of the Governors for Belgium, Denmark, Finland, Italy, the Netherlands, United Kingdom, Federal Republic of Germany and Sweden, to elect an Executive Director
- 4:30 p.m. Meeting of the Governors for Austria, Spain, France, Israel, Japan, Switzerland and Yugoslavia, to elect an Executive Director.

Wednesday, May 30, 1979

- 9:00 a.m. Fourth Plenary Session
1. Address by the Alternate Governor for Israel
 2. Address by the Governor for Guatemala
 3. Address by the Alternate Governor for the United Kingdom
 4. Address by the Governor for Yugoslavia
 5. Address by the Governor for Venezuela
 6. Address by the Temporary Alternate Governor for Denmark
 7. Address by the Governor for Panama
 8. Address by the Alternate Governor for Italy
- 5:00 p.m. Closing Session (Fifth Plenary Session)
1. Remarks by the President of the Inter-American Development Bank
 2. Remarks by the Chairman of the Board of Governors and Governor for Jamaica

ADDRESSES

FIRST PLENARY SESSION

May 28, 1979

Inaugural Session

**Address by Mr. Eric O. Bell,
Chairman of the Board of Governors,
Governor for Jamaica and Minister of Finance and Planning**

It is with great pride and honor that I extend to you on behalf of my delegation and all Jamaica a most cordial welcome to our country and to the Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank.

In 1973 Jamaica hosted the Fourteenth Annual Meeting in Kingston. At that time the then Chairman, David Coore, described the conference as the largest international meeting to be held in Jamaica. Apparently, IDB meetings continue to create positive history in Jamaica as again I am happy to announce that this is the largest international conference ever held in Jamaica.

I wish also to place on the record my sincere appreciation to my fellow Governors for electing me as Chairman of the Board for the next year. I will endeavor, with your support, to make the fullest contribution I can as your Chairman.

Jamaica has had excellent relations with the IDB in the past and we would like to thank the organization and its President for their support and flexibility—especially during our recent period of economic crisis.

My thanks also to President Antonio Ortiz Mena for his personal interest in Jamaica and our congratulations to him for the excellent job he has done as President since 1971. His knowledge and understanding of the problems of development in Latin America and the Caribbean have helped to foster within the Bank the formulation of progressive policies, which are adaptable to the constant changes and development needs of the region.

It is hoped that the issue of defining low-income groups will be settled in a satisfactory manner. The solution to this critical question must be flexible, if the Bank is to use the percentage of its resources so allocated to benefit the poorest groups in all of the complex societies that make up our region.

Jamaica has benefited over the past 10 years from IDB loans to various sectors totaling approximately \$227 million. Many of the projects financed have assisted the less fortunate in our society. These include programs of assistance to small-scale farmers and agricultural development; educational facilities and opportunities; water supply—to mention a few. We look forward to continued support from the Bank in these and other areas that will assist in our program of overall development.

Our commitment to the IDB and its operations, though small in financial terms, is sincere and is substantiated by our agreement to increase the Bank's resources for the next five years and subscribe to the new Multinational Investment Fund.

In conclusion, we hope that you will take the opportunity during and after the conference to enjoy some of the recreational and cultural attractions of our beautiful island.

**Address by the Honorable Michael Manley,
Prime Minister of Jamaica**

Jamaica is indeed honored to host this Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank. On behalf of the Government and all Jamaicans, I extend a warm welcome to the Governors of the Bank and all the hundreds of other distinguished representatives of international financial institutions, other international agencies, government agencies and private commercial banks.

The presence here of so many leading representatives of some of the major banking institutions in the world is a clear indication of the importance that attaches to this Twentieth Annual Meeting. We are confident that over the next few days the quality of the deliberations on some of the most pressing economic issues facing the world today will prove equal to the importance and urgency of the occasion.

There is another sense, and this is more personal, in which I am particularly proud to welcome the delegates and participants today. Some of you will recall that six years ago the Bank held its Fourteenth Meeting in Kingston and on that occasion I also had the privilege and pleasure of addressing the opening session. In preparing for this event six years later, it was with something approaching consternation that I discovered that the President, Señor Ortiz Mena, and myself are among the only survivors of that meeting. I am not quite sure what to make of this fact: the only thing of which we can be certain is that the events confirm Señor Ortiz Mena's distinguished leadership of the Bank and your own confidence in that leadership. I draw no further conclusions!

Jamaica is also pleased to host this Meeting because it is a timely reminder of the special relationship among the nations of Latin America. For too long, we have been separated by superficial differences instead of using our historical and structural similarities to establish greater regional cooperation. Any event or occasion therefore which assists the process of collaboration and integration has a special significance for us in Jamaica.

Since the Fourteenth Meeting in Kingston, a lot has happened. In quantitative terms alone the Bank has grown from 24 to 26 regional members plus an additional 15 nonregional members. The loans disbursed have grown from \$547 million in 1973 to \$1,062 million in 1978. There is also a new record of \$181 million in Bank earnings, and loan repayments have reached \$293 million compared to \$169 million in 1973. These quantitative increases would be important in themselves but we are particularly pleased that the Bank continues to pay important attention to the quality of life among the members. In this connection, we in Jamaica are very happy that we are now concluding agreements with the Bank for assistance to such projects as the Mandeville water supply scheme, agricultural research, hillside farming and the third phase of our vital rural electrification program.

The most striking thing about any analysis of the period between 1973 and now is the way in which Latin American economies continue to show persistent weaknesses compared to, say, the period 1968 to 1973. While the causes of this

weakness vary from country to country, I think it is evident to all that external economic factors continue to bedevil the growth of production in the region. I suggest that we devote some time once more, to the analysis of this problem and see if, together, all of us at this conference can begin to find some answers.

Since the beginning of the 1970s the developing countries have experienced a series of most severe shocks to their economies. We have experienced a dramatic increase in the price of imported energy products. At the same time, we have also faced a situation of rapid and sustained inflation and escalating prices for basic commodities such as wheat, as well as manufactured products. The demand for our basic commodities declined rapidly as a result of the recession in the industrialized countries, and subsequent monetary instability dealt further severe blows to any attempts at rational planning, as well as to policies for internal domestic stabilization. Subsequent policies of protectionism are hampering our best efforts to ensure a rapid adjustment to these difficult circumstances.

While it is true that all non-oil producing countries were severely affected by one or more of these factors, it is the non-oil producing developing countries which have to face them in combination. It is, moreover, the developing countries, which by definition, have less flexibility and a smaller capacity to absorb these shocks. And it was the developing countries of Latin America which had already started on the path of industrialization, and thus, of becoming significant consumers of imported energy, which had a particularly difficult task of adjustment.

As President Ortiz Mena said last year:

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 of 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.

He spoke about Latin America as a whole and his comments have sadly, never been more true than in the case of Jamaica. In conjunction with the petroleum price rises in 1973 and since, the cost of which now accounts for more than 25 per cent of our total exports, we faced a decline in bauxite production in the years 1975-76 and in the latter year also, a decline in foreign exchange earnings in sugar and tourism. Despite our attempts to recoup some of these foreign exchange earnings, our real capacity to import declined by 16 per cent between the years 1972-76; gross investment fell from 32 to 17 per cent of the Gross Domestic Product and there has been a fall in the Gross National Product in absolute terms.

In early 1973 we looked back at the Jamaican economy, which had achieved a real economic growth rate of between 6 and 7 per cent per annum for the decades of the 1950s and the 1960s; and we noted that, while this growth had taken place, there was the need to ensure that a much greater proportion of the

people actually shared in this growth. We said then, in fact to the Fourteenth Conference of the IDB:

As an economy we have experienced rapid growth and have learned by that experience that unless the orientation of production is toward the interest of our people; and unless the system of economic relationships is purged of the last vestiges of institutionalized human exploitation; and unless the human being is pre-eminent among resources, rapid economic growth alone will not solve the problems of poverty, unemployment, and uneven distribution of income.

In 1979 we can look back and say that despite the enormous pressures that the economy has been forced to cope with, there has been a significant orientation in our policies towards social development and the fullest participation of all Jamaicans in the economic process. In this regard, we need only mention our efforts in the area of land reform, the efforts to establish cooperative ventures both at the agricultural, as well as at the processing, stages of production; efforts have been made to redistribute income in a more equitable manner through taxation policies and the provision of greater social and health services to the poorest people.

We have initiated programs in an attempt to find employment for individuals in the society who had no hope of finding jobs by conventional means; subsidies were placed on basic food items to cushion the shock of increased prices to the poorest people. Nor did we forget the youth of the country in these programs.

The sad fact however is that the nation's capacity to sustain these initiatives has been seriously eroded as a result of decreased economic activity. In order to cope with a grave economic crisis we have had to take very severe measures, many of which will seriously hamper our efforts to create a more equitable distribution of the nation's resources.

Since April 1977 we have initiated a program of devaluations designed to change the relative prices of Jamaican products, thus stimulating exports and containing import demand. Fiscal policies have been initiated through reductions in public expenditure, both capital and recurrent, and increased taxation. Together with these policies, we are also embarking on a prices and incomes policy to ensure that the gains in productivity made by the other measures are not eroded by domestic inflationary pressures.

Despite all these measures what is the result? In the short run, there has been a significant decline in economic activity with a reduced rate of employment and considerable excess capacity in many key sectors of the economy. I believe that it is quite remarkable that the Jamaican people have managed to face these quite significant burdens with the strength and fortitude that they have displayed. We in government have tried to be completely open on these issues, explaining at every level what the choices and the alternatives were, and what was the rationale for each of the choices made. Moreover, the society has been in continuous and vigorous dialogue over these issues in a free and open manner. In fact I believe that were it not for this active and healthy operation of the open democratic system, at this time, the responses of the Jamaican people to these hardships might have been significantly less constructive.

It is now clear that a comprehensive set of measures have been put into place to ensure the economic health of Jamaica and that there is considerable

scope for increasing production through the more efficient use of idle resources. We are still however, faced with the need for considerable inflows of foreign exchange to finance the purchase of raw material inputs and such capital goods as are needed for increased production. At the same time we need infusions of managerial talent and, particularly, persons and enterprises familiar with the export markets and the techniques of export marketing. We need, further, a positive attitude in the private sector toward our potentialities for recovery.

It is now clear, in cases like Jamaica, that the multilateral financing institutions are incapable of providing the necessary inflows, on their own, to reflate our economies. Jamaica's delegations have for long indicated the need for reforms in the multilateral institutions including increases of quotas in the International Monetary Fund to better finance adjustment in countries like Jamaica and provide longer periods in which such adjustment will take place. Quotas have been increased minutely, but the funds available to us for adjustment are inadequate unless supplemented by bilateral transfers as well as private capital flows both from the private capital market and from private foreign investors.

The performance of bilateral government-to-government assistance has been significant and has helped us to cope with our problems so far. I believe it would be appropriate to express in public our deep appreciation for such assistance.

At the same time let me say that the response of the private sector has not been satisfactory. In fact, we have witnessed disinvestment at a time of our greatest need. Few audiences better understand the psychology of the investor and the mechanisms which will trigger his decision to invest. But experience has taught us that even where objectively sound economic policies are pursued, and incentives to the investor put into place, there is an area of residual doubt or a perception of extra risk which inhibits the decision to invest. I wonder if the multilateral institutions which have assisted us to put our economic package into place, and which are committed to its soundness, can find ways of reducing this doubt on the part of potential private investors?

I believe the Bank has an important, catalytic role to play in this area. It is our experience that the confidence of domestic investors is fostered by the confidence of foreign investors in the country, and vice versa. It could be that the Bank, in participation with private investors, might devise ways to reduce this perceived risk by foreign investors and domestic investors alike. Our Government is keen to enter into discussions with the Bank to work out measures of this sort. As you know, we have a Code on Foreign Investment which sets out the areas in which Private Foreign Investment is welcome and which areas are reserved for domestic or public participation. I believe the document is clear and designed to remove any misconceptions about our attitude.

Briefly stated we welcome such participation where it is socially responsible and where firms involved are prepared to be good corporate citizens. I believe that, as in so many areas, a frank discussion of the issues will help to remove doubts and mutual suspicions. For example, we have always believed that investors, both local and foreign, will benefit in the long run from being responsive to the social and economic goals of our country. Indeed, I believe a close examination of the detailed implications of our position will prove to be very

much in the best interests of the investor himself. It is in this spirit that we commend our Foreign Investment Code to you for scrutiny, and ask the Bank and its experts to bend their minds to the task of devising ways to reduce the hesitancy of foreign investors, perhaps by setting their seal of approval on projects by joint participation either with foreign or domestic investors.

Mr. Chairman, it is noted with satisfaction that the policies pursued by the Bank accord in many ways with values held strongly by this Government. In this regard, I refer to the emphasis now being placed on aspects of development other than economic growth alone. It is with strong approval that we also note that policies are being formulated to transfer resources to the poorest people. These are all goals that we support.

Yet, we have some concerns. Our recent experience leads us to believe that it is very difficult to direct investment specifically to the poorest sectors unless some prior institutional arrangements such as cooperatives, small businesses, or some similar structures, are in place through which this transfusion of funds can be used productively. The emphasis needs to be placed on investments that will provide long-term employment to the unemployed on a permanent basis, and not short-term infusions that do not generate lasting development. We believe that the optimum blend will have been reached when projects are formulated, and institutions put into place, which will remove the often existing dichotomy between welfare-oriented projects, for the satisfaction of social ends, and productive investment in the traditional sense. It should be noted that the structures I refer to will have the important corollary of giving a greater participation in economic development to a wider group, a policy to which this Government firmly committed.

We also have concerns about the criteria to be used to identify the poorest sectors. Experience shows that there are many pitfalls in using the customary indicator of per capita GNP to define poverty. We have always advocated that a more sophisticated set of social and economic indicators was necessary for this purpose. In moving away from this single indicator, we must be alert to ensure that equally simplistic formulae are not adopted as a substitute, since they will have the effect of reducing the options of the Bank to ensure that meaningful transfers are in fact made to the poorest.

While recognizing the complexity of this issue, we give credit to the Bank for having the courage to tackle it and believe that its proposals go a far way toward advancing the quality of treatment given to this most important subject.

I would like to end by discussing two dilemmas that seem to emerge from the Jamaican experience over the last six years. Jamaica represents the typical case of a country that invested heavily, in political terms, in the "trickle-down" theory. In the Decades of the 1950s and 1960s, all the classic ingredients of heavy and sustained capital inflows, import substitution and a booming real estate market were present. There was a substantial expansion of the middle class; but little or nothing trickled down.

The attempt at an alternative strategy with a clear, humanistic, social focus was soon in deep trouble caught between the Charybdis of the international economic crisis in 1973, and the Scylla of negative private sector reaction—both local and foreign. In due course we were forced to apply for financial support

from the international institutions. We soon joined the growing family of nations for whom the term "conditionality" has a special meaning. Like others, we were obliged to impose cruel conditions in the attempt to restore equilibrium to an overstrained economy. Better than most, we absorbed the shocks that were involved.

In retrospect, we have learned from bitter experience that the fierce argument that rages around questions of conditionality is not the most important question that arises. We found that having met all the terms and conditions which the situation demanded, and having worked to mobilize the nation to rise to the central challenge of production, we continued, nevertheless, to stagnate.

As I remarked earlier, the fact of the matter is that the international institutions are starved of the resources to make supplies of foreign exchange available in quantities sufficient to the productive task. It was as if the medicine could arrest the disease; but the diet could not provide the foundation for recovery. The theorists will tell you that the answer to this first dilemma lies in private capital investment. If this is forthcoming, the incremental foreign exchange will be provided and the expansion in production assured. And this leads me to the discussion of the second dilemma.

We have addressed the question of private foreign investment in a serious and, we believe, meaningful way. This has led to the Foreign Investment Code which has been accepted by our Parliament and promulgated officially abroad. However, as you in this conference know better than any others in the world, foreign private investment responds to atmosphere and mood as much as to rules.

This is understandable; but let us examine some of its consequences. Let us once again take Jamaica as a case study. In the 1950s and 1960s we had no rules, a good atmosphere in the sense in which we are speaking, together with a disastrously unbalanced society which became less, rather than more equitable as the years passed. In due course, it was inevitable that the political process, in a vibrant democracy, would demand that the social problems be confronted.

The moment the country embarked upon the attempt to confront these problems, we began to acquire a bad reputation from the point of view of private foreign investment. We were "type-cast" as radical, first by the local private sector and, in due course by the overseas investor as well. It did not seem to matter that our strategies and policies were carefully predicated upon the acceptability, indeed the desirability, of foreign capital participation. Even the drafting and promulgation of the Code did not altogether stem the tide of opinion.

I do not believe that we are unique in this respect. What is more, I believe that this Conference would not waste its time if it considered the issues that are involved and assessed their implications. Assuming that it may take some time before the international community makes resources available to the multilateral institutions in quantities adequate to the tasks that arise in today's world, consider the choices that face the developing country! If the country holds to its determination to work for a more just society, with all that this entails in terms of serious policies, it may find that the incremental inflows arising from private foreign investment do not materialize.

In this event, it will find economic growth extremely difficult of attainment

and may, indeed, find that growth to be inconsistent with the maintenance of an open society. If it is committed to such a society, it may face a political catastrophe.

On the other hand, if it dismantles the assault upon social injustice, it will doubtless recover a "good" reputation as a locus for foreign investment. The incremental flows may resume, but at an internal price of social betrayal including a return to the path of growing social inequity. Once again, the likely outcome, in an open society, is political catastrophe.

Since private foreign investors cannot, by definition, be required to invest, the answer must surely lie firstly, in a deeper commitment to socially just ends on the part of the multilateral financial bodies; and secondly, the relaying of a more positive role by these bodies in helping private capital to a better understanding of the dynamics of social change. Clearly, there is the need for a dialogue leading to more informed attitudes and, hopefully, a new sense of what makes a good corporate citizen abroad. Certainly, I would venture to suggest that a failure to address these problems will lead increasingly to a situation in the world in which the open society is the casualty.

Mr. Chairman, you have much to discuss and I hope that you will continue to find time, now and in the future, to bear in mind that "other" item on the Agenda of Economic Development, which is the relationship between social viability and economic progress. It is not a new equation, but it remains both the most complex and the most compelling of man's concerns.

I wish for your deliberations success, and that the work of this great institution under the concerned and imaginative leadership of its President, will go from strength to strength as it helps to build the developing societies of this hemisphere.

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

Once, at a particularly difficult juncture in the struggle for independence of Hispanic America, Bolívar the Liberator gave testimony to Jamaica's solidarity with that movement by acknowledging it to be a "haven of friendship that has enabled me to employ my services in the cause of Latin America from the very moment of my arrival."

Today the cause of Latin America is development. It is also our reason for meeting here in this friendly island which we Latin Americans have viewed historically as a sister nation from the time this rich melting pot of cultures emerged in the cradle of the Caribbean at the dawn of the Sixteenth Century.

Jamaica will soon have been a member of the Bank for ten years. I must especially acknowledge its efforts in helping to promote the establishment of the Caribbean Free Trade Association (CARIFTA) and the Caribbean Common Market (CARICOM) and as a founding member of the Caribbean Development Bank, through which our Bank has been able to extend the benefits of its credit and technical cooperation to other countries and territories of the region.

Six years ago in Kingston I pointed out the special significance of our meeting for the first time in one of the newly independent countries of the Caribbean at a time when drastic changes were already taking place in the international economic order with profound consequences for our region and for the activities of the Inter-American Development Bank. Today, as we inaugurate our Twentieth Annual Meeting here, thanks again to the hospitality of the Government and the people of Jamaica, we are all very much aware of the various effects of those consequences on the development processes of our countries. We hope that during the course of our present discussions we can show how our regional financing agency, with the support of this Board of Governors, will continue to fulfill its responsibilities, and describe the broader dimensions that our service to Latin America must have in the future.

I. The Bank's Activities During the Past Fiscal Year

The work done by the Bank during the past year is described in detail in the Annual Report presented by the Board of Executive Directors to the Board of Governors in a document which I have duly forwarded to the Board of Governors for consideration. I shall therefore mention only the most outstanding aspects of our operations in 1978. To demonstrate their scope and dynamism, I shall compare them over two four-year periods. This will provide a better perspective for the program we propose to undertake with the new replenishment of resources approved by the Board of Governors.

Over the past year our loans totaled \$1,870 million. Not only was this the highest volume of lending ever approved by the Bank but it brought the total of loans approved in the 1975-78 four-year period to more than \$6,850 million, nearly twice the amount authorized in the preceding four-year period and three times the amount authorized in the 1967-70 period.

At the end of the year, the Bank's lending portfolio totaled \$14 billion.

This volume is helping to finance development projects in the region with a total cost of more than \$57 billion. Three-fourths of those investments were contributed by the Latin American countries, primarily from their own savings. Of the Bank's share, 53 per cent came from the Bank's capital resources, plus the Venezuelan Trust Fund. The remaining 47 per cent from the Fund for Special Operations, plus the Social Progress Trust Fund and other concessional trust funds.

The technical cooperation extended by the Bank on a nonreimbursable or contingent-recovery basis, which amounted to \$57 million, also reached the highest annual volume in the history of the Bank. This raised the total extended during the 1975-78 period to \$158 million, a figure almost four times that of the preceding four-year period and more than eight times the figure for the 1967-70 period.

In 1978, for the first time, disbursements on loans exceeded \$1 billion, raising the cumulative total of disbursements to more than \$8.1 billion. More than 40 per cent of that amount has been disbursed in the last four-year period.

Amortizations on loans, which constitute an increasingly important factor in the Bank's lending activity, amounted to \$293 million in 1978, the highest volume received so far in any one year, and raised the cumulative value of loan repayments to \$2 billion.

Net income for the year amounted to \$181 million, increasing the Bank's capital reserves to \$677 million and those of the Fund for Special Operations to \$328 million.

During the year the Bank raised \$238 million in the world's capital markets through three long-term borrowings in Germany, Switzerland and the United States, and two short-term issues placed in Latin America and in the nonregional countries. These issues raised the Bank's total borrowings in the capital markets in 1975-78 to more than \$1,455 million, a sum greater than that of any other four-year period.

The complementary financing operations initiated by the Bank in 1975 have met with increasing acceptance in the private financial sector. This is demonstrated by the fact that commercial banks contributed \$133 million during the past year to the economic development of the region by purchasing five loans approved by the Bank. This amount more than doubles the financing made available from private sources through this mechanism since the program was inaugurated.

The Bank also expanded the co-financing activities initiated in 1977 with other international institutions: the European Economic Community (EEC), the Special Fund of the Organization of Petroleum Exporting Countries (OPEC) and the International Fund for Agricultural Development (IFAD). In 1978, the Bank co-financed four projects with EEC (one in Honduras, another in Haiti and two regional projects); four with OPEC (in Bolivia, Haiti, Honduras and Paraguay) and two with IFAD (in Ecuador and Haiti). These institutions furnished \$31.2 million in resources which, together with the Bank's own investments, added up to more than \$230 million.

I am pleased to note the strong emphasis placed by the Bank in its lending activities during 1978 on improving the living conditions of the low-income population in rural and urban areas alike. Late in the year, the Bank inaugurated a program to directly benefit the least favored groups of society through a pro-

gram of financing small productive projects or those of a social nature associated with them. Besides improving the income of beneficiaries and creating jobs, the program is training people in the use of credit, enabling them subsequently to gain access to the global loans the Bank extends to development organization in their countries.

Pursuant to the established policy of granting preferential treatment to the less developed countries and those with limited markets, about 80 per cent of the loans granted in convertible currencies from the Fund for Special Operations went to the first group. This sum rises to 91 per cent if the second group is included. The amount of these loans in 1978 was more than \$790 million.

During the year, the Bank also provided growing support to the efforts of its member countries to make greater use of their renewable resources and thus reduce costly dependence on imported fuels. For that reason and because those efforts were concentrated in a number of large projects, the Bank extended 41 per cent of its loans to the energy sector, including the construction of five hydroelectric plants with a potential generating capacity of 3.6 million kilowatts. When all of the projects we are financing are completed, the electric energy output of the region will have increased more than 24 million kilowatts. If thermal plants were used to generate that electricity, an annual consumption of about 29 million tons of petroleum and an outlay of \$3 billion a year would be required.

The Bank's cumulative lending portfolio at the end of the year showed a balanced distribution. Some 38 per cent of total lending was channeled to directly productive sectors (agriculture, industry and mining), another 39 per cent to economic infrastructure (energy, transportation and communications), 18 per cent to social infrastructure (sanitation, urban development and education) and the remaining 5 per cent to export financing, preinvestment and tourism. Since a large share of loans in the agricultural sector and those for rural economic infrastructure directly or indirectly benefit low-income sectors, between 35 and 40 per cent of the Bank's portfolio can be considered to consist of financing for projects of social significance.

The Bank's productivity in accomplishing its operating goals has increased significantly. At the same time, the Bank has applied a policy of rigorous austerity in budget management during the period. This has meant that over the past three years there has been virtually no real increase in administrative spending or personnel growth. I would like to emphasize once more that the Bank's budget is defrayed out of income from operations and that the principal budget item, personnel expenses, is not paid from member-country contributions.

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I should now like to make special reference to the Bank's relations with its member countries in the Caribbean area.

In cooperating with the development efforts of its members in this sub-region, the Bank has acquired valuable experience in meeting the requirements of societies with very diverse cultural roots, political and legal traditions, institutional systems and administrative practices. The association of these countries with the IDB dates back to its founding, in which Haiti and the Dominican

Republic participated. They have since been joined by Trinidad and Tobago, Barbados, Jamaica and, more recently, the Bahamas.

Loans made to the Caribbean countries amount to \$670 million. Of this amount, one-third has been used to help finance social infrastructure projects in the fields of education, public health, housing and urban development; more than one-fourth to promote agricultural development, and the remainder for industry, mining, energy production, tourism and transportation. I must add that more than 80 per cent of this financing was provided on concessional terms from the Fund for Special Operations.

Furthermore, as a co-sponsor of the Cooperation Group for the Economic Development of the Caribbean, the Bank has decided to contribute more than \$500 million during the 1978-80 three-year period to the subregion, and is already implementing this decision. This figure could rise considerably as additional projects are identified and prepared.

II. Future Bank Action in the International and Latin American Framework

Before I discuss the Bank's future program, it seems fitting to examine the Bank's work in the broad context of the great problems Latin America has long faced—problems aggravated by an adverse and shifting combination of international economic circumstances.

We must acknowledge that these problems require in depth solutions which not only exceed the limits of the Bank's action but also the efforts which the countries themselves can carry out. The solutions will depend, on the one hand, on the individual and collective will of our countries to strengthen the process of their development and, on the other, on the understanding of the members of the international community regarding the conditions that the world economy should provide to countries that have achieved a productive potential like that of Latin America, in order to enable them to take advantage of the opportunities that are opening up for them in this new stage of their development process.

Over the past 20 years Latin America has experienced profound changes and has reached what has come to be known as an "intermediate stage of development" from the standpoint both of its per capita income and of the development of its productive forces. This stage sets it apart from other developing regions of the world. The transformation is still progressing, despite the slowdown which has affected the growth of the Latin American economies since the mid-1970s due to slackening growth in the industrial countries.

But this favorable transformation has not been free of problems.

It is widely recognized that the development of the Latin American countries—not unlike that of other countries that have passed through similar historical periods—has been unbalanced. The disparity between the modern sectors of their societies and economies—through which they have attained a new position in the world economy—and their backward sectors has not only not been reduced but may even have grown. The disparities in development between individual countries have also widened.

Moreover, during the last five years Latin America has been doubly hit by the increase in oil prices and the unstable demand for basic commodities due to the world economic slowdown.

Finally, even though the Latin American countries have become exporters

of non-traditional products and have penetrated new markets, their new capacity has run up against market constraints and fears of unemployment that prevail in the industrialized nations, as well as against the neo-protectionism to which these trends have led throughout the world.

It is against this background of problems that the Bank must determine its priorities and reorient its action during the period ahead.

First, the Bank will have to intensify its efforts to help reduce the disparities that still persist, not only within individual societies but also among the Latin American countries.

Second, it will have to cooperate with those member countries that wish to implement policies for the integral development of their natural resources, including their energy resources.

Third, it will have to join closely in the efforts of the Latin American countries to improve the efficiency of their systems of production and to open up their economies to the outside, increasing their exports both within the region and to the rest of the world.

In doing so, the Bank will have to keep in mind that external official resources are inadequate to meet the great needs of Latin America's development and that there is a tendency to channel such resources toward other relatively less developed regions. This means that the Bank will have to continue to seek new forms of cooperation with its member countries to enable them to improve their access to other sources of financing and to use these resources as efficiently as possible.

These priorities, which set the framework for the Bank's program for the next four years, have been borne out by the analysis conducted by the governments of the region during the recent meeting of the UN Economic Commission for Latin America (ECLA) held in La Paz.

With these priorities in mind, I should now like to turn, first of all, to the recent increase in the Bank's resources.

1. The Significance of the Fifth Replenishment of the Bank's Resources

The approval of the Governors of a new replenishment in resources presents a very important landmark in the history of the Bank. First, it signifies a renewed expression of the multilateral support on which our institution is based. Second, the amount and composition of the increase constitute eloquent support for the leadership the Bank exerts in financing Latin America's development at a time when the criteria on which public international cooperation rests are undergoing thorough review. Last, the program for which these resources will be used not only reinforces lines of action that the Bank has pioneered but also places emphasis on new, strategically important sectors whose priority has been underscored by the recent trends in the pattern of development and external relations of Latin America.

I have already noted that over these past 20 years there has been a considerable expansion, with a number of ups and downs, in Latin America's productive capacity. This process was accompanied, and undoubtedly stimulated, by the growing integration of the Latin American countries into the international economy, particularly during the phase of sustained expansion in the industrial countries—and, consequently, in international trade—that characterized the

world economy until the mid-1970s. The value of total Latin American exports rose from \$8.5 billion in 1960 to more than \$51 billion in 1977—an average annual growth of more than 11 per cent over the period. Nevertheless, this expansion has been insufficient to meet the requirements for external resources experienced by the Latin American countries.

As expected, the dynamic factor in this encouraging process of economic growth was capital formation which by the mid-1970s accounted for 26 per cent of the total product. For the region as a whole, and disregarding differences between groups of countries, the share of external resources in the financing of domestic investment has moved up from 3 per cent in the first five years of the 1960s to 7.5 per cent in the late 1960s and to 14 per cent in the first five years of the 1970s, finally reaching 18 per cent in the 1975-77 period, even though traditionally external resources played a largely complementary role in such financing. These figures are reflected in the sharp rise in external debt, particularly during the past five years.

Not only did the amount of our countries' external indebtedness change during the period, but also its composition. Net receipts from official and private financing obtained by the region during the past three years totaled nearly \$15 billion a year, three times the annual average amount received during the previous decade. However, the share of public funds fell to 20 per cent of the total, compared with 50 per cent in the 1960s. In private financing, credits from commercial banks expanded at a very rapid pace, becoming the principal source of external financing. This puts in evidence the decline in the share of "official development assistance" in the external financing of Latin America and is reflected in a deterioration in the terms of the region's external debt.

The broad access that the Latin American countries have enjoyed in the international private capital markets in the past few years was made possible by the unusual conditions of international liquidity. These conditions will obviously tend to change as the pace of economic growth of the industrial countries gathers strength again.

I believe that we can draw the following conclusions from this picture:

First, although the growing relationship between the Latin American countries and the new international financial system has enabled them to ease the impact of an unfavorable external economic situation on their economies, these new forms of indebtedness involve an undesirable degree of uncertainty and have reached very high levels. This means that they cannot offer a permanent solution to the balance-of-payments disequilibria of those economies.

Second, Latin America must continue to attach maximum importance to international public financing not only because it is the only kind that can provide the concessional resources that some sectors and countries require, but also because generally it tends to be suited to the maturity periods of the development projects into which the resources are channeled. In this context, the replenishment of the Bank's resources acquires special significance, since it will allow the Bank to continue to provide its member countries with the type of financing which, because of its public origin, offers the most advantageous terms and conditions. The Bank will thus continue to be, as it has been up to now, the principal supplier of concessional resources to the Latin American countries.

Third, in view of the increasing importance of the international private capital markets to the Latin American countries, the Bank's cooperation with them will be increasingly vital in obtaining and channeling resources from other sources of financing and in stimulating a flow of foreign investment and technology on more equitable terms and in accordance with procedures more in keeping with Latin American development needs.

Based on those premises, I shall now deal with the situation relating to the Fifth Replenishment of the resources of the Bank.

In the past, the proportion of lendable resources has been distributed virtually equally between conventional and concessional resources. In the new replenishment, however, concessional resources represent only one-fourth of the Bank's loan program from its own resources in convertible currencies, which will amount to \$7.4 billion during the period. Of that sum \$5.5 billion will be provided from the ordinary and inter-regional capital.

Thus we are passing on to a program in which the growth in the Bank's operations will depend increasingly on the expansion of ordinary resources. By mandate of the Governors, the relatively less developed countries will necessarily have to receive between 75 and 80 per cent of the funds provided under the program in concessional lending in foreign exchange. Accordingly, the remaining eligible countries will have to rely on a mix of resources, predominantly from the ordinary and inter-regional capital.

Even within those limitations on concessional resources, however, the subsidy element which would result from the mix with the ordinary loans represents a cost which compares favorably with any other financing available to the vast majority of the Latin American countries.

2. Social Financing in the Context of Latin American Development

Closely related to the question we have just discussed is the priority allocated in our 1979-82 lending program to low-income sectors, which will be the beneficiaries of 50 per cent of the program's available resources.

As indicated, the increase in the product of Latin America has not gone hand in hand with a more equitable income distribution or a general improvement in social infrastructure.

It seems contradictory that, at the same time that stress is placed on the need to give preference to low-income sectors in the new program, we face a limitation in subsidized resources.

The objective of benefiting low-income sectors will be achieved through the appropriate use of the various types of available resources and not just on those which are most subsidized.

The Bank can speak from its own experience on these questions because, by participating from the outset in the financing of social development in Latin America, it was a pioneer among international agencies. The following facts illustrate that assertion.

- The Bank was an innovator in financing rural development projects for low-income sectors, with a strong component of social infrastructure and services, and in fostering rural integrated development programs. It became the agency which made available the largest volume of funds for the rural develop-

ment of Latin America. Nearly \$4.5 billion in loans, over 60 per cent of which was granted on concessional terms for the direct benefit of backward sectors, went to that sector.

- The Bank also had an innovative role in financing urban development through its support for housing and environmental sanitation. In that field it granted loans of more than \$1.3 billion for water supply and sewage systems, 50 per cent more than that provided by other international sources and, in the case of rural systems, three times as much.

- The parallel activity of the Bank in both those sectors helped to correct the rural-urban imbalance which has been typical of Latin American economic and social development. Looking to the future, the Bank will allocate up to 35 per cent of its lending over the next four-year period to rural financing and between 10 and 15 per cent to the financing of urban improvements.

- The Bank's activities in the education sector, beginning with the financing of higher education and extending to other educational levels, represented another innovative undertaking by the agency, translated in almost 100 loans amounting to nearly \$600 million. Latin America needs to solve the problem of 18 million children who have no access to any form of education and some 25 million who receive inadequate schooling. The Bank is therefore prepared to continue this task and to extend its activities to a broad range of projects for basic education, rural primary education, programmed education, job training, rural vocational schools, intermediate careers and other forms of education, including different forms of decentralized education. In view of the large portion which education represents in national budgets, the Bank will continue to support government initiatives to explore alternative sources of education financing in the general context of tax reform, so that the cost of education will be borne primarily by higher income groups.

- In the health field, the Bank has progressed far beyond the environmental sanitation programs with which it began its activities and has gone into a series of programs for the extension of health services, particularly in rural areas, based on the decentralization of those services and conceived as an integral part of national health plans. To date the Bank has supported such programs in 12 countries.

- Among the essentially economic programs which have an undoubted social impact are those in the tourism sector, a field in which the Bank has carried out a number of interesting projects. One of them was carried out in Cancún, Mexico, an island and its environs on the Yucatán Peninsula, which in 1970 had about 200 inhabitants—most of Mayan origin—who earned a subsistence living. Today, nine years later, Cancún has not only become a major tourist attraction, but has 25,000 people—mainly from marginal economic sectors of the zone or neighboring states—living and working in the area. These have substantially increased their income levels by obtaining service jobs or engaging in other productive activities or, by moving from being landless *campesinos* to becoming small landowners. What is more, the zone now has a social infrastructure exceeding the levels of comparable towns in other parts of the country.

As in the case in the tourism sector, the improvement in the social conditions of low-income groups is effected not only through projects which have a direct social content, but also as a result of the significant indirect effects of

other economic development projects, particularly major public works which open up vast areas in the hinterland to development and modernization. An outstanding example is the subregion of the River Plate Basin where construction of major multipurpose infrastructure projects is transforming the area.

We believe that economic growth must be accompanied by firm income distribution policies. Consequently, we shall discuss with the lending countries the best ways of achieving the desired targets as regards the income level of loan beneficiaries.

In that connection, there is a tendency to overlook the fact that macro-economic statistics cannot really reflect the reality of the social transfers effected in most countries of our region by free or subsidized services such as education, health and transportation, or of services aimed at making food, clothing and shelter more readily accessible. The Bank's action should parallel and buttress those efforts.

The Bank's past experience entitles me to say that social development cannot be activated with programs unrelated to the general process of investment and development. Nor should we forget that it depends primarily on the internal decision of each country as regards the mobilization and allocation of resources, the establishment of priorities and the will to carry out the institutional and social reforms which those processes require.

The only firm foundation for improving the living conditions of the lowest-income groups is the expansion of the base of production through a vigorous savings and investment process. The key element in such a process is the formation of capital from both domestic and foreign sources. The principal means of increasing the income levels of the poor lies in the creation of well-remunerated jobs. This will depend primarily on an expansion of the productive base, although programs to improve the social infrastructure must also, of course, play a part. But here again such programs are possible only if the productive process generates the necessary tax revenues to finance social investments.

I should like to conclude my remarks on this question by repeating that in the general context of Latin America's development, the Bank attributes major importance to the financing of this type of project. At the same time, however, experience teaches us that the preparation, evaluation and implementation of such projects presents a number of problems which work against their speedy approval. Consequently, if they are to represent a very significant proportion of the operations included in the Bank's program for the four-year period, governments will have to give them the highest priority during these stages prior to approval, when they can rely on us to provide them with all the technical cooperation they may need.

I also feel compelled to draw the attention of the Governors to the need for a speedier use of the resources committed in loans. With this in mind, I should like to suggest that a joint study of ways and means of speeding up that process be undertaken. Although this is a general consideration which applies to all Bank operations, it becomes especially pertinent to this type of project.

3. Support for Energy and Natural Resources Development

Five years ago, at the Fifteenth Annual Meeting of this Board, I had occasion to express our deep concern about the impact of the increase in the price of

oil—added to the effects of world-wide inflation, the disturbing consequences of which were already visible—on the economies of the region.

What began at that time as a so-called “oil crisis” has become an “energy crisis” of more serious consequence. Recent events in the Middle East and the open debate on the use of nuclear energy add new elements to the crisis. The era of abundant low-cost energy has passed and in the years to come, the world as a whole will have to intensify its efforts to increase and diversify its energy supply. Recent studies indicate that in the American continent alone the demand for energy will probably double between now and the end of the century.

Therefore, although Latin America has managed to tolerate the effects of the international energy situation up to now, a joint strategy of greater scope is clearly required to cope with it.

Actually, that strategy should not be confined to overcoming the energy crisis; it should be seen in the global context of a concerted effort by the region to exploit and utilize its vast natural resources, among which, of course, potential sources of energy occupy a prominent place.

Latin America has a significant proportion of world reserves and production of minerals—including energy resources—but the potential of the region has hardly been tapped. In the face of a potential world shortage of mineral and energy resources, it becomes increasingly imperative to find ways of activating a dynamic program for the exploration, development and exploitation of mineral, gas and oil resources—a program which, while helping to solve the world problem, should focus on meeting the requirements of Latin America’s own development.

The Bank has therefore allocated to those sectors 25 per cent of the financing provided in its program for the next four years. With that contribution, it hopes to be more effective in helping countries that seek to implement integrated strategies for the development of energy and mineral resources.

In the field of energy, our action will have to take the form of identifying new sources of energy; preparing energy inventories at the national and regional levels; formulating policies and strategies for the energy sector in the broader context of the objectives of each country’s economic and social development; streamlining consumption by the more efficient use of energy resources; increasing the supply from conventional or other renewable sources and extending it to rural areas; stimulating technological research, and promoting integrated binational or regional projects.

In order to take full advantage of other mineral resources, we shall have to draw up an inventory of available reserves, which still does not exist in Latin America. The correlation of that data for the various countries would also help to identify the regional regulatory mechanisms which could establish guidelines for future exploration. At the request of several member countries, the Bank is assisting in the preliminary stages of organizing an information system, which could begin with specific countries of South America and later be extended to the rest of the continent. The technical work involved would be the responsibility of the respective national geological institutions, with technical cooperation from the Bank.

Naturally, the amount of investment required exceeds the financial capacity of the Bank and of other sources of public and international credit. On the

other hand, in recent years, investments in the development of mineral resources not only were not being made on the scale required but were made primarily by large multinational corporations whose relations with the countries of the region have more than once faced critical circumstances.

Consequently, the Bank, fulfilling its role as promotor and catalyst, intends to continue to act not only with its own resources but also by helping to create conditions which will enable the Latin American countries, if they so desire, to receive the help of foreign investment, public or private, on terms compatible with their development prospects. To that end, we have tried to devise a system which will inspire confidence among external investors, as well as in the producing countries, and thus stimulate the level of investment required.

We have been exploring with various member governments the feasibility of setting up a special guarantee and insurance fund for energy and mineral projects which could be administered by the Bank on behalf of the Governments which want to participate in it. The statute of the Fund would contain provisions ensuring multilateral management so that it may serve as a mechanism for concluding foreign investment arrangements which will be of real benefit to the recipient countries and will ensure fair treatment for the investor. We shall continue the consultations already begun and if we find that our initiative is favorably received, we will submit the relevant specific proposals to the Governors in the near future.

4. Support for the Expansion of Latin American Production and Exports

Finally, the Bank must follow very closely the efforts its member countries are making to open their economies to the outside world, build a more modern and competitive agrarian and industrial base, and promote the expansion of their exports.

In the last two decades, the Bank has become the principal source of international financing for agricultural production. Its operations in this field have focused chiefly on support to low-income farmers.

The IDB has contributed to industrial development in Latin America not only with loans—more than a third of which went to help small- and medium-scale industry (mainly in global loans)—but also with support for basic infrastructure projects and for development of all the other facilities needed for the construction of new industrial plants, particularly in the interior of those countries.

However, the development that Latin American productive forces have undergone in recent years, while differing considerably from one country to another, has created an entirely new situation. In an increasing number of cases, these efforts have made it possible to build economies that are stronger, more complex and more diversified.

For example, recent experience has shown that in a significant number of cases, the modern or commercial segments of Latin American agriculture have responded with considerable dynamism to both government and market incentives; they have been able to raise their productivity and therefore their contribution to the supply of foods, agricultural raw materials, and agroindustrial products, and to the increase of nontraditional exports. And as they did this, modern agriculture became increasingly integrated into the national econ-

omy. This process is in contrast, however, with the backwardness of traditional or peasant farming. This situation is serious since such farming is susceptible to great expansion. Hence the promotion of this latter sector, which is still a marginal one, is one of the great challenges facing Latin American development, which requires an effective and equitable balance between modern and traditional agriculture.

Moreover, the expansion and diversification that the region's industrial structure has undergone in recent years has made it possible to satisfy with domestic production, almost the entire demand for consumer goods and an increasing—but considerably smaller—part of the demand for semifinished and capital goods, which has enabled some countries to launch a dynamic expansion and diversification of their exports of manufactures.

This process, which has been the result of a joint effort of governments and the private sector, has been possible in large part thanks to the strengthening and modernization of a wide variety of economic instruments. It is also important to bolster Latin American business enterprise, since it is impossible to visualize a dynamic development in the region that is not powered preponderantly by the private sector, in which both medium- and small-scale producers (operating both individually and on a cooperative basis) are very important participants because of their growth potential.

All this has contributed to the progressive integration of Latin America into the world economy. But it has to be borne in mind that Latin America is in no way unique in this process, which is essentially a logical response to the emergence of a global economy characterized by increasing interdependence among all the countries of the world, as well as among the various problems besetting their external sectors. Hence the impossibility of assessing in isolation the prospects for Latin American development in the commercial and financial areas, and the need for the Bank to take all these aspects into account in programming its future operations.

In trade, the extent to which the Latin American countries are able to exploit the opportunities opened up to them will depend not only on their own internal efforts, but also on the attitudes taken and policies adopted by the international community. It is well known that rising industrial costs in the developed countries are making much of their manufacturing uncompetitive, and that this is opening up opportunities for semi-industrialized countries like those of Latin America through a world redistribution of some lines of production and an opening of doors to markets in industrial societies for manufactured goods from those countries. In that regard, we are disturbed by the resurgence of protectionism in the industrialized countries, which flies in the face of the economic philosophy they have professed for many years but also runs directly counter to the need to advance to higher levels of efficiency and welfare all over the world. Only if these trends are reversed will these countries be able to take their rightful place in the new structure of comparative advantages that is emerging in the world. Later on I will refer particularly to some recent gains in the field of international trade and development, chiefly under the General Agreement on Tariffs and Trade (GATT), with emphasis on their implications for Latin American countries.

In the field of finance, I have already spoken of the increasing proportion of the external financing for Latin America being contributed in recent years by

the international private capital markets. The gradual rise of deposits in Euro-currencies, the increase in the number of banks doing business on those markets, the intensification of their competition, and their desire to spread their risks better by diversifying their investments sectorially and geographically, prompted a quest for new customers, among which developing countries began to be counted in growing numbers. At the same time, the rise in petroleum prices and the resultant recession in the industrial countries have slowed the demand for credit on their part. Meanwhile, the developing countries—and most particularly those in an intermediate stage of development—began to turn increasingly to private sources of financing, at first in order to finance development plans that were more and more sophisticated and ambitious which had a high import content, and later because the imbalances on their external accounts were being worsened by an increasingly difficult international situation—and in several cases even to cover fiscal deficits.

A regional financial institution like the Bank cannot stand aside from the negotiations and trends that surround the efforts that the international community is making to restructure economic relations between the industrialized and the developing countries. We have not only been following events in the field of multilateral trade negotiations and international finance, but are also watching the progress made toward the establishment of a new commodity program in the framework of the UN Conference on Trade and Development, and the new initiatives being taken in agriculture. This year we will be attending two major international conferences: the UN Food and Agriculture Organization (FAO) Conference on Agrarian Reform and Rural Development, and the UN Conference on Science and Technology. We have made our presence felt and have voiced our ideas on every available occasion. That was the case, for example, with the Brandt Commission, which I recently had the honor to address, and whose conclusions—awaited with great interest—we will learn at the end of this year.

In industrialization and international trade, the Bank's operations will have to contribute more directly and selectively to the development of highly competitive lines of activity which will directly contribute to the expansion of exports of manufactures from the region. We will also continue to develop our program for the financing of exports of capital goods. In this same area of concern, the Bank has supported the creation of the Latin American Export Bank (*BLADEX*), and will soon start acquiring Latin American Banker's Acceptances (*ABLAS*) as they begin to appear on international markets.

But it is definitely in the field of external financing that the IDB can do its most important work. I have been insisting on the need to broaden the external financing of Latin America and on the importance of reinforcing the flow of public resources. Latin America does not seek to rely chiefly on the largely concessionary assistance that goes to areas of extreme poverty in other parts of the world. Nor, however, can it acquiesce in limiting or restricting the flow of ordinary public resources into the region, or its access to capital markets on appropriate terms. The Bank enjoys a well-earned prestige both among the governments that contribute resources to the development of Latin America and on international financial markets. Its regional nature keeps it intimately acquainted with the development problems of its member countries and enables it

to ensure that those resources are more efficiently used. Hence the Bank's presence is indispensable in any discussion and in any decisions that may be taken in the future to increase the flow of public resources for development financing.

Moreover, on the strength of this prestige and of its guarantee capital, which was increased in the latest replenishment of its funds, the Bank will continue to enter the capital markets to obtain the funds needed to implement its program over the next four-year period.

At the same time, because of the prevailing trends in international financing, the Bank should not confine itself solely to financing operations it can carry out with its own resources, but should actively seek to play the part of a financial intermediary. It should do this to help countries requiring such assistance to gain access to those important traditional sources of external financing as well as to improve the terms on which they may gain such access, and to ensure that the resulting debt is directly connected with the investment and development process.

One way in which the Bank has performed that intermediary function is by fostering direct contacts between Latin American entrepreneurs and those sources of international financing in meetings and symposia that have been held in Latin America, the United States, Europe, and Japan.

Moreover, since it began operations the Bank has been transferring resources from other sources of financing to its member countries by selling participations in loans from its ordinary resources, joint and parallel financing, and more recently, with our program of complementary financing, which has aroused great interest in the international private banking community and which has great potential for adding funds to our own financing.

Under this new arrangement, along with a loan from its own resources, the Bank makes a complementary one on prevailing market terms and conditions, in which it then sells participations to other financial institutions. Thanks to this operating procedure, borrowers not only have broader access to international sources of financing, but can also obtain loans on more favorable conditions than if they get those funds separately. The participating financial institutions benefit because the Bank conscientiously evaluates the project, supervises its completion, and acts as agent for the disbursement and collection of the loan.

Another objective that has long been emphasized by the countries of the region is that of helping to strengthen Latin American enterprises by investing in share capital. A first step in this direction was the allocation of up to \$20 million for this purpose from the Trust Fund made available to the Bank by the Government of Venezuela. In the first year of this program an initial operation was approved with a medium-scale industrial firm in Costa Rica. This is the first fruit of a promotional effort carried out in about ten relatively less developed countries which so far has generated 128 projects from enterprises that have requested this kind of support. This has encouraged us to begin consultations with our member countries with a view to establishing the Latin American Multinational Fund for Industrial Development with enough capital to meet a long felt need in the region. Businessmen in most Latin American countries need risk capital in very large volumes and are often compelled to operate under a heavy burden of indebtedness, which in adverse circumstances can jeopardize the very

existence of the enterprise. Moreover, this program could open the door to an international market for securities floated by Latin American firms and so make possible the issuance of obligations convertible into stock.

It is most gratifying to report that the governments of five Latin American countries have already confirmed to the Bank their decision to establish that Fund. These countries are Ecuador, Jamaica, Paraguay, Peru and Uruguay, which together have committed contributions aggregating \$16 million for the purpose as trustors. The Fund would be a trust administered by the Bank. At the same time, we have received expressions of interest in principle from other countries in and outside the region which makes us confident that we shall very soon be able to submit a proposal to the Board of Executive Directors for the formal establishment of this new instrument of support for Latin American development.

I should like to acknowledge the significant contribution made to the Bank by the trust given to it by the Venezuelan Investment Fund, which has opened the door for new forms of activities. It has also been a vital instrument enabling less economically strong countries to go ahead with undertakings of great magnitude which they had been unable to launch before. That applies, for instance, to the financing made available with funds from the Venezuelan Trust Fund to the Government of Honduras for the capitalization of the Olancho Industrial Forestry Corporation as part of its integrated forestry development program and the establishment of a pulp and paper plant which the IDB is also supporting out of its own resources. Similarly, the Venezuelan Trust Fund is financing the electrical infrastructure required for the development of mining in Cerro Colorado, Panama.

The association of the Bank with these new instruments of Latin America's development places renewed significance and adds new tasks to its technical cooperation activities.

This work will, of course, continue to focus on assistance to countries—particularly the relatively less developed countries—in identifying, preparing and appraising priority projects.

However, as the countries' capacity to generate projects increases, so do their financing needs. The Bank's technical cooperation programs must be prepared to give assistance to the countries that need it in developing appropriate institutions and mechanisms for intensifying the mobilization of domestic and external resources.

Thus, we shall have to extend our technical cooperation activities so as to help strengthen the countries' capacity to obtain needed additional resources on the world's capital markets on suitable terms. We are already doing this to some degree in our normal activities of supporting projects which we later present, with our technical endorsement, to international banking to obtain complementary assistance. But we shall also have to bear in mind that some of our countries may need the Bank's direct assistance in restructuring financing packages or in exploring other avenues of access to world capital markets.

Another major field for our technical cooperation activities is the mobilization of domestic resources which is the most important component of development financing. I shall refer specifically to this process later on.

5. Latin America in the Context of Present Multilateral Trade Negotiations

To supplement these reflections on the evolution of Latin America's external sector, I should like to draw particular attention to some of the results achieved with the completion of the Tokyo Round of multilateral trade negotiations in the GATT framework.

One result of these negotiations is an agreement to reduce tariffs leading to further international trade liberalization and, therefore, to wider access for exports of developing countries to the markets of the industrial countries.

Another result is the agreement on a number of codes, relating to non-tariff matters, designed to restrict the use of subsidies, the application of compensatory duties and other similar measures which during recent years have come to be a central feature of the protectionist tendencies to which I referred a moment ago.

The Latin American countries will be inclined to join in those agreements. To stand aloof from them would expose them to less favorable treatment, through loss of their most-favored-nation status. It would also render them liable to sanctions applied automatically against the use of subsidies and other similar measures without the need to demonstrate damage to third parties—a precondition in the case of signatories of the agreements.

The principles agreed to at this round of negotiations take into account the special situation of the developing countries and authorize them to adopt interim measures during the adjustment period to support their industrial activities, including exports. Another very effective way of facilitating exports is to abolish the domestic taxes levied on the production of exported goods. It has been agreed to eliminate these levies through systems of value-added taxes. Accordingly, only those countries that have adopted this system will be authorized to do it under the rules adopted recently; this will furnish them with a most important tool for implementing their export-promotion policies.

It will also open up the possibility of relieving their export prices of the cost of social security contributions to the extent that those contributions are included in the value-added tax, eliminating, incidentally, a tax at present levied on the use of labor. Uruguay is already in the process of introducing this system.

To date, Argentina, Brazil, Chile, Ecuador, Mexico and Uruguay have already introduced the value-added tax. The Bank has been providing technical cooperation in that effort and has just begun to assist the Dominican Republic, Panama and Peru in the same manner.

In view of this new round of tariff reductions, I should like to point out that the countries of the region will have to pay special attention to the need to conserve and widen the margins of preference applied to their reciprocal trade; this presents a difficult challenge to Latin American integration. The concerted participation of the industrialized countries in the multilateral trade negotiations should serve as an example to the developing nations. It would seem reasonable that, before negotiating preferences with third countries, the Latin American countries should put their own house in order, agreeing upon reciprocal preference margins that enable them to utilize the regional market as an important factor of support for their industrialization and development processes.

In the integration context, the possibility must also be envisaged of using the deduction of the value-added tax on intra-Latin American exports to con-

stitute a compensation fund to assist countries that experience persistent deficits on their trade balances with other Latin American countries.

6. Revitalization of Latin American Integration

In the face of these challenges, the integration of Latin America acquires new urgency. This, in turn, justifies a strengthening of the Bank's activities in this regard. Almost 20 years after the start of the first integration schemes in Latin America, despite the surface impression often conveyed by the difficulties they have encountered, it has to be recognized that our economies have been more closely intertwined and integrated by new arrangements for cooperation that have sprung up between two or more Latin American countries, and that this process will continue through the revitalization of existing schemes which may be anticipated from the meeting of the Presidents of the Andean Group.

Intra-regional exports have grown from about 8 per cent of total exports in 1960 to about 17 per cent in 1977. Even more significantly, more than half of these were manufactured goods. In other words, taking into account the difficulties stemming from the current world economic situation and with a gross regional product of more than \$400 billion, Latin America must exploit its own market opportunities to expand its exports and propel its industrial development to more advanced stages. Of great importance in this regard is the decision on the future of the Latin American Free Trade Association (LAFTA) to be made by the high contracting parties when the Protocol of Caracas expires in 1980. Moreover, the process has been decisively advanced by the increasing integration of the physical infrastructures of the Latin American countries, which can serve as a basis for intensified economic complementation.

The Bank has not only supported the large Latin American integration schemes (first LAFTA and the Central American Common Market and then the Andean Group and CARICOM) with technical assistance programs, but has also promoted specific integration projects in the sectors of energy, transportation and communications, the integrated development of geo-economic zones, border integration, and other integration activities. These activities represent \$1.8 billion made available for integration projects with an aggregate value of nearly \$9 billion. Moreover, through the Institute for Latin American Integration (INTAL), a series of research, advisory, technical cooperation and information activities, particularly in support of integration schemes and other regional cooperation agencies, including the Latin American Economic System (SELA), is being undertaken.

Given the present international situation, regional integration is acquiring new relevance, and the Bank will have to step up its efforts in this field.

Firstly, the impact on the Latin American economies of the disturbances generated by the difficult and unstable economic situation of the last decade has shown that regional economic integration, by forging stronger links in the areas of reciprocal trade, finance, and production, could serve the purpose—perhaps not envisioned in the early years of the process—of softening the effects of that crisis.

Secondly, the pressing need felt by the Latin American countries to revitalize their economies and make them more competitive, so as to be able to participate on better terms in the new international division of labor, can be met

only to the extent that they achieve a higher degree of economic complementation, at least in certain lines of production.

Lastly, the fact that the more dynamic aspects of integration and regional economic cooperation in recent years have been associated with the implementation of specific measures and projects for economic complementation—which SELA was established precisely to promote—increases the Bank's responsibility in this field, inasmuch as these new forms of cooperation are better suited to our institution's operating procedures and to its past experience in the integration field.

III. The IDB at the Threshold of the 1980s

We stand at the threshold of a new decade. That represents a stimulus for us to look at our current tasks from a wider perspective.

The Bank has demonstrated great capacity to adapt to the new needs posed by the course of development in our countries. This capacity will be tested by the challenges we must face during the next few years. I wish to give my recognition, therefore, to the task that the Special Group of the Committee of the Board of Governors has been carrying out in reviewing the Bank's policies and functions, giving priority to the consideration of the topics related to the Fifth Replenishment of Resources. Given the constraints faced by Latin America in connection with public financing. In this review, I am confident, due heed will be taken, given the constraints faced by Latin America in public financing, of the need for the policy regarding the use of the Bank's resources to acquire a new significance. We must not, therefore, cling to concepts whose validity and appropriateness need to be tested in the light of current realities and of the different requirements of the Latin American countries, stemming from their individual development levels.

This does not mean that in the 1980s we shall need a new bank. We still need the same pioneering Bank that we founded, nearly 20 years ago, as the first regional development bank, but now enriched by its cumulative experience and adapted to the needs of a profoundly changed Latin America—yet rooted in the same principles and objectives that have inspired it up to now.

I should like to conclude my address by summarizing some of the points which, in the light of the experiences and challenges to which I have referred, should, in my judgment, form the basis of the Bank's philosophy during the next decade.

- The Bank will have to strengthen its capacity to cooperate in the development efforts of its member countries in a variety of very specific ways and to contribute substantially to the process of mobilizing domestic resources, maintaining its support for socio-economic planning and extending it to the fiscal area, to the strengthening of capital markets and to the establishment and improvement of institutions in areas of key importance for stimulating that process.

- Another responsibility on which the Bank will have to lay increased emphasis during the next decade concerns the contribution it is able to make to reducing the imbalances and disparities in economic and social development, not only between different countries in the region but also within countries. The degree of development already achieved by Latin America's productive forces is

making these gaps increasingly intolerable. Urgent steps need to be taken to shorten the time needed to reduce them and to make this region of the world the setting for a more equal and humanistic experience of social coexistence in which threats against these enduring values, from whatever quarter, are not given substance by force, but disappear in the face of the superior value of the forms of coexistence that we ourselves have chosen.

- The magnitude, tempo and complexity of the development achieved by many of our countries would seem to lessen the significance of the contributions the Bank can extend from its own resources. This points to the need to explore new avenues for stepping up its role as financial agent between the borrowing countries and other external financing sources, in order to supplement its own contributions with additional resources from the international financial community, providing assistance to those member countries that desire it in their negotiations to this end.

- Latin America's growing external financing needs, fueled both by the rapid growth of their economies and by the adverse impact of a difficult world economic situation, have found a climate propitious for further indebtedness. This places intensified responsibility on the Bank to assist its member countries to use the financial resources they obtain, both from the IDB and elsewhere, to serve the true needs of their development processes and to carry out productive projects that can contribute toward debt service and perhaps even to reducing their external financing needs. This means that the Bank must place special emphasis on the qualitative contributions it can make through its operations and on their impact on the technological development of the countries of the region.

- During the coming decade, integration and economic complementation between the Latin American countries will be even more pressingly needed than in the past, as a means of self-defense in a world characterized by chronic instability and as the only way of participating efficiently in a new international division of labor in which the countries must claim a more equitable share. This means that the Bank will have to redouble its support for this process.

- Finally, the Bank will have to stress even more its character as a multilateral and regional institution, because, the mutual determination of areas of interest shared by the countries that supply capital and those that use it to further their development has proven mutually beneficial, and, in any event, fulfills a very different role from that of bilateral financial cooperation

It would be unfortunate if, instead of earnestly striving for that harmonization of interests, we came to believe that the ideas on international cooperation prevalent in certain countries, however powerful and well-intentioned they might be, could take precedence over the consensus which should be the basis for action by any multilateral institution. Consequently, it is a duty of all our member countries to affirm the value of a possible consensus instead of seeking to impose their own criteria.

Just as it is unacceptable for external criteria to supersede national priorities in the approval of loans granted by multinational agencies, it does not lie within the province of those agencies to finance requirements from their member countries, which do not lie within those areas of consensus.

The multilateral nature of our Bank must continue to draw sustenance from its regional sources. Ours is a Bank established to service Latin American

development. It is to achieve that objective that it has been joined by many developed countries from this hemisphere and from other parts of the world. Consequently, it would not be reasonable to think that the interests of the latter could come into conflict with the development goals of the Latin American countries.

As part of its field of action, the Bank seeks to harmonize those interests and offers the financial community at large an opportunity to utilize its resources efficiently in Latin America. We are gratified to have been able to demonstrate in practice that both the developed and the developing member countries of the Bank are united by a broad network of mutual interests. However, we should also like to reaffirm that we shall continue to give paramount importance in all our activities to the interests of the region, for it is the development of the region that is the reason for being of the Bank.

Governors, for years, the Latin American countries persevered in a collective effort of international discussion and negotiation which culminated in the establishment of the Bank.

During nearly 20 years of existence and tenacious effort, the Bank has made an important contribution to the economic and social development of Latin America and at the same time has consolidated its position in the international financial community, where it constitutes a symbol of confidence in Latin America's present and in its future.

That experience and that soundness will provide the foundations for the Bank's operations in the 1980s. In this way it will be ready to respond to the needs of Latin American development and integration. The importance and effectiveness of its own action will be determined exclusively by the nature of the mission that the Latin American nations entrust to it.

ADDRESSES

SECOND PLENARY SESSION

May 28, 1979

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

First of all I wish to convey the regrets of Mr. Rainer Offergeld, the Federal Minister for Economic Cooperation, and as such Governor for Germany in the Inter-American Development Bank, for not being able to attend this Annual Meeting of the Board of Governors. He has designated me to represent him and to assure you that he is taking as lively an interest as ever in the achievements and the future role of the Bank.

It gives me great pleasure to thank the Government of Jamaica for the generous hospitality that we have had the privilege of enjoying at a place which commands a view of one of the most beautifully situated bays in the world. I also would like to express my appreciation for the efficient preparation of this Twentieth Annual Meeting as well as the preceding Fourth Meeting of the Bank's Working Group on Functions and Policies.

After three years of important learning, but also of active cooperation, the Federal Republic of Germany now can form a better notion of the work of the Inter-American Development Bank and its impact throughout the continent. Membership in the Bank, short as it is, has brought us closer to the countries of Latin America and their economic and social achievements and problems. Thus an initial result of our engagement may be seen in the experience we have been able to gain; we are grateful for this.

Also without referring to Baron von Humboldt you know that the countries and people of Latin America have at all times attracted the deep interest of German travelers, scientists, teachers, merchants, and entrepreneurs. This attraction is as alive as ever. Among its effects are the strong impulses that were given to our economic cooperation with the countries of the continent. Even if German financing of Latin American projects from public funds under bilateral arrangements remained stagnant owing to our bilateral development cooperation being concentrated on the least developed countries, there is a series of facts and data to prove the increasing economic interest we are taking in Latin America. In advance I may address a few general remarks on this issue, which I think will be well in line with the impressive address of the Prime Minister of Jamaica, the Honorable Michael Manley.

The export earnings of the countries of the Third World and the foreign exchange inflows resulting from private transfers are much larger and for many developing countries much more important as sources of income than official development assistance can ever be. These capital flows have, for example, largely contributed to the results that:

- The net contributions of the Federal Republic of Germany to the developing countries in the last years have, in terms of GNP, always amounted to between 1.12 and 1.19 per cent and were, therefore, largely responsible for the fact that the one per cent target was considerably surpassed by the Federal Republic of Germany.

- The trade balances between the Federal Republic of Germany and the non-oil-exporting overseas developing countries were, in the last two years, favorable for the developing countries to the extent of \$1.5 billion and \$800 million, i.e. exports of these developing countries to the Federal Republic of Germany exceeded the German exports to these countries by that amount.

Trade between the developing countries of the Latin American continent itself and the Federal Republic of Germany amounted to about \$10 billion both in 1977 and 1978. It is worth mentioning that in both years, these trade balances also showed a deficit on the German side. Total direct investments of German firms in Latin America passed the remarkable \$4 billion level in 1978. Finally, I would like to note that the German capital market has served as an important source of funds. In 1978 long-term borrowings of the Inter-American Development Bank in the Federal Republic of Germany amounted to \$100 million, which was two-thirds of its requirements, and at the same time Latin American fund raising on the German capital market amounted to almost \$1 billion. We hold the view that, particularly to the numerous Latin American "countries in transition"—a term introduced by President Ortiz Mena in his address to the Brandt Commission—trade, foreign investments and private capital flows are more important or perhaps even stronger motors of development than official financial and technical cooperation. Therefore, the Federal Republic of Germany will continue in the future to do all it can to keep these four basic factors of economic development vigorous and to promote them. For example, it has streamlined its instruments for the promotion of direct investments in developing countries and turned them increasingly toward the promotion of energy and primary material projects so that nothing stands in the way on our part for further improvement of the investment climate, especially in these sectors so vital for all sides.

Turning to the responsibilities and potentialities of the IDB, I would like to make a few comments on the results of the last fiscal year.

The 1978 year was one of light and also of some shadows. Disbursements which represent the Bank's real financial output took, with an increase of 28 per cent, a gratifying upturn compared with the previous year. The fact that almost 60 per cent of all commitments of the Bank since 1961 were actually channeled into the projects and programs of the borrowers, may be called a remarkable performance which is certainly due to no small degree to the Bank's local representation in the Latin American member countries. This should also be taken into consideration when judging the Bank's administrative expenses.

The IDB must be congratulated on the further—even if in our view too limited—extension of its well-conceived model of complementary financing which has proved a success and deserves the attention of other international financing institutions. Regarding the co-financing with funds of other multilateral development institutions, I might perhaps observe that, considering the increased administrative expenses arising from such operations, we advocate a better relationship between the number of co-financed activities and the average amount of the co-financed portion in the project cost.

We note with particular satisfaction the further improved earnings and reserve position of the Bank. We welcome any action which helps preserve the Bank's excellent standing on the capital markets. Needless to say that this

ultimately benefits borrowers in the form of comparatively longer average maturities and of an attractive and as stable a lending rate as possible.

The fact that loan approvals did not exceed the results of the previous year in real terms should not in itself cause concern; an uninterrupted growth of commitments can certainly not be the foremost of all development targets. What does give us cause for concern is rather the record *bunching* at the end of the fiscal year 1978 which is hardly justifiable from the qualitative point of view, and also the sharp decline in the share of projects and programs of rural development and social infrastructure precisely at a time at which the Bank feels even more strongly committed to the low-income groups. These points suggest that the nonreimbursable technical cooperation of the Bank should to a much larger degree be employed for the identification and preparation of new projects in these sectors.

The Government of the Federal Republic of Germany learned with regret that the matter of denomination of the Bank's capital stock and thus the requirements of the maintenance of value have still not yet been definitively decided one year after the entry into force of the second amendment of the Articles of Agreement of the International Monetary Fund. It reiterates its view that these questions demand a rapid solution.

The outstanding event of the 1978 year was indeed the successful conclusion of the negotiations on the Fifth Replenishment of the Bank's and the Fund's resources. The Federal Republic of Germany has already subscribed its shares; it is particularly glad to have been able to contribute towards the success of the negotiations. Therefore, it may again voice its expectations that all agreed commitments will be implemented on time in order to make it possible for the Bank to carry out its lending program.

In connection with the replenishment negotiations, new targets for quantitative and qualitative lending were set for the Bank. Never before were they so clearly defined with development objectives in mind. Of the resources available for the lending program from 1979 to 1982, no less than 30-35 per cent are earmarked for rural development and 10-15 per cent for urban social infrastructure; 50 per cent should be oriented to benefit the lower-income groups. Ambitious as these targets are, there is not the slightest doubt about their conformity with the aims of our development policy. However, I think that a few comments may be made. From the discussions at the last two meetings of the Working Group on Functions and Policies, a number of specific parameters and conditions have emerged:

- Of course it is up to the Latin American members themselves to fix their development priorities in accordance with their political objectives and to work out practical ways to reach the underprivileged target groups. This is all the more true as in no other regional development bank the contributions made by the developing member countries themselves attain a comparable magnitude.

- Latin America is hampered more than any other sub-continent by natural obstacles to the build-up of a material infrastructure. Overcoming them requires special efforts. On the other hand, many Latin American countries are approaching the state of industrialized countries. The expansion of the material infrastructure, especially the development of energy supply and transport facili-

ties claim a considerable portion of the finance available for development as a whole.

- Therefore, it is important to strike a sound balance in the sectoral allocation of the resources available to achieve a symbiosis of the social and infrastructural inputs. The sectoral allocation now scheduled may become a workable pattern. In its lending policy during the last four years, the Bank has not been far away from this pattern.

- The attainment of the 50 per cent target which we again wish to acknowledge explicitly depends largely on how the low-income groups are defined in terms of the socio-economic situation in the country, the cities and the rural regions concerned. Therefore, we consider the combination of the absolute and the relative approach, as proposed in the last Management document on this issue, a suitable attempt at a definition which might later be reviewed on the basis of the experience gained.

- The attainment of the 50 per cent target will be facilitated by more suitable arrangements for the financing of indirect foreign exchange and local costs of projects and programs designed to reach these target groups; this applies to *all* borrowing member countries. We, therefore, support the policy changes recommended by the Board of Executive Directors.

- We are afraid that the Bank cannot reach its qualitative as well as quantitative targets, hard as it may try, without an early reorganization, especially of its operational functions, coupled with shifts of personnel and the unavoidable expansion of its staff. This problem cannot be taken seriously enough.

Mr. Chairman, I have gained the impression that these important functional and political questions have been discussed, if not exhaustively, very thoroughly. So many constructive contributions have been made particularly by regional members primarily involved, that the Bank can set to work with confidence and imagination. For this I wish it the same success it achieved during the first 19 years of its ever-growing activities. The Federal Republic of Germany will be glad to cooperate.

**Address by Mr. Javier Silva Ruete,
Governor for Peru and Minister of Economy and Finance**

On behalf of Peru I wish to join in the collective appreciation expressed by this Meeting to Jamaica, through whose generous and cordial hospitality the Governors of the Inter-American Development Bank are meeting.

Once again, it is satisfying to note the continued institutional growth of the Bank. The number and total amount of the loans made in 1978, the disbursement percentage, and the volume of technical cooperation testify to the expansion described in the last Annual Report. This is testimony also to the soundness of the management of President Antonio Ortiz Mena, ably assisted by the Bank's Executive Directors and general staff. The vision of Felipe Herrera and the colleagues who two decades ago accompanied him in the pioneer work today finds a worthy monument in our institution, which symbolizes Latin America's presence in the concert of nations.

Peru in the Inter-American Development Bank

For Peru, in particular, 1978 will be remembered as the year in which we were able to launch the national economic recovery program—which is beginning to bear fruit—thanks to the extraordinary courage and inspiring sense of citizenship of its people and to the timely and comprehensive supplemental cooperation of the international financial community. To the Inter-American Development Bank belongs the distinction of having met in full the demands made upon it in that year in terms of the processing of new loans and flexibility in executing previously approved operations.

Thus, total IDB lending to Peru has reached almost \$500 million, equal to 45 per cent of the total cost of the projects financed. The unstinted cooperation of Colombia, by which we have the honor to be represented on the Board of Executive Directors, has also been an important factor in this achievement and merits our sincere thanks.

In order to spare the valuable time of my colleagues, I propose on this occasion to omit considerations of a general nature and to concentrate my address, in the manner of an annual balance sheet, on my personal experience of the work of the Bank in the context of my ministerial responsibilities.

One year ago, in Peru, I assumed the portfolio of Minister of Economy and Finance. Public opinion, both inside and outside the country, always more informed on sensational developments than on the humdrum daily task of construction, is aware of the full extent of the red ink shown in our trade balance and balance of payments, the loss of international reserves, the decline in our gross national product, a level of inflation without precedent in Peru, in short all the indicators of a dramatically worsening economic situation. The external and domestic factors that drove the country into this unprecedented situation are also widely known. I assumed this ministerial office in full knowledge of the risks and lack of understanding that I faced in the short term, as an unavoidable long-term challenge, but also with a firm conviction that, on the basis of creative ability, fiscal discipline and a consistent and continuing programming effort, it

would be possible to pull the country off the downward slope on which it found itself and endow the new economic and social structure generated by the revolutionary process with the maximum possible degree of efficiency.

Without being over optimistic and without claiming that all our troubles are over, I can parody the old saying, by stating that "it is not the beginning of the end but the end of the beginning." Indeed, Peru has completed the first stage in its stabilization and economic recovery. And this has been done without any interruption in the political process of transferring the government to civilian hands, even though such a commitment may create an environment that is not helpful in promoting measures aimed at economic and financial reorganization and budgetary austerity. Much remains to be done before our economic recovery can be complete. But the great potential of the country and our people's traditional convictions about their own destiny allow us to foresee new short- and medium-term accomplishments. Only those who ignore the root causes of the Peruvian situation could have had doubts about our rapid recovery.

I now wish to take the opportunity to explain, with regard to external financing, what our country would like to achieve, what we need, what we would hope to find in the multilateral development banks, and especially in its regional bank, the Inter-American Development Bank. I make these remarks to apologize in advance for the frankness with which I intend to raise five specific issues.

I start with the premise that the Inter-American Development Bank is and will continue to be a good investment, both for the developed and developing countries. The semi-annual report of the Bank on the use of funds according to the source of goods and services purchased, as of December 31, 1978, eloquently states the irrefutable facts:

Cash contributions of 17 industrialized countries to the ordinary resources of the Inter-American Development Bank: \$623 million; goods and services purchased in those 17 countries with loans from the Inter-American Development Bank: \$1,722 million.

Could the fact that similar results have not been obtained with the resources of the Fund for Special Operations be the hidden reason for its gradual disappearance?

Financing Structure

First, I am absolutely convinced that a survey of my fellow Governors on the type of problems they face in connection with financing by the regional development banks would turn up a first common denominator, namely a wide-ranging consensus on the issue of the percentage of the cost of the project financed by the Bank. On the basis of the principle that external cooperation should complement domestic efforts, a so-called rule of operational policy has been called into being, under which only the external imported component may qualify for ordinary resources, since this is assumed to represent the use of foreign exchange in a given project. All the rest, all that represents local currency, is nothing short of being financially taboo, as it is felt that this should fall exclusively on the shoulders of the taxpayers of the borrowing country. Behind this simplistic financial reasoning lies the real structure that converts our regional bank into a financier of goods and services from some of our member countries, i.e. the

developed countries, making it yet one more tool in the current international economic order, which has been recognized as unjust and as threatening serious worldwide consequences in the short term.

Fortunately, the Bank also recognizes the overall effort of each member country, adopting a pragmatic approach with regard to sectors and geographic areas. What is a given country doing within its overall program, what can it do with its own local currency resources and what projects can it not execute at a given moment without undue risk of inflation that would destroy everything? The growing use of complementary financing indicates, by and of itself, the strength of this argument. If the Bank were to do otherwise, this would be equivalent to shrugging its shoulders, a response unworthy of anyone with leading responsibilities in the international arena.

This is why we were particularly pleased to read the various proposals put forward by the Executive Directors on "Functions and Policies of the Bank," encompassing topics of undeniable importance for our country. I refer in particular to the study on the financing of local expenditures with foreign exchange. This route will lead to the proper goal, although in this case we do not see the benefits of tying it directly to the new low-income goal.

I urge the Bank to study, with the same constructive zeal with which it has examined these problems, the subject of the percentage of overall project financing. It is necessary for the Bank to study in greater detail the volume of disbursements, to ascertain the reasons why, out of a total lending volume of almost \$14 billion in 19 years, barely 57 per cent has been disbursed. This disbursement shortfall represents almost four years of operations, given that the volume of new loans granted in the past four years amounts to \$6 billion still undisbursed.

The year in which the Inter-American Development Bank decides, in the absence of program loans, to establish operating criteria that will ensure total financing, i.e. covering all the chronological phases in the execution of a project, using its own resources, suppliers' credits, complementary financing and finally resources of the borrowing country—that is the year in which the Bank's statistics will for the first time show that it is possible to adhere to project execution schedules as planned. The current procedure whereby the Bank commits itself contractually only up to a given percentage of the project and obliges the borrower to come up with an initial counterpart at least twice as large, plus the heavy final expenses, represents pursuit of the Theory of Development, which is very different from the Practice of Development. This gives rise to a system of international public bidding designed for the sound purpose of ensuring that the Bank's funds are properly used but also, in passing, to ensure that the goods and services covered by the financing will come from abroad. The result is to depress Latin American economies that would be capable of supplying a goodly proportion of these goods and services.

This situation needs to be urgently countered by developing an entire system that will enable Latin American capital goods and technical know-how to participate on a large and growing scale in the execution of development projects. Only in this way will we be able to give an adequate response to the pressing need for industrialization in Latin America and the Caribbean.

As long as there is anyone who does not see the Bank's role as one of partnership with the member countries in the execution of each project, as long as the main emphasis is placed on financing only the imported component with foreign exchange, as long as there is anyone who does not accept the possibility of the Bank's maintaining the same percentage throughout the project execution phase as originally assigned to that project, it cannot realize the goal of benefiting the low-income sectors of society.

We are not asking for the amount of the loan to cover 100 per cent of the cost of a project. What we want to ensure is that 100 per cent of the project is in fact carried out. Non-execution of a project at the proper time is a default attributable to the borrowing country, but the failure to execute the project also affects the Bank, which has sponsored it. In the case of Peru, I wish to mention the agreement I shall be signing this week for a loan to the CENTROMIN mining company, which will be exactly the type of financing we have sought, viz. financing of an increased proportion of the costs, in foreign exchange and in local currency as well. With this loan, the IDB will be allowing us to start on an old project for which the time is still ripe. For the fundamental aspect of any agreement here will always be the "*animus societatis*", the desire to work constructively together—Bank and member country jointly—in the common task of raising living standards in the region, with joint objectives and procedures aimed at ensuring a rational economic approach. All the rest sounds like empty rhetoric in the ears of our peoples and, what is worse, explains the temptation to prefer a bad supplier's credit with total financing instead of a good development loan financing one-third of the total cost.

Operational Efficiency

Past meetings of the Board of Governors have failed to pay proper tribute to the efforts of the Management headed by our President, Mr. Ortiz Mena, to perform the growing tasks of the Bank without a corresponding increase in the professional and clerical staff of the Institution. The comparative budget figures for the past three years in particular show the pursuit of an austerity goal that merits full praise for those responsible for running the administrative affairs of the Bank.

Nevertheless it would seem that a major portion of the problems associated with execution of projects lies in slow-moving operational procedures, deriving in turn from the obligatory flow of documents between the officers in member countries and the headquarters of the Bank. To the already cumbersome procedures involved in demonstrating "to the satisfaction of the Bank" the various aspects of the feasibility of a project, is added a "going and coming" of consultations and approvals which undermines the operational efficiency of the institution and finally produces a bottleneck holding up disbursements. There is not a single executing agency in our countries that does not voice the same complaint: operational procedures, the approval of loans and the timely execution of projects should be streamlined. At times it seems as if the time variable has been eliminated from the concept of development and that the forms and manuals have been transformed from mere tools into basic objectives.

A proper delegation of powers to the Bank's offices in the member countries,

suitably blending discretion with responsibility, would do much to bring about the administrative streamlining that we all seek. A re-evaluation of procedures with a view to drastically simplifying them would likewise seem essential.

The Multilateral Character of the Bank

At every meeting of the Board of Governors, year after year, we get the same warning until we are tired of it: we must preserve the multilateral character of the Inter-American Development Bank. The Bank was conceived, was born and operates within a given multilateral framework, deriving from the Agreement Establishing the Bank. Above and beyond the percentage of contributions and subscriptions, decisions are adopted by majority vote. The few exceptions requiring a two-thirds vote—nowadays truly outdated exceptions—are expressly spelled out in the Agreement.

Thus no country can try to impose its will on a majority consensus. No project can be approved or turned down for considerations of a political nature. The Inter-American Development Bank is not a forum for airing political disagreements among member countries.

With the statutory provisions on the multilateral character of the Bank being so clear and precise, it is distressing to witness the yearly stream of self-appointed outside legislative tutors and mentors, even though through their words they show their ignorance of the institutional channels established by force of law by the member countries at the time they created the Bank.

We shall never hold back in roundly rejecting any proposed action that flouts the multilateral character of the Bank. We have approved without qualification and we fully support the exemplary attitude taken by President Ortiz Mena every time he had to do this during 1978. Also worthy of mention and praise is the position taken by the Administration of President Carter when it has become necessary to stress the multilateral character of the Bank in connection with the increase in resources. We find a similar positive attitude in most of the nonregional countries, as they seek to reconcile their own national interests with the interests of the region. Let us hope that some time, through a similar magic, the member countries will find the same path to agreement on essentials.

In the search for a third consensus in our ministerial survey, the number of Governors in favor of standardizing the provisions of the Agreement Establishing the Bank is growing. In other words, there is increasing support for the idea that all the provisions without exception, regarding decisions of the Board of Executive Directors and of the Board of Governors, should adhere to the democratic principle of a majority vote as set forth in Article VIII, so as to bring about within the Inter-American Development Bank the principle of "a vote without a veto".

Investments of the Inter-American Development Bank in Latin America

One of the main purposes of the Agreement is the mobilization of financial resources for the region. In the early years, resources in convertible currency came from the developed countries, which were thus known as "donor countries". With the passage of time the volume of resources in convertible currency from the borrowing countries has been ever increasing.

As regards Peru, for example, I can inform those present at this meeting that by law of March this year, the Ministry in my charge has been authorized to arrange with the Inter-American Development Bank a procedure that will enable as much as 25 per cent of our contribution to the increase in the Fund for Special Operations to be paid in convertible currency. By its own decisions, freely made, Peru can thus inaugurate its program of contributions in freely convertible foreign exchange for the FSO, designed to enhance the financial capacity of the "soft loans" source.

In this scheme of things, there is no rational explanation for the Bank's reluctance to invest in the region capital resources stemming from the region itself. For example, we need go no farther than to look at the foreign exchange allotments chargeable to Latin America in the Fourth Resource Replenishment which, added to the upcoming Fifth Replenishment—not to mention the three previous ones—amounted to a total of \$700 million. Then let us add \$30 million in certificates subscribed up until now by central banks of the region and another \$35 million in short-term bonds bought by Venezuela and Trinidad and Tobago, bringing the total to \$765 million in foreign exchange furnished to the Bank by Latin America over a period of seven years. The deposits of the Inter-American Development Bank in commercial banks in the United States and outside the region and its investments in public obligation bonds will soon exceed \$2 billion. Of this amount, according to what my Latin American colleagues have told me about their own countries, I have found that less than \$50 million are beginning to be placed timidly in a few Latin American banking institutions.

Last April the Board of Executive Directors instructed the Management to recommend indicative goals for the liquid assets that will be invested in securities or instruments of the developing countries. Today, President Ortiz Mena announced the purchase of Latin American government securities in the United States market as well as Latin American Banker's Acceptances (*ABLAS*). The new announcement of the hoped-for decisions of the IDB is a happy omen which will encourage greater investments by the international financial community in Latin America in the next four years.

On what authority, I ask, could the Inter-American Development Bank encourage investment in Latin America without having in consequence to offer an example herself? How could the financial solvency of Latin America be defended in public if the Bank of the region wavers in trusting it to manage the banking of its own resources, the foreign exchange originating in the region, precisely when the international capital markets in Argentina, Brazil, Mexico and Venezuela—to cite only four cases—are exhibiting already quite significant figures? The Inter-American Development Bank could never allow herself to become a vehicle for transferring funds from the region to the industrial countries.

It would seem that, within a framework of caution that must mark programs of investment of liquid assets, the time has come to deposit in Latin American Banks the foreign exchange assets provided by the Latin American countries and which are available for commercial deposits so that at least these scant resources will form part of the annual investment program of the Bank. It is understood that the same requirements as to security, liquidity and yield at

short term would apply to the new deposits as are provided for in the Bank's operating policy, without exception, and according to the same present-day coverage ratio on loans.

Financing of Regional Integration

Now, while this meeting is being inaugurated, an important meeting of the Presidents of the Andean nations is drawing to a close in Cartagena. Ten years after the launching of a combined effort by a group of countries to raise in coordinated fashion the living conditions of 70 million inhabitants, our Presidents have gathered together to set new short and middle run targets. Identified as part of the same political will to find solutions, the five Chiefs of State have managed to restructure the bases of the Cartagena Agreement. I can anticipate this much to my colleagues: the written conclusions of this meeting attest that the Andean subregional integration process emerges strengthened and possessed of a dynamism that will set an example to other areas of the region.

In different settings, the work of the Latin American Free Trade Association (LAFTA), the Central American Common Market and the Caribbean Community are still carrying on their own tasks, aimed toward a common goal: an integrated Latin America, a permanent and irreversible variable in the economic and social development of our peoples.

The Inter-American Development Bank must be the most important financial mechanism in the Latin American integration effort. The Inter-American Development Bank must continue to play an active role in the financing of infrastructure facilities, projects, and in supporting the institutions of integration such as the Central American Bank for Economic Integration, the Caribbean Development Bank, the Andean Development Cooperation and the River Plate Fund. If the Inter-American Development Bank had not maintained constant leadership in financing integration programs, aside from regional projects, it would have neglected not only one of its original charter goals but would have failed by omission to perform a historic duty when it was most needed.

In the renewed problem-set of the 1980s, which President Ortiz Mena has told us about, unrestricted support for regional integration in substantial amounts will become one of the pillars of Latin America's development. Peru acknowledges the Bank's support for integration over the years and requests that the Bank continue that support, certain that in doing so it shall be contributing to the economic and social progress of the region.

Mr. Chairman, I wish to conclude my remarks with a renewed reaffirmation of faith in the purposes and prospects of the Inter-American Development Bank. Over and above suggestions and remarks, directed essentially toward improving the image and real action of the Institution, I am convinced that I am a part of a team of Governors who, like a well-steered ship, knows it is on course with a good crew to a welcome harbor.

**Address by Mrs. Margareta Hegardt,
Governor for Sweden and
Under Secretary of State in the Ministry of Commerce**

On behalf of the Swedish delegation, I would like first of all to express our appreciation for the warm welcome and generous hospitality extended to us all by the Government and people of Jamaica—a country with which Sweden traditionally maintains the most cordial relations.

Our thanks also go to the Management and the staff of the Inter-American Development Bank for the very efficient preparatory work undertaken and, in particular, for the Annual Report before us.

My country has now been a member of the Bank for two years. As demonstrated by our decision to join this Bank as well as, more recently, the African Development Bank as a nonregional member, Sweden believes in international cooperation, joint responsibility for development and growing global interdependence.

It is now widely accepted that rapid world-wide economic advancement can, and should, go hand-in-hand with increased transfer of resources to the developing countries. In the view of my Government this is an issue on which substantial progress ought to be possible. Common interest could be, and should be, a driving force. During the last years increased imports of the developing countries, financed to a substantial extent by credits, have had a favorable impact on production and employment in the industrialized countries. And the transfer of resources on a substantial scale may very well be a prerequisite for a reasonably well functioning world economy in the years to come. Sweden has therefore stressed during the present UN Conference on Trade and Development (UNCTAD) in Manila, as we have done in other international fora, the need for such increased transfers of resources to the developing countries, both on a concessional and a non-concessional basis. We believe that the regional development banks, such as the IDB, are important vehicles for such transfers. Another way to carry through the development effort of the developing countries is by enlarged trade between nations. Sweden therefore welcomes the impressive progress made by some developing countries in recent years in increasing their exports of industrial goods. This shows that the developing countries can benefit from world trade and thereby lay the foundations for further economic development.

This, exactly, has been the experience of my own country. Sweden, as a small nation, is highly dependent on imports and exports for its prosperity. Our membership in the IDB is an instrument to promote and increase our economic relations with Latin America. We therefore find it encouraging that we have already had the opportunity to participate in some of the projects financed by the Bank and we look forward to further enhancing that cooperation. We believe that there is a place for Swedish technology and know-how in that process. As the Spanish saying goes: One hand washes the other and both wash the face.

For the future we believe that the most important tasks in the field of trade will be to resist protectionist tendencies and to maintain and strengthen an open trading system. By doing so, we will facilitate a rapid expansion of

trade, which is now needed for an acceleration of the pace of economic development.

Having given these general remarks I would now like to make some comments on the activities of the Inter-American Development Bank.

The year 1978 marks for the Bank the close of the 1975-78 programming cycle provided for in the Fourth Replenishment. We note with satisfaction that the Bank has met the lending as well as the sectoral distribution targets agreed to for that period. These targets represent a substantial contribution to the economic development of Latin America and the Caribbean.

We also note, however, that the lion's share of loan approvals still goes to middle- and high-income countries. We are concerned that over the past year the shares of the Bank's lending going to such crucial sectors as agriculture and social infrastructure have actually diminished. My Government feels that the Bank should make increased efforts to direct its lending to the poorer countries and to the lower income groups within the region. That is why we have attached and continue to attach great importance to the negotiations for the Fifth Replenishment of the Bank's resources, which have now been successfully completed, and to the terms agreed upon for that replenishment. The increased emphasis on assistance to the low-income groups in the region and the higher priority given to investments in rural and urban development were important elements in the decision of the Swedish Government to participate in the Fifth Replenishment. It is my pleasure to inform you that the Swedish Parliament only two weeks ago endorsed that decision.

The Bank and its members have now a large responsibility: we must see to it that the terms of the replenishment are promptly and effectively implemented and that the increased resources put at the Bank's disposal are used in the best possible way, to the benefit of true development.

We also have a responsibility towards our own taxpayers to ensure that the concessional resources contributed really reach those most in need and help to promote social and economic progress. We must not fail in shouldering this responsibility. It forms the very basis for our continued support for the international development effort.

Against this background Sweden attaches great importance in the ongoing work on the Bank's future functions and policies. Many decisive issues for the Bank's future as a development institution are up for discussion. How should one, e.g., define low-income groups in a meaningful way and qualitatively improve the Bank's capacity to support them? How can IDB during the 1980s make the greatest possible impact to development in Latin America and the Caribbean? The role of program loans, integrated development programs and local cost financing are other issues which must be analyzed and discussed. During the first meetings of the working group, progress has been made on a number of issues. But important questions remain to be solved.

May I refer, in particular, to the issue of how to implement the decision of the Governors to devote 50 per cent of the Bank's lending to the low-income groups. As Sweden pointed out in the Working Group, it is essential that we come up with a definition of low-income groups which is reasonably precise and yet flexible enough to make it operational. We hope that all member countries of the Bank will avail themselves of the possibility to contribute to the further work

on this issue. Likewise, it is important that we take a generous attitude towards local financing, as this is very often a prerequisite for initiating projects which directly benefit the poor.

As I mentioned earlier in my speech, Sweden joined the Inter-American Development Bank in 1977. Our membership is not uncontroversial in Sweden. Some political parties and members of Parliament object to our membership. They claim that the lending policies of the Bank are not consistent with Sweden's policies on development cooperation and that Sweden, through its membership, supports régimes which are criticized for lack of respect for universally recognized human rights. In the view of my Government the protection of human rights must be the concern of the entire international community. The aim of all our endeavors is to create a world more fit for human beings to live in. In such a world there must be not only peace and food, but also justice.

The interest taken in the IDB in Sweden is manifested in the recent decision by the Swedish Parliament to set up a commission to study the lending policies of the Bank. This was done in conjunction with the decision to participate in the Fifth Replenishment to which I referred earlier.

Mr. Chairman, I have used this opportunity to give you our frank and serious views on the IDB and its work. The decision by the Swedish Parliament to set up a commission has given my Government all the more reason to follow closely the activities of the Bank and, in particular, its efforts to improve the social and economic development of the peoples of Latin America and the Caribbean. We are confident that, with the high competence of the President of the Bank, Mr. Ortiz Mena, and his staff, the IDB will be able to cope with the challenges it will face in the 1980s.

My statement today has reflected the fact that the activities of the IDB are closely followed by the Swedish Government and Parliament as well as by mass media. It is my sincere hope that the decisions taken at this meeting and elsewhere will contribute to the well-being of the whole region and, in particular, of its poorest segments.

Nineteen seventy-nine is the International Year of the Child. Outside the Conference Room there is an exhibit observing this event. There is one caption that struck me, namely, "Children—our most important investment." Let us hope that the projects financed by the Bank will contribute to the welfare and happiness of all children in the region—"Children—our most important investment." To promote that investment, Mr. Chairman, must be our ultimate goal.

**Address by Mr. Michiya Matsukawa,
Temporary Alternate Governor for Japan and
Special Advisor to the Ministry of Finance**

First of all, I should like to express my sincere appreciation to the Government and people of Jamaica who, as our hosts for this Annual Meeting on their beautiful island in the captivating Caribbean Sea, are welcoming us with such warm hospitality.

I should like also to express our deep appreciation to President Antonio Ortiz Mena and the staff of the Inter-American Development Bank, who have dedicated themselves during the past years to the achievement of a challenging goal: the development of the region.

This year's Annual Meeting coincides with a momentous event: the Twentieth Anniversary of its creation. Also, this is the third Annual Meeting to be held since the nonregional countries joined the Bank. I have had the great honor to represent my country at these three Meetings and thereby to convey the position of my Government to my colleagues on the Board of Governors of the Inter-American Development Bank.

World Economy and the Position of Japan

In my address at the last Annual Meeting I pointed out that the world economy was then in the process of adjustment from the economic turbulences caused by the oil crisis and had not fully returned to a path of stable growth. I added that any one of the problems faced by the world economy was beyond the reach of an individual nation alone and could not be solved without international cooperation and solidarity.

Since then, each country has accomplished enormous efforts, in a spirit of cooperation. We can now discern some encouraging signs. Domestic demand in the larger countries has begun to grow again, and the international monetary situation has stabilized to some degree. On the other hand, employment and investment have made only slow progress along the road toward recovery, and there are signs of renewed inflation. The recent decisions by the Organization of Petroleum Exporting Countries (OPEC) to raise the price of crude oil are cause for particular concern about the possibility of their generating further disruptions.

The economies of the developing countries of this region are continuing to expand as a result of the untiring efforts of each of them, while at the same time they are having some success in slowing down the rate of inflation. Nevertheless, the rate of expansion is far from satisfactory, considering the great need of these countries for accelerated economic development.

Because imports are rising faster than exports, these countries' current account deficits have tended to worsen, even though they have been financed by growing inflows of long-term capital.

Our joint action to promote the stability and development of the world economy has borne fruit. However, many problems remain to be solved in the future. Japan will continue to contribute actively to the overcoming of these

problems, common to all, through its own efforts, guided by the spirit of international cooperation. That is, with a view to improving its external balance, Japan has been making the maximum possible effort to achieving a high rate of growth. As a result of that effort Japan has attained the highest rate of growth of the last three years among the developed countries, thereby improving basic economic conditions. The decrease in Japan's exports and the increase in its imports have drastically reduced its current account surplus, and equilibrium is being restored.

It will be apparent from the data on our trade with the developing countries of this region that there has been a notable improvement. During the first quarter of 1979, Japan's exports fell by 8 per cent while its imports rose by 77 per cent, compared with the same period of 1978. The resumption of protectionism has given concern to Japan, which has participated in a positive way in the Tokyo negotiations. I am pleased to note that an agreement among the larger countries was initiated recently.

As regards development assistance, Japan will continue to furnish appropriate assistance with a view to meeting the various needs of the developing countries in response to their wishes and to their own efforts to further their development. More specifically, Japan increased its official development assistance by 30 per cent in 1977, to around \$1.4 billion. Furthermore, last year we announced our intention to double the amount of those funds, to at least \$2.8 billion, within a period of three years. I am pleased to report that in 1978, the first year of that period, our official development assistance rose by about 56 per cent, to \$2.2 billion. For 1979 we have once again placed special emphasis on increasing the economic assistance budget. It will be apparent from all these facts that we have made—and shall continue to make—a supreme effort to achieve that objective, under even the present budgetary constraints. I must add that the amount budgeted for official development assistance to the Latin American countries increased in 1977 by 60 per cent over the previous year.

It is very important to improve market conditions in order to promote the mobilization of development funds on the world capital market by the developing countries. In this respect, the Tokyo market can point to outstanding results during recent months. The Latin American countries have obtained a total of 200 billion yen since January of last year. In addition, the IDB made a successful bond issue last February. Japan will continue to offer a reliable market for these countries and for the Bank as long as conditions permit.

Mr. Chairman, allow me briefly to refer to present relations between the Latin American and Caribbean countries and Japan.

Economic interaction is being adequately promoted and the number of leaders visiting Japan has increased significantly. Several official and private conferences have been planned and carried out.

Last year, the Seventieth Anniversary of the first Japanese immigration to Brazil was observed. This year the Eightieth Anniversary of the beginning of Japanese immigration to Peru will be celebrated. These are only a few examples of the growth of our cultural exchanges.

Last April the Symposium on Latin American-Japanese Business Cooperation was held in Tokyo under the auspices of the Japanese Export-Import Bank and the Inter-American Development Bank. That symposium greatly contributed

towards promoting understanding and strengthening the economic ties between the Latin American countries and Japan.

Activities of the Bank

Mr. Chairman, it is important that the Bank should have sufficient funds to support its activities. To this end, the member countries discussed the Fifth Replenishment of resources of the Bank. I note with satisfaction that last December a replenishment of about \$10 billion was agreed upon. The nonregional countries offered to contribute 11 per cent of the capital replenishment of \$8 billion, which means that they will more than double their participation in the share capital of the Bank. In addition, the nonregional countries assumed 30 per cent of the replenishment of the Fund for Special Operations.

Japan offered to subscribe the highest quota among the nonregional countries and in April we obtained the necessary legislative approval to subscribe to the Fifth Replenishment. This will provide a sound basis for the Bank to implement a more dynamic loan program during the 1980s.

During the negotiations on the replenishment, the nonregional countries firmly requested greater representation on the Board of Executive Directors. I believe that improving their representation will strengthen the ties between the regional and the nonregional countries. Allow me to say that I earnestly hope this matter will soon be settled in a satisfactory manner.

It is to be hoped that once the negotiations on the Fifth Replenishment of resources are concluded, the Bank will review its loan policies by placing greater emphasis on the need to benefit the poorer sectors of the populations of the developing member countries; this objective should be a central feature of development strategy. We support the Bank's policy of stressing that more than half its resources should be channeled to projects benefiting the poorest groups. We also support the policy of giving more favorable treatment to rural and urban development. These policies will further clarify the Bank's operating policies on behalf of the poorer groups.

We understand that some regional members have declared their intention to be less dependent on Bank resources because their economies have maintained sustained growth under wise economic management. This will allow the Bank to channel more resources to the poorer countries, thus strengthening economic interdependence among the developing countries of the region.

Allow me to comment on Japan's cooperation with the Bank's loan operations. Last year, the Government-affiliated financial corporations, i.e., the Overseas Economic Cooperation Fund and the Japanese Export-Import Bank, undertook to provide \$100 million to finance the Rio Cauca-Salvajina project in Colombia, through co-financing with the Bank.

In addition, private banks in Japan have actively participated in the Bank's complementary financing program and to date have committed a total of \$83 million for five projects. Japan will continue promoting such cooperation to the greatest extent possible.

Mr. Chairman, the countries of the world are becoming more and more interdependent. The economic and social progress of the Latin American countries concerns not only the peoples of this region, but also those of the rest of the world:

The need to achieve economic development and eliminate poverty, in cooperation with the developed countries, is a fundamental concern for the Latin American countries. At the same time, those efforts will naturally have a great impact on the future of the world economy as a whole.

Japan will continue providing as much assistance as it can to the developing countries of the region in their struggle to overcome many of their problems and to promote economic development.

Japan will continue supporting the Bank, which serves as a point of reference for solidarity and cooperation between the developing countries of the region and the contributing countries.

In conclusion, I wish to express our firm hope that the Inter-American Development Bank will play a greater role in promoting development in this region, especially in addressing the problems that will arise during the Decade of the 1980s.

**Address by Mr. Jean-Yves Haberer,
Alternate Governor for France and Director of the Treasury**

My opening remarks will be addressed to the Government of Jamaica to thank it for the quality and warmth of the reception it has accorded us in this magnificent country. A more favorable setting for our work than this enchanting area of Montego Bay would be difficult to imagine.

Before commenting on the activities of the Inter-American Development Bank, I should like to place my remarks within the double framework of international economic cooperation and the development of Latin America and the Caribbean.

I. International Economic Cooperation and France

This year the IDB is holding its Annual Meeting at a particularly significant moment in the North-South dialogue, at the close of the Fifth Session of the UN Conference on Trade and Development (UNCTAD). I should therefore like to indicate in a few words how France views international economic cooperation, which constitutes one of the priority goals of its external policy.

I deliberately spoke of "international economic cooperation", instead of employing the more traditional term of "development cooperation". The world has indeed changed: while imbalance still persists, interdependence is increasingly growing. No part of the globe can now hope to ignore what is happening on other continents and live without being affected by the impact of events elsewhere. It was this realization that prompted France to propose the North-South dialogue.

This dialogue rapidly became a major component of the international relations of our various countries. France considers it an essential factor in achieving balance and progress in the world. It is our responsibility—that of all of us—to ensure that this dialogue, difficult though it may be, is always preferred to confrontation. If we are to achieve this, the dialogue must make progress and everyone must see that it is to his own advantage. In this context, I should like to stress two topics that lie at the very heart of our discussions: transfer of resources and trade policies.

With regard to the transfer of real resources, France feels that official development aid has a central role to play and that it is incumbent on the industrial countries to step up their efforts. My country, whose official development effort already represents 0.6 per cent of its Gross Domestic Product, sticks to its commitment to achieve the 0.7 per cent target. I would also point out that this effort will in the future be channeled increasingly through multilateral aid institutions. Among these the development banks seem to us particularly appropriate.

Now I should like to turn to the question of trade policies. France considers the industrialization of the developing countries as a step in the right direction, not only because it guarantees the growth, and hence the future, of these countries, but also because the equilibrium of the world economy as a whole can most

certainly use a new international division of labor. However, we must recognize that this irreversible process will entail, in the industrial countries, a sizable and difficult period of adjustment. France has already embarked on this process with determination. Like the other European countries, France will naturally have to take account of existing economic structures and patterns of social behavior if it is not to provoke reactions calling for a return to protectionism, a return that we all wish to avoid. In our discussion on world trade, we must naturally also consider more complete integration, in terms of obligations as well as of rights of those developing countries that have already achieved a sufficient degree of industrialization to have demonstrated their ability to face up to international competition.

II. France's Relations with Latin America and the Caribbean

In 1978 the overall performance of Latin America was, despite the economic crisis, one of the best. Several countries in the region were among those that made the greatest progress. While some countries suffered as a result of low prices for raw materials such as copper, most of the others whose exports are more diversified benefited from the high prices for certain commodities, particularly in the agricultural sector.

As you know, France has always had a great interest in Latin America and the Caribbean, not only for historical and cultural reasons that have been well known for generations, but also because of the opportunities for cooperation that their complementarity continues to offer. Our solidarity is demonstrated by the scientific and technical assistance and the industrial cooperation that France extends to many countries throughout the region, in such significant and diverse fields as agriculture, health, mining exploration and public administration.

Our solidarity is also evident in trade, which showed a balance in favor of Latin America in 1977. While our overall trade was more or less in balance in 1978, France incurred considerable trade deficits with many countries in the region, including Argentina, Bolivia, Brazil, Chile and Ecuador.

Our solidarity is expressed even more significantly in the crucial area of credit. France is even more active as a credit-supplier than as an exporter. As a result, the position of Latin America and the Caribbean in our credit operations is five times greater than their position in our exports.

Our solidarity is also reflected in the volume of loans granted by the French Treasury, the major form of French official bilateral aid. These loans, which are extended on concessional terms, are being progressively directed toward Latin America and the Caribbean, whose share in such assistance has risen fivefold since 1976, as a result of financial protocols concluded with many of the countries in the region.

With regard to private investment, we are endeavoring to encourage our business enterprises to develop their activities in Latin America and to transfer their technology and know-how to the region. In the course of the past year, we concluded agreements with two countries in the region for the reciprocal promotion and protection of investments. We hope that in this way it will be possible to establish also with other countries the necessary conditions for expanding our private investments in the region.

III. Activities of the Inter-American Development Bank

I should now like to comment briefly on the activities of the Bank. I shall base my remarks on the impressive report that has been prepared by the Bank's Management. I congratulate it on the quality of this document. First I would like to mention the volume of resources and the nature of the operations financed.

The year 1978 was marked by a major replenishment in the financing capacity of the Bank. France welcomes the successful conclusion of the negotiations, which have demonstrated the interest of the nonregional countries in the Fund for Special Operations, to which they are contributing 30 per cent of its new resources. As regards the Bank itself, in order to facilitate achievement of its lending targets, we are prepared to welcome it on the French financial market now that the level of interest rates has ceased to be a disincentive.

With regard to the use of funds, the volume of loan commitments rose only very slightly in 1978, following the rapid increase in 1977. This slowdown should be only a passing phase, and it is important that the Bank be in a position to step up its activities again in 1979. The marked increase in disbursements is an encouraging indicator of the Bank's administrative and technical efficiency.

The geographical distribution of lending by the Fund for Special Operations in 1978 showed a marked concentration on the poorer countries. Here too, the Bank's policies are, we feel, going in the right direction. As regards the sectoral distribution of lending, the priority accorded the energy sector reflects the true needs of the Latin America and Caribbean Area.

In conclusion, I wish to stress the need to give the Bank a truly multinational dimension at a time when it is about to considerably increase its operations. Three aspects are, I feel, particularly important in this regards.

The first concerns bidding procedures. It is in the interests of the benefiting countries themselves, that these procedures retain their current impartiality so that firms from all member countries—regional and nonregional alike—will be on a footing of strict equality.

Secondly, in its recruitment policy the Bank should ensure fair competition among applicants, regardless of nationality; such competition is the main guarantee for a competent and effective Bank staff.

Finally, the problem of the representation of the nonregional countries on the Board of Executive Directors remains a matter of concern to us, particularly when we make the inevitable comparison with the much more favorable treatment offered to our countries by the Asian Development Bank and the African Development Bank. The establishment of at least a third seat for the nonregional countries would seem to be no less than equitable, and I would expressly wish to state that we expect its adoption.

I should not wish to conclude my address without once again expressing to Mr. Ortiz Mena the high esteem of my country for his determined and efficient action as head of the Inter-American Development Bank. He can count on our full support in all his efforts to promote the development of Latin America.

Finally, without wishing to impose on the modesty of our Secretary, Mr. Jorge Hazera, I would like to tell him how moved I was yesterday to join in the unanimous resolution adopted by the Governors, paying tribute to the invaluable services he has rendered us and which we will always remember.

**Address by Mr. Luis Danús Covián,
Temporary Alternate Governor for Chile and
Minister and Executive Vice-President of the
*Corporación de Fomento de la Producción***

On behalf of the members of the Chilean delegation and on my own behalf, I should first like to express our appreciation for the warm hospitality extended to us by the Government and people of Jamaica.

I am pleased to report to the Board that during 1978 the Chilean economy continued its sustained growth, thus consolidating the trend of the last few years.

The gross national product rose by 7.3 per cent, which means that in the last three years, Chile reached an average growth rate of 6.6 per cent, which is substantially higher than in past decades.

The prospects for 1979 are also promising and an even higher growth rate is anticipated.

Thus, Chile is solidly embarked on a development process which will enable it to double its national income in 10 years and double its per capita income in 14 years. Present trends should be compared with those of the past, when Chile needed more than 40 years to double its per capita income.

Inflation in 1978 was cut in half, as compared with the previous year, reaching 30.3 per cent. The equilibrium achieved in public finances has been the chief instrument of anti-inflation policy. The balance of payments showed a surplus of \$630 million and international reserves rose to \$1,520 million. In April of this year, reserves exceeded \$2 billion.

The external sector has continued to get stronger owing to the increase in nontraditional exports, which have been rising at rates approaching 30 per cent a year, thus offsetting the low price of copper for the period 1976-78 which in real terms was the lowest in the last 10 years. Copper now constitutes only 50 per cent of exports whereas it previously represented 80 per cent. The remainder of Chile's exports is made up of over a thousand products sold to more than 80 countries.

The opening up of the country to foreign trade has meant more competition for local industry, but it has managed to adapt to that factor and has grown at rates on the order of 10 per cent a year over the past three years.

The decline in inflation and the increase in productivity made it possible in 1978 to increase the purchasing power of wages by 14 per cent in real terms.

The increase in economic activity was reflected in a 4.6 per cent rise in employment, which meant added jobs for 140,000 people. Nevertheless, the general problem of employment has not been conquered and will continue to be a priority concern of the Government.

The economic policy adopted beginning in 1973 will continue to be implemented because it has brought about rapid growth and development on sound and realistic foundations, which meant continuing progress this year in reducing inflation.

The policy of lowering tariffs has attained the proposed goal of a 10 per cent

single tariff. It is hoped that foreign trade, as it has been, will continue to be one of the main sources of economic growth.

As a matter of fact, in the first quarter of this year, total exports rose by 34 per cent over the same period the previous year. Imports—in particular capital goods, which increased by 100 per cent in the same quarter—continued to rise at high rates. On the basis of the financial program for this year and the credit and fiscal policies which have been adopted, the deficit in the trade balance is expected to be about the same as last year, and in the course of the year, the inflow of external capital will continue to grow and that will again be reflected in a surplus on the balance of payments.

The Chilean Government's interest in economic growth goes hand in hand with its deep concern for social development.

Chile was the first country to draft a map of extreme poverty based on the 1970 census data, which enabled it to allocate State resources to the most disadvantaged sectors of the population in a determined effort to eradicate extreme poverty in our country.

The Government's social expenditures reached 54 per cent of the total tax budget in 1978. This represents a real increase of 49 per cent compared with the average for the 1969-70 years.

The nation's social expenditure is designed to implement an education policy stressing primary or basic education, particularly in rural areas.

In housing a system of direct subsidies which vary in inverse proportion to the value of the house, has been established.

In agriculture more than 35,000 *campesinos* have been given title to State-owned land programs of direct assistance to more than 50,000 *minifundistas* have been launched. In addition, programs to subsidize technical assistance for 10,000 small- and medium-scale farmers, are being carried out.

In public health, special emphasis has been placed on children. This has enabled us in a few years to cut infant mortality in half. Environmental sanitation and water supply programs have been extended to small rural villages and marginal zones of cities.

The Government has also launched a radical reform of the social security systems which will continue this year, and is also implementing a labor reform program. These two reforms are aimed at a better integration of labor into the economic system and more labor participation in development.

In discussing the questions of the social distribution of Government expenditure, we wish to emphasize the substantial effort it represents and its significant effects in the medium term. Social costs are financed entirely from local resources and amount to about 10 per cent of the Gross National Product.

Chile is sympathetic to the view expressed in the Committee of the Board of Governors to the effect that a substantial portion of the Bank's resources should be invested in loans for the benefit of the poorest sectors of the continent. We express that view with actions rather than words; however, we do want to stress that we believe that social expenditures should primarily be the result of each country's efforts. These expenditures are fundamentally carried out with local currency; we believe that the alternative use of foreign currency for basic projects can in many cases bring about greater long-term social benefits. For that reason we are concerned that the Bank's definitions might become too rigid

and not represent the best use of resources or ensure that commitments will be repaid. In this matter, we advocate a flexible and realistic approach.

Continuing with our analysis of the lending policies of the Bank, we attach great importance to its providing support for the energy sector. Given conditions in recent years, the development of the petroleum, coal and hydroelectric resources so abundant in the continent should contribute towards accelerating the growth of the region and maintaining its increasing capacity for processing raw materials.

With regard to the future of the Bank, we are concerned not only that it should have a sound investment policy, but also that the value of its capital should be maintained. We therefore consider it necessary to adequately define the Bank's capital, since for several years the loss of value has diminished the Bank's lending potential by nearly \$200 million per year.

For the sake of equity, it is equally important to redefine the interest rate policy for loans from the ordinary and the inter-regional capital, inasmuch as in some cases the actual dollar interest rate is over 17 per cent, which is considerably higher than rates in the Euromarket. The growing participation of Latin America and the Caribbean in the international capital markets makes it imperative to take corrective measures in order to avoid creating situations of conflict with member countries.

We have made these comments in the same spirit of multilateral cooperation and concern for the common good that gave birth to this Bank. We trust, as we have repeatedly stated at other meetings, that despite the difficulties that sometimes arise, this spirit will continue to prevail.

We believe the Latin American and Caribbean countries should assume a greater share of the financial responsibilities for the future growth of the Bank and we feel that the more developed of those countries should continue to support the Fund for Special Operations. Along these lines, Chile has decided not to request, either in this replenishment of resources or in the future, loans in convertible currency with concessional resources. We are prepared to discuss with the Administration of the Bank a convertible currency contribution to that Fund.

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

At the outset, in my own name and that of my delegation, I wish to thank the Government of Jamaica for its graciousness in offering this beautiful island and this charming country as the site for the Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank, and also to thank the authorities of Montego Bay for their cordial welcome. I should also like to take this opportunity to congratulate the host country and the Bank for the excellent manner in which they have organized this Meeting.

I consider that this Annual Meeting of the Board of Governors is of particular significance to all member countries of the Bank as it nears its Twentieth Anniversary. Today the Bank is quite different from what it was in its inception in 1959 and even from what it was at the beginning of this decade, and it may truly be said to be effectively fulfilling the objectives for which it was established.

The Bank today plays a very special role in the economic development of Latin America not only as a source of funds, but as a catalyst for other funds. IDB loans now account for only 25 per cent of the cost of projects financed with Bank assistance, but this participation constitutes a seal of endorsement for attracting additional sources of financing.

The year 1978 was an outstanding year in the history of the Bank. The event which made this so has been the approval of the fifth replenishment of resources, with a total increase of \$9.75 billion, including \$8 billion in capital funds and a \$1.75 billion in the Fund for Special Operations. I should like to express the gratification of my country over the policy followed in this replenishment since, as I stated at the Nineteenth Annual Meeting of Governors in Vancouver, the Government of Spain has always supported a substantial but gradual increase in resources, although preferably by a combination of funds which places greater emphasis on the increase of capital resources.

During the period of the fifth replenishment, the nonregional member countries are going to increase their participation in the capital resources more than proportionally so that at the end of the period their voting power will represent about 7.2 per cent of the total. While this represents progress, it does not reflect the full extent of the effort made by the group of nonregional countries since they are going to contribute up to 30 per cent of the increase in the Fund for Special Operations. For this reason I should like to stress the widely felt need and the request of various nonregional members to secure greater representation in the Bank through the creation of a third seat on the Board of Executive Directors for the nonregional group. In any case, I feel it is important to congratulate the Bank and, by that token, ourselves for having managed to reach an agreement on the fifth replenishment, which is the best indication of our confidence in the management of the Bank.

There are still policy issues which are being examined by the Working Group on Functions and Policies of the Committee of the Board of Governors.

The Fifth Replenishment envisaged in Document AB-648 requires that 50 per cent of the Bank's resources should be allocated to benefit low-income groups.

Last Saturday, the Working Group established a deadline for the Board of Executive Directors to work out a more precise definition than that developed thus far, together with operational criteria for its application.

In my view, regardless of the definition ultimately adopted, it will need to have a tremendous degree of flexibility in its application, as has been repeatedly mentioned here this afternoon.

With regard to the problem of the investment of liquid assets, I should like to support the more flexible Bank policy implied in Resolution DE-37/79. I believe that the investment in assets of the developing countries can be a way of granting supplementary financing to those countries, and I am pleased to see that it is a line that the Finance Department is prepared to follow with the prudence and moderation which it has always shown.

I should also like to congratulate the Bank for adopting a system of exchange risk sharing, for which the need had become apparent in view of the uncertainties of the present system. I should like to express my support for that solution, which tries to strike a balance between fairness and simplicity in applying it.

The varying economic reality in which we live and the changes which have taken place in the Bank in recent years have led to the revision of some of the operating criteria and will require a review of other aspects by the Working Group of the Committee of the Board of Governors. I personally feel that the Bank should pursue this line of self-criticism.

Moreover, the Bank's greatest assets are its valuable human resources. We all want the staff of the Bank to continue to have a high level of professional competence. There are two factors to consider in that connection:

- a) That the main criterion for selecting staff should be professional competence, since the political representation of the member countries is assured in the Board of Executive Directors.
- b) That a non-competitive salary level leads to the loss of the best professional workers.

Important as this meeting is for all the Bank's member countries, it is even more so for those of them that are outside the region. The first rotation of extra-regional executive directorships is about to take place, which means that three years have passed since the Bank opened its doors to us. These have been three years of rich experience for us all, which is bound to enhance our future cooperation with the countries of Latin America. Beginning in July, my country looks forward to the honor of representing one of the nonregional groupings, and I want you to know that we are fully conscious of the obligations, both to the countries in the group and to the Bank, that go with the position. I want to take this opportunity to express the wish that my group of countries may take an increasingly active part in all the Bank's operations.

The entry of Spain into the Bank as a nonregional member, the Declaration of Madrid as the original source of the Bank's decision to widen its membership and establish a more active presence at all levels, and the posture of Spain in the Bank, all spring from a single consideration: the importance of Latin America

and the Caribbean to Spain and the absolute priority assigned to our relations with all the countries in the area. I believe that recent developments have clearly proved this and the institutionalization of the Iberian Community of Nations is a challenge and an objective to which Spain will bend its every effort.

In 1972, seven years ago, trade in both directions amounted to less than \$650 million. In 1978, last year, that trade climbed to more than \$2.5 billion, or a four-fold increase. This upward trend has been particularly pronounced in the last three years.

Besides, this absolute rise has been accompanied by an increase in the Spanish share in Latin American markets. Spanish exports had been losing ground relative to the sales of other industrial countries in Europe and America, which is to say that they were growing more slowly than the Latin American markets. This trend appears to have corrected itself, however, and in the last two years we have witnessed a reversal, with Spanish exports showing more dynamism than those of the other countries of the Organization for Economic Cooperation and Development (OECD).

In the area of investment in the last two years, 60 per cent of all Spanish foreign investment has gone to Latin America and the Caribbean and this year, 1979, this percentage is rising at a very rapid rate.

Yet these highly favorable results are no more than the beginning of a much wider range of economic relationships, for, despite all its efforts, Spain is often not a principal customer for many Ibero-American countries, nor is it very notable as a supplier country.

Mr. Chairman, at this Meeting a resolution has been approved which provides that the Board may meet once in every four year period in one of the non-regional member countries. I should like to avail myself of this occasion to offer Spain as a possible site for 1981. The government of my country would be greatly honored to be able to receive all of you in Spain.

And now, permit me to refer briefly to the economy of my country and to the international setting. The political problems of recent years in my country prevented us from paying due attention to the economy in the early years of the world economic crisis. The principal consequences were a very high rate of inflation and a balance-of-payments deficit on current account which rose to about 4 per cent of the Gross Domestic Product (GDP). The first democratically-elected government, brought to power in June 1977, embarked on a series of emergency stabilizing measures. The results speak for themselves: the rate of inflation fell last year dropped 10 points and today it stands at around 14 to 15 per cent. The balance of payments on current account closed last year with a surplus of the order of \$1,500 to \$1,600 million dollars in contrast with a deficit of \$2,500 million the previous year. The economic growth rate during the year was about 3 per cent.

Starting from this base, our efforts this year are directed at attaining a growth rate of about 4 per cent, while continuing to reduce the rate of inflation, which will make it possible to start paring down the high unemployment rate, which currently stands at over 7 per cent of the employable population.

These efforts face no inconsiderable difficulties on the international stage. OECD forecasts for the economic growth of the industrial countries up to 1985 give no grounds for optimism. In fear of another explosive inflation, and espe-

cially of the repetition of another year like 1974, precautions are being redoubled and deflationary policies implemented. But a growth rate of 3 to 3.5 per cent—as forecast by the experts—for the economies of the OECD countries would have grave consequences for all countries in process of industrialization, such as those of Latin America, and many others as well, like Spain.

Mr. Chairman, I wish to express once again the support of my Government to the Inter-American Development Bank. We feel that the combination of a sound financial policy and a lending policy open to innovation is the best possible way to promote the progress and development of Latin America. Cooperation with the Bank's nonregional member countries has added a new dimension to the operations of this institution that can only benefit all of us. I am honored to be able to assure you that the Bank and President Ortiz Mena will continue to count on my Government's enthusiastic support.

**Address by Mr. Michel Dupuy,
Alternate Governor for Canada and President
of the Canadian International Development Agency**

On behalf of Canada I wish to convey to the Government of Jamaica and to the management and staff of the Bank, the sincere appreciation of our delegation for the hospitality extended during our stay. Because Canada hosted last year's Annual Meeting in Vancouver, we are only too well aware of the work that goes into arranging these meetings. We appreciate the dedication and effort of the Jamaican Government and also the staff of the Bank who have made these preparations.

During the past year, the Governor of Canada has served as Chairman of the Board of Governors. Mr. Chrétien took a keen personal interest in developments in the Bank and in January visited a number of IDB projects in Brazil, Argentina and Ecuador, some of which involved Canadian financing, equipment and expertise.

In Vancouver last year we established two working groups which will have a significant impact on the future role of the Bank: the Working Group on the Fifth Replenishment of Resources of the Bank and the Working Group on Functions and Policies of the Bank. As a result of the efforts of these two working groups it seems to me that the Bank may now be on the threshold of a new era in its operations.

The proceedings of these working groups will continue to be of great interest to us since the Bank represents a very important element of Canada's aid program in Latin America. In this light, we are following particularly closely the significant changes in the policies and practices of the Bank with respect to the allocation of foreign exchange—and especially its use for local and indirect costs. While we recognize that the mandate of the Governors to direct 50 per cent of the Bank's lending to the poorest group will necessitate an increase in the financing of local costs, nevertheless we would like to make it very clear that in Canada—as in other donor countries, I am sure—we look to our participation in the Bank as producing a mutuality of benefits for both borrower and lender. We think it is essential therefore that the Bank maintain and enhance its multilateral character by ensuring opportunities for all of its members to participate in the execution of its projects through international public bidding.

Bank management and indeed all the participants are to be congratulated on the successful conclusion of the negotiations for the Fifth Replenishment.

Both in the way they were conducted and in their outcome, the Replenishment negotiations marked a new approach to raising resources for the Bank. For the first time, the negotiations were carried out directly among the twenty-two member countries contributing freely convertible currencies. Also for the first time, we had the nonregional countries participating fully as partners in the Bank. These countries, many of which also participate actively in other international financial institutions, have an important role to play and we welcome their full and active participation in the work of the Bank in our Hemisphere.

The Fifth Replenishment resulted in a significant increase in the participa-

tion of the Group A countries as donors to the Bank's resources. The willingness of these countries to increase their participation as donors bodes well for the future of IDB as a development institution. As further evidence of this growing maturity of our institution we note with satisfaction the new and significant emphasis on the increase of conventional resources as compared to the concessional resources of the Bank. Perhaps the most significant result of the replenishment was the agreement that 50 per cent of the resources would be directed to the low-income groups of Latin America. It is a major achievement which we strongly support. We shall look carefully at the Bank's programs to realize this mandate and in particular to the Bank's evaluations of their success. Canada attaches considerable importance to an increased emphasis on evaluation. In our bilateral programs we have taken major initiatives to improve the efficiency and effectiveness with which resources are transferred based upon our own evaluation efforts. We commend this Bank's efforts to increase post project evaluations and would like to see this function strengthened in the next year.

Canada shares more than just a geographic closeness with the developing nations of this hemisphere. We too are large capital importers and large exporters of raw materials. While we have succeeded in establishing a comprehensive industrial base of our own and now export a number of important high technology products resulting from our own development process, we are still a country of vast undeveloped frontiers which involve us constantly in development projects very similar to many of the Bank's activities in Latin America. We feel therefore that we understand somewhat more intimately the problems the Bank and the borrowing countries face in the development process.

It is with some satisfaction that we also note that the Bank has undertaken to review the appropriateness of current policies with respect to maintenance of value. Canada, as you are aware, has taken the position that in an era of flexible exchange rules the current practices followed in respect to maintaining the value of currencies is inappropriate. Clearly, insofar as capital subscriptions are concerned, some mechanisms must be found to ensure that share positions are not radically altered by currency fluctuations and further study is required. For concessional funds, however such a device is, in our view, neither required nor appropriate. We note that this institution is unique among regional development banks in applying maintenance of value provisions to concessional funds. We believe that this practice should be reviewed at the earliest opportunity.

Canada attaches particular importance to development of all the member countries in this part of the world, and particularly to these most in need of Bank assistance. We have dedicated significant resources under both our multilateral, bilateral and special programs to the development of Latin America and the Caribbean. In addition to our participation in the Bank, the Canadian International Development Agency has devoted a significant portion of its resources to completed projects.

In closing let me note that Canada clearly recognizes the interdependence that exists between developed and developing countries. This is a principal theme of the UN Conference on Trade and Development taking place in Manila at this time. Delegates at the Conference are trying to find new ways to improve the transfer of resources and to encourage greater exchange of goods and services between all countries, developed and developing. In Canada's view this Bank is

a good example of a proven multilateral mechanism which marshalls the financial strength of industrialized countries to transfer resources to developing nations. Multilateral institutions of this type play a very key role in development process and their activities must be nurtured. This means for us here continued commitment of resources, indeed a continued commitment by each of our countries to the achieving of the objectives of this Bank. Finally it will require highly expert and skilled staff that can look ahead with vision to what can be accomplished in the future. I think we are fortunate in the staff we have working for us today in this institution.

In conclusion, may I congratulate the President, the senior management, and the staff of the Bank for the success of this year's operations and wish you continued success for the future.

Address by Mrs. Annikki Saarela, Governor for Finland and Financial Counsellor in the Ministry of Finance

It is a great pleasure for me to address this Twentieth Meeting of the Board of Governors of the Inter-American Development Bank. Let me on behalf of the Government of Finland and the Finnish delegation express our thanks to the Government of Jamaica for the warm hospitality which we are enjoying and congratulate it for the excellent arrangements of this meeting.

The Bank has again this year provided us with an outstanding Annual Report. In this context I should like to commend the Bank especially on two issues:

- Firstly, not only has lending in absolute terms again somewhat increased, but also, and what is more important, the figure for disbursements has gone up sharply.

- Secondly, the amount of funds devoted to technical cooperation has increased significantly thus demonstrating the Bank's willingness to assist its member countries in implementing their own development efforts.

The conclusion of an Agreement on the Fifth Replenishment of the Bank's resources is of decisive importance for the Bank's future activities. While it provides a quantitative base for the Bank's lending to come, we expect it to have a major impact also on the Bank's future lending pattern.

My Government entirely supports the new direction set forth for the Bank's lending program for 1979-82 implying that about 50 per cent thereof will be oriented directly to benefiting the lower income groups, primarily through projects which stress the creation of productive employment in the rural and urban areas. In this connection we expect that due attention will be given to the borrowing countries' priorities and operations designed to meet basic human needs. Furthermore, we find that this emphasis on the lower income groups supports the Bank in operating a balanced lending policy.

Keeping the overall aim of the Fifth Replenishment in mind, we trust that the surprisingly large decline in the Bank's lending for agriculture in 1978, coupled with a complete absence of lending to urban development does not represent the trend in lending to be followed in the coming years.

I wish to mention one significant sector which we feel has been given far too little attention and where we hope that the Bank would become increasingly active, namely forestry. We think that possibilities to promote the forestry sector would be significantly enhanced if the Bank formally adopted a policy for development of this sector. We are very pleased to note that work to this effect has already been initiated. We think that forestry policy should be seen in a wider context in the overall context of land use and management as well as rural development. Forestry is an integral complement to agriculture. Forests constitute a valuable and renewable resource base. This resource base can be expanded and further developed to include investments in infrastructure and industrial installations. However, this should be done with due care and taking into account the requirements of environmental conservation. Forests can also contribute an important source of fuel for the rural population if they are properly managed so as to avoid excessive and uncontrolled depletion. When implementing forestry projects the need to develop an

appropriate technology should be taken into account. My Government is ready to give its support and assistance for the development of the forestry sector in Latin America.

As a final comment to the Annual Report we should like to congratulate the Management for their efficient work. In this context we should like to point out that to the extent that the aims of the Fifth Replenishment require further efforts on the organizational or budgetary side, we are ready to support eventual proposals to this effect.

It goes without saying that Finland's material resources may not be of decisive importance in the efforts of the Bank to promote economic and social development on a continent as vast as Latin America. We continue to believe, however, that the combination of our financial contribution with our skill and technical know-how in areas where Finland has gained special expertise can be an important input to the work of the Bank. Although remote from each other in a geographical sense, Finland and many of the Latin American countries have several things in common, such as relative similarity in size. Techniques and programs developed in Finland should therefore be suitable to be used also in the Latin American region.

In the future we are pleased to have better possibilities than before to demonstrate our commitment towards economic and social progress in Latin America through real participation. This is because last year the Finnish Fund for Industrial Development Cooperation was founded. In addition to making loans this fund is equipped to provide equity financing for projects also in the private sector.

In concluding, Mr. Chairman, I wish to express the satisfaction generally felt in Finland, with our membership in the Bank. Although realizing that we, as a fairly new member, have much more to learn, we feel confident that the cooperation created during our two first years of membership will continue and further develop.

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

It gives me special satisfaction to serve as the first representative on this Board of the present Constitutional Government of the Dominican Republic, which came to power just nine months ago.

The Caribbean setting of this meeting gives me an excellent opportunity to stress the importance that my Government attaches to the strengthening of ties between the nations of the region and to the efforts being made within the framework of the recently established Caribbean Group to deal with and solve our problems jointly.

I would like to describe some aspects of the current situation of the Dominican Republic and to explain some of our prospects for the immediate future.

Nine months into the term of the present Government, the outstanding feature of our national life is the existence of an atmosphere of complete public freedom. The Government's efforts have been directed, to a large extent, towards strengthening the democratic process and the institutions that most affect the life of the nation.

At the same time, within our economic strategy, priority is being given to creating new sources of employment, raising the standard of living of low-income groups, increasing agricultural production and productivity, encouraging the intensive use of domestic raw materials and carrying out a complete assessment of nonrenewable natural resources in order to improve their utilization.

In addition to ensuring the conscientious management of public funds, the Government is stressing the need to rationalize the decision-making process and is taking steps to improve the efficiency of public investments.

In this regard, for example, projects undertaken or contracted for by previous administrations are being continued in order to get maximum benefits from the efforts and heritage of the national community. To that end, we are making use of the substantial resources previously borrowed from international agencies for the construction of works which are several years behind schedule. This has resulted in a reduction in the high payments on commission for funds that had been committed and were not being used.

In addition, infrastructure works already built are now being supplemented in order to put them to use for the economic and social purposes for which they were designed. In such cases, emphasis is being placed on capital equipment, maintenance of the works and staffing with qualified personnel at adequate salaries, all in order to obtain the maximum return on capital.

I must acknowledge that the national economy is still dependent on developments in the external sector whose patterns have brought about periods of boom and bust. This year, for reasons I will mention later on, we are faced with serious balance-of-payments difficulties, which could have a negative effect on our efforts to achieve our economic goals.

In taking corrective measures, which have already been initiated, we must, of course, bear in mind the extent to which tax collections depend on imports.

It will therefore be necessary to make gradual changes in the tax system so that fiscal revenues will depend to a greater degree on national income and property taxes.

As regards the external sector, sugar, a commodity that is vital to an economy such as ours, is in a critical position on the international market. The United States has not yet ratified the International Sugar Agreement and, furthermore, it has been constantly increasing tariffs to protect its own producers.

The European Economic Community, for its part, not only protects its producers and suppliers who are covered by the Lomé Convention, but also sells sugar on the international market at subsidized prices, thus unfairly competing with producers who are not covered by preferential agreements.

The protectionist trends I have just mentioned are becoming stronger in certain areas, as is the case of textiles. This issue seriously concerns us, since the only feasible way to sustain the growth of the economies of the smaller countries may be precisely through increased trade with the rest of the world.

I now appeal to the industrialized nations here represented to revise this policy, for although they certainly have every right to protect and defend the various strata of their populations, the fact is that the degree of development they have attained affords them many opportunities to meet those needs without so seriously affecting the developing nations.

The leadership which those industrialized nations have proudly exercised, with all its implications for the developing world, also gives them certain responsibilities towards those countries. Therefore, they should not take decisions based solely on local considerations and restricted to their domestic sphere without seriously affecting international relations and the international political balance. This points to the urgent need for progress to involve all the countries of the world; the idea of maintaining, over the long term, a system that further deepens the present irritating inequalities, is untenable.

In the external sector, the situation with regard to imports has also had a negative effect on the growth of the Dominican economy and on the economies of many countries with similar features. The value of imports is increasing rapidly as a result of the increased cost of imported manufactures and of the dramatic and unpredictable increases in the cost of oil.

Suffice it to mention the example of Dominican tobacco exports, the development of which began centuries ago with patient efforts to improve the crop and open up markets. Now, suddenly, tobacco revenues are inadequate to pay for the latest OPEC price increase. By the same token, the value of cocoa, coffee and tobacco production, all together, plus the value of bauxite exports, will not be enough to pay for petroleum imports.

These events in themselves are dramatic, because the serious and constant efforts of small countries such as the Dominican Republic to improve the standard of living of their populations, are suddenly wiped out by sovereign decisions on price increases taken by the oil-producing countries.

I fully recognize the right of the petroleum-producing countries not only to increase their income through the sale of a nonrenewable raw material as vital as petroleum, but also, in so doing, to oblige countries to use the limited reserves of this resource more rationally. Nevertheless, this policy has had a very direct and destructive effect on the developing countries. We would not be able to

withstand any further increase unless mechanisms were simultaneously put underway to provide for a plentiful and non-restrictive transfer of financial resources that would offset the deficits in the balance of payments; at the same time, adequate price stabilization funds should be established for basic commodities.

The anticipated deficit in the balance of payments for 1979, brought about essentially by the external factors I have just discussed, has made it necessary for the Dominican Government to seek various types of external financing, mainly for projects that will have a substantial effect on agricultural, industrial and social development, while at the same time helping to redress the deficit.

We are fully aware of the fact that a country's development cannot be accomplished by means of external indebtedness or restrictions. Nevertheless, these are temporary adjustment measures that must be taken until such time as we begin to see the results of our efforts to increase and diversify national production.

In this connection, it is my duty and pleasure to express my country's appreciation to the Inter-American Development Bank, to its Board of Executive Directors, to its Administration, and in a very personal way, to Mr. Antonio Ortiz Mena, for the direct support and great interest they have shown and for the flexible and effective manner in which they have handled our requests for loans and technical cooperation.

Despite all the obstacles in the external sector that I have described, the Dominican economy is basically sound and the prospects for strengthening it are good. We have great confidence in our agricultural development programs, which are already contributing and will contribute even more in the near future, towards meeting the domestic demand for food-stuffs and raw materials; we also anticipate having some production for export. This will be made possible by the incorporation into the economy of thousands of hectares of land that are currently unproductive because of the lack of the infrastructure required to make use of the irrigation works that have already been constructed. Once this is accomplished, it will be possible, through the programs of the Dominican Agrarian Institute, to expand the domestic market. These efforts are being carried out simultaneously with the Government's efforts to bring education and health to the rural communities, in recognition of the fact that man is the sole subject of the development process.

Closely linked to agricultural production is a set of proposed laws and regulations aimed at stimulating agribusiness and enterprises that process domestic raw materials. Legislative measures are also being promoted to provide incentives for the generation of export products with a high aggregate value by correcting the negative effects of the exchange system on exports and granting various types of facilities to producers of nontraditional goods.

In the industrial field, the highest priority is being given to rehabilitation of the large state industries with a view to converting them into efficient producers with a social mission. Likewise, priority has been given to development of small industries, which have more modest requirements for investments and technology, which generate a large number of jobs, and which are located in small population centers. This represents a deliberate effort to achieve a better regional balance in the development of the country.

With regard to the mining sector, there is evidence that it will continue to make a substantial contribution to the national product, as new minerals are exploited and incorporated into the economy. Our mining policy is aimed at improving our knowledge of the potential of this sector so as to allow for immediate and rational exploitation of mineral resources.

The tourist industry is experiencing an unusual growth. In this respect, the Dominican Republic has been blessed by nature. In addition to our climate and sunny beaches, we have the first monuments of European culture in the New World. Furthermore, our people are extremely friendly and nationals and foreigners alike enjoy both safety and respect. The National Tourism and Information Office, which is responsible for policies in this area, is making a special effort to improve all the existing services and is conducting professionally managed promotion campaigns abroad.

Thus, as far as our economy is concerned, we are confident that, since it has become sounder and the prospects for diversification are good, we will be able to deal successfully with the serious external imbalances created by factors beyond our control, particularly if we continue enjoying the support of the international financial community, which is vital to us in this period of transition towards a more stable and flourishing economy that will be more attuned to the prevailing situation in the country.

The Role of the Bank in Complementing National Efforts

For these reasons, the Dominican Republic shares the view of other countries that the multilateral financial agencies, such as the Inter-American Development Bank, should expand their capital and their concessional funds in order to meet more effectively the growing financial needs of the developing countries.

I am pleased to announce to this Meeting that the Government of the Dominican Republic has already approved the proposed resolution on increasing the resources of this Bank, known as the Fifth Replenishment, and that we have also made all the necessary arrangements to honor our commitments in that connection.

Although the increase itself is satisfactory and will allow the Bank to continue its operations over the next few years, we feel it would be advisable, as of now and during the Fifth Replenishment, to begin efforts to obtain greater resources, particularly concessional funds, that will make it possible to meet fully the needs of the relatively less developed countries.

In this regard, I wish to express my great satisfaction at the decision that at least 50 per cent of the resources of the Fifth Replenishment should be earmarked for low-income groups. Furthermore, I believe that the concept should prevail that the D group countries, because of their weaker and less developed economies, should have access to these resources in greater amounts and with fewer restrictions, regardless of the type of projects they may submit for consideration to the Board of Executive Directors.

I say this because these countries will have to increase production and employment if they are to improve the standard of living of their under-privileged populations, and because it is up to each government—and only to it—to draw up the national development strategy and assign priorities to those projects which play an important part within that strategy. To do otherwise would be to ques-

tion each individual case and to dispute the proposals of the national authorities. The resulting tensions could lead to the imposition of development styles that would neither be desired by the countries nor suited to their particular circumstances.

There is no question that the road to development can only be built by the efforts of the people, who must increase their ability to manage their own resources. External assistance is important, but it cannot and must not replace the dynamic internal forces, which must be identified and encouraged by the governments.

Furthermore, if the goal of ensuring that the bulk of the resources reach the lower-income groups is to be met, it is essential to give priority to the financing of local expenses, inasmuch as these projects have a high domestic content. In that manner, financial assistance would effectively contribute towards redressing the balance of payments, thus enabling the countries to implement their development projects unhindered. Otherwise, balance-of-payments problems would make it necessary for them to impose restrictions that would reduce employment, thus aggravating the situation of the lower-income groups. Under such circumstances, financing the imported component only serves as a palliative, but does not solve the real problems of our countries.

Before concluding these remarks, I would like to express our appreciation to the administration of the Inter-American Development Bank and its President, Mr. Antonio Ortiz Mena, who year after year has guided the Bank towards the fulfillment of the goals for which it was established. It gives us great satisfaction to acknowledge that the Bank's contribution to the development of the region is constantly increasing and that by the end of 1978, a total of \$14 billion worth of loans had been authorized.

Within this framework, the Dominican Republic is directing its efforts, as I said before, towards reorienting its economy, in order to make it more responsive to the circumstances of the country, bearing in mind its great potential. Our people are determined to work together to achieve these economic goals and this is essential for the preservation of the atmosphere of political freedom we enjoy.

We are also working to strengthen our institutions, because we are certain that in so doing we will strengthen and ensure the survival of our democratic system while at the same time enhancing our economic and social development. It is therefore vital to have such reliable multilateral institutions as the Bank, which can, through their financial and technical support, help bring about social changes that are so urgently needed by the peoples of the Hemisphere.

ADDRESSES

THIRD PLENARY SESSION

May 29, 1979

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

We—the Governors, including the representatives of the various nonregional member countries, and the Bank's authorities—are meeting again, this time in Montego Bay thanks to the hospitality of the Government of Jamaica, at this Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank. This meeting provides us with the opportunity, not only to evaluate the institution's progress during the past year, but also its prospects for future action as well as up-coming problems. We can also examine the policies followed by the nations of the Americas in promoting economic and social development, both in their own countries and with regard to problems relating to the continent and to those affecting the whole world.

This broad debate, taking place in the presence of representatives of official and private financial institutions of many countries, has transformed this meeting into one of the most prestigious international forums, which is a clear indication of the great importance acquired by the Inter-American Development Bank and its Annual Meeting which takes place for the twentieth time.

WORK ACCOMPLISHED BY THE INTER-AMERICAN DEVELOPMENT BANK

Our country views the work accomplished by the Inter-American Development Bank during the present financial year with satisfaction.

With regard to Argentina, we have continued to receive the support of the institution for economic and social projects, the most important of which has been the approval by the Board of Directors of a loan for the Yacretá hydroelectric binational undertaking by Argentina and Paraguay. This is not only the biggest work of its kind financed to date by the IDB but also the largest undertaken jointly with the World Bank, which demonstrates the importance of its multiplying effect on international credit by attracting around it complementary loans granted by various international financial institutions under most suitable conditions.

This will also be the biggest hydroelectric project undertaken by Argentina, both as regards its volume and to the amount of the investment.

I wish to place on record the deep recognition of the Government of Argentina towards the authorities and officials of the Bank for such valuable support.

As regards the general progress of activities carried out by the IDB, it is also highly satisfactory to see the important volume of loans granted by the Institution as well as the special interest evidenced by the Bank in giving the support to relatively less-developed member countries.

In that respect, it should be added that two events acquired special importance in the overall panorama of activities of the IDB during 1978.

- The Fifth Replenishment of Resources approved by the Special Meeting of the Board of Governors on December 11, 1979.

- The work accomplished last year by the Working Group on Functions and Policies of the Bank.

Fifth Replenishment of Resources

In compliance with a decision adopted during the Nineteenth Annual Meeting of the Board of Governors held in Vancouver in April 1978, the Fifth Replenishment of Resources in the amount of \$9.75 billion was duly formalized during the present financial year.

By virtue of this Replenishment, the Bank will be able to maintain its present rate of activity for the attainment of the economic and social development of the region.

In that respect, the Assembly has established certain limits for the use of the new resources, placing special emphasis on the fact that at least 50 per cent of them must be devoted to the financing of projects that the lowest income sectors of the region.

The decisions made in this respect have been received with satisfaction by Argentina since our government is determined at present to incorporate the most backward sectors of the population into the current process of economic and social development. To this end, it has placed special emphasis on the promotion of both economic and social infrastructure projects, seeking that their effect should not become exhausted in the sectors in which they are being carried out, but rather endeavoring to ensure that their objectives should coincide with those of the general welfare.

During the negotiations which preceded the decisions adopted regarding the Fifth Replenishment of Resources, Argentina defended, and continues to do so, the thesis that each member country is entitled to establish its priorities and policies regarding loans granted by the Bank.

One of the characteristics of this Institution is that it has played a pioneering role in the study and consideration of the social problems of the region. A quick glance at its records is sufficient to confirm the efficient work accomplished by the IDB in this particular field, as well as the concern which it has evidenced in the economic and social appraisal of projects which it helps to finance. That circumstance leads us to reflect that the target set by the Board of Governors cannot be very far off from what the IDB has so successfully been doing so far.

The Fifth Replenishment of Resources has permitted our country to give fresh evidence of the Latin American spirit of solidarity with which it participates in this organization. Conscious of having arrived at a more advanced stage in its development process, the Argentine Republic has decided to substantially increase its contribution in convertible currency to the Fund for Special Operations while at the same time maintaining its decision not to use such funds in the loans it is granted by the Bank.

At the same time and in order to make available greater financing possibilities for less-developed countries, Argentina, together with the other countries of Group A, has decided to maintain the same level of loans from the Bank as in former years during the four-year period covered by the Fifth Replenishment of Resources.

Working Group on the Functions and Policies of the Bank

I do not wish to end this quick review of the activities of the IDB during 1978 without mentioning the work accomplished by the Working Group on the Functions and Policies of the Bank.

We are perfectly aware of the many difficulties encountered by this Group in its task.

Owing to the great diversity and profoundness of the matters considered, a major effort was necessary which we appreciate in its true value. Of the matters selected as deserving priority consideration, I wish to mention only two which are of special importance to our country.

The first refers to the identification of the lowest income sectors and to the strategy to be used to ensure their participation in the benefits provided by development. In this respect we wish to point out that in spite of the many common elements which characterize and unite the countries of Latin America, vast differences are still evident in the economic and social field.

We believe that it would be very difficult to try to single out the characteristics defining these lower income groups in order to adopt criteria which could be equally applied to all the countries of the region. We know that we are dealing with a very complex problem since, even within each country, there are marked differences among various regions and between urban and rural areas.

We therefore believe that the identification of those groups should be made individually, country by country, and that the work should be carried out jointly by the national authorities and the Bank.

Another aspect which deserves special consideration is that related to the criteria to be used to evaluate the extent of the impact to be caused by the projects in the promotion of the low-income sectors. In that respect, we foresee methodological problems of great importance since it will be very difficult to measure the effects of multiple purpose and increasingly complex projects in advance. Nevertheless, we have full confidence in the experience of the Bank officials and in the joint task to be carried out with the governments of the borrowing countries.

The other policy matter to which I wish to make special reference is the disbursement of currencies and the exchange risk problem.

In this respect we believe that considerable progress has been made. As a result of studies already carried out, a solution is foreseeable in the near future. Because of that and since our country was one of the first to have maintained a constant alertness regarding the implications of the subject, we merely wish to urge the Board of Executive Directors and the Administration of the Bank to continue their efforts in search of a solution to this problem which substantially increases the costs and modifies the nature of the development financing granted by the Bank.

With regard to the other matters on the operating policies of the Bank which are currently under study by the aforementioned Group, we wish to state that Argentina's position has been, and will continue to be, oriented towards strengthening the multilateral character of the Institution.

DEVELOPMENT OF THE ARGENTINE ECONOMY

Having thus mentioned some of the fundamental problems related to the activities of the IDB, I consider it of interest to refer to the development of the Argentine economy with the purpose of commenting in this important international forum on some of its problems and achievements which may prove to be of interest to such a highly qualified audience.

In May 1976, at the Annual Meeting at Cancún, we gave a general outline of the new program undertaken for the recovery and expansion on a sound basis of the Argentine economy when just over a month had elapsed since it had been announced. During the two following annual meetings, in Guatemala and Vancouver, we gave a brief account of the various measures adopted and of the results obtained through the implementation of the program. I do not intend to repeat on this fourth occasion what I have already stated. I only wish to comment now on some of the basic problems encountered by us and on the main results attained in dealing with them.

The situation which came to a crisis in Argentina in the first quarter of 1976 was due, in our opinion, to the political and economic policy followed in our country during the past 30 years which, with the exception of some interim periods, can be generally characterized along the following lines:

1. An increasing intervention of the State in the economy which, fundamentally, led to two sets of consequences. In the first place, the State, by developing activities which were previously reserved to a great extent to private sectors and by establishing strict regulations on others, brought about a certain degree of stifling of the productive activities of the country. Secondly, the increase in the State's action led inevitably to higher State expenditure which, not being accompanied by a corresponding increase of revenue, originated a gap which produced a budget deficit of excessive proportions which, financed mainly by the issue of currency, became one of the main causes of the persistent inflation which affected our country and led to a situation of real hyper-inflation, such as that of March 1976.

2. The closed economy system derived from the economic autarchy concept imposed since the beginning of the postwar period, not only isolated Argentina from the general trend of extraordinary economic and technological progress which took place in the world in the following years, but also failed to provide encouragement to the productive activities of the country, causing a relative decrease in trade, both as regards exports and access to international markets under competitive conditions, as well as a decrease in the volume of imported capital and technology which should have contributed towards the modernization of the economy.

3. These economic trends led to an overall insufficient growth of the economy, originating not only domestic stagnation, but being also responsible for a loss of relative position in the international sphere. The Argentine economy thus developed in an unbalanced pattern. The growth of one sector was inevitably made at the expense of another, which gave rise to the typical intersectorial pendular movements characteristic of the period.

Consequently the program of April 2, 1976, bearing in mind these failures, adopted precisely the reverse policy. In the first place, it proclaimed the subsidiary function of the State, that is, that the latter should intervene in the economy through direct action only in the event that there was no possibility or interest for private capital to do so. Emphasis is thus placed on private enterprise as the center and main drive of economic productive activity without prejudice to the functions of the State for attaining the overall goals and controls of the economy by means of the main instruments of economic and financial policy such as the tax, credit, monetary, tariff and budgetary policies.

At the same time, the process of opening the economy was implemented, both externally and internally, that is, by actively promoting exports and gradually reducing the excessive protectionism of industry which, over and above the reasonable support to which the birth and development of industries are entitled, had become the main cause of the insufficient technological progress of this sector.

In addition, we consider that internal competition in an open market, without privileges or monopolies, is one of the fundamental sectors to promote the economic progress of a country.

Simultaneously, a policy was developed for the modernization and expansion of the Argentine economic infrastructure, the insufficiency of which, as well as the inefficiency of State-operated public services, had largely contributed towards the high level of our internal cost structure.

The program announced on April 2, 1976, was, therefore, an overall and coherent program designed not only to overcome the crisis existing at the time, but also to transform the foundations upon which the Argentine economy—deeply affected in its structure by serious distortions—was based and attain a sustained sound and balance growth.

BASIC ASPECTS OF THE REFORM OF THE ARGENTINE ECONOMY

Under this guiding principle, various basic structural reforms of the Argentine economy have been carried out. I shall briefly refer to the main ones:

Reorientation of the State's Structure and its Functions

The reorientation of the State's structure and of its functions was obviously one of the basic points on which action had to be taken. Various aspects were involved:

a) Reduction of the Budget's Deficit and its Non-inflationary Financing

In this respect, the annual budget deficit has been reduced from the extraordinary high level of 12.5 per cent of the Gross Domestic Product in 1975, to only 2 per cent for the 1978 fiscal year. In addition, for the first time in more than 20 years, this deficit was in no way financed by the issue of currency by the Central Bank on a net annual basis, but has been financed exclusively by internal and external credit.

On the other hand, an overall limit was established on the net annual indebtedness incurred by the public sector, including in it not only the National Treasury but also State-operated enterprises, decentralized organizations, special accounts, provinces and municipalities. In that respect, the limit established for 1978 was 5 per cent in relation to the Gross Domestic Product. That percentage has been reduced to 4 per cent for the 1979 budget. Included in these figures for both years is the aforementioned 2 per cent for the National Treasury's deficit.

b) Reduction of Public Expenditures

Various measures had to be adopted in order to attain this objective. In the first place, the rationalization of the public administration is being carried out as well as the elimination of the deficit of the State enterprises. This has im-

plied legal, administrative, accounting, labor and control reorganization. An important reduction was made in the number of civil servants and a program was carried out in order to gradually transform State enterprises into Corporations, in order to give them the flexibility and freedom of action characteristic of private enterprises, while simultaneously giving them the same responsibility as the latter with regard to the presentation of the corresponding balance sheets. Besides, all tax exemptions which they formerly enjoyed will be cancelled to clarify their situation and to put an end to all forms of concealed subsidies. A Comptroller of State Companies has also been created to exercise better control of these State enterprises.

Progress in this respect is necessarily slow because of the rigidity of the existing legal and administrative structures. Nevertheless, as a global indicator to measure the results obtained to date, comparing the period running from December 31, 1975, to December 31, 1978, the number of employees of State enterprises under the jurisdiction of the Ministry of Economy has been reduced by 18 per cent and the production of these enterprises has increased by 12 per cent, which implies a productivity increase per employee of 36 per cent. The aforementioned data corresponds to 15 national public service entities.

Considering those same State enterprises, it should be pointed out that while 14 of them required a contribution or subsidy from the National Treasury in 1976 to be able to carry out their activities, in the 1978 budget that number was reduced to only two: the Argentine State Railways and the Postal Enterprise (ENCOTEL).

Simultaneously, important action was taken regarding the turning over to the private sector of State enterprises. The return of private enterprise of previously privately-owned commercial or industrial enterprises which had been intervened or were being administrated by the State to prevent their closure owing to mismanagement or bankruptcy, has now almost been completed. Most of these enterprises have been sold by public tender and absorbed by private sectors while others, for which no interest was shown, were closed down and compensation paid to their personnel.

Furthermore, a program is being developed to turn over to the private sector enterprises which have always belonged to the State, under the guiding principle that neither the State nor its enterprises should carry out any undertaking for which private capital is available or in which it is interested, save in exceptional situations. This program aims at the complete private ownership of these State enterprises, whether they be public services or producers of inputs or industrial goods, as well as the acceptance of private participation as stockholders, either in a minority or majority capacity, or of an increase in this participation should such a condition already exist.

A so-called program of peripheric privatization is also currently under way with satisfactory results. It refers to those cases in which, although the enterprise must continue to be owned by the State owing to the impossibility of transferring it to the private sector because of the lack of interested parties, a number of works and services are entrusted under contract to private companies since they can be more efficiently and economically accomplished by them. This system has already been implemented in several very important sectors such

as petroleum, the exploitation of gas resources, railways, transportation in a general sense, telecommunications and fishing ports. In all of these cases, the cooperation of private enterprise is being sought to carry out necessary action in a coordinated manner with the corresponding State enterprises.

Another important way to reduce public expenditure is the maintenance of the public investment program within the limits established by the available tax revenue and financial resources. This aspect has currently become the most important factor for the attainment of the aforementioned objective of reducing public expenditure.

With that aim in view a major effort was made to reorganize and draw up a new program of public investment both through the renegotiation of contracts and the reformulation of priorities. A certain rigidity, also inherited, is prevalent in this respect because of the existence of contracts for public works or the supply of equipment which would be more costly to cancel than to maintain in operation until their termination. To the efforts made in this respect over the past three years must be added the drafting, for the first time in the history of Argentina, of a three-year public investment budget covering the 1979-81 period. In this way, since it is not a mere public investment program but rather a budget in which investment is correlated with the resources necessary for its financing, it is possible, within a broader margin than that provided by one fiscal year, to proceed with public investment in an orderly manner within the framework of the priorities established by the government and a tendency towards a reduction of the level of public investment in relation to the Gross Domestic Product, thus creating, at the same time, favorable conditions for an increase of private investment in many fields previously covered by public investment.

It is evident that the excessive level of public investment in relation to public revenue and financial resources has been one of the causes of the inflationary pressure which we have suffered. For the purpose of correcting this situation, not only has the aforementioned three-year public investment budget been approved in the amount of \$20 billion dollars for the 1979-81 period, but we are also endeavoring to obtain the cooperation of private investment to the greatest possible extent with the same aim in view. We are thus carrying out various public works, not through public investment, but rather by means of private investment and financing through the granting of contracts for works by means of the toll system. As an example, international tenders will be issued shortly for bids for contracts to build an important gas pipeline and this same system will be used in the case of aqueducts, as well as fishing ports, telecommunications and other works.

In this way we have been able to reduce public expenditures by 4.5 per cent in relation to the Gross Domestic Product, comparing 1979 with 1975. At the same time, the relation existing between public investment and current expenditure within the overall composition of public expenditure has been improved. Thus, while public investment in 1975 was just over 20 per cent of the total, in 1979 it will amount to almost 30 per cent. At the same time, the current expenses of the National Treasury have been reduced by 34 per cent, comparing 1978 with 1975.

Tax Reform and Increased Fiscal Revenue

At the same time that public expenditure has been cut down, to reduce the budget deficit it was also necessary to correct the situation of near-bankruptcy of the tax system which existed in early 1976, evidenced by the fact that in the first quarter of that year only 19 per cent current expenditure was covered by taxes or current revenue.

This relation has improved steadily and in 1978 stood at 70 per cent. This is due on one hand to a series of tax reforms introduced and on the other to severe anti-tax evasion measures. In this connection it should be recalled that in 1978 tax revenues, in terms of constant money, increased more than 100 per cent over the 1975 level.

Exchange System Reform

Repeal of exchange controls and the establishment of a free exchange market, together with the elimination of export taxes, have proved a remarkable encouragement to exports, as well as caused the disappearance of the black market for currency exchange and the end of the existing balance-of-payments crisis.

Thus over the last three years we have obtained record grain crops. This and the increase in other exports, both of primary and manufactured products, have more than doubled our exports, which rose from \$3 billion in 1975 to \$6,350 million in 1978.

Argentina's balance of payments changed from a negative \$1.3 billion in 1975 for current transactions to a positive balance of \$2 billion in 1978. The variation in international monetary reserves also increased by \$2 billion in 1978.

Furthermore, freely disposable reserves rose from practically zero in March 1976 to over \$6.3 billion in 1978. Net asset reserves, which were at a negative level of \$1.5 billion in March 1976, now stand at \$7.5 billion. Total foreign assets have reached \$7,650 million. In all cases these are record figures.

Tariff Reform

We have already mentioned the fact that a situation of tariff overprotection existed in Argentina. In March 1976 the average tariff stood at about 55 per cent. By December 1978, due to a series of reforms this average was reduced to 29 per cent.

In January 1979, after the completion of an important study of how much effective protection the tariff system in its existing structure provided, a new program was approved to be carried out on a quarterly-reduction schedule over five years. The reductions are differential in relation to a classification of products according to a scale established taking into account the degree and type of processing of products and the effective tariff protection level accorded to the corresponding inputs. An average tariff protection of 15 per cent will be attained at the end of this period.

In this way it is expected to promote the strengthening and the technological progress of Argentine industry, improving its cost structure to the benefit of internal market supply and competition on international markets, thus also achieving an adequate economy of scale.

The Price System

In March 1976 prices were subject to rigid government control. This system not only failed to work as such but also led to severe undersupply of the market, reducing the incentive for production and creating a flourishing black market.

Under the new economic program prices were immediately freed as an encouragement to higher production and supply of products to the market. The previously mentioned negative factors were thus eliminated.

At the present time, except for one or two exceptional cases, government control of prices has been replaced by the control of market competition. The State's role is to ensure that adequate competition exists. When this is not so, tariffs have been cut to encourage the import of goods from abroad and thus create the required conditions of competition and market supply.

Reform of the Financial System

The pre-existing financial system was characterized by an extreme rigidity due to excessive state control. This effectively prevented its being of assistance in financing the sustained growth of Argentina's economy. Consequently it was indispensable to modernize it and make it more flexible in order to enable it to contribute to this end.

The steps taken involved legislation which is now nearly two years old and which has improved the situation, opening up competition, making procedures more flexible and adopting modern banking techniques.

One of the most important features of this reform was the elimination of legal limits on bank interest rates. During all the previous period we have referred to, these rates were thus usually lower than the level of inflation, i.e. negative in real terms. This favored those to whom loans were granted as their financial costs were in effect subsidised, but was clearly discouraging to savers. The result was the flight of capital abroad or investments in foreign exchange, real estate and durable goods.

This process was drastically reverted by freeing bank interest rates from the legal limitation. Thus were created the foundations for a strong domestic capital market, fully able to finance the development of the country.

Savings in Argentine pesos were consequently encouraged and the internal savings rate reached record levels; 27 per cent in relation to Gross Domestic Product in 1978.

Wage Policy

In March 1976 wages and prices were spiralling, becoming both the cause and the effect of existing inflation. Wage increases, effected at increasingly higher rates and at more frequent intervals served only to diminish purchasing power. In the year immediately previous to the change of government, that is in the period of March 1975 to March 1976, salaries increased 370 per cent while the cost of living rose 566 per cent. Consequently the former lost one-third of their effective purchasing power. With the prevailing recession and reduction of production, the framework was set for an inevitable high unemployment situation.

To avoid the crisis it was necessary to suspend the collective wage bargaining procedure, which in practice had constantly fueled inflation as wage in-

creases were directly transferred to prices. The Government reserved for itself the right to adjust wages periodically and established a tight wage policy in order to break the wage-price spiral. As the economy recovered, increased production would allow for higher salaries without inflationary consequences and high unemployment would be avoided.

After one year, a new wage policy was implemented as of March 1977. It authorized business to grant wage increases over and above the basic levels established by Government, provided that a certain proportion of them were related to increased production and greater productivity. This system has put an end to the highly detrimental inflationary impact of massive wage increases which had led to extremely negative experiences in the past. As the decision as to the time when wage increases were to be granted as well as their amount depended on the situation of each company, in practice wage adjustments were effected at different times instead of all together.

This avoided massive cost transfers to prices and gradually both workers and businessmen are realizing that the best wage increase is that related to higher production and productivity levels, thus avoiding the quick erosion of the purchasing power of wages.

This system has also produced a gradual improvement in real wages. Taking as a reference point the second quarter of 1976, that is after the elimination of price controls, comparing nominal wage increases with retail price increases, by the end of 1978 real wages had risen by 9.6 per cent. This has proved the effectiveness of the system adopted: it has avoided the inflationary effect of massive wage increases and has maintained and improved the purchasing power of salaries. At the same time the unemployment rate is lower than it has ever been before, standing at 1.8 per cent at the end of 1978.

Inflation

The economy of Argentina recovered rapidly in most fields but this has not been so in the case of inflation.

Taking the increase of wholesale prices as a standard of measurement, this level dropped sharply from 920 per cent per annum at the commencement of our economic program to about 150 per cent by mid-1977. From then on this rate has remained approximately constant with periodic ups and downs. For the calendar year of 1978 wholesale prices increased by 142 per cent.

An explanation of this phenomenon requires taking into account various circumstances. In reality the effective rate of inflation was even higher than that extraordinary figure of 920 per cent per annum already mentioned. If we consider the increase in wholesale prices for the month of March 1976, the figure for that month alone was 54 per cent, which implies a compound annual rate of 17,000 per cent. This is eloquent enough as to the seriousness of the situation that was inherited and the massive distortion such an unprecedented inflation had produced on the economy.

Furthermore it must be remembered that the objective of the economic plan was, as has been said before, not only to obtain solutions for the crisis features of hyper-inflation, profound recession and virtual default in foreign payments existing at the end of March 1976. The real objective was an indepth reform in the structure of the Argentine economy. The main aspects of this process have been

mentioned in the course of this address and it is clear that the effort of seeking basic reform as well as the solution to contingency crisis has to some extent retarded the anti-inflationary drive.

We can quote some examples. The rent freeze which had been the principal cause of the housing shortage in Argentina was eliminated. But although this defreezing was achieved in a series of gradual steps, freeing contract obligations according to their original dates of expiration, nevertheless each step became a factor which caused its corresponding effect on the price index.

Meanwhile, many of the public utility companies were going through financial and operational crisis because of politically fixed rates which attempted to create the false illusion of a low cost of living. It was therefore necessary to readjust these rates as also the price of fuel and to do so at a rate higher than inflation in order to recover for the utility companies a viable rate structure enabling them not only to expand but, in fact, to face maintenance costs and even to meet monthly wage bills. Obviously, this introduced a new feedback into prices as reflected in the corresponding index. Furthermore, as already mentioned interest rates were freed. We have already commented on how positive this was to encourage internal savings and create a domestic capital market, but it obviously implied a higher financial cost for business and, in consequence, also had its impact on the price index.

These examples, to which others could be added, are sufficiently eloquent to show how it has been necessary to sacrifice certain short-term results in order to achieve basic economic objectives. In other words, the need to create conditions suitable to encourage the resumption of house-building activities, the need to provide the utility companies with the income necessary for maintenance and expansion and the necessity of recreating a capital market based on internal savings as a powerful instrument to finance the development of the economy, meant that we had to accept that measures taken to achieve these medium- and long-term objectives could have a retarding influence on the reduction of the inflation rate in the short term.

Although at the cost of slowing down the decrease of inflation, this policy evidences the firm decision to face the basic problems of the economy and not to postpone them in order to obtain short-term results.

The latter had been a characteristic of many previous governments more concerned about impending elections than basic economic results.

It is furthermore necessary to recall what we have said before concerning the difficulty of reducing inflation in the short term when the level of public investment is too high. This must be done gradually and here is another retarding factor.

Nor, obviously, can we disregard the fact that during the previous period of 30 years, with short interim exceptions, Argentina's economy has been subject to persistent inflation and state intervention. This means that during this time all the economic units, citizens, workers and businessmen of the country have become used to living with inflation and to doing whatever it was necessary to survive in spite of it. We are now advocating a complete change in the rules of the game, the acceptance of which requires a complete change in mental outlook. As far as concerns businessmen this means that they have to adapt their policies of production, prices, inventories, marketing, exports and imports to

these new regulations. And the consumer, on his part, must learn that he should no longer meekly accept any price demanded of him because of any alleged shortage of production or black market situation; it is the consumer who has the power of decision now, as there is an abundant supply of goods on the market. The consumer has to decide whether to buy or not and which is the most acceptable price to pay.

Resistance to change originates sometimes from the fact that in some cases in an inflationary situation it may be easier to carry out quick deals with large profits. Others are fearful of change or of the unknown.

In order to understand the difficulties involved, it must be realized that nobody under 50 years old in Argentina has known anything else but inflation and a high degree of State intervention. The effort of change is therefore a considerable one and implies the undertaking of a responsibility not everybody can face. The natural reaction is to overprotect oneself or to overestimate inflation due to the fear of its effects.

To avoid this situation and make it easier for mental attitudes to follow the trend of change, on December 20, 1978, we announced a plan to adjust the economic program for the period commencing in 1979. Guidelines were set for variables such as the rate of monetary expansion, the exchange rate and the adjustment of the utility rates and fuel prices, all on a decreasing trend. This provides private enterprise a frame of reference regarding certain economic and financial factors, the lack or misinterpretation of which had previously caused the private sector to tend to overprotect itself against inflation and in so doing recycle it even higher.

It is impossible to emphasize too strongly the importance of this psychological factor. The measures we have mentioned, which are now being implemented, all tend to reduce this cause.

The Recovery of the Economy

The Argentine economy has already proved how rapidly it can recover. The recession existing in 1975 and early 1976 gradually gave way to increasing investment, production and consumption. Thus in 1977 gross fixed investment grew by 20 per cent while the Gross Domestic Product increased 4.4 per cent.

In the first quarter of 1978 economic activity declined due to difficulties caused by the readjustment process. This situation gradually corrected itself during the year and growth in the first quarter of 1979 compared to the first quarter of 1978 was 15.6 per cent for investment, 12 per cent for Gross Domestic Product and 15.6 per cent for global consumption. In absolute terms, measured in money of constant value, the levels reached are the highest for the decade for investment and Gross Domestic Product and the second highest for global consumption.

CONCLUSION

After three years of implementation of the economic plan announced on April 2, 1976, we can claim to have reached a stage at which the basis for a sound and strong economy has been re-established and solid foundations exist for future expansion.

We feel that most of the more difficult actions have already been taken.

The positive effects may not always be visible as yet because of the typical time-lag involved between the moment measures are adopted and the time when their effects appear and become perceptible to public opinion.

What must be borne in mind is the fluidity of the process of getting out of a very distorted closed economy system into an open one which relies on private enterprise as its main drive, with the State setting the overall policy.

In these three years we are sure to have made mistakes, but we have tried to correct them as soon as possible.

We also realize how much there is left to do and how long is the road that remains ahead of us. We will have an open mind to adjust whatever needs to be readjusted, to correct whatever requires to be changed and to insist on what should be maintained.

It must be understood that a process of readjustment of the economy in which we are gradually putting aside obstacles to investment and production, removing overt or concealed subsidies, leading it to attain its natural levels and eliminating its former artificial distortion, cannot be performed without effort and a certain degree of sacrifice.

Finding solutions to contingency problems without hindrance to basic objectives makes it harder still. How much easier it would have been to solve these problems with some quick-relief medicine, which would have meant less effort at first but more trouble later. We have resisted this temptation, although this has meant following a longer and more difficult road.

We are convinced that over and above the imperfections of the past three years in a program as difficult as the one we are implementing, our basic direction is the right one. As a result of this conviction, complemented by the need to retain sufficient flexibility to adjust to the evolution of the process, we feel we must appeal to the determination for change and progress of the population of Argentina in order to continue our effort.

In the past, political instability and a lack of continuity of economic programs have been insurmountable obstacles to the attempt to achieve Argentina's goals. Today, three years after the present Government has taken over, it is evident that both authorities and citizens share the conviction that political stability is indispensable if a transformation is to be achieved and that an economic program must have continuity if it is to have credibility and be effective. We feel that by this time domestic and foreign public opinion have had the opportunity to evaluate our determination in carrying out our program.

The soil has been adequately fertilized for the best results to be obtained. It was fertilized by the blood of those Argentines who gave their life in the struggle to overcome the political crisis caused by the terrorists who tried to destroy the very bases of our nationality and our political and republican traditions.

It was also fertilized by the effort and sacrifices of all our people, whether they be workers, businessmen, producers or consumers, to demonstrate their willingness to adapt to the necessary changes.

This is why we consider that everybody in Argentina is mature enough today to carry through to completion this program, which requires a necessary measure of faith, perseverance, patience and solidarity in order to achieve our objectives of modernization and progress on solid, sound and stable foundations so that Argentina can fulfill its historic tradition and live up to its destiny.

**Address by Mr. Anthony M. Solomon,
Temporary Alternate Governor for the United States and
Under Secretary of the Treasury**

It is a great pleasure for me to be here today to address this distinguished gathering on the occasion of the Twentieth Annual Meeting of the Inter-American Development Bank. I would like to thank the people and Government of Jamaica for the hospitality they are so graciously extending to us in beautiful Montego Bay.

The United States shares the commitment of the other members of the Inter-American Development Bank to economic development and social progress in the Hemisphere. As the Bank moves toward completion of two decades, we have an opportunity to reflect upon the remarkable progress that has been made toward these goals and the evolving role of the Bank as the focus for regional development assistance and cooperation. The decision of the Governors last December to replenish the resources of the Bank and to set new priorities for the next four years reflects the shared view that the Bank should continue to expand its already major contributions to the achievement of growth with equity in the region. The United States will maintain its firm support for the Bank and its efforts to promote balanced development throughout the region.

World Economic Situation and Outlook

The world economic situation is far from satisfactory. Inflation is at unacceptable levels in almost all countries. Many nations have near record unemployment which is increasingly of a structural nature. Severe imbalances in external payments positions continue in some countries. Moreover, the oil price and supply situation is increasing the inherent dangers which exist.

A major common problem is inflation which has risen to a dangerous point. The effects of the oil shocks of 1973-74 were clearly larger, and longer lasting, than earlier estimates suggested. And increasingly, we are beginning to pay the price for inadequate productivity and lagging capital formation, not only in the United States, but elsewhere. The evidence is provided by our present predicament: capacity constraints are being reached in a number of countries much sooner than expected, even when broad measures such as the unemployment figures tend to suggest over-all excess capacity.

Against this background the short-term outlook for inflation is a clouded one. The price hikes recently implemented by the members of the Organization of Petroleum Exporting Countries (OPEC) will hurt. Since December alone, the OPEC countries have raised prices by 27 per cent. Additionally, we are beginning to see a strong upsurge in selected raw material prices and rising wage demands in all countries of the Organization for Economic Cooperation and Development (OECD). The bottom line is that we now expect inflation in the OECD area to increase by 1.5 percentage points in 1979 above the 1978 rate of 6.9 per cent.

We are, however, particularly troubled by the oil price increases of last December and March and fear they will reverse recent progress and aggravate those global economic problems which have persisted. Rising oil prices will add

to inflationary pressures in both the developed and developing countries despite an expected slowdown in industrial country growth rates. The global pattern of current account balances is expected to worsen significantly in 1979, reversing recent important gains. Even if oil prices do not increase further this year, the OPEC surplus will be in the \$25 to \$30 billion range for 1979.

The deficit of the oil-importing developing countries will increase substantially. The price increases to date in 1979 are expected to add at least \$4 billion a year to the cost of their oil imports—an unjustifiable transfer of wealth that will further hamper their development efforts. We strongly support those countries here which have recently voiced their concerns, at the UN Conference on Trade and Development (UNCTAD) and elsewhere, about the expected adverse impact of increased oil prices on their economies.

But the outlook is not entirely gloomy. During 1979 we should continue to see slow, steady progress in a number of important areas. We expect a substantial reduction in the disparities in economic performance among OECD countries. Somewhat faster growth abroad combined with slower United States growth will add stability. Real growth outside the United States will exceed that of the United States for the first time since 1975.

This alteration in relative growth rates, coupled with the gains from past changes in competitive positions, will reduce external imbalances. We are already seeing this very clearly in the case of Japan and the United States, and we expect some reduction in the German surplus. The recent trade figures confirm our expectations for a substantial reduction in the United States deficit in 1979 continuing into 1980.

United States Policy and Developing Countries' Needs

Over the past year we have undertaken a number of steps designed to assure a strong, non-inflationary United States economy. These steps are required if the United States is to do its part in the effective functioning of the world economy. They are also a prerequisite, and perhaps the most important contribution the United States can make, to improving the economic well-being of Latin America given the high degree of economic interdependence between our two regions.

The rate of real economic growth in the United States in 1978 was 4.5 per cent and United States imports of goods and services from Latin America and the Caribbean increased 12.2 per cent in 1978. In addition, 3 million jobs were created in the United States, and unemployment fell below 6 per cent, but inflation clearly worsened. Consumer prices in the United States rose by 9 per cent for the year. Consequently, President Carter is forcefully pursuing an anti-inflationary policy through a program of monetary and fiscal restraint, supplemented by voluntary wage and price restraints and increasing competition in certain industries, such as the airlines, through Federal deregulation.

We are also acting to increase energy conservation, partly through the market mechanism by decontrolling domestic oil prices, which will serve to adjust the United States economy to the economic realities of significantly higher world oil prices. We have also reached agreement with 19 other oil consuming nations in the International Energy Agency (IEA) to reduce oil consumption by about 2 million barrels per day or 5 per cent below anticipated IEA demand.

Together these actions, in combination with the November 1 measures, have

helped re-establish the fundamental conditions for a stronger United States dollar which has consistently demonstrated stability in world currency markets in recent months. Furthermore, we are now coordinating closely with other major industrial countries to maintain a stable exchange market climate in which currency values reflect underlying economic and financial conditions.

The recent economic climate has given new life to internal political and economic pressures favoring the adoption of inward looking protectionist measures. Despite those pressures, President Carter has made it clear that his administration will pursue a liberal trade policy as the only path to sustained economic growth. In this regard, the trade package to conclude the Tokyo Round of Multilateral Trade Negotiations (MTN), in which the United States played a decisive role, is about to go before the Congress. That agreement will reduce United States tariffs on some \$40 billion of imports by about 30 per cent and sharply reduce non-tariff barriers, thereby assuring developing countries improved access to our market.

Along with other countries, we have taken action to strengthen the international monetary system by the adoption of the revised Articles of Agreement for the International Monetary Fund (IMF) and measures to increase the Fund's ability to provide balance-of-payments financing to countries in need of such assistance. These measures include the establishment of the Supplementary Financing Facility, agreement on new allocations of Special Drawing Rights during the next three years and, subject to the necessary legislative approval by member governments, a 50 per cent increase in IMF quotas.

The United States views the developing nations as an integral part of the world economic system, with needs and concerns which must be taken into account in formulating all of our global economic policies, and with responsibilities which affect the functioning of the whole system. The developing countries share our interest in an open international trading and financial system, in stable international monetary arrangements, in helping to promote adequate rates of growth of global production and in improving the economic well-being of poor people everywhere.

The degree of responsibility assumed by each country should depend on its stage of development. For the poorest countries we support increased concessional development assistance and preferential treatment in international trading arrangements. We expect the more advanced developing countries to assume greater obligations through the phaseout of preferential treatment, growing participation in efforts to assist the poorer developing countries, and greater collaboration in molding the evolution of the international economic system. In return, these countries have a right to expect that their access to open markets for trade and capital, so essential to their own development, will be maintained.

These twin principles of shared responsibility and the right to participate in international economic decisions have been basic to the concrete actions taken by the United States, along with other nations, to benefit the developing countries over the past two years.

In trade, they can be seen in the MTN package in which a number of developing countries will participate directly in the new codes, yet benefit from special and differential treatment. Also improvements in the framework of the General Agreement on Tariffs and Trade (GATT) will make it easier for the

grievances of developing countries to be heard and for them to influence the evolution of the world trading system.

In commodities, approaching agreements on sugar, natural rubber and a Common Fund call for shared producer-consumer financing and decision-making with the objective of reducing excessive price volatility around market trends to the benefit of producing and consuming countries alike.

In development finance, where the amount of United States assistance has increased from \$5.1 billion in Fiscal Year 1976 to \$7.3 billion in 1979, we have given increasing emphasis to the multilateral development banks for which United States contributions have more than tripled over those years. The banks foster a structure of cooperation between developing and developed countries characterized by mutual responsibilities and joint contributions to the health of the international economic and political system. The IDB, the oldest and largest of the regional development banks, exemplifies the cooperative, multilateral approach to effective social and economic development.

The IDB and other multilateral development banks are making great strides toward meeting the needs of poor people and poor countries. We strongly support this effort. The banks are shifting the sectoral composition of their lending activities and changing the emphasis of lending from the more traditional infrastructure projects to those which more clearly assure that the benefits of development are shared by the rural and urban poor. Thus, the IDB and the other banks are actively supporting the efforts of borrowing countries to benefit their poor.

Because of their effectiveness, their development priorities, and their contributions to worldwide economic growth, social progress and political stability, United States support for these institutions, which has been long and unwavering, has grown dramatically in recent years. This year the Administration of President Carter is requesting of the U.S. Congress appropriations for the banks of \$3.6 billion.

Latin America and the Caribbean

Latin America and the Caribbean have, on the whole, shown great progress in the past two decades. Over that period development in the region clearly has accelerated at a rapid pace and much of Latin America, along with a small number of Asian countries, has been in the vanguard of the developing world. The region has assumed an ever-increasing role in the world economy, and we expect this trend to continue.

Even in the present decade, with all its economic problems, the regional Gross Domestic Product has expanded at an average annual rate of 5.8 per cent. In contrast, the OECD countries have seen only 3.4 per cent average growth over the same period.

As the regions's growth proceeds, its economic importance to the United States continues to increase, with expanded opportunities for mutually beneficial interaction. U.S. merchandise exports to the region reached \$22 billion in 1978, over three times the level in 1970. Similarly, merchandise imports from the region in 1978 were \$24 billion, more than four times their 1970 level. U.S. direct investment in Latin America is now approximately \$30 billion, about 80 per cent of all U.S. direct investment in developing countries. Lending by

private banks in the United States to Latin America has also risen rapidly and exceeded \$42 billion at the end of 1977—21 per cent of all U.S. bank lending abroad. If, as expected, the region's economies continue to demonstrate recent economic dynamism, these mutually beneficial trade and investment relationships will continue to expand at a rapid rate.

Although these economic trends are encouraging, much remains to be accomplished. Despite the overall economic progress of the region, the benefits of this progress have not flowed to all segments of the region's population or to all countries within the region uniformly. Several nations of the region remain desperately poor and, in almost all the countries of the region, there are substantial numbers of people living in poverty.

The Inter-American Development Bank

In order for the IDB to continue its work toward the solution of a wide range of development problems, we have recently agreed to increase the Bank's resources. That replenishment agreement reflects both the achievements and the needs of the region, and charts new courses for the Bank over the next four years. The spirit of compromise and common purpose which prevailed throughout the negotiations resulted in an agreement which is realistic and fair to all concerned and which provides a framework for continuation of the effective contribution of the Bank to development in Latin America.

In light of the economic progress of much of Latin America, the Fund for Special Operations (FSO) will now focus more directly on those countries and people with the greatest need. Several borrowers have progressed sufficiently so that they no longer rely upon the FSO as a source of external capital. Furthermore, in view of their broader access to private capital markets and their desire to assume greater responsibility for the needs of their less fortunate neighbors, the larger and more prosperous Latin countries have agreed to increase the convertible portion of their FSO contributions and to limit their capital borrowing to approximately present levels. This will enable the poorer countries to attain substantial annual increases in their real rate of total borrowing from the Bank.

We strongly support this replenishment and intend to work closely with the Congress to provide our full share. Last year we were able to eliminate all previously unfunded pledges to capital of the Bank. This year we have asked the Congress to authorize the full amount of our pledge in the replenishment, which is almost \$3.5 billion, and to appropriate the full amount of our first year's portion for the capital and FSO as well as the remaining FSO pledge under the previous replenishment, a total in excess of \$1 billion for this year alone. Congress has already held numerous hearings, and the United States Senate recently voted overwhelmingly to authorize the full amount requested. We expect the U.S. House of Representatives to complete action shortly on the authorization. The appropriations process has only recently begun and we will make every effort to secure the full amount which we have requested.

I would like to comment on several noteworthy accomplishments of the Bank in the recent past.

- Lending over the 1975-78 period conformed closely to the goals established for that period in terms of amounts and sectoral distribution, with increasing attention to the needs of the less developed members.

- Disbursements last year reached a new high well in excess of \$1 billion, a substantial increase over previous levels.

- Normal mobilization of private resources through the Bank's own borrowing was supplemented in 1978 by securing a record \$133 million in private co-financing for high priority projects within the region.

- The recent action to reorganize what is now known as the Office of External Review and Evaluation represents a significant step forward in the evolution of this important function and it will bolster efforts to improve the Bank's efficiency and effectiveness.

These accomplishments stemmed from the Bank's ability to recognize and adapt to changing circumstances. The agreed goals of the replenishment which are also based on changing circumstances, present an even greater challenge, requiring flexibility, resourcefulness, and a spirit of cooperation. We have every confidence that this institution, with the support of all its members, will meet that challenge.

One task before us is to give definition to one of the replenishment goals in order for it to become operational. Specifically, there is a need to define explicitly those low-income groups which will be the target of 50 per cent of the Bank's lending over the replenishment period and the methods and techniques which will be used to measure project benefits. We have been encouraged by the progress made thus far and believe that the establishment by the Committee of the Board of a date for decision on definition and methodology is a constructive step. We urge the Bank to devote increased resources to this task.

The Bank's mandate to intensify efforts to channel resources to projects which provide benefits to low-income groups is clearly a recognition of the balance that should exist between two basic development objectives—structural transformation and growth with equity. We recognize the difficulty of translating this general principle into operational terms. We do not envision that projects benefiting the poor would be solely or primarily defined as projects that impact exclusively and immediately on low-income groups. While projects of this kind are important, careful analysis will demonstrate that a wide variety of projects can be structured to have a substantial and sustained impact on the welfare of these groups, either directly or indirectly, immediately or over the medium term.

I would also like to note that we believe that the goals and purposes of the Bank encompass a broad range of fundamental concerns related to the development process, including recognition of human rights. We also believe that scarce development funds generally can best be utilized to promote economic and social objectives by governments which have manifested a commitment to protecting and promoting the rights of their people. As President Carter has emphasized, we seek to cooperate with all members in finding the best ways to advance our common commitment to the protection of internationally recognized human rights including the fulfillment of basic human needs. At the same time the integrity and effectiveness of all the development banks must be assured.

For the past several months we have been engaged in an oversight process with Congressional committees concerning the operational procedures of the multilateral development banks. A number of suggestions designed to enhance the effectiveness of the banks have already emerged from this process. These suggestions deal, among other things, with auditing and evaluation procedures,

the banks' role in aid coordination and the banks' efforts to reach the poor more effectively. We look forward to discussing our ideas with both Bank management and the member countries.

Conclusion

In the view of the United States, this has been a year of major accomplishment for the IDB. The course of this institution for the next four years has been charted. It is a good one.

However, a dedicated effort will be required to fulfill the goals which have been laid out. The United States will strongly support the Bank and we look forward eagerly to working with you and meeting the challenges of the next few years. We hope that our joint efforts will allow us to look back upon the coming period as one of great accomplishment in which the Bank made notable advances toward the goal of balanced development with equity through regional co-operation.

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

On the occasion of the Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank, I want to express our appreciation to the people and Government of Jamaica for the kind hospitality they have shown us.

Jamaica and Mexico share many principles, interests and aspirations. The actions of the Government of Jamaica and its presence at international forums show its desire to improve its standard of living and to ensure full respect for the rights of the developing countries.

I want to congratulate the President of the Bank on the statement he made to this Meeting. The distinguished performance of Mr. Antonio Ortiz Mena as President of the Bank marks another year of effort in the interests of Latin America, which are also firmly supported by the Administration and the Board of Executive Directors of the Bank. We trust that out of this Meeting will come the guidelines for the third decade in the life of the Bank.

In recent years, the world economy has suffered recessions, inflationary pressures, unemployment, and financial and commercial imbalances. The investment rate in the industrialized countries is still growing slowly and installed capacity is underutilized, while productivity levels are declining.

The economic prospects of the developing nations are particularly unfavorable. The average annual rate of growth of world trade is only half what it was during the previous decade. Protectionist trends have become sharper and more widespread, further hindering the efforts of the developing countries to increase their exports and financing and requiring them increasingly to seek external credit in order to maintain minimum levels of progress.

The liberalization of international trade and special and differential treatment for non-industrialized countries, all ideals expressed at the beginning of the Tokyo Round, did not fully materialize at the conclusion of the multilateral trade negotiations. The rules set forth therein will greatly promote reciprocal trade among developed economies. The advances will not be so significant, however, for those developing nations which need greater facilities for obtaining access for their products on the international markets.

Thus, the idea of creating a general system of preferences that would lead to a better worldwide distribution of income has gradually been set aside or replaced by concern with other problems, while protectionist measures in trade have been increasing. In the case of Latin America, these trends could mean an even greater decline in its contribution to international trade, which is now only half as large as it was at the beginning of the 1950s.

The selectiveness and the increasingly stricter terms which the multilateral agencies are trying to impose for their loans, is associated with the establishment of banking rules in the main financial centers, which could have the effect of reducing the flow of private funds to the developing countries.

The combination of restrictive measures will bring about an increase in the balance-of-payments deficit of these nations, which will be increasingly difficult to finance. To alleviate these adverse consequences, the Inter-American Develop-

ment Bank should make a concerted effort to increase financial resources and introduce mechanisms that would promote Latin American participation in world trade.

A year ago, we spoke of the need for the Bank to strengthen its process of renewal in order to adjust to the dynamics of our countries, both borrowers and lenders. To this end, a working group of the Committee of the Board of Governors was set up which has been examining the functions and policies of the institution.

With the support of the Board of Executive Directors and of the Administration of the Bank, significant progress has been made. Indeed, a fundamental problem, which concerned the majority of the borrowing countries, was solved with the establishment of a policy for equitably distributing the exchange risks of loans. There has also been a change in the policy regarding investment of assets so that now the Bank can incorporate into its liquid portfolio, investments in securities of member countries, while adhering to the principles of safety, liquidity and yield.

At the same time, policies regarding the financing of the cost of foreign exchange projects and those regarding bids were defined. This will make it possible to obtain additional resources for borrowing countries, which will benefit their producers.

The efforts that have been made are certainly significant; important advances have been made in almost all the operational systems of the Bank. In keeping with the spirit of the Vancouver Meeting, we will in future have to address ourselves with determination to many substantive issues, with a view to strengthening the new action policies in Latin America.

The challenge is to prepare ourselves to act during the 1980s. It already appears that the problems and aspirations of the next decade will be different from those which existed at the time of the creation of the Inter-American Development Bank. We therefore agree that a far-reaching study should be made concerning its role during the 1980s.

There are changes that make it imperative to change certain approaches and strategies. Significant structural changes have already been made or initiated in many countries. The very objectives of development, originally based on increasing the product and strengthening investment and domestic savings, are now being refined to deal—with equal or greater priority—with the issues of employment, the main social problem of Latin America, and inflation, the central short-term issue.

Externally, Latin America as a whole has, over a period of time, lost importance in the flows of trade. Now that the international economy is being overhauled and our influence is weak and divided, this becomes increasingly evident. Undoubtedly, we have not been very successful in structuring our external economic relations, for a variety of reasons, one of which is the lack of adequate technical planning that might help guide the individual and collective action of the governments.

Our major effort must now be to alleviate the increasingly sharp imbalances in the external sector of Latin America, which are seriously holding back our regional development.

Internally, many of the countries have reoriented their strategies relating to structural change and economic policy. This is particularly true of those countries where industrialization has gained importance. Their requirements as regards support from the Bank have changed. In some, industry is beginning selectively to manufacture capital goods; in others, it is essential to promote manufacturing exports; and, in still others, the potential for manufacturing growth is linked with the potential for regional and subregional specialization.

In any event, it is advisable to accelerate the deconcentration of the Bank's efforts, which had previously been based on a few main areas of financing. These areas must still be covered, of course, but greater support should also be given to those activities in each country which are showing signs of growth, in accordance with new development schemes and structures.

Obviously, the integration schemes, at the regional or subregional level, have suffered setbacks and have been at a standstill for a long time. Nevertheless, faced with adverse external circumstances, they might well represent a barely exploited resource which could help prevent us from moving backward and could promote development. That is why it is so important to encourage inter-regional sales, as well as to facilitate substitution and complementarity of production, particularly of industrial origin. Despite everything, these trends, as a whole, represent the most dynamic aspect of Latin American trade.

Thus, despite the fact that there has been some decline, regional cooperation is bound to play an increasingly important role and represents a real solution for small economies.

And this leads us to another of the great problems of Latin America: that of the treatment of the relatively less developed countries of the region. There is a genuine need to design integral and joint programs for the benefit of these countries. Latin America will hardly be able to ask of the industrialized countries what it is not ready to give in support of the weaker economies of the region. Only in this way can the Bank and the governments themselves be converted into agents for modernizing national profiles and, in particular, for avoiding frustrations and resentments between economies in different stages of development.

To turn to another point, Latin America possesses an adequate market and suitable conditions to undertake the selective and orderly substitution of capital goods. Only this can impart a new impetus to intra-regional trade flows and, at the same time, place the more industrialized countries in a position to grant wider access to the exports of other countries and intensify their aid to the relatively less developed countries. Alongside the intra-regional facilities for the sale of capital goods it might be advisable to set up others through which they can make purchases outside the region.

Although the systems of regional financial cooperation have perhaps progressed more than other programs, much room for improvement clearly remains, as the meetings of the Latin American group have recognized. The gradual expansion of mechanisms for offsetting payments, the establishment of financial machines for promoting regional co-investment, the search for greater access to international financial centers and for ways of financing inter-regional procurement—these are only a few examples of the possibilities that present themselves.

It is indeed appropriate for the Bank to give priority to the financing of projects that benefit low-income groups within each of our countries, since alternative private or public sources are not always available. However, to make this consideration the pivot of its operations and programs would be to narrow the Bank's functions excessively.

What I have said about regional programs in the matter of investment, financing and integration in more than one way applies also to the gradual redesigning of technical assistance programs. It is becoming increasingly important to be able to call on assistance in preparing every kind of investment project, identifying and applying techniques for intensifying the use of manpower, formulating regional programs within countries and investment programs between countries, and analyzing the external commodity and capital markets, to name but a few examples.

All of these questions are in the forefront of Latin America's concerns. Their solution is of course a matter for each Government and for collective decision. Nevertheless, they undoubtedly present the Inter-American Development Bank with new spheres of activity and new priorities or emphases. I repeat, and I stress, that this does not mean that it should abandon what it has been doing, but rather that these are new tasks which will have to be tackled little by little until there is a new change of circumstances. It is essential, therefore, that the Bank and its Management receive the necessary support to make it feasible for them to meet new demands which are already making themselves felt and which will unquestionably be impossible to avoid facing during the coming decade.

To this category of ideas belongs the Fifth Replenishment of Resources, approved last December, which will lead to a 7 per cent increase in the Bank's lending program in the 1979-82 four-year period. Its effectiveness will depend directly on the political will of the member countries and the promptness with which they fulfill the commitments they have contracted.

This capital increase operation represents a great effort on the part of all the countries. This spirit of collaboration was particularly marked among the Latin American countries of Group A. But from another angle this replenishment is barely sufficient to meet long-postponed needs which will benefit both the borrowing countries, as well as those who participate in broadened international bidding.

Many of the general ideas put forward here merely express concerns that are taking shape with varying degrees of urgency and precision. Their generality should not preclude an examination that can bring out, sufficiently in advance, needs that will become pressing in the course of time. It will be necessary to overcome inertias of every possible kind, particularly those that make us lose perspective due to the consideration of short-term pressures.

It is unquestionably the responsibility of the governments to ensure that the Inter-American Development Bank can continue, as in the past, to play a leading role in promoting the development of the Latin American economies. We want a strong institution, a rejuvenated institution, which anticipates solutions and which serves Latin America with growing efficiency.

**Address by Mr. Karlos Rischbieter,
Governor for Brazil and Minister of Finance**

I take pleasure in addressing the participants in the Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank. My pleasure is heightened by its being held in this city and country, which have gone to such pains to give us their generous hospitality. To the Government and people of Jamaica, and especially to the people of Montego Bay, go my thanks and those of the Brazilian delegation.

I also want to greet the Board of Directors of the IDB and its Management, under the leadership of our friend, President Antonio Ortiz Mena, for the work they are doing to advance the economic and social development of the countries of Latin America and the Caribbean.

It is gratifying to observe how sharply the disbursements of the IDB increased last year, surpassing by 28 per cent those of the previous year. This demonstrates a great increase in efficiency in the administration of loans.

During the two years that I was president of the Latin American Association of Development Institutions (ALIDE), an agency that owes its establishment to the firm support of the IDB, I was able in several meetings to discuss the economic and social problems afflicting the countries of Latin America and the Caribbean. And now, in this distinguished company, I would like to revert to those ideas so that together we may seriously reflect on the realities of our present situation.

Just as, like every other Brazilian, I trust in the future of my country, I also trust in the progress of Latin America and the Caribbean, if we join forces for the common good of our peoples.

Ours is an age of deep and rapid change. We stand on the threshold of a new era that will emerge from the remains of the civilization of oil, of cheap and abundant energy.

Brazilian history shows that our people and Government have always responded vigorously to the challenges of a changing world. We have known how to profit from those situations thanks to our optimism and to our confidence in our capacity to shape our own destiny.

I know that this faith in the future is shared by our brothers in the Caribbean and Latin America.

Our countries are striving to find solutions to the problems of underdevelopment. If we are unable to lift our peoples out of their poverty with the rational instruments of economic policy, no other part of the third world will be able to do so. The failure of our Hemisphere could seriously affect the entire economic and political system of the Western World.

The industrial countries must face up to this and abandon selfish or discriminatory positions. What we Brazilians want is a world that is a more united and rational one, in which all peoples are able to share properly in progress. We want neither favors, nor what is not ours. But we will not allow ourselves to be deprived of what is ours by right, nor will we accept limits on our aspirations for liberty and for economic, social and political progress.

We the people and government of Brazil stand ready to cooperate with all our friends here present in the effort to realize the old dream of Latin America of wiping out poverty and advancing shoulder to shoulder on the road to full economic, political, and social development.

Despite the hardships of the world of today which is beset by the tensions of the energy crisis and by the widening gap between the rich and poor countries, I believe that if we work together and cooperate effectively with one another, our peoples can hasten the day when that dream will come true.

In this effort, which is not for Brazil alone but for all the countries represented here, the Inter-American Development Bank has an important part to play as the principal financial agent for the development of the Hemisphere.

With my professional background as a development banker with the *Banco de Desenvolvimento do Paraná (BADEP)*, I regard the role of such establishments as an important one. They must not confine themselves to routine banking operations, but endeavor to see the whole horizon. They must be major engines of economic growth, opening new trails and encouraging pioneering enterprises.

For that reason, at a time when most of the countries in the region are beset by difficulties in their foreign trade and in the financing of their deficits, I argue the need for constant improvement in the operations of the Inter-American Development Bank.

The growth of public loans has not kept pace with the growing needs of the Latin American and Caribbean countries. Because of this, there has been an increase in the relative proportion of private resources, which today is the principal source of external financing for the region.

This shift has helped raise the foreign debt of the non-petroleum exporting countries of South and Central America and the Caribbean beyond the \$100 billion mark in 1978.

After more than two decades of intense debate which rarely rose above the technical level in international forums, on the more general plane of international cooperation we are now witnessing a particularly important transition in the so-called North-South dialogue. There has been some progress in that cooperation—to the extent that cooperation with the developing countries seems at last to have become a permanent item on the agenda of top-level meetings among the highly industrialized countries. But the suspicion is beginning to arise that keeping that item on the agenda has become more of a bureaucratic ritual that those countries are unable to avoid than an expression of any firm political decision to increase their cooperation with the Third World.

There are good grounds for that suspicion. The objectives of liberalization of international trade, which have been the subject of long and arduous rounds of multilateral negotiations in GATT, have not been attained so far as the interests of the developing countries are concerned.

Even recent pledges to combat protectionism on the part of the industrialized world have proved totally innocuous. Actually, the indiscriminate and arbitrary application of safeguards to favor obsolete or non-competitive industries in the developed countries has increased rather than decreased.

The subsidies code negotiated in Geneva should be implemented without distorting the spirit of trade liberalization as it was conceived. It would be

deplorable if, without regard for the letter of the code which has been negotiated, the developed countries sought to implement it by legislation which, by ignoring certain phrases and reinterpreting ideas, would result in even more restrictive treatment than the legislation now in force.

Brazil, in accordance with its level of development, has already made its contribution to the multilateral trade negotiations and hopes that the other participants will also make an appropriate contribution. The highly developed countries, in particular, would do a great service to the cause of trade liberalization, to an effective international cooperation and to their own consumers, if they replaced protectionist measures, with firm support to the readjustment of their industrial structures in those sectors in which they are no longer in a position to compete on the free market with industry in the developing countries.

Those are the problems confronting us, and they are complicated by the advent of a new era created by a type of highly sophisticated technology to which only the highly industrialized countries will have access, should we be unable or unwilling to choose today the things that really concern us.

This new industrial revolution, the impact of which can already be seen in the data processing and communications fields, requires that we all rethink the whole problem of international cooperation and solidarity, whether at the horizontal or vertical level.

It is therefore imperative to expand exchanges among the countries of the Third World not only in the economic and trade fields, but in that of technical cooperation. In our region, one example of that form of cooperation is at the point of becoming operational. I refer to the Treaty of Cooperation on the Amazon, through which eight South American countries are pledged to work together in seeking solutions which will foster the development of the people who live in that third of the Continent and preserve it for future generations.

I am confident that an undertaking of such magnitude will in due course merit full support by the Inter-American Development Bank.

With regard to the Bank's recent activities, we wish to express satisfaction with the efforts of its Board of Executive Directors and Management to establish criteria for the Fifth Replenishment of Resources, which will make it possible to channel about \$7.4 billion to the region during the 1979-82 period.

Speaking once more about the Fifth Replenishment, we are also concerned to note that the capital contributions already made available to international development agencies are gradually being reduced, thus increasing dependence on external sources of funds. This results in higher costs of loans for the borrowing countries and stimulates competition on world capital markets. This policy tends to aggravate the exchange risk problem which we are now trying to equalize, and obstructs the process of adjustment of balances of payments at the world level, depriving the Bank of its role as promoter of the development of the countries of Latin America and the Caribbean.

In that context, the position taken by Brazil and the other countries of Group A is worth emphasizing. Although beset by economic problems created almost entirely by the recent crises in the world supply of raw materials, they have demonstrated, during the Fifth Replenishment of Resources, a real and effective spirit of collaboration with the relatively less developed countries seeking to narrow the disparities which prevail in the region.

In accepting a heavier share of responsibility, I should like to express my concern that, in the future, full respect continue to be given to the principles to which we subscribed when the Bank was established. Full respect must also be given to its objectives as an agency for channeling the necessary external resources towards the development of all the member countries of Latin America and the Caribbean. It is essential to reverse the emerging tendency to transform the Bank into a mere instrument for recycling funds among member countries.

In that connection, we feel that the IDB should give more support to regional programs. The fact that the Bank will devote 50 per cent of its resources to benefit low-income groups represents a positive change of attitude. We believe we should continue on that path which is designed to meet the real needs of our peoples.

People from low-income groups must be made to feel that we are genuinely concerned about their fate. Signs of social discontent are very clear everywhere. This requires of all of us more work, greater sensitivity and above all, greater efficiency. That is the great challenge we have to meet.

**Address by Mr. G. H. Ledeboer,
Temporary Alternate Governor for The Netherlands
and Deputy Director of Foreign Relations**

I should like to join previous speakers in expressing the gratitude of our delegation for the warm and generous hospitality extended to us by the Government and people of Jamaica. It is a great pleasure for me to address, on behalf of The Netherlands' Government, this Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank, a meeting, which in itself constitutes a historic landmark for the Bank. From the very beginning, almost 20 years ago, the Bank has played an important role in mobilizing resources for the benefit of development in the Latin American region. The recently completed Fifth Replenishment exercise in which the nonregional countries, for the first time, participated as fullfledged members, has added new momentum to the central role of the Bank in this regard.

The Netherlands is in particular pleased with the policy change resulting from the replenishment deliberations that 50 per cent of total Bank resources available during the 1979-82 period will be allocated to low-income groups by the creation of employment opportunities in the urban and rural areas. Throughout the replenishment negotiations the Netherlands has warmly supported this policy adaptation which will increasingly benefit the lesser developed countries and poorer strata of the population in Latin America. In order to safeguard this specific policy objective, we would welcome unambiguous allocation criteria by which the execution of the Bank's lending program could be monitored. Defining such criteria would also assist the Bank's management in showing the donor community the Bank's progress in the implementation of the recently generally accepted policy objectives. Spokesmen of several borrowing countries have legitimately re-emphasized the sovereign right of each Government to determine its own development priorities. Obviously, the initiative is up to them, when it comes to concrete project proposals. However, the Bank's management has its own responsibility when it comes to achieving stated policy objectives. In my opinion these two principles are quite compatible with one another and, ultimately, both will prove to be of vital interest to the success of the Bank's operations.

The Fifth Replenishment has also revealed a relative preference among member states to assist the Bank in mobilizing conventional rather than concessional resources. The Netherlands has gladly supported this view since in this way the Bank will be able to enhance its important role in helping the relatively more developed countries of the Latin American region to gain access to world capital markets by making use of the Bank's guarantee authority. In this respect the recent initiative taken by the Bank aiming at a regional multinational Insurance Guaranty Fund for Energy and Mineral Development is likely to promote the loan program in the energy sector. Apart from the reasons mentioned earlier, I must admit my Government is also pleased with this relative emphasis on conventional resources, because the slackening growth of the Gross Domestic Product of the Netherlands implies that my country's budget for development

cooperation will show an increase which will be somewhat less than originally had been foreseen.

An important issue emanating from the recent replenishment exercise regards the Bank's organization and management, which will have to be re-adjusted in order to meet the requirements of the new lending program. In order to avoid a decline in the development oriented quality and the quantity of project approvals, careful attention will have to be paid to possible bottlenecks which may hamper project preparation as well as approval. In the 1978 Annual Report it is stipulated that the Bank's policy during the year was geared towards the maintenance of strict austerity in its expenditures. It is indeed highly commendable that the Bank was able to achieve its operational goals without increasing its staff positions or without exceeding its budgeted administrative expenses. It should be noted, however, that this achievement was accompanied by a rather modest growth in the Bank's lending program (3.4 per cent in 1978 as compared to 18 per cent in 1977). An additional and equally compelling reason exists for the need for a reorganization within the Bank. The Bank has assumed a catalytic role with the newly established complementary financing program. This will entail the mobilization of additional resources, which necessarily implies an additional claim on the Bank's project processing capacity.

Regarding the Working Group on Bank Functions and Policies I should like to stress my appreciation for the thoroughness which the Working Group has displayed in its numerous studies and proposals. There is no doubt, however, that the Working Group has been burdened with an overloaded agenda. For purely practical reasons I might suggest, therefore, that in future the number of topics to be delegated to the Working Group be limited in order to secure a more effective discussion within the Working Group and a timely processing of reports to the Board.

The Netherlands has noted with satisfaction that one single Director will soon be entrusted with the overall responsibility for the Review and Evaluation System. The importance of a strong and independent Evaluation System cannot be easily overestimated. After all, a basic objective of review and evaluation would be to assess the impact of the Bank's program itself and to recommend subsequently, if necessary, meaningful adjustments in the Bank's operations. The present initiative by the Board of Directors in this regard has, therefore, our wholehearted support.

Now that the nonregional countries have assumed an increased share of responsibility within the Bank I feel this to be the right moment for an intensification of the public promotion of the Bank's activities in Europe in order to acquaint a broader European public, companies as well as individuals, with the operational activities of the Bank.

Mr. Chairman, I should like to conclude by extending my Government's congratulations to the President, Mr. Ortiz Mena, and his dedicated staff for their excellent performance during the past year. The newly established loan program has provided a new challenge which can only be met by a flexible and innovative spirit on the part of the staff and management of the Bank. The Netherlands has profound confidence that the Bank will succeed in its endeavors.

**Address by Mr. Juan Reyna-Drouet Santacruz,
Governor for Ecuador and Minister of Finance and Public Credit**

In congratulating you on your election, Mr. Chairman, allow me to express, on behalf of the Government of Ecuador and the Ecuadoran delegation present here today, our gratitude for the warm welcome extended to us in this beautiful and bounteous island of Jamaica.

You will be leading our discussions, Mr. Chairman, as Latin America and the Caribbean examine the 1978 Report of their regional bank, the Inter-American Development Bank, which operates in conjunction with 17 industrialized countries that have manifested their desire to cooperate with us and at the same time benefit from the execution of projects in the countries of Latin America and the Caribbean.

It is indeed a high honor for me to represent my country at this Twentieth Annual Meeting of the Board of Governors, held on the eve of the political transition that will result from the application of the Plan for the Legal Restructuring of the Ecuadoran State. On April 29, 1979, the Ecuadoran people went to the polls to elect a new President and Vice President of the Republic and the members of a new House of Representatives to guide the destiny of the nation beginning August 10 next. These elections represented a splendid and exemplary demonstration, for Latin America and for the entire world, of how—in a climate of peace and progress—it is possible to transfer power to a representative and democratic government that has offered to work continually for the highest objectives of the State and to pursue economic development with social justice, while participating actively in the institutions of the international community of law. Distinguished Heads of State and the international press have had high praise for my country for this achievement, of which we Ecuadorans feel truly proud.

I take this opportunity to repeat that it is now, more than ever, necessary to reaffirm the multilateral character of the IDB and to ensure that it can operate totally without regard to political considerations. In granting loans it should respond to the investment proposals fixed by the borrowing countries as sovereign nations.

We feel that 1978 has been a crucial year for the work of the Bank. The member countries certainly saw it this way when they ensured that the 1979-82 program of operations could be carried out, by approving the Fifth Replenishment for \$9.75 billion, of which \$1.75 billion will go to the Fund for Special Operations.

These new contributions will enable the Bank to continue growing at a rapid pace over the next few years. But what is noteworthy about this increase in resources is not only the quantitative growth that it represents; we must also stress the purposes the countries had in mind when they designed "new criteria to guide the future operations of the Bank" that demonstrate, with due respect to the basic principles I referred to earlier, the need to increase opportunities for employment, to improve the individual and collective trade of the borrowing

nations and to find alternative ways to upgrade the standard of living of impoverished groups within our countries.

The membership of the Bank also confirmed the importance of seeking balanced growth when it decided that "the average proportion of convertible FSO resources earmarked for the relatively less developed and insufficient market countries will be at least 75 per cent during the first two years and at least 80 per cent during the last two years of the replenishment period" without any other restriction. Thus we understand that the resolution passed in Quito in 1972, when the IDB Board of Governors met in the Ecuadoran capital, under which less favored nations were permitted to finance all their projects with resources from the Fund for Special Operations and to use the "two-step system" whenever their needs so required, is in full operation.

In addition to the Fifth Replenishment exercise, the Executive Directors of the Bank, through the President, Mr. Antonio Ortiz Mena, have informed us of truly significant achievements, given the economic and financial situation prevailing during the period under review. Traditional lending and technical cooperation operations increased by 3.4 per cent and 27.2 per cent, respectively; the Bank raised \$133 million in funds through complementary financing on the international private capital markets, representing an increase of more than 90 per cent over the cumulative figure through 1977; the program of co-financing with other institutions such as the World Bank, the European Economic Community, the Special Fund of the Petroleum Exporting Countries (OPEC) and the International Fund for Agricultural Development (IFAD) was strengthened in an ongoing effort to increase the financing available for projects in the region.

In addition, the IDB made active use in 1978 of the funds that friendly nations had assigned to it on a trust basis.

The results achieved are praiseworthy in themselves, but become even more remarkable when we realize that they were achieved in a period of rigid administrative austerity. This meant a major effort by those working in our Institution to add additional productivity to the high level already achieved in the past. We congratulate the President of the Inter-American Development Bank, the Board of Executive Directors and all the staff working for the Institution on their performance.

I also wish to point out that Ecuador, as the seat of the Executive Secretariat of the Preinvestment Information Center (CIP) for Latin America and the Caribbean, appreciates the efforts of the Management of the Inter-American Development Bank through their continuous collaboration with this program of horizontal cooperation in the spirit of the recent meeting in Buenos Aires.

The Bank can look back on many successful achievements. With this record, the time has come, we believe, to enter into fields of great topical importance for the region. I would suggest, for example, that efforts be made to design and implement measures to contribute to regional integration, now that the Latin American Free Trade Association is nearing the end of its initial phase and is having to seek a new framework to bring it closer to the Common Market formula. Positive steps also need to be taken to implement regional measures related to the commitments resulting from the various multilateral agencies of which we are members. In this order of ideas, Mr. Chairman, it is essential to strengthen the IDB's Department of Economic and Social Development, so that

it may continue to enrich Latin American thinking in the areas for which it is responsible, to convert it into an operational factor in the agencies in which we participate, in face of the challenges that await us.

On this same subject of efficient and innovative management, my country's delegation wishes to express its interest in and support for an initiative for which there is a growing need in our region. I refer to the establishment of the Multilateral Industrial Development Trust Fund or Latin American Finance Corporation as a permanent mechanism for financing share capital in existing or new industries in our countries. We support the idea that this trust fund should also be able to undertake credit operations and we expect that Jamaica, Paraguay, Peru and Uruguay, according to what the President of the Bank told us yesterday, will join with us and will share our view.

We had hoped that during the course of this meeting the documents organizing the trust fund might be signed, for which purpose we have at our disposal sufficient legal authority and even the amount of the initial contribution of \$5 million, in accordance with the form agreed upon with the representatives of the Bank. Because of special circumstances it was not possible to enter into the articles of organization at this time. I am therefore compelled to recommend to the Management that it bend every effort to make the Fund a reality as soon as possible, to which end we offer, as we did at the outset, our complete cooperation.

During 1978 our country managed to complete the financial program that in support of her national priorities she had requested of the Bank. The rural sector benefited from three loans: two were sector loans in public health and telecommunications and one was for integrated rural development; specifically to serve the low-income population we obtained from the IDB, in a co-financing operation with the International Fund for Agricultural Development (IFAD), a loan to support a small-scale fishery program. As regards energy we had recourse to the complementary financing scheme which will make it possible to step up the pace of installation of the largest hydroelectric project in the country, the Paute Project, whose first stage will have an installed capacity of 500,000 kilowatts.

In this fiscal year of 1979 we expect to complete negotiations for, and sign as soon as possible, once the technical analysis is complete, the most important operation that Ecuador has ever submitted to the IDB for consideration: the Daule-Peripa Multisectoral Project. In addition to supplying drinking water for Guayaquil and the towns on the banks of the Daule River, one of the three main tributaries of the Guayas water basin, will generate 130,000 kilowatts of power, extend the country's actual agricultural frontier by 100,000 hectares in the first stage, and directly benefit 110,000 people by yielding an annual production valued at \$245 million and a net annual income per family of \$6,000.

We should like to reaffirm our solidarity with the other countries of Latin America, which is reflected in this instance in the support we are giving the Inter-American Development Bank, the policies and decisions of this Board and of the Board of Executive Directors on which we work so harmoniously with Brazil whose Executive Director, José Carlos Fonseca, we sincerely thank.

Ecuador's diversity of natural resources, together with the efforts of its people to utilize them intensively, has established the best foundation for the

country's sustained economic growth. This has meant that the international private banking community and foreign investors are induced to invest increasingly large sums on terms more advantageous to Ecuador, with savings and foreign technology duly guaranteed by the seriousness and solvency we have demonstrated in fulfilling all our international commitments.

Ecuador will continue to support Andean Subregional Integration. Our President has just attended a meeting at the highest level of officials of the five member countries of the Cartagena Agreement, aimed at reactivating efforts in that city to stabilize and expand the regional market which now serves 70 million people.

Our position on that issue is based on the idea that if we stand together, we will win the battle for development.

I should say that I share the views expressed by the distinguished Governors who spoke before me that the contractual obligations assumed by the Bank up to a certain percentage of the total financing of projects is insufficient because it compels the local counterpart borne by the borrower to absorb the cost escalation, thus favoring nonregional lending countries.

The point made earlier that the main concern of the Management should be the execution of projects to the completion stage before it places so much stress on legal and/or administrative matters is worth emphasizing.

The policies which regional and nonregional member countries adopt will decide the extent to which we attain the targets of economic growth and social justice which the most recent replenishment of funds connotes. Obviously, all of our countries—and that includes Ecuador—are seeking to improve the lives of the most disadvantaged groups of the population.

Mr. Chairman, in the framework of that ideological approach to development on the part of our member countries, the Inter-American Development Bank has made a signal contribution. We look forward to seeing it continue on this road without losing the mystique which pervades its work and which has come down to it from its highest executive levels.

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

The Annual Meeting of our Bank in the beautiful Republic of Jamaica, whose cordial hospitality we are enjoying in the Caribbean region, a region that plays a growing role in the Bank's activities, is a crucial one. The intended Fifth Replenishment of the Bank's resources, in which Austria will certainly participate, goes along with new guidelines for the future lending and technical cooperation policy.

I am pleased to be able to state that Austria has voted in favor of this replenishment and has agreed to subscribe to additional shares of the capital stock of the Bank and to contribute to the Fund for Special Operations as soon as parliamentary authorization has been obtained.

Before turning to the salient points of the Annual Report, I would like to mention that Mr. Torao Aoki will resign from his post as Executive Director for the voting group of which Austria is a member in the middle of this year. This gives me the opportunity to express my appreciation for the excellent work he has done during his term of office and for his good cooperation with the Austrian authorities. I wish Mr. Aoki the very best for his future career.

When trying to analyze economic goals, we will find after having studied the Annual Report a number of different economic and social aims. The sufficient provision of the population with food, clothes, housing, health facilities and education as aims of development is not controversial. At the same time one of the prerequisites for reaching these goals is the opportunity for employment. All these goals, however, cannot be reached without an adequate economic growth. On the other hand economic growth alone does not prevent a lot of poverty and unemployment.

In this stage of development, unemployment is the plight of our century. It is bad enough that the industrialized countries are victims of this plague.

In the developing countries certain forms of unemployment are a severe threat to the physical existence and to the social structure of the nation. In this connection let me mention a special problem we must try to solve. That is the problem of rapid urbanization. In many cities in the region you have the same situation—millions and millions of the urbanized populations coming from the countryside are unemployed or half employed or only occasionally employed.

The tendency towards a greater and greater megalopolis puts a terrible strain on the resources of a country. No economic system will be able to provide the necessary infrastructure required for such an agglomeration of human beings, not to speak of the possibilities to find jobs for these millions of people. It is a vicious circle. Finding no work in the country people flock into the big cities where in the slums and bidonvilles they eventually are worse off than in their native village. Unless we are able to break this circle our efforts will be in vain. My Government therefore welcomes the Board of Governors call on the Bank to make the maximum possible impact through its future lending on

employment, and hence on poverty, and on the main bottlenecks limiting the region's economic development, namely energy and the external sector.

It is encouraging to learn from the Annual Report of the expansion of reciprocal trade within the region and we hope that it will expand further. We are aware of the fact, however, that much could be done to increase the region's trade with the industrialized countries which would benefit both partners.

It is also encouraging that the region's access to the world's capital markets has been facilitated and that Latin American countries borrow in the international capital markets on a greatly increased scale and that many private enterprises now borrow on the market without official guarantee. This success is due in the first place to the determined efforts of the peoples and governments of the countries concerned but at the same time to the increased economic and political cooperation of all members of the international financial community, especially the World Bank and the regional Banks. This leads me to the role our Bank is playing in the process of leading the region towards a brighter economic future. We cannot concentrate our efforts on the mobilization of monetary resources and on their distribution to the neediest recipients. We have to learn the individual problems of the different member countries and—based on the knowledge acquired through this learning process—try to find out the procedure that is most appropriate to the individual country. There is no patent medicine for developing aid. It is the country concerned that must know what it needs and in what priority. The Bank's representatives and experts must give their advice and their suggestion but they should not try to force a country to undertake a policy that is not judged to be in the best interest of the people concerned. We must respect independence but we must not promote and facilitate injustice and abuse of the aid granted.

My government especially appreciates the report's remarks concerning agriculture. The agreement between the IDB and IFAD on mutual cooperation with regard to projects in the agricultural sector is highly welcomed. The emphasis the Bank is putting on this sector shows the importance of a sound agricultural structure for the well-being of a country. The efforts to control the migration from farm to city show that the Bank is aware of the growing problem of urbanization, rural education, application of labor-intensive technology, technology transfers and the development of cooperatives.

To this latter point—cooperatives—let me add a remark as an Austrian. The green revolution that led the Austrian peasant out of poverty is unthinkable without the help of cooperatives. If you travel in the Austrian countryside you will find big buildings for storage and for marketing that are the centers for warehousing, processing and marketing the agricultural products. You will also find there the credit institutions that provide the financial means for these purposes. We shall be glad to share our experience with everybody who cares to learn about it.

The ability of the rural population to accumulate capital in order to finance the necessary investments is a goal that must be reached if we want to stem the migration from farm to city. These means would serve to cover an important part of local costs for investments. It is our opinion that local costs should mainly be borne by local institutions. We think, however, that the question of local costs is not a problem of principle but that it must be solved on a pragmatic

basis. Therefore the paying of local costs by the Bank could be reasonable under certain conditions. We should not waste the valuable foreign exchange for payments which could be substituted by domestic means. But there are circumstances conceivable in which the payment of local costs by the Bank would facilitate the immediate beginning of a project and enable the monetary authorities of the country concerned to use the additional foreign exchange for vital imports.

After having dealt with problems with which the borrowing members are concerned I would like now to draw your attention to matters which are of great importance for the nonregional countries. One of them is the question of an improved representation on the Board of Executive Directors. In view of the financial contributions which these members are requested to make under the Fifth Replenishment, especially the increased quota in the FSO, the maintenance of their present representation does not seem adequate. It would probably be rather difficult to get the legislation required for such a substantial increase if Parliaments could not be convinced that the influence of the nonregional members in the decision-making process of the Bank corresponds with their financial contributions. I do therefore consider a review of the relevant rules to be absolutely justified.

Another matter which I would like to raise is the necessity of a more efficient communication between the Bank and its member countries with regard to bidding calls for projects financed by the Bank. The present system does not always enable suppliers from nonregional members to participate in the bidding process, because the necessary information does not reach them in time. I believe that the Bank should take both problems into due consideration and should start on adequate measures for their solution.

In concluding, Mr. Chairman, let me tell you that we think the Bank has done a splendid job in the past year and we want to congratulate Don Antonio Ortiz Mena, the Board of Directors and the entire staff on the able work they have done. We trust that they will serve the region in the future as expertly and efficiently as they have done during the last year.

**Address by Mr. Javier Alcoreza Melgarejo,
Governor for Bolivia and Minister of Finance**

On this solemn occasion, I want to convey to the Government and people of Jamaica the most cordial greetings of the Government and people of Bolivia. We are most grateful for this country's generous hospitality, since from the first moment we were captivated by the beauty of this lovely land.

The Annual Meeting of the Board of Governors gives us an opportunity not only to assess and appreciate the work of the Bank and reflect on its accomplishments and projections, but also to objectively analyze our common problems, the trends in the national and world economies and, in brief, to exchange views on our experiences and our expectations in a troubled world whose problems afflict large and small countries alike.

The Annual Report that has been presented to us shows some positive developments that are worth mentioning: approved loans amounted to \$1,870 million and complementary financing totaled \$133 million, the largest amounts to date. Nevertheless, the ratio of total disbursements to loans approved was 58 per cent, a level already reached in 1975. We realize that there are factors which make it difficult to improve that ratio, but we feel compelled to recommend that the Administration make every effort to accelerate disbursements, not only because our countries must pay commissions on unused money, but also because delays in execution of projects raise their cost, thus negatively affecting the development effort.

It is very encouraging to note that the Bank's technical cooperation activities have continued to increase, thus contributing to the qualitative strengthening of our capacity to generate and administer new investment projects.

Finally, glancing quickly over the Bank's activities, we note that the financial data show that we have accumulated reserves on the order of \$1 billion; this also strengthens the institution and increases its already solid prestige with the international financial agencies that supply resources.

Thus, there are many reasons for acknowledging and commending the performance of the Administration of the Bank, from the President to the high-level officials who contribute to the Bank's accomplishments and the technical and administrative staff whose hard work also contributes to its success. To all we express our appreciation and sincere congratulations. May they all continue their efforts, inspired by the cause of the peoples of Latin America and the Caribbean.

My country also wishes to convey its sincere appreciation for the substantial collaboration it has received from the Bank, which has fully understood our needs, aspirations and potential. We are referring to each and every one of the highly competent staff members who have worked with us on our projects. As a developing country, we will continue to need this cooperation and are confident that we will receive it in the right manner and at the right time.

In addition to the structural factors that determine our development, we are now faced with the urgent need to find solutions to the problems created by natural disasters such as the unusually heavy rains which fell this season. This

will require special financing, which we estimate at more than \$30 million; we must rehabilitate railways, highways, dwellings and various social services over large areas of the country. We hope, therefore, that the Inter-American Development Bank and the governments of friendly countries will grant us the financial cooperation we so urgently need.

The recent replenishment of the Bank's resources, amounting to the equivalent of about \$10 billion to which my country has subscribed its share, will bring the total resources of the Bank to more than \$28 billion. We should feel satisfied at this effective proof of the Bank's growth. We may recall that at the Vancouver meeting we expressed our concern at the dwindling financial resources available to the Bank and our regret at the causes that had led to that situation. We believe that problem has been overcome and are certain that all members of the Bank, both large and small, will make every effort to meet our commitments, in order that a financially stronger institution may perform the broader functions we will be entrusting to it.

We are fully satisfied with the decision that new loan programs for 1979-82 should essentially be aimed at benefiting the poorest groups, through the creation of productive employment in urban and rural zones, since it becomes clearer every day that it is around these sectors and activities that we must concentrate our greatest technical and financial efforts.

Nevertheless, our own efforts and those of the Bank—the Bank being one of the largest sources of financing for our development—although valuable in themselves will not be sufficient to meet the real needs of our peoples. The nonregional members of the Bank should serve as channels for more effective and open communications with the developed world, since those member countries are more aware of our situation and we believe they share our aspirations.

Furthermore, it is important to ensure a greater and more effective participation of the developing countries in discussions concerning a new international economic order, with fair prices for our basic export commodities, price stabilization funds for those products, and a greater transfer of real financial resources for development, all within a framework of solidarity, integration and sovereignty.

In this regard, we believe it is urgent that we seek new concepts and approaches to the distressing problem of training human resources for development. This should be the most effective tool, in every development plan, for eliminating poverty from countries such as Bolivia.

Under one of these new schemes, it has been proposed that a financing system be created to help set up a large-scale training program in relatively less developed countries. This idea has been considered and in some cases tried to a limited extent in several countries and by several international technical assistance organizations.

Bolivia has studied these initiatives and experiences and believes that the international institutions and development financing systems have reached the stage where they are able to undertake more daring and significant programs. We therefore wish to inform this Meeting of our intention to work for the creation of an "Education for Development Bank". The National Preinvestment Institute of Bolivia is currently carrying out the relevant studies.

The main difficulty foreseen is the formation of a concessional capital for

its initiation. This will be necessary in view of the nature of its special development operations.

We are confident that this Board of Governors, like the rest of the international development-financing community, will also lend its support to this idea and thereby contribute to its successful implementation. We regard this as of priority importance in the New Decade of Development that is ahead of us.

Turning to another matter, we are all convinced that the best way of developing the various national economies through local effort—however limited—is to join together in arrangements adapted to the characteristics, needs and possibilities of our own countries. My country believes in this process of joint and complementary effort and is participating in it. Moreover, as a country with many links, located as it is in the heart of the South American continent, Bolivia seeks continuously to strengthen and invigorate the arrangements of the Andean Pact (for which strong political support is at this time being reaffirmed in Cartagena by the Presidents of the Andean nations, with a view to strengthening its action), of LAFTA, of the Amazon Pact, of the River Plate Basin and of URUPABOL. Thus, Bolivia is the seat of the Fund for the Development of the River Plate Basin, an instrument which in its early stages is receiving valuable support, which we both appreciate and commend, from the Inter-American Development Bank.

But in order to continue to progress we need to reach an effective political decision because our countries must maintain real unity of views *vis-à-vis* the developed centers in order to permit their true participation in the discussion of the great problems that afflict humanity. During the recent Eighteenth Period of Sessions of ECLA, held in my country, we also advocated the setting up of a new economic order at the regional level and asked that ECLA orient its activities in the context of "horizontal cooperation" toward the existing integration systems. During the plenary sessions the need was stressed for the Latin American countries to act in concert and not in isolated groups, which impair their capacity for political negotiation relative to the highly developed countries.

In that important forum my Government's position was expressed clearly and forcefully. Among other things, we said that:

"Excessive adherence to the idea that it was necessary to grow before distributing benefits has pigeonholed economic thinking and formed the basic model for investment policies.

"The maximization of the gross domestic product diverts other important aspects of society for which that policy had been formulated, including social justice and the elimination of poverty . . . In the last analysis, what is the purpose of growing if the great mass of human beings do not progress significantly in improving their income levels or raising their demand capacities?"

I should now like to turn to another matter. Even though all of you are familiar with the problem and understand the legitimacy of our cause, I cannot refrain from taking this opportunity to refer to the unjust position in which my country finds itself through being deprived of its sea coast for 100 years. Bolivia's landlocked situation constitutes a limiting constraint on its economic development and deprives us of sovereign communication with the outside world in order to receive the benefits that stem from the free transmission of ideas and goods. Certain of the justness of our cause, we trust fully in it and in the under-

standing of all countries and of the entire world to obtain prompt redress of this injustice, which cannot be allowed to persist in America without damaging its profound aspirations of unity, peace and progress.

I must now refer to a matter that is crucial to an understanding of the true dimensions of the process taking place in Bolivia at the present time. After the political events of last year, the Armed Forces entered into a solemn commitment to the Bolivian people to hold general elections to give the country constitutional government. We are very close to the successful culmination of that process. The Bolivian people will once again be governed by a civilian administration installed by popular will.

The Armed Forces will return to their specific functions once they have fulfilled the duty imposed on them by the circumstances of history. This is the central characteristic of the process taking place in Bolivia, and any objective analysis of the current political and economic climate and situation must necessarily be made in the light of that characteristic.

Our rate of economic growth is slowing at the present time. This year, a number of remedial measures will have to be applied to the Bolivian economy. A start has already been made in the form of banking and monetary regulations which will be supplemented later by the necessary fiscal corrective measures with a view to getting Bolivia back on the path of sustained economic development. However, these actions necessarily have to be fitted into the current process of democratization. We are convinced that the *raison d'être* of our Government is to lead the country to a constitutional system. This is a national exigency, for we are convinced also that political democracy and economic and social development are inseparable.

Mr. Chairman, my country has not so far had the privilege of hosting a meeting of the Governors of the IDB. A number of circumstances, particularly the lack of a suitable infrastructure, have deferred the realization of this heart-felt aspiration of Bolivia.

We have now overcome these difficulties and I take this opportunity to express my Government's wish that Bolivia be the seat of the Annual Meeting of Governors, for the first time, next year. Nothing would please the Government and people of Bolivia more than to receive you with our sincere affection and to provide you with all the facilities required to ensure a successful Twenty-First Annual Meeting and an enjoyable stay in our country. Accordingly you are all invited to meet with us in La Paz in 1980.

**Address by Mr. Emiel Kestens,
Temporary Alternate Governor for Belgium
and Director General of the Treasury, Ministry of Finance**

Before I comment briefly on the activities and policy of the Bank, please allow me, Mr. Chairman, to convey to you the apologies of Mr. Gaston Geens, the Minister of Finance and Governor for Belgium, who is unable to attend this Twentieth Annual Meeting of the Board of Governors due to the press of other business. He has instructed me to represent him and to express Belgium's great interest in the operations and development of our institution.

Belgium's participation in the Inter-American Development Bank, which dates back to 1976, strengthens and supplements, on the multilateral level, the bilateral activities in which my country has engaged in recent years with certain countries in Latin America.

First I should like to join with the other Governors in thanking the Jamaican Government for the splendid hospitality extended to our Meeting and the quality of the welcome given to our various delegations.

Yesterday, as I listened to the address by President Ortiz Mena, I noted with satisfaction that the Bank has achieved a number of remarkable results:

- a) Bank lending reached a record high of \$1,870 million in 1978.
- b) Special funds were earmarked in large measure for the least advanced countries in the region.
- c) The sectoral distribution of lending showed a fairly balanced distribution among the major sectors.

Among a number of favorable trends that emerged in this past year, I am particularly pleased to mention:

- The increase in technical assistance programs.
- Better coordination of the Bank's programs with those of other multilateral or bilateral agencies also interested in the development of the region.
- A lessening of the time that elapses between loan commitments and disbursements.

Having noted these facts, I should now like to make a few comments and express a number of hopes for the future.

If I were to have to categorize the past year, I would say that it seems to have marked a turning point in the history of our Bank. There are two main reasons why I say this:

- 1) Efforts were continued to increase the resources available to the Bank.
- 2) The year also saw vigorous efforts to reorient the Bank's development policy through its lending program for the period 1979-82.

One could thus say that in 1978 the Bank acquired a new dimension by irreversibly increasing its weight and role in the region. For this reason, I particularly wish to express the satisfaction of the Belgian authorities and to congratulate President Antonio Ortiz Mena, the Executive Directors and the entire staff of the Bank.

We are pleased with the successful conclusion of the negotiations on the Fifth Replenishment, and the Belgian Government hopes to be able to complete

the formalities for approval of Resolution AG-11/78 within the next few months and thus make effective its subscription to 2,016 additional shares of capital and its contribution of \$14.6 million to the Fund for Special Operations.

With regard to the reorientation of the Bank's development policy, I note with satisfaction that the Bank proposes to use its best endeavors to devote one-half of its lending program to the poorest countries and to gradually focus concessional lending on the relatively less developed countries. Conventional financing would thus be reserved for other developing countries in the region. We very much hope that all the member countries of the Bank will cooperate in implementing this policy.

As far as the sectoral distribution of lending under the program for the next four years is concerned, we are also glad to see that the Bank has agreed to accord priority to projects for rural and urban development, and to step up its lending for development of the region's energy resources.

In this regard, I would point out that Belgium continues to support a lending policy geared to the most promising projects in terms of the well-being of the poorest sectors of the rural population and to a lesser extent to the complex nature of the projects. Hence we should like to encourage the Bank's efforts aimed at providing more generous assistance for the rural development sector by financing projects in the infrastructure and basic subsectors, for which sufficient local savings are generally not available and whose development will have a quicker multiplier effect and a more certain impact in terms of income.

We also note with satisfaction that the Bank has continued to expand its co-financing activities with other multilateral agencies, both in the industrial countries and in the OPEC nations. We hope the Bank will be able to expand the co-financing approach even further in the future.

This formula is one of the most effective means of mobilizing additional financial resources, particularly from the private sector, to help the developing countries.

In the various fields in which we should like to see the Bank's role strengthened, we shall have to make even greater efforts than in the past to formulate a judgment on the effectiveness of our action. In the final analysis, this should be measured in terms of just one criterion: has the Bank's assistance enabled the recipient countries to improve the mobilization of their own domestic resources, thus bringing them closer to the stage of self-sustaining development, the ultimate goal of our policy?

In conclusion, if this goal is to be achieved, we feel it is essential that the Bank call on all available talents and skills and recruit its staff in all the member countries. It should therefore pay special attention to solving any practical problems that may arise in this regard. In addition, we would like to hope that the Bank can find a solution to the problem of the "bunching" of projects at the end of the fiscal year.

These are, I feel, the major points I wished to raise. Mr. Chairman, I hope that the Bank will continue along the road to success and persevere with the task of meeting essential human needs in Latin America and the Caribbean. My country is proud to be associated with this task.

**Address by Mr. Jaime García Parra,
Governor for Colombia and Minister of Finance and Public Credit**

I want to thank the Government and people of Jamaica, the hosts of this Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank, for the generous hospitality with which they have regaled us.

It is particularly pleasant for me to visit Jamaica again, a country with which Colombia enjoys, as with every other area of the Caribbean, close and cordial relations, as witnessed by our participation in the regional development agencies and in other forms of cooperation.

My most sincere congratulations go to you, Minister Eric Bell, for your election as Chairman of this Meeting and for the success of its deliberations.

I also want to express the gratification of the Colombian authorities for the cooperation of Peru on the Board of Executive Directors of the IDB. That country's representation has served our common interests competently and carefully, and I want to convey my appreciation to Mr. Armando Prugue for his invaluable assistance.

Mr. Chairman, this Meeting takes place at a juncture of special importance for the future of the Bank because of the characteristics of the Fifth Replenishment of its Resources and the complexity of the region's external situation. This capital increase implies an increasing contribution of freely convertible currencies by certain countries in the region that are able to do so, while the institution must significantly supplement its available funds on international markets.

Colombia is of the view that a strengthening of the IDB is an absolutely essential requirement for the development of the region, but we are concerned that the balance between its own resources and those obtained on financial markets may cause the Bank to drift away from its identity as a development institution. To avoid the possibility that this character of the Bank might weaken, it is necessary that henceforth its capitalization should be closely related to the capacity of the borrowing countries to absorb external resources. This capacity is reflected in investment programs increasingly ambitious and dependent on imported technology which, as they generate high rates of economic growth, inevitably affect foreign trade. When they decide on proposals for increasing the capital, the member countries do, of course, consider the benefits to them of greater imports from the borrowing countries. However, these and other favorable considerations for lenders and borrowers seem to be measured by criteria of the very short run, and not a few times in a markedly bilateral setting.

I think it is appropriate to re-state the Colombian position on what has been one of the essential features of the Bank since its founding: its multilaterality. This basic character gives all our countries and the institution itself wide latitude and flexibility of action, which I think, it should retain as it enters the third decade of its existence.

It is very important that the Bank have adequate resources of its own for the implementation of its lending program. In relation to the institution's financial structure, I should also mention that the exchange risk which will be spread

more widely by the recently approved procedure, could be reduced if the proportion of funds obtained on markets were smaller after the coming replenishment of resources. It must also be borne in mind that the Bank's operating costs, the allocation of profits to constitute reserves and some benefits that are incorporated into the patrimony are financed out of the interest and commissions paid by borrowers. The more efficient the Bank is, the lower its interest rates may be and the higher its rate of capitalization. Hence, public opinion can rest assured that the resources mobilized by the Bank are not being used for purposes other than the direct financing of projects.

The excellent annual report we get is an exceedingly useful document for analyzing the region, and some of its statistics reveal additional problems that undermine its development potential. Notable among these are those related to the balance of payments, particularly the terms of trade.

The imports of our countries grew an average of 7 per cent more expensive during 1978, and the prices of our exports dropped 3 per cent. It follows from these and other facts that the economic and social progress of the region still labors under an important limitation in needing to be supplied with short-term resources to cover a larger balance-of-payments deficit.

To this is added the malaise caused by high tariffs and other protectionist barriers that face the raw and manufactured products of the region on markets in industrialized countries.

No less disquieting is the impact on the economies on non-oil producing developing countries of the rise in the price of this source of energy. On this point our delegation to UNCTAD has clearly stated the views and concerns of the Government of Colombia. These countries are not only burdened with higher fuel prices, but with the inflation of the more highly developed countries as well, which raises the import prices of capital goods and substantially increases the interest rates on the external capital required for economic and social development.

In other words: higher fuel costs, higher prices of imports, higher costs of money; at the same time and in contrast serious questions concerning the feasibility, within the framework of international cooperation, of defending the real prices of primary commodities which make up a good part of the exports of the non-oil-producing developing countries.

In addition to other political and global cooperation mechanisms, we feel that the region has reached the point where the Bank should cooperate with all member countries in the analysis and exploration of energy resources and of known and potential alternative sources of energy so that we can use new methods of producing energy without the worries which some countries have about the price of fuel.

Of equal importance is the process of integration, which received unprecedented financial support from the Bank last year. We believe it is essential for the Bank to become increasingly active in facilitating integration. We realize that it is a multinational political operation fraught with enormous difficulty, but we are confident that all our member countries will find a way to overcome the obstacles which have blocked it in the past and will continue to make reasonable, lasting and persistent progress towards economic integration. A few hours ago, the member countries of the Andean Pact gave a clear indication, during

the meeting of Presidents in Cartagena, of the paramount importance, in this type of endeavor, of political will when it is applied with realism and practicality.

Having made these remarks on the region and the Bank's activities, I shall now refer to the Colombian economy and how it may evolve in the next few years.

Until very recently, the economic situation in Colombia, was characterized by rapid population growth, relatively slight increase in per capita income and great difficulties in the external sector. That situation has changed radically. Population growth, which had reached 3.3 per cent annually, has now dropped to 2 per cent. Available data indicate that Colombia has made considerable progress in income distribution and in the participation of most of its people in economic and social development, which is reflected in the improvement in nutrition levels, education, health and in lower mortality rates.

Moreover, in this decade, the growth of the domestic product averaged over 6 per cent annually, and in 1978 it rose by 8 per cent. It is quite probable that it will exceed the average for the last decade this year too.

Over the years, Colombia has shown an ability to keep inflation at relatively moderate levels. The Government does not intend to depart from the policy of stability which has been one of the factors in its economic management despite the effort demanded in controlling the forces which have led to higher inflation in many countries.

There have been even greater changes in the external sector. In 1970, Colombia's international reserves amounted to \$150 million; in 1974, to \$420 million and now to about \$3 billion. Those large and rapid increases have added difficulties to currency management, but at the same time they have placed us in a very strong position for competing on financial markets.

Our capital needs will be very important in the next few years. The new phases in the Colombian economy require much higher volumes of capital than previously. The development plan elaborated by the Government of President Julio César Turbay Ayala calls for an extraordinary national integration effort in order to exploit the comparative advantages of each region and of the country as a whole in the context of the outside world, to link the various development poles with an efficient communications network, to absorb into the economy rich deposits of coal, natural gas and nickel, to continue the steady progress in energy projects and to go forward in programs with high social content such as nutrition, health and education. The capital needs of Columbia for the period 1979-83 will be \$6.8 billion, averaging \$1,350 million a year. That figure compares with an annual average of \$543 million over the last five years. In other words, in the next five years, the country will reach high levels of investment and imports.

Consequently, it will be necessary to maintain careful economic management so that we can absorb those large amounts of external savings. To that end, Colombia's economic policy is aimed at increasing productive capacity while at the same time seeking a wider opening to two-way trade, which will be implemented without abandoning the protection of national production, with the caution shown by the Government traditionally in the management of economic policy. Thus we hope to continue with recent growth rates and at the same time maintain better price stability.

The new dimensions of what Colombia needs in the way of external financing are clear from the fact that, in the course of this Twentieth Meeting, we shall be signing a series of loan agreements with President Ortiz Mena relating to the interconnection and generator of electricity, the construction of water systems in 25 cities, the study and evaluation of new development projects and the reclaiming of the Dique Canal and the Magdalena River. All those funds are being allocated to programs with definite social and economic content.

Colombia is now the fourth largest borrower of the IDB and of its total external public debt of \$2.8 billion, approximately one-fifth is with the Bank. We trust that the IDB will continue to be a major source of long-term financing. The investment projects undertaken and those programmed require this supplementary source of savings. Moreover, it should be noted that the financing generated internally by the increase in savings guarantees that Colombia will meet sectoral and global investment targets.

Mr. Ortiz Mena, over the years, Colombia has found in you a friend concerned with its progress. We should like to express our appreciation for your cooperation and the cordial relations we have enjoyed. We should like to congratulate you and stress the able manner in which you have conducted the Bank's activities. We should like to extend those expressions of appreciation to the Executive Directors and the staff of the IDB for the excellent work they are doing and to wish them success in the years to come.

**Address by Mr. Hans Meyer,
Alternate Governor for Switzerland
and Deputy General Manager, Swiss National Bank**

I would first like to join previous speakers in expressing my gratitude to the Government and people of Jamaica for the cordial reception and generous hospitality extended to us. Jamaica and Switzerland present this common feature that they both have had, in the course of their history, to give prime importance to their external relations, and more particularly to their foreign trade.

It is with deep regret that we see Mr. Jorge Hazera retiring from the Bank. We would like to thank him warmly for the outstanding work he has accomplished for our Institution. Although we regret that Mr. Enrique Perez-Cisneros has left Europe, we are pleased to see him take over an important assignment at the Washington headquarters. By the same token, we congratulate Mr. Guillermo Villaveces for his appointment as the new Special Representative of our Bank in Europe. We are looking forward to a close and fruitful cooperation with him.

The year 1979 will mark the Twentieth Anniversary of the establishment of the Bank, the effectiveness of the Fifth Replenishment and the eve of the new International Development Strategy. This combination of events explains why I will not restrict my remarks today to the achievements of 1978 and prospects for 1979, but will instead tend to take a somewhat longer-term perspective. Within this context, I will comment on the four following points: the economic and social evolution of Latin America, the financial aspects, the development strategy and finally the institutional aspects of the Bank.

Economic and Social Evolution of Latin America

During the past 15 years, Latin America has—through an expansion of its productive capacity and a better use of its natural resources—achieved significant growth and economic transformation. This economic progress deserves praise.

Nevertheless, the Report to the Board of Governors on the Fifth Replenishment of Resources rightly noted that the medal has its reverse side. The development process of Latin America has been of an uneven nature, not only among the various countries and regions but also among the different groups in each society. According to ECLA estimates, more than 100 million people or nearly one-third of Latin America's population are living under conditions of extreme poverty.

Moreover, the external sector of most countries of the region has shown signs of vulnerability. The growth of exports has tended to be slower than the growth of imports. The cost of imports and especially the energy bill has constantly increased. All these factors have generated an expanding external deficit.

Many of the remedies to these current problems will have to be found in the Latin American countries themselves. At the same time, the evolution of the economic relations between Latin America and the rest of the world will play a crucial role. Knowing the importance of a further expansion of exports for the

future of the region, Switzerland welcomes the outcome of the GATT multi-lateral trade negotiations, which have emphasized the will of the international community to maintain and to improve an open commercial system.

Financial Aspects

Turning to the financial needs of Latin America in the 1980s, it appears clear that within the limits of a prudent debt management, an increased net flow of external financing will have to bridge the gap of the region.

In the coming decade, the mobilization function of the Bank should continue to represent its main role in the financing of the economic and social development in Latin America. Thanks to the Fifth Replenishment, the member countries are giving to the Bank the means to assume this role for the next four years. Switzerland regards the financial package resulting from these negotiations as satisfactory, and its own contributions should become effective in October, as previously scheduled. Our Bank will be in a position to continue its operations at the traditional growth rate of almost 7 per cent a year. Thanks to this substantial increase of its resources, its role as a financial catalyst should be reinforced; it is to be hoped in particular that during this four-year period, the complementary financing program will grow further and that the equity financing program will be successfully developed.

The transfer of more financial resources to Latin America will of course take various forms and use different channels. As you are certainly aware, the most important problem for the Swiss economy in 1978 was the appreciation of the Swiss franc. Despite this development the Swiss capital market was still an attractive place for foreign borrowers. This was mainly due to the high liquidity and the corresponding low interest rates. In this context we authorized last year capital exports amounting to \$12.5 billion. The total flow to the developing countries exceeded \$3.5 billion. Some 43 per cent of the bilateral borrowings were made by Latin American countries. The analysis of the global figures shows that the developing countries and the international development banks increased their borrowings in the Swiss capital market substantially. It confirms also the policy of the Swiss authorities to maintain free access to the Swiss capital market for the developing countries.

I am thus pleased to note that the role of Switzerland in the financing of the Bank goes beyond its direct contributions, as is evidenced by the fact that my country has now become the second largest source of borrowings for the IDB.

Development Strategy of the Bank

As part of the Fifth Replenishment, a selective development strategy has been defined for the next four years. The new guidelines call on the Bank to make the maximum possible impact through its future lending on employment; and hence on poverty, and on the main bottlenecks limiting the region's economic development, namely energy and the external sector. They set the target that about 50 per cent of the Bank's proposed lending from its own resources during the 1979-82 period be designed to benefit low-income groups. The basic instruments to accomplish this are the creation of employment opportunities and the achievement of better income distribution patterns through investments in areas where lower income groups are the main beneficiaries, particularly in rural areas. I

would like to stress that these guidelines are basically in accordance with the principles of Swiss development cooperation policy. Notwithstanding the unavoidable difficulties of execution, it is our strong hope that the actual implementation of the loan program will transform them into an effective policy.

In close connection with the application of these guidelines, the Group on Functions and Policies is trying to define the exact meaning of "low-income groups". Switzerland welcomes all efforts aimed at distributing official development aid more efficiently to the countries and the populations who are most in need of it. The criteria of aid distribution used up to now have often been schematic and sometimes artificial. It is thus fully appropriate to identify more precisely the low-income population groups especially in a continent where large segments of poor populations are located in countries generally regarded as relatively advanced.

The special attention granted by the new guidelines to the energy problem seems fully warranted. The growth of commercial energy consumption in Latin America since 1960 has been greater than in either the developed countries or the world as a whole. As a number of large hydroelectric projects reached the stage of obtaining Bank financing in 1978, the percentage of total lending going to the energy sector was especially high last year (41 per cent). Even though such an extraordinary percentage cannot, and in fact should not, be maintained, there should nevertheless be a continuing and persistent effort of the countries of the region to exploit their renewable natural resources and to reduce their dependence on petroleum. As it is again in harmony with the principles of Swiss development cooperation policy, we are pleased to note that more of the Bank's loans in the energy sector are to be directed towards projects in relatively poor rural areas and small urban centers, where they are more likely to benefit directly the poor segments of the population. Here also we hope that these intentions will be translated into an effective policy.

Institutional Aspects

As to the institutional aspects, it is worth noting that since 1976, substantial progress has been achieved toward integrating the nonregional countries. In the next few years, we should like to see even more progress in this direction. In this connection, we remain fully convinced that a better representation of the nonregional countries in our Institution is in the interest of the Bank itself. Accordingly, we continue to advocate the granting to the nonregional countries of a third seat on the Board of Directors. As has been previously suggested, a general study should encompass all problems of representation in the Bank and of linkage between the financial contributions and the participation in the Bank's organs. We are looking forward to an early result of this effort.

Mr. Chairman, in conclusion, let me refer again to the new International Development Strategy for the 1980s. Within the general framework laid down by the General Assembly of the United Nations, each developing continent will have to adapt the strategy to its specific requirements. In this perspective, it seems to me that the forthcoming effort aiming at defining the role of the Bank in the 1980s will be very important, and that it should not restrict itself to the conclusions reached during the Fifth Replenishment. In parallel, and without duplicating the efforts of the World Bank, it would be worthwhile to examine

the possibility of establishing some kind of annual IDB Development Report, analyzing the specific manner in which general problems present themselves in Latin America, and proposing solutions, for example, the continuing migration from rural areas to the congested cities, or the demographic expansion, or the various facets of the energy question.

President Ortiz Mena and his staff have constantly shown in the past that they can deal efficiently with short-term and longer-term tasks alike. I have no doubt that they will tackle the difficult challenges of the 1980s as efficiently, with enduring benefits for the countries and the people of Latin America..

**Address by Mr. Oscar Jacinto Obelar,
Temporary Alternate Governor for Paraguay and
Under Secretary of the Ministry of Finance**

I am most pleased, first of all to convey in the name and on behalf of the people and the Government of the Republic of Paraguay, headed by General Alfredo Stroessner, a very special greeting to the authorities and people of Jamaica, to the Chairman of this Board, to the President, Executive Directors and officials of the Inter-American Development Bank, and to the Governors, Delegates and Observers of the countries here represented.

This Twentieth Annual Meeting is a welcome occasion to point out once again the benefits that result from the sound and fruitful international cooperation harnessed in the service of the effort to achieve the economic growth, security, welfare and happiness of our peoples.

In 20 years of fruitful labor we have watched the Bank grow in all its aspects and we have also seen it gain the collaboration of nonregional countries that have helped to strengthen its financial position and increase its lending capacity in support of the development of the member countries.

The Inter-American Development Bank has made a vigorous contribution to the development of the member countries of Latin America and this success reflects the capacity for action of its President, Mr. Antonio Ortiz Mena, who, with his knowledge of our problems, has effectively focused on them, proposing intelligent and imaginative solutions.

In his last visit to my country early this year, Mr. Ortiz Mena was able in person to appreciate the progress made on the major infrastructure facilities undertaken by the Government.

For 25 years Paraguay has lived in peace and this has made it possible to implement a coherent policy of economic and social growth, with special emphasis on the agricultural sector, where the largest number of our people carry out their activities. In this setting, the decisions taken together with neighboring friendly countries for the construction of two great hydroelectric projects, the Itaipú project with Brazil and the Yacyretá project with Argentina constitute a transcendent historical fact. These will have a combined energy capacity of about 17 million kilowatts.

No one can be unaware of the effort and the importance to my country of the accomplishment of these undertakings, precisely at a time when the world energy crisis is increasingly affecting the economies of industrialized and developing countries alike.

The electric energy that will become available in Paraguay will necessitate a determination with respect to its optimum utilization as well as a new order of investment priorities. For that purpose, the Government is seeking to improve its economic planning and project-drafting system which, taken together, will enable the pace of national socio-economic development to be stepped up.

The accomplishment of this effort will be eased by IDB cooperation. Therefore, my country's Government trusts that the Bank will continue to lend its

support for the implementation of programs designed to strengthen national planning and sharpen the skills of her human resources.

Development must also operate on the cultural, education and technical levels. This can be done by strengthening and expanding the university structure and the career programs in technology study, by bringing programs of study up to date, and by developing the ability to acquiesce in the creation of autonomous education structures. Noteworthy in this respect is the importance of the work done by the Bank in the improvement of administration and teaching at the University of Asunción.

As for a renewed challenge to breathe new life into the machinery for the integration of Latin America, Paraguay has kept up her unchanging support of all efforts to achieve this goal, inasmuch as it is an effective means of enlarging inter-regional trade. The IDB's own experience and action will prove useful in the realization of this hope.

I would also like to point out the need to improve the analysis of the lending policies of the Bank in the search for a more effective formula of cooperation with countries that, owing to their geographic location, their limited domestic market and the restrictions generally placed on them by their lower order of economic development, suffer serious comparative disadvantages in their external trade and thus their development process.

As regards the capital increase—the Fifth Replenishment—my country supports all actions designed to strengthen the Bank's financial capacity and to see to it that the funds are allocated to low-income sections of society whose classification as such will be determined by means of fair and reasonable criteria and in accordance with the situation and nature of each member country.

The Republic of Paraguay firmly supports the creation of a Multinational Trust Fund, also an initiative of the President of the Bank, to further foster private investment in industrial enterprises in the member countries. Through this new device it will be possible to assist private enterprise whose participation in such countries as ours is essential.

As the faithful interpreter of the aspirations of its people and in keeping with the principles that are at the heart of human values, the Government of the Republic of Paraguay is now engaged in a continuing effort to foster development without inflation and within a framework of peace, security, harmony and the general welfare of the nation.

The figures on the growth of the Gross Domestic Product are rather revealing, showing increases of over 10 per cent in both 1977 and 1978, years in which price levels were rising at the relatively low rates of about 10 per cent.

Such increases in the Gross Domestic Product, together with moderate population growth rates, have caused the per capita product to show constant increases in recent years. The increase in the four-year period between 1975 and 1978 was more than 30 per cent.

Execution of the national budget, framed by a policy of austerity and prudence on the part of the Government, has developed quite favorably, making the surplus accrued in recent years into a valuable instrument complementary to monetary policy.

In 1978 the balance of payments posted a surplus of \$169 million, strengthen-

ing Paraguay's international payments position. In the same year foreign borrowings amounted to \$263 million, compared with \$135.3 million in 1977. Eighty-five per cent of new loans were made to the public sector and 15 per cent to the private sector. The percentage breakdown is as follows: 9 per cent to the agrolivestock sector; 11 per cent to the industrial sector; 4 per cent for development promotion; 28 per cent for extension of electric systems; 35 per cent for transportation and communications; 8 per cent for the public health sector, and 5 per cent for housing construction and other activities.

These brief remarks about the economic situation of Paraguay and about recent developments do nothing but confirm the optimistic, though prudent approach of the Government to problems and challenges posed by the effort to achieve greater economic and social development.

The efforts being made in Paraguay and other Latin American countries, with the cooperation of such organizations as the Inter-American Development Bank, are worth imitating in other regions. As the countries themselves, and the financial institutions, coordinate combined efforts, we shall be constructing a strong and united America.

**Address by Mr. Hernán Sáenz Jiménez,
Governor for Costa Rica and Minister of Finance,
on behalf of the Central American Countries**

It is my privilege to be the spokesman for Central America in this Meeting. I believe we all support the agreement reached in the Bank that 50 per cent of the loans to be extended in the 1979-82 period should be for the benefit of low-income groups in the member countries.

However, that means we shall have to come to grips with a series of practical and methodological problems on which we will not all agree, since the use of one criterion in preference to another will affect the access of certain countries to the Bank's resources, particularly its concessional funds.

Out of concern that we reach a fair solution, we participated in the Working Group on Functions and Policies of the Bank and the meetings of the Committee of the Board of Governors, which had originally been asked to study the question of access to the resources of the Fund for Special Operations and subsequently, to establish criteria for defining low-income groups.

In order to work out a technical definition of something which manifests itself in a deeply human way, we had an opportunity this year to study various criteria which might serve as a basis for that definition. In that connection, the report of the Board of Executive Directors to the Working Group contained in document FP-31 is especially important. The document states: "Determination of whether a group can be regarded as low income is obviously contingent upon a series of factors. Certainly the income level of the group must be considered as one of the most important factors. However, it must be remembered that the well-being of that group and, ultimately, its relative position in the social scale of a society, will also be contingent upon the relative distribution of wealth."

Regardless of the determination we make, we feel that the mechanism we adopt should be sufficiently flexible and adjustable to be adapted to the realities of each member country and should actually benefit the disadvantaged sectors of the Continent.

For practical purposes, our immediate concern is focussed on access to the resources of the Fund for Special Operations, an issue closely linked with the one I referred to previously.

We have been discussing this issue in the Bank for many years, particularly classifications within the Fund for Special Operations. Many arguments were tossed about at various times to justify access of a country to a larger proportion of the Bank's concessional resources.

Let us take, for instance, the case of countries with limited markets which constitute a serious obstacle to their economic growth. As a result, external savings play a major role in capital formation and imports of goods and services represent a substantial part of global supply.

This limitation of their markets has led the Central American countries to seek economic integration as a growth alternative. They now have an experience which, while it has had its setbacks, is still an example of the effort made by

five small countries to conquer their underdevelopment. The Central American community represented at this Meeting is firmly convinced that by its integrated efforts, it is undertaking and can in future undertake a number of actions to give greater momentum to its social and economic development under better and more efficient conditions than if each country were to act on its own. This community spirit which guides us in taking joint decisions and decisions of special import and in carrying out the actions to implement them will have a positive effect in gradually reducing our vulnerability and the high degree to which our economies now depend on the outside world.

We are not trying to find a special solution for the Central American countries that will differ from that applicable to other States. We agree on the need to establish groups of countries in accordance with appropriate indicators which will determine that some countries should have greater access to soft loans than others. Moreover, we understand that within the regional context, we must establish criteria for deciding when a country has reached a high enough level of development and potential development to become ineligible for those resources.

What seems to be missing up to now in the indicators used by the Bank are factors for measuring the social and economic impact of the funds provided by the Bank in each country and not only those provided by the Bank, but all the resources available to each country. Thus far, the indicators applied by the Bank do not allow for any assessment of the social or human impact of the funds provided. But we view with optimism the way the IDB is preparing to adopt criteria for making distinctions regarding the social effectiveness of its participation. We must make sure that the Bank's resources are used not only to provide individuals with their daily sustenance but actually to encourage them to improve their lot. We must be careful to see that the Bank's concessional resources are allocated on the basis of how they can be used most efficiently and how they foster the development of the individual.

To date the criteria applied always make the poorest countries eligible for soft loans without necessarily considering the effort being made by the country to ensure the human and economic advancement of its citizens and the fact that multinational action is not necessarily connected with the country's general development.

The social effectiveness of the Bank's loans should be one of the main criteria for determining the financial terms on which the loans should be made. That idea would oblige us to broaden the present classification of countries in the Fund for Special Operations, which we feel has been partial, and work with a combination of factors which take into account the economic development of the countries and the human and social impact of the project to be financed.

In many cases, the level of economic development and per capita income achieved is due to the full utilization of a country's capacities, whether from its own or external resources, in opportunities and projects of over-riding impact as regards the individual, social and economic betterment of its people. In that connection, we must bear in mind that the respect for the rights of man, an administration submitted to legal standards, not arbitrariness, and the full guarantee of freedom are the most powerful instruments for achieving genuine and lasting human progress.

Countries with limited markets, lacking in energy resources, dependent for their income on a few primary products, naturally have very vulnerable economies. They often have to make a tremendous effort merely to maintain income levels. That being so, it cannot be fair, nor can it be among the Bank's purposes, to deprive them of one of the factors enabling them to maintain the income they have.

It should be clearly understood that preference in allocating Bank funds to low-income groups or countries will be contingent on the particular and specific characteristics of each project and the actual circumstances in which it is being executed. We say that because we know that the intention of the Governors is for those funds to be used in works, projects or programs which will reduce the poverty of those low-income groups and not merely conceal it.

For the reasons given, we agree with the Prime Minister of Jamaica, Mr. Manley, when he said at the inaugural session of this Meeting: "We also have concerns about the criteria to be used to identify the poorest sectors. Experience shows that there are many pitfalls in using the customary indicator of GNP per capita to define poverty. We have always advocated that a more sophisticated set of social and economic indicators was necessary for this purpose. In moving away from this single indicator, we must be alert to ensure that equally simplistic formulas are not adopted as a substitute, since they will have the effect of reducing the options of the Bank to ensure that meaningful transfers are in fact made to the poorest."

We came to this Meeting to present our views, confident that they will be taken into account. As small countries, our voice in international forums is our only weapon. We have confidence in the Bank and its officials because this is what we see: a dynamic financial Institution, aware of the problems of the region, which is creating the financial instruments needed to improve it. For that reason, we are convinced that the Bank will succeed in establishing the criteria required to solve the problems with which we are concerned.

**Address by Mr. Franklin E. Hope,
Governor for Guyana and Minister of Finance
on behalf of the Caribbean Group**

First of all, I would like to thank the Government and people of Jamaica, on behalf of The Bahamas, Barbados, Guyana and Trinidad and Tobago for the extensive arrangement they have made to ensure that our deliberations take place in the utmost comfort. Not only have we been greeted with efficiency and dispatch, but the warmth of the greeting has matched the color and vibrance of the surroundings. Indeed, Jamaica may justly feel a sense of pride at this accomplishment, and its Government and people deserve our thanks and gratitude for the dedication that has been devoted to making this meeting an outstanding success.

Mr. Chairman, as you are aware 1978 has not been a particularly successful year for the Caribbean Subregion. Despite our redoubled efforts our economies showed only slight improvements, and most of the unfavorable conditions experienced in 1977, persisted. The rates of growth of countries within the region were uneven with The Bahamas, Barbados and Trinidad and Tobago experiencing positive rates of growth. Two countries (Guyana and Jamaica) did not grow at all. In the case of these two latter countries it was necessary to implement restrictive fiscal, credit and expenditure policies in an attempt to arrest continuing budgetary imbalance and persistent disequilibrium in the external account. Indeed, balance-of-payments problems in these two countries have been so severe that the necessity to deal with the reality of external disequilibrium has tended to overshadow other policy and performance considerations. On the other hand, The Bahamas and Barbados were able to realize modest surpluses both in their fiscal and external accounts. Only one country in the Subregion, Trinidad and Tobago, was able to accumulate, though at a decreasing rate, an appreciable amount of foreign exchange reserves. In sum, the development effort of the Caribbean Group suffered because many economies were unable to generate sufficient foreign exchange resources to finance imports of food, fuel and raw materials as well as capital goods.

During 1978 the IDB's contribution to the development efforts of this Subregion totaled \$36 million in loans and technical cooperation and was directed into such sectors as agriculture, industry and rural development.

Unfortunately, this represents a reduction of \$44.5 million compared to the 1977 level. We would urge the Bank to reverse this trend. For 1979, the countries of the Caribbean Group have programmed their activities to utilize the Bank's resources at higher levels and there exists a pipeline of projects totaling \$168 million of which it is hoped the Bank would provide resources to finance approximately 60 per cent of the cost.

The proposed increase in loan activity between the Bank and the Subregion is in keeping with out view that the Bank has a significant role to play in the development of the region. Our faith in the Bank's ability to transfer resources is encouraged, in general terms, by the provisions of the Fifth Replenishment of

Resources which would provide \$9.75 billion—\$8 billion in the Bank's capital resources and \$1.75 billion in its Fund for Special Operations (FSO) over the 1979-82 period. Most of the countries of the Subregion—despite their different financial situations—have already begun to make the necessary subscriptions and contributions, and indeed have taken appropriate action to implement the resolution. It should be noted that in this exercise, Trinidad and Tobago has once again demonstrated its commitment to Latin American development by making 100 per cent of its contribution to the FSO in freely convertible currencies. Further, we of the Caribbean Group would also like to add a special word of thanks to Trinidad and Tobago for the active role it took during the replenishment exercise to ensure that the views of the Caribbean were represented and that an agreement was reached to respond to the interests of all borrowing countries.

Indeed, Mr. Chairman, bearing in mind the needs of the Region for increased resources on highly concessional terms, the Caribbean Subregion wishes to express its concern over the reduction in the absolute level of the Fund for Special Operations. For the first time in the history of the Bank, the less developed countries and those with limited markets have to resort to ordinary and inter-regional capital resources to finance a far greater portion of their development programs. In this connection, we emphasize our deep disappointment that the final agreements of the Replenishment did not reflect the principle of special consideration for countries of limited markets. For us of small size and slender and underdeveloped resource endowments this has been a highly disquieting development. In addition, the hardening of terms comes against a background, as mentioned above, of serious external disequilibrium in several of our economies and a sharply rising debt burden incurred to finance the development aspirations of our peoples.

We would like to comment on two other issues which we consider to be of great importance and which may give rise to decisions leading to changes in the operating policies of the Bank, in a way that would further adversely affect both the quantity and quality of the lending of the Bank to our countries. These are: a) the requirement to confine 50 per cent of all lending to low-income groups; and b) changes in the method by which the foreign exchange components of a loan would be determined.

An acceptable definition of low-income groups is central to the successful implementation of the 1979-82 lending program which allocated 50 per cent of the Bank's resources to this Group. Some economies in the Subregion are generally classified as middle income—a classification based solely on a per capita income criterion. Their relatively high per capita incomes partly reflect highly monetized economies where economic activity is easily measured, and so these economies are at a disadvantage when multilateral financing institutions use per capita incomes as the sole measure of deserving or undeserving cases for lending on concessionary terms.

In addition, Governments in the Caribbean Group have traditionally followed policies directed at improving the welfare of the broad masses of the people. Some have already attained a relatively even distribution of incomes in their economies and in such cases the number of persons who are at the bottom

of the income distribution range, as a group, is relatively small. To deny those economies vital foreign exchange resources is to reward unjustly their attempt at social equality.

Having regard to the peculiar problems of the Group, any definition of low income should contain the kind of flexibility which allows countries to borrow for identifying and financing more productive projects and supporting economic infrastructure.

Differences in our perception of history and the development process may—conceivably—lead to disagreement concerning the causes and cures for poverty. And yet, whatever our misgivings about the current and most fashionable ways of relieving it, we must—for practical and operational purposes—agree on how to identify the reality of poverty itself. The method by which we do so will in its turn affect, by country and by sector, the allocation of the resources of the Bank in the years ahead. We understand the political factors which motivate the strong preference on the part of many donors for a numerical or monetary measure of poverty. Our fear is that we may achieve a public relations success at the expense of genuine development. We also fear that the human condition of poverty cannot be reduced, in any adequate way, to strictly numerical terms. Should this be attempted, the allocation of lending resources determined by so imperfect and crude a criterion would of necessity be inequitable. In this game of numbers, the very small and the more highly monetized economies will suffer yet another setback.

For our part, then, we continue to support the view of the Management of the Bank that physical indicators should supplement monetary indicators, that operational flexibility should temper numerical precision, and that those countries who have long practiced the virtues of socially equitable development policies should not now be denied an adequate flow of resources for development—either intentionally or by default.

It should also be recognized that there are a variety of ways of reaching low-income groups. Projects which deliver social services such as water, sewage, housing and health to the poor, is one way. Projects which create productive and permanent employment for the hitherto unemployed can be equally effective since they generate purchasing power among the poor and can often create the effective demand for social services, which makes the provision of such services commercially feasible. Programs of technical and vocational training aimed at equipping the unemployed with productive skills are also an important complement to employment generation.

Our Caribbean economies are constrained by limited internal markets and often by acute balance-of-payments problems which threaten to arrest and even reverse development efforts, with consequent adverse effects on living standards. Projects which facilitate export expansion can also make a major contribution to the alleviation of poverty not only through their direct contribution to employment but also indirectly, through their effects on the rate of development.

The objective therefore must be to develop the appropriate mix of projects which directly deliver social services to the poor, employment generating projects, technical and vocational training programs, and export expansion projects. This can only be done by taking into account the specific circumstances of each country. A country with a well-developed social infrastructure but having

a high rate of unemployment and a limited internal market will need greater emphasis on employment generation and on exports. On the other hand, where there are great deficiencies in the social services, these also need to be addressed if social instability is not to jeopardize the development effort.

On the funding of imports and local costs with foreign exchange, the Caribbean Group is aware of the difficulties that could arise in calculating indirect foreign exchange costs. The proposal to establish percentages based on country group, and project sector has our support on the understanding that proposed percentages do not offer the Caribbean countries less than the import requirements of their projects. Such an outcome would run contrary to the spirit of development financing that has come to be associated with the Bank. Further, the proposal to offer amounts in excess of the prescribed percentages should a country show that the increase is appropriate, again demonstrates the Bank's appreciation of the problems developing countries have in obtaining foreign exchange for their development efforts.

The ability to attract and have at its disposal the resources to finance the development needs of the member countries is central to the Bank's success as a developmental institution. In this regard the Bank has completed its Fifth Replenishment exercise albeit at a difficult period of time when, in some member countries, the whole concept of assistance to international financial institutions is under increased attack. A serious inquiry in this matter is understandable and, informed debate on this issue is healthy. We have noted with concern however that the debate is not always informed; some participants regard the capital component of an international financial institution as a net outflow of resources from the donor countries—a sort of free contribution from the donor tax payer—whereas studies have shown that in the world of interdependence major donors benefit from the business activity generated by these agencies.

All countries, donor and borrower alike, have an obligation to educate their societies and social institutions in the complex ways in which they gain from being members of the international financial institutions. It might be useful, in doing this, to remind ourselves that no international institution can exactly reflect specialized donor or borrower needs nor the objectives of any one country as that country (or its interest groups) perceives them; and to try and mold such an institution to ones own liking would be to destroy it as an effective agency. We in the Caribbean Group do not believe the Bank is without flaw, but we would like to go on record as supporting its sincerity, its commitment and its demonstrated competence to help in the task of Latin American development.

Finally Mr. Chairman, although the short list of priority issues of the Bank's functions and policies have been debated at length, the time is coming when we must devote our attention to other matters which, to some of us at least, are also important. In particular we are very glad to see the Bank's emphasis on energy because, with the exception of one country in our group, all others are net importers of petroleum products. In view of the adverse balance-of-payments consequences of successive fuel price increases, and the likely impact of future increases we would like to see definite steps taken to assist the region in developing and utilizing alternative sources of energy. There is, for example, ample evidence of Guyana's hydroelectric potential whilst elsewhere in the region the possibility of using solar power and natural gas have not been fully explored.

Also we would like to see the Board of Executive Directors press ahead with broader and more flexible ways of meeting the needs of developing countries, including the use of such techniques as program lending which have been successfully employed in other development institutions.

In closing Mr. Chairman, we would like to congratulate the President, Mr. Ortiz Mena, and his staff for completing yet another successful year of bank operations. We are confident that under his leadership, ably supported by the Executive Vice-President and the Board of Directors, the Bank will not only expand its lending, but will pursue flexible lending policies designed to assist its members—particularly its borrowing members—to achieve reasonable economic growth and development.

ADDRESSES

FOURTH PLENARY SESSION

May 30, 1979

**Address by Mr. Ben-Ami Zuckerman,
Alternate Governor for Israel and Commissioner of Capital Markets,
Insurance and Savings in the Ministry of Finance**

In the year which has elapsed since our last meeting, the negotiations for the Fifth Replenishment of the Bank's capital resources and its Fund for Special Operations have been brought to a successful conclusion under the skilled leadership of President Ortiz Mena. I am pleased to report that my own country is moving forward in the process of fulfilling its obligations under the Fifth Replenishment, and I trust that in a comparatively short period of time all the necessary steps will have been completed.

As is the case of developing countries throughout the world, the development problems confronting Latin America and the Caribbean can be likened to the ancient three elements: fire, earth and water.

Fire, that is energy, has become a critical factor for those developing nations which depend upon the importation of oil to keep their economies moving. As the Bank's Annual Report for 1978 clearly points out, "The Latin American countries are increasingly conscious of the effects on growth exerted by higher prices of oil ..." The recent increases in oil prices bode ill for many of the Bank's member countries, as clearly pointed out in the stimulating statement made yesterday by the Prime Minister of Jamaica. For many Latin American and Caribbean countries, a growing proportion of their export earnings are being diverted away from vitally needed socio-economic programs.

The Bank has undertaken a commendable lending program in the energy sector, centered upon renewable energy sources. This program has, understandably, focussed upon hydroelectric power stations. Unfortunately, hydroelectric power is not a solution for all member countries. For these countries, therefore, the Bank should undertake a pioneering role in the rapid development of appropriate alternative sources of energy. One area suitable for innovative action on the part of the Bank is, we believe, solar energy: since, for a significant number of member countries, solar energy is their primary, if not their sole renewable non-conventional source of energy.

As a result of three decades of extensive exploitation of solar energy, my country has attained high efficiency levels in solar heating and cooling systems applicable to agricultural and industrial needs. We have also developed solar systems for small-scale production of electricity suitable for rural communities. More recently, major strides have been taken toward using solar-heated salt ponds for the production of electricity on a large scale. These technologies are particularly appropriate for use in developing countries. The Bank's recent efforts to foster alternative energy source technologies is, we believe, most commendable, and its activities in these fields should continue to expand in the coming years.

The second of the three ancient elements is earth. A large segment of the people of Latin America live by tilling the earth; nevertheless, due to rapidly expanding population in some regions, basic food requirements are not being adequately met. Given appropriate development of its agricultural potential,

Latin America could not only meet its own needs but also serve as one of the primary sources of the world's food supply.

The Inter-American Development Bank's long-standing concern with agriculture is well known. The Bank's role, both in loans to direct agricultural projects and to rural infrastructure, has been and will continue to be of major importance. Yet in one respect—the application of labor intensive technology—we venture to suggest that there may be room for some rethinking of the Bank's policies.

It is our contention, based upon our experience in both Israel and other developing countries, that one of the more successful means of dealing with the problems of rural unemployment and underemployment so prevalent among low-income farmers, is appropriate modernization of production methods concomitant with the creation of numerous moderate-sized rural agro-industrial centers. Modernization should not, and need not be automatically equated with massive mechanization. It does, however, mean the introduction of appropriate new technologies adapted to local conditions, which can lead to higher yields for equivalent inputs in land, water and manpower. Such higher yields, processed locally, mean employment and higher incomes.

Agroindustrial centers in developing countries have proven beneficial to the rural population on a number of counts:

- a) Unemployed and underemployed manpower is efficiently used in semi-industrial and industrial plants.

- b) Locally based appropriate extension and credit services more adequately meet the specific area needs.

- c) Coordinated and linked localized programs of field production and industrial processing of agricultural produce mean higher incomes for the farmer.

- d) Cooperative purchase of inputs such as seeds, fodder, fertilizer, (and, in some instances, cooperative operation of equipment) mean lower costs and greater efficiency.

Many areas of Latin America are witnessing a continuous population shift from the rural to the urban areas. Unless people can look forward to an improvement in their standard of living, this exodus to the cities is likely to continue, in most cases replacing rural poverty with urban poverty. While no one would claim that the creation of agroindustrial centers constitutes a panacea for the agricultural sector of Latin America, there are clear indications that this approach can make a very significant contribution towards improving the standard of living in numerous rural areas, and as such, we believe it warrants the Bank's interest.

The last of the three elements—water—is by no means the least. It is, perhaps, the most important of the three in terms of its direct and immediate impact upon the standard of living of great masses of population in wide areas of Latin America and the Caribbean, as witness the Bank's extensive activities in irrigation, potable water, and sewage disposal.

We have been pleased to learn that, reflecting the interest and foresight of President Ortiz Mena, the Bank will henceforth concern itself with the socio-economic and ecological aspects of the bodies of water created or appreciably altered by Bank-financed hydroelectric projects.

The application of appropriate limnological expertise, can assure that

many such bodies of water provide employment, food and a better life for the people living on their shores. Furthermore, appropriate aquaculture development can provide an inexpensive source of animal protein for broad segments of low-income population for whom no other source of animal protein would be available. Given the potential socio-economic impact which appropriate development of such bodies of water can have on low-income strata, we venture to suggest that the Bank survey and review the current conditions of bodies of water which its projects have substantially altered in the last decade. As the joint activities of Israeli and Swedish Limnological Research programs have clearly shown, appropriate application of relatively simple technologies can, if used in time, not only revive dying bodies of water, but turn them into important sources of food.

Notwithstanding the Bank's extensive development program over the years, only a relatively small proportion of the arable land in Latin America is currently under any form of irrigation. It is well known that, with appropriate irrigation, the agricultural potential of most regions can be multiplied many times over. While appreciating what the Bank has done to date in the field of irrigation, we suggest that greater attention be focussed upon two important aspects: a) analytical studies of the basic water resources of un-irrigated regions with a view to instigating short- and medium-range water development programs; b) fostering the introduction of appropriate irrigation technologies aimed at the needs of small farmers. In expanding and deepening its activities in these fields, the Bank would meet an essential need of low-income farmers for whom few factors have as far-reaching an impact as the availability, or unavailability, of water.

Water is no less an important factor in the life of the city dweller. Thus the Bank is to be congratulated on the recent expansion of its financing of projects pertaining both to potable water and to sewage disposal. Obviously there is still much to be done. In terms of the Bank's future lending program, particular benefit could, we believe, be reaped by the Caribbean region from suitable smaller scale plants for both potable water and sewage recycling.

In closing, I should like to point out that while Israel is among the smaller shareholders in the Inter-American Development Bank, it is, relative to GNP, proportionally one of the largest contributors to the Fund for Special Operations. In the past, much of our activity in Latin America has taken the form of technical assistance. Our training programs in agriculture, cooperation, regional planning, and health, have already been completed by more than 20,000 trainees from developing countries, many of whom were from Latin America and the Caribbean. Now that the long-sought peace has begun between Egypt and Israel, a peace which should eventually encompass the entire region, it is our sincere hope that additional resources can be directed to expanding our technical assistance and training programs.

Mr. Chairman, I would like to express our sincere gratitude and appreciation to the Jamaican Government and to the Jamaican people, whose warm hospitality is making this a memorable and pleasurable experience for us all.

**Address by Mr. Hugo Tulio Búcaro García ,
Governor for Guatemala and Minister of Finance**

In the name of the people and Government of Guatemala, I am pleased to express greetings to all the countries represented here, especially to the hospitable people of Jamaica.

Yesterday at the third plenary session of the Twentieth Annual Meeting of the Board of Governors of the Inter-American Development Bank, the countries of Central America joined together, through the speech of the Governor for Costa Rica, Hernán Sáenz Jiménez, in expressing a number of opinions on the operations and objectives of our Bank.

Nonetheless, I believe it essential to stress today certain of our own particular and fundamental points of view about development and poverty.

Countries like Guatemala find themselves in the difficult situation today of facing, on the one hand, the permanent challenge of achieving progress; on the other hand, new obstacles, added to traditional problems of development are springing up, thus making even more difficult progress towards achieving well-being throughout society.

Because of their traditional lack of capital, countries like Guatemala face major difficulties that make it necessary for them to be continually seeking new formulas for economic and social development.

It is for this reason that institutions such as the Inter-American Development Bank play a decisive role, alongside the efforts of the peoples and governments concerned, in the search for the capital needed to promote progress.

Guatemala, with its pronounced democratic traditions, is engaged in the quest for development, while observing the principle of total respect for individual rights; my country firmly believes that the well-being of society is the inescapable responsibility of the people and the Government acting in unison.

As a result, we maintain an open-door policy for foreign private investment just as, in matters falling properly within the purview of the Government, we seek financing from such agencies as the IDB.

With the Government being responsible for establishing and maintaining an economic infrastructure through investments channeled to such sectors as energy, housing, transportation, industry, agriculture; health and education, among others, we need sizable amounts of capital.

However, a number of factors are currently having a negative impact on our economy. These include:

a) The continuing decline in international prices for our major export commodities, such as coffee, cotton and sugar, which not only affects the productive sector proper, but also affects tax collections, thereby reducing the volume of resources available for Government projects.

b) The constant rise in oil prices is a major inflationary factor that is having a serious impact on our economy. We therefore consider it essential to form a bloc of importing countries to enable us to take joint decisions to safeguard our interests.

c) The revaluation of certain currencies is increasing the amortization and interest payments we have to make on loans granted in currencies subject to currency fluctuations. This, in turn, hampers the implementation of development projects.

The factors listed above, taken in conjunction with our traditional development problems, form an economic whole that can cause undesirable delays in our march toward progress and may threaten many of the goals of the IDB itself.

Given the causes, which in the memorable year of 1959, gave rise to the establishment of the Inter-American Development Bank, we should examine the present problems from a multinational, multi-institutional and multidisciplinary angle.

As the representative of a Central American country, I trust that within the IDB we shall be able to tackle the entire range of problems that beset us. I find this trust fully confirmed here, as I make not just an appearance required by protocol, but outline conditions, as they exist today, which hinder progress. I have full confidence that the solutions found will be applicable and valid for small countries as well.

Guatemala is facing the challenge of the future by implementing a National Development Plan calling for a series of coordinated actions to be carried out in a four-year period through 1982 as part of a long-term strategy.

When we add the projects being carried out that we have inherited from previous years and those listed in the National Development Plan for the period in question, we find that we shall need financing amounting to 3 billion quetzales, or the same number of U.S. dollars.

Of this sizable sum, approximately Q 2 billion will have to be disbursed between 1979 and 1982, since some of the projects will require more than four years for implementation.

A program of public investment such as the one we propose to carry out will obviously require a significant degree of international financial assistance, amounting in the present case to \$1.5 billion. If these funds are not obtained, execution of our various projects will be seriously impaired.

We are pleased to report that, to date, of the sum of \$1.5 billion required, we have obtained promises of external financing amounting to slightly more than \$1 billion. Of this total, our Bank, the IDB, will be able to come up with some \$420 million, representing almost half the financing already offered to Guatemala and 27.8 per cent of the total resources we are asking outside sources to provide.

This should not be passed over, and one of the reasons that I am addressing this gathering is to express in public our thanks in advance for the valuable financial contributions and the equally valuable technical cooperation we hope to receive from the IDB in the first place, and from such other important financial institutions as the World Bank, the Central American Bank for Economic Integration and the Agency for International Development. In spite of difficulties, we in Guatemala take up the challenge of development undaunted, setting aside any makeshift solutions.

We feel that our program of coordinated action for progress laid down in our National Development Plan constitutes the instrument capable of improving

the welfare of the Guatemalan people, provided of course that it is implemented with appropriate financial assistance from institutions whose reason for being is to promote development.

Finally, let me again express my thanks to the Jamaican authorities for their cordial hospitality and my appreciation to the President of the Bank for the meritorious work done over the past year.

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

It has been our privilege during the last two days to listen to a number of wide ranging and stimulating presentations to this Board from the Prime Minister of Jamaica, from our President, and from my distinguished colleagues. I hope that I shall not be misunderstood when I have to say with regret that circumstances preclude me from following their suit.

I am certain that the very recently appointed Governor for the United Kingdom is extremely sorry that he could not attend this Meeting himself; he has essential business to deal with at home. I do not have to tell the Board that we have had a change of Government in London, and that the new Administration has made it clear that in fulfilment of their election promises, they will be taking a close look at all aspects of Government policy and at each and every item of public expenditure. What this may or may not portend for that sector of public expenditure which is of particular interest to us here, the Government have still to say and on that score therefore I can say nothing. There are however certain things which I feel justified in saying, with full confidence.

First, that the Government will wish to consolidate the economic and political relations with the Western Hemisphere which is signaled by my country's membership of the IDB.

Secondly, that they will wish to underscore the role in overseas development of the private sector. This should not, I suggest, cause any misgivings to the members of this Bank. The IDB has been a pioneer in acting as a marriage broker, helping to mobilize the resources of the private sector and to match them with official and multilateral funds.

Thirdly, I am confident that the incoming administration will applaud, as their predecessors did, the emphasis which this Bank continues to lay on its activities in technical cooperation: in this field too the IDB has shown itself a pioneer.

The IDB was a pioneer also in the provision of loans for the benefit of the social sector—for development, that is to say, in the fields of housing, health and education and the improvement of the lot of the most disadvantaged elements in society. Speaking for myself, I share the regrets which several earlier speakers have expressed that the share of the Bank's lending for rural development and agriculture, which must surely be basic to any strategy for productive employment and the economic and social betterment of the lowest-income groups, has shown some decline during the last year. We have noted with great satisfaction the expressed determination of the Management and of all member countries of the Bank that the 50 per cent target to which we all subscribed when the fifth replenishment was agreed last year, should be achieved without fail in the four years to which that replenishment relates. We understand the need for a degree of flexibility and for simplicity in operation: it is essentially in the interests of the latter that the constituency which I have been honored

to represent for the last few months has been so keen that some objective definition of the lowest-income groups be established with the minimum delay.

There has been much discussion of the importance of evaluation and review. I yield to no one in my recognition of the need to secure cost-effectiveness in the projects which the Bank supports, and to learn from the experience which any form of audit should provide. But I cannot help asking myself, as I now ask my distinguished colleagues, if the search for absolute perfection cannot be overdone and if, by the same token, we are not asking the Bank staff to provide us with too many studies and reports (which most of us perhaps will never have time to read) and diverting them thereby from their primary task. It is a truism that the best is so often the enemy of the good. Let our review process function as a stimulus, let it never be a brake.

Let us also eschew the temptation to indulge in back-seat driving. It is in that context, I suggest, that we owe it to ourselves to do some hard thinking about the future of the Working Group on Functions and Policies. In the view of my delegation, the Group has not lived up to the expectations which the Board will have had when the Group was established last year in Vancouver. All the issues considered by the Group have been, as they remain, of the highest importance, but I doubt whether any of us who have been members of it can claim to have contributed much ourselves. At this meeting the Management and the Board of Executive Directors have been given a formidable menu of tasks to be accomplished during the next few months. By this time next year, new courses should have been charted, but we cannot change course all the time. If the time-table can be kept, the Group will have worked itself out of a job: if it cannot, it will have shown to us that the Working Group is not the appropriate instrument for that job.

As the distinguished Governor for Japan has reminded us, this Twentieth Meeting of the Board of Governors almost coincides with the third anniversary of the formal entry of the first non-regional countries to full membership of the Bank. I recall that at the Eighteenth Meeting held in Guatemala City there was much talk of our being "fully fledged" members. I hope that the records do not show that I ever used the phrase myself: the only creature I know which is capable of being fully fledged faces only two alternatives when it reaches that state—either it flies away, or it is plucked and put into a pot. It was never our intention to let either of these happen: we are here, alive and well.

This is not to say that there was not a period of sometimes uncomfortable adjustment, but it was short-lived—there was never any doubt of the sincerity of the welcome extended to us. As I come to the end of my term as the Alternate Governor for the U.K., I should like with your permission, Sir, to pay two particular tributes. The first is to our President and his staff for the unfailing courtesy and forbearance with which they guided our first faltering steps; in this context I would wish belatedly to add my own name to the vote of thanks which we have given to our Secretary. The second is to the two Executive Directors whose term of office is also coming to a close. Of Mr. Torao Aoki's achievements I have no direct experience, but I can affirm and would wish to place on record the immeasurable debt which the members of his constituency owe to Dr. Günther Schulz for the intermediary role that he has played for us in the work of integrating us newcomers into the IDB community. I am perhaps better placed

than others in this room to give an assurance that his successor will spare no effort to live up to his distinguished example.

Mr. Chairman, I associate myself with those who have already congratulated the President and his staff for their impressive achievements during the past year; we also commend them and the Executive Board for their admirable Annual Report.

There are particular members of that staff whose indispensable services to the Bank and to this meeting are to my mind insufficiently recognized. I refer, Sir, to our interpreters: I would not necessarily want to establish a precedent, nor perhaps want they, for they hide their lights under pretty impenetrable bushels—but I do on this occasion invite my colleagues to support me in a special vote of thanks.

Finally, on behalf of the U.K. delegation, I have to express our warmest thanks to the Government of Jamaica and to you, Sir, personally for the magnificent hospitality we have been shown during our all too brief stay here; for the efficiency of the dispositions made for our reception; and to the people of this lovely island for the warmth of the welcome we have received wherever we have been.

**Address by Mr. Petar Kostić,
Governor for Yugoslavia and Federal Secretary for Finance**

I would like, first of all, to express on behalf of the Delegation of Yugoslavia our gratitude to the Government of Jamaica and to the Authorities of Montego Bay, for the hospitality extended to us in this beautiful place and for the extraordinary organization of the meeting.

Speaking about our meeting, I would like to say at first that my Government has a positive conclusion about the results of the Bank's activities in 1978. The Annual Report on the Bank's operations indicates among other things:

- A successful increase of loans to the developing countries of Latin America.
- It was the year in which the Bank's activities in attracting funds for complementary financing of projects of interest to regional countries were continued. Of special importance for the Latin American developing countries, in our opinion, was the sectoral distribution of the loans.

The Bank's policy prefers projects in agriculture, industry, mining, energy, transportation and communications, sectors representing the basis for the future economic progress of the regional countries.

It is our opinion that the Bank should continue its orientation of supporting the least developed countries of the region and that the major part of the resources of the Fund for Special Operations should be used to finance projects in these countries.

Last year was a successful one in the Bank's policy. But it is necessary to go on searching permanently for new methods to perfect our institutions. It is in the interest both of the countries of Latin America and of the non-regional countries to which Yugoslavia belongs.

The Yugoslav policy of constantly promoting economic cooperation with developing countries and their financial institutions, based on the decisions of non-aligned countries and especially on the decisions of the Fifth Summit of non-aligned countries at Colombo has been giving its results.

The Latin American countries rank more and more importantly in the economic relations between Yugoslavia and the developing countries. But we have constant deficits in our trade exchange with the Latin American countries.

Our companies seek to increase exports to these countries. There is just one way to increase imports from this region and this way, in my opinion, is to export more and more from my country to the countries of this region.

With the aim of promoting its cooperation with Latin America, Yugoslavia joined the IDB in 1976. Yugoslavia actively contributed in formulating the developing countries' requests at the ministerial meeting of the Group 77 in Arusha and agreed to be the host of the first meeting of Ministers of Finance and Economy of the Group 77 to be held in Belgrade on September 29, 1979.

Finally I would like to express our opinion about the volume of cooperation of Yugoslav organizations in the execution of projects financed by the IDB. Yugoslav organizations have tried on several occasions to incorporate themselves in the realization of projects financed by the Bank, but, with the exception of some minor deals concluded in the earlier period there have been no new con-

tracts. Despite a substantial improvement in mutual communications and the improvements in the communications system of the Bank's documentation with the member countries in 1978, our estimate is that there are still defects in the mechanism of mutual information.

It is necessary to do our best, both member countries and the Management of the Bank, to eliminate these defects.

In conclusion, I would like to inform you that last month the Yugoslav Government approved the decision accepting Yugoslavia's participation in the Fifth Replenishment of the Bank's funds.

I expect this Governmental decision to be ratified by the Yugoslav Assembly. But I also expect unpleasant questions about the participation of Yugoslav organizations in projects financed by the IDB.

Mr. Chairman, I join my previous fellow Governors in expressing recognition to the President, Mr. Ortiz Mena, the Management and the Staff of the Bank for the extraordinary results in this 18th year of operations of the Inter-American Development Bank.

**Address by Mr. Leopoldo Díaz Bruzual,
Governor for Venezuela, Minister of State
and President of the *Fondo de Inversiones de Venezuela***

I am unable to hide the satisfaction I feel, as a Venezuelan, because the Annual Meeting of the Board of Governors of the IDB is being held in Jamaica, a land to which we feel joined, not only by the Caribbean basin but by bonds of sympathy and history, for it was here, in the darkest of hours, that Simon Bolívar the Liberator found refuge and invigorating encouragement. One must not forget that this was the place whence, after the fall of the First Republic, the Liberator wrote and addressed to America one of the most important statements of his political thought: the Letter of Jamaica.

Through you, Mr. President, in the name and on behalf of the Government of Venezuela I wish to convey to all the Jamaican people our understanding and acknowledgement of the brave manner in which they are endeavoring to find a solution to difficult economic and social problems, and to thank them, as well, for their kindness and warm hospitality.

In reviewing at this meeting the results achieved by the Inter-American Development Bank during the preceding fiscal year, I should like to express my country's satisfactions with the work performed. The recent record amount of lending of \$1,870 million, mentioned in the President's address is clear-cut evidence of the growing dynamism the Bank has been acquiring in difficult times, like those the world economy is now experiencing. This financial co-operation for the development of Latin America, though it does not offset the vast losses the region is suffering, will at least furnish valuable and effective relief to the already heavy burden placed on the region by an unjust economic system which apparently is enduring beyond the historical, political and cultural cycle already completed.

We therefore feel that the increase in the IDB's capital resources was more than necessary; it was essential at the present-day economic juncture characterized, in the industrialized world, by recession, inflation, unemployment, declining imports, protectionism and other evil effects which in the developing world and in Latin America, particularly, are expressed as declining exports, deterioration in the prices of those exports and, therefore, of the terms of trade, balance-of-payments deficits, loss of international reserves—in a word, the loss of foreign and domestic purchasing power.

We would thus view with great satisfaction for the Bank to expedite its loans to the utmost, above all concessional loans to the low-income countries, as well as for it to put into service new mechanisms and systems of cooperation that would make it possible to soften the impact of the present crisis.

In this respect my country's delegation would like to suggest to the Management of the Bank that it examine the possibility of having the liquid assets it holds, which are usually placed in the international financial markets of the industrialized nations, placed instead on similar terms and conditions in the central banks of member countries that are experiencing grave balance-of-payments problems. Thus the return on IDB liquid assets would not be dimin-

ished and would constitute an invaluable aid in the process of adjusting the external disequilibria.

For her part, Venezuela, in light of these circumstances and in accordance with the Management of the Bank, only recently proceeded to amend the Trust Agreement between the Venezuelan Investment Fund and the Bank through an additional protocol which will enable Venezuelan assets now managed by the Bank to be lent not only for fairly large-scale development projects but also to provide balance-of-payments relief, as has just been done with the Central Bank of the Dominican Republic, as well as to supply resources to cover local project costs. In this manner the original objective of the Trust Fund will be expanded and financial cooperation in connection with the balance of payments will be provided.

About the management of the assets of the Trust Fund, I wish to say that my Government would be pleased to see the loans moving in the future so that resources still available which amount to approximately \$250 million might become major development projects in the lower-income countries.

Another matter to which the Government of Venezuela attaches singular importance is the Equity Financing Program organized with Trust Fund resources. This mechanism provides for participation in the capital formation of medium-scale enterprises which some less developed countries wish to establish. These shares, temporarily held by the Fund, may be redeemed, that is, purchased by national or official agencies of the country in which an investment has been made, whenever they deem it desirable. Now, Mr. President, my country considers that the utilization of the Equity Financing Program has been very slow, since it is hard to understand how, two years after it was created, only \$500,000 in a single project have been used out of the \$20 million available. I should like to beg the Management of the IDB to take as much interest as possible in having these resources placed in new enterprises in the less developed member countries.

I cannot allow the opportunity afforded me by this annual meeting to slip by without referring, on behalf of my Government, to the energy issue and the changes in the price of petroleum.

Much has been said in the last several months about increases in petroleum prices. Regrettably, this has not always been done with the objectivity and sincerity warranted by so delicate a subject. Most often the opinions put forward in the newspapers and in international forums have been determined by private interests, even selfish ones, when they have not been tinged by rivalries or specific ambitions of power. Things have gone so far that countries from which some balance and objectivity might be expected in discussing the matter have taken positions that are not the most consistent with reality and with the desirability of future dynamism in the world economy.

With extreme carelessness or the deliberate attempt to confuse, an effort is afoot to make people believe that the only cause of world inflation, of the monetary disarray, and of the balance-of-payments difficulties of many countries rests with the increase in petroleum prices. Those who support this idea seem to overlook that in the United States and Europe alike there already existed at the end of the 1960s strong and constant inflationary pressures that were gathering ever-increasing force. They are also reluctant to recall that on August 15,

1971, the country issuing the key currency, at the stroke of a pen toppled an international monetary system that had been proven over a period of 25 years, with panic ensuing time and again in the principal world money and financial markets. There is no need to speak of the ease with which the attempt is going ahead to ignore the weight of many years of deterioration in the terms of trade of the developing countries, at times brought on by the drop in commodity prices; at other times by the rise in the prices of manufactures and capital goods and, at present, by both nefarious causes.

On the other hand, the concern of some industrialized countries over the transfer of resources to the OPEC nations resulting from the increase in petroleum prices is touching to note. What is there to say, then, about what happened for scores of years when less than one dollar and twenty cents (\$1.20) was the price paid for a barrel of oil. How many hundreds of thousands of millions of dollars flowed out of the petroleum exporting countries into the industrialized countries? Another question might be how large a share in the transfer of Third World resources to the industrialized world does the ongoing deterioration in the terms of trade of the developing countries represent?

As for the rest, the idea of blaming petroleum prices for all present evils in the world economy encloses a strange fallacy. In fact—and briefly stated—out of the final price for a barrel of refined crude oil, 40 per cent remains in the hands of transnational marketing companies: a like share, or more, stays with the importing country in the form of tax benefits and refinery benefits; and only 20 per cent, or less, goes to the producing country. Who, then, benefits the most from the rise in petroleum prices? Why has the United States Government established a special tax on the excess earnings of multi-national oil companies? These and other questions like them are enough to dispel doubts about the petroleum problem.

In the last analysis, the rise in petroleum prices has done nothing but awaken the world, the industrialized world in particular, to reality: the relative shortage at present of a precious nonrenewable product and the probable high cost thereof over the medium and long term, unless substantial new reserves are discovered.

For decades, the industrialized world, with the United States in the lead, has been used to squandering and lavish consumption of petroleum energy. If this were to continue unabated, reserves discovered up to now would be depleted in a few years. But it is "putting the cart before the horse" to say that the rise in prices is what has caused the crisis when the fact is, that the price rise is actually the result of the crisis. This was recently proved by the situation created by the temporary decline in exports from Iran; a sudden drop in the supply of crude brought about a real dislocation in the petroleum market. Therefore it can hardly be argued that the price adjustments decided by OPEC are artificial price rises. If that were true, we would be talking about a very exceptional example of the workings of the price mechanism: when the price goes up artificially, the demand, instead of dropping, increases out of all proportion.

No, gentlemen, however much one would like to see things otherwise, it was not petroleum prices which provoked the present disarray in the world economy. The economic crisis in the world is a structural crisis, the consequence

of the distortion prevailing between the degree of economic interdependence among countries and the unjust trade and currency systems which the stronger countries are trying to maintain vis-à-vis the weaker countries.

Despite everything said thus far, my country, like the other countries of OPEC, recognizes that adjustments in petroleum prices constitute an additional burden to the heavy one already borne by the other developing countries because of the unjust trade system imposed by the industrialized countries. As a direct consequence, for a number of years now, the member countries of OPEC have established, in addition to bilateral cooperation, regional and world-wide systems of multilateral financial cooperation. An eloquent example is the Special Fund of OPEC, created to promote development projects and as a source of financing in the event of disequilibrium in the balance of payments of the low-income countries. This Fund, established about two years ago, was originally capitalized with \$1.6 billion. Today, it is being replenished with fresh funds—\$800 million, approximately—and we are trying to change its legal-economic structure in order to expedite the granting of credits and step up cooperation with the countries which are having balance-of-payments difficulties.

I think it is fitting, at this point in my statement, to point out that the total amount of the financial cooperation commitments assumed by OPEC in the past few years has not gone under \$10 billion, after having reached \$15 billion in 1975. According to UNCTAD statistics, total financial cooperation of the member countries of OPEC in 1977 represented 7.5 per cent of the Gross National Product of all those countries. How different the situation of the developing countries would be if the industrialized world were to provide resources in the same proportion for development cooperation! Nevertheless—and here is the irony—a number of developed countries claim that OPEC is upsetting the economies of the Third World. Fortunately, the Group of 77, which represents most of the developing world, is aware that OPEC's successes are real triumphs and examples for the whole of the Third World.

Mr. Chairman, the Government of Venezuela would like to take this opportunity to reaffirm what it said in Manila barely two weeks ago: that Venezuela is committed, by all means available to it, to try to prevent adjustments in petroleum prices from placing further onerous burdens on the less developed countries, which are sufficiently disturbed by the existence of an unjust economic order, which is a major obstacle to their development.

International social justice is the guiding principle of the new Venezuelan Administration's international economic policy. Accordingly, my Government believes that a single set of hard and fast rules of international relations cannot be applied to different economic and social conditions and situations. Relations between developed and developing countries must be governed by principles different from those that obtain in relations among industrialized countries themselves. Indeed, we feel that even within the developing world there are circumstances that warrant the granting of special treatment and privileged positions to certain less developed countries in their economic relations with other Third World countries.

One practical application of the principle of international social justice is cooperation with other developing countries.

For Venezuela, Mr. Chairman, this cooperation has been no dead letter or

mere rhetorical flourish in international forums. Since the price of oil began to climb in 1973, Venezuela has disbursed a total of \$3,685 million in bilateral and multilateral financial cooperation; its commitments, however, add up to \$5,171 million. As percentages of such parameters as the national budget or the national income, these figures amply exceed the contribution made by any industrialized country, and perhaps that of any other OPEC country.

More specifically, in regard to Venezuelan financial cooperation with Latin America, it is well to point out that in the period to which I refer, my country has made disbursements totaling about \$2,300 million. This figure breaks down roughly into the following components: \$450 million to the IDB's Trust Fund, \$425 million to the Petroleum Facility with Central America, \$500 million in loans to the World Bank, \$25 million for the Trust Fund of the Caribbean Development Bank, \$40 million for bonds of the Central American Bank for Economic Development, \$450 million for bilateral financial cooperation, and \$420 million for other operations. This includes only disbursements. But Venezuela also has outstanding commitments for cooperation with Latin America in the amount of \$3,150 million. As you can see, this is a disproportionately high figure when we consider that the total commitment of the United States to the entire program of the Alliance for Progress came to \$1 billion.

Mr. Chairman, here in this land so delightful to us Venezuelans, I want to reaffirm our commitment to the cooperation we have been providing throughout the region and to reassert yet again that in so doing we are animated by no interest and no intention other than that of bolstering the development of our countries and the economic and social advancement of our peoples.

And we are certain that today, no less than in the past, it continues to hold true that "America cannot live without justice any more than it can live without liberty."

**Address by Mr. C. Ulrik Haxthausen,
Alternate Governor for Denmark and Head of Division,
DANIDA, Multilateral Aid, Ministry of Foreign Affairs**

It is with great pleasure that I address this Annual Meeting on behalf of the Danish Government. Allow me first of all to convey to this distinguished gathering the warmest wishes of our Governor, Minister Lise Oestergaard who deeply regrets that she is not able to be here today.

Let me take this opportunity to join the previous speakers in their appreciation of the perfect arrangements that have been set up by the Government of Jamaica and the staff of the Bank. It is of course a special pleasure to attend this meeting in these splendid surroundings on the beautiful island of Jamaica.

This is the third time that Denmark is represented at the Annual Meeting of the Bank and we can now look back at a completed program period covering 1976-78. During this period the Bank has carried out the proposed loan program in an excellent manner. The planned goals both for overall growth and sectoral distribution have been pursued energetically and successfully reached. The Bank Management's efforts to accelerate disbursements on previously approved loans have completed the impression of an efficient and determined contribution to the development of the region.

The program of activities for 1979 indicates that the Bank is firmly committed to carry this trend even further as the ambitious projections for future loan activities show a real growth of 5 to 7 per cent.

A large part of this growth is designated to be channeled into agricultural projects. These plans go very well along with the general Danish development assistance policy which stresses the importance of creating employment opportunities on a broad basis through a massive effort in rural areas. In view of this worthy but ambitious goal it is important that the Bank commits sufficient resources, including staff, for the preparation and implementation of the outlined loan program. The experience of the last years shows that execution of agricultural programs requires comprehensive preparation and careful implementation.

The Danish Government has in many international fora and also at previous meetings in the Inter-American Development Bank stressed the importance that the Government and the Danish public attach to the aim that official development assistance—bilateral as well as multilateral—be allocated primarily to the poorest countries and to projects which directly benefit the poorest segments of the population. The improvement of their living conditions and development prospects should be of immediate concern to all development agencies. It is therefore with great satisfaction that we have noticed that the members of the Bank during the replenishment exercise have reached an agreement to reserve 50 per cent of its lendings for low-income groups in the recipient countries. I believe it to be essential for the Danish Government's continued support of the Bank, that the Bank succeed in securing a wholehearted and effective implementation of this policy. In order to avoid excessive administrative procedures, a clearly defined set of standard guidelines, setting the objective criteria

for evaluating and determining the effect of a given project for the low-income groups, should be established.

It is also with great satisfaction that the Danish Government has noticed the importance that the Bank attaches to social development programs. We have paid special attention to those programs that through creation of primary health services contribute to improvement of living conditions for the rural population. The Bank has also shown that it is willing to fight the problems stemming from the large metropolitan areas of the region. These urban development programs have our full support.

In order to fully implement these special policies and to make the projected growth rate possible the Board of Governors completed in December last year the negotiations on the Fifth Replenishment of Resources of the Bank. Acknowledging its obligation to further social and economic development in the region, the Board has confirmed its commitment to secure a continued expansion of IDB's activities. The Danish government has submitted its proposal for joining the Fifth Replenishment for final parliamentary budgetary approval and it is the hope of our Governor, Mrs. Lise Oestergaard, that she will soon be able to transmit to the Bank the news of the Danish accession.

There is in the Danish public a broad understanding of the obligation of the industrialized countries to contribute actively to the economic and social development of the Third World. This has for many years been given a high priority by the Danish Government and is reflected in the financial appropriations for development assistance. Despite severe economic problems of our own the official development assistance has been rising steadily for several years, not only in real terms but also in relation to our gross national product. I am very happy to be able to inform you at this meeting that Denmark has now reached and surpassed the 0.7 per cent target.

But one should not only seek to increase the volume of the financial aid but also try to improve the quality of the assistance and generally speaking the economic relations—official as well as private—between developed and developing nations. An important aspect of this question is the transfer of technology and management experience through the cooperation between industries in developing and developed countries.

Danish industry can offer a varied range of specialized know-how and Denmark has been undertaking a series of arrangements to facilitate the transfer of such technology. One of the latest steps in this context is the strengthening of our Embassy in Washington, with the purpose of offering Danish participation in development projects carried out by the international financial development institutions based in Washington. The IDB seems to be a perfect channel for this purpose, and it is the hope of the Danish Government that a mutually beneficial relationship can be established.

Mr. Chairman, to conclude I would like to express the satisfaction of the Danish Government with the work of the IDB. Under the excellent leadership of President Ortiz Mena, the very competent staff is performing a highly commendable task for the economic and social development of the developing countries in the region. We trust that this will also be the case in the new program period.

**Address by Mr. Gustavo R. González,
Governor for Panama and Minister of Planning and Economic Policy**

The opportunity of our coming together for this Twentieth Annual Meeting of the Inter-American Development Bank on this hospitable island so rich in history and traditions presents Panama with an opportunity to see reflected in the noble and hard-working people of Jamaica historical affinities of a cultural nature and real and latent similarities in socio-economic terms with our own country.

Jamaica gives us the opportunity to send heartfelt and fraternal greetings to all the Governors, as representatives of the interest and aspirations of our sister countries, assembled here in a spirit of cooperation and economic interdependence to discuss matters of economic and financial importance.

We take this opportunity to express our thanks for the warm welcome given to our country's offer to host the IDB's next annual meeting. The holding of this great event in our country would be for Panama and the Americas an occasion to reiterate to the world its devotion to the cause of peace and the development of peoples. The year 1980 marks the initiation of the final two decades in the transformation of Panama into the sovereign of its own homeland and destiny, renewing confidence among all Americans in the power of our alliance to triumph in common endeavors. There could be nothing more appropriate than for the men who mold the economic and social structures of our sister nations to meet in our isthmus to discuss the future of our peoples so that we might deliberate in the same place which Bolívar wished to convert into a symbol of American union. We sympathize with and support the other site proposals but we would still like to invite the governors in 1980 to make Panama the stage where the dignity of America, its sovereign independence and its mission of peace and progress will be reaffirmed.

The Annual Report for 1978 submitted to this Meeting by the Board of Executive Directors and the address by President Ortiz Mena at the Inaugural Session have borne eloquent testimony to the main activities and events affecting the Bank in the past year. Both reports also present a masterly overview of global and sectoral development trends, with a country-by-country description of loans granted, technical cooperation provided and progress achieved, together with statistical indicators for the region and the financial statements of the Bank.

We fully agree with what was said in the Report—and we are also gratified to note this fact—namely that 1978 was one of the most important years in the Bank's history, to judge by the work done and successes achieved in terms of new loans approved, complementary financing granted, technical assistance extended on a nonreimbursable or contingent repayment basis; loans disbursed; income received on the Bank's own resources, and repayments on loans granted in previous years.

We also feel great satisfaction over the austerity achieved in keeping down administrative expenses, backed up by the measures taken within the Bank in the fields of personnel management and administration; the degree of cooperation maintained with other organizations such as the World Bank, the

European Economic Community (EEC), the Organization of Petroleum Exporting Countries (OPEC), the International Fund for Agricultural Development (IFAD) and the United Nations Development Programme (UNDP); and in the administration of the 12 special funds established by various governments and administered by the Bank.

We wish to associate ourselves with the unanimous support expressed during these discussions for the increase of almost \$10 billion in the resources of the Bank approved by the Special Meeting of the Board of Governors held in Washington at the end of 1978. In this context, we should like to express our special gratitude to the Working Group chaired by the Governor for Venezuela and the Governor for Mexico, who presided over the Committee of the Board of Governors. They acquitted themselves with diligence, efficiency and dispatch of the duties assigned to them at the Vancouver meeting in April 1978.

Significant advances have been made in connection with analyses and steps taken or soon to be taken with regard to the functions and policies of the Bank. Our thanks are due to the Executive Directors and the Management of the Bank.

Finally, we also wish to express our support for the recent adoption by the Executive Directors of an explicit policy on mining and on the environment. We are convinced that these policies will prove very useful for the actions to be taken by the Bank, in conjunction with our countries, in these important sectors during the coming years.

Panama has received loans totaling more than \$300 million since the establishment of the IDB. These loans have been supplemented by additional resources in the form of valuable technical cooperation for the overall development of our country. We have every reason to believe that we shall continue receiving IDB assistance on a similar scale in coming years, when we shall be laying the foundations for a more dynamic, more modern, more balanced and more equitable development process designed to benefit each and every Panamanian.

The current meeting of the UN Conference on Trade and Development (UNCTAD) in Manila; the most recent meeting of the UN Economic Commission for Latin America (ECLA) in La Paz; the recent conference in Santo Domingo of the Association of Latin American Development Institutions (ALIDE), and past and future meetings of the Organization of Petroleum Exporting Countries (OPEC) and many other organizations and groupings of an international or regional character serve to confirm that the international crisis has lasted much longer than was expected in previous years. These discussions also confirm our suspicions that this crisis situation will be with us for quite some time yet.

Within this context, we feel that the countries of Latin America are in danger of forfeiting the results of the enormous development efforts made over the past 20 years. This could be the inescapable result of the disturbances which have affected the world economy and which require new approaches, strategies, measures and actions designed to bring about a more equitable international economic order and more equitable relations between nations. This will necessitate unity and solidarity within the Latin America to achieve a concerted position that will provide an effective joint negotiating strength, the potential for which should be exploited to the maximum extent possible, as the distinguished Governor for Peru has suggested.

We therefore feel that in these renewed efforts toward unity and in the

process of implementing common measures and actions, the participation and involvement of the IDB will continue to fulfill its traditional role of respected leadership in all major regional initiatives.

We feel that the Inter-American Development Bank, in its capacity as a multilateral regional financing agency, should continue to provide a major contribution toward the task of exploring every possibility of increasing the real flow of resources for the economic and social development of all our countries. We stand in urgent and pressing need of such resources, first and foremost to satisfy the demands for improved living conditions of the great majority of the population of Latin America, many of whom are subjected to significant loss of personal freedom.

In short, Mr. Chairman, we do not believe that the Inter-American Development Bank is an institution that should limit itself exclusively to providing loans and technical cooperation. In our modest view, the IDB was established to explore and consider all the options and possibilities for integral development of our region and of our countries, which go far beyond the functions of furnishing loans and technical cooperation. This broad view of the IDB is fortunately shared by our President, Antonio Ortiz Mena, to whom we once again wish to express our warmest appreciation, confidence and support.

The Inter-American Development Bank has entered upon one of its most interesting phases since its inception. Its day-to-day operations will have to be supplemented by a process of deep reflection on the permanent and changing realities of the Latin America region and of each of our countries. The new functions and policies that will result from this process will have to be explicitly planned and incorporated in a flexible manner in the Bank's program of activities in coming years. The object must be to ensure that the IDB's participation will contribute effectively to permitting the peoples of Latin America to enjoy greater well-being in accordance with our historic ideals and aspirations of independence and freedom. These are the selfsame ideals as were expressed by the Great Liberator, Simón Bolívar, in his famous letter from Jamaica, written on this beautiful island.

To be more specific, we wish to indicate our support for the establishment of a Latin American Multinational Fund for Industrial Development and a Special Guaranty and Insurance Fund for Energy and Mineral Projects, as announced by President Ortiz Mena in his opening address to this Meeting. We also support the proposal by the distinguished Governor for Finland to promote the forestry sector in Latin America. We are also in full agreement with what a large number of Governors have said regarding the need for more flexible and less cumbersome operational criteria and systems that will assure a larger and more flexible degree of financing and speedier disbursement procedures.

We also trust that the next annual meeting will see the official adoption of specific actions and measures of supreme importance for the future of the work undertaken by the Bank as a regional organization with responsibility for financing the all-round development of Latin America, in accordance with the true needs and aspirations of the region.

In the past decade, Panama has been introducing fundamental changes in its economy. Within the overall context of our new political and economic structure, we have traditional forms of private enterprise, now reinvigorated and

brought up to date, which we fully intend to maintain, alongside mixed-economy-type enterprises and purely State-owned enterprises in the basic sectors.

Our economy will change significantly on October 1, 1979, when Panama regains full control over the land, waters and installations on the very banks of the Canal. For the first time, we shall be operating the port installations at either end of the Canal and the trans-isthmus that connects them. We shall begin to participate in the governing body administering this inter-oceanic route. We shall receive significant income from traffic through the Canal, which today represents the most important facility for exploitation of what is our national resource *par excellence*: the path between the Atlantic and Pacific Oceans. We shall now have the opportunity to build, for future generations of Panamanians, a larger and more complete economic basis, able to create the new wealth that will be distributed with greater justice and equity. The unique advantages conferred by Panama's geographical location at the center of the world's maritime communications will provide openings for manufacturing activities that will generate increased employment and income. The development of our natural resources will be facilitated by the surpluses generated from user fees for the trans-isthmus. The Panama Canal Treaties will create a new sovereign and independent nation, in full possession of its dignity, and with the prospect of a better future before it.

The Torrijos-Carter Treaties were signed in Washington in September 1977; in the presence of the Chiefs of State and Government leaders of the Americas, who witnessed that it is possible to find a peaceful solution to a conflict which affected several generations between two nations of vastly different power but both respecting the legacy of peaceful coexistence derived from Bolívar and Jefferson. The presence of all these dignitaries was no mere social occasion but reflected the transcendental symbolism of victory shared by all the countries that had contributed to the struggle.

October 1 of this year will see the entry into force of these treaties, which are currently the subject of a fruitless and unjust congressional debate which with the pretext of implementing the treaties seek to take away what the Panamanian people have achieved, turn to naught the efforts of so many generations and so many peoples, and erode the formulas negotiated in the course of an exercise of enlightened modern diplomacy.

On October 1 the Panamanians will enter the Canal Zone without fear or trepidation to recover what has always been theirs, in full confidence that what has been solemnly agreed will be carried out. They will do this above all in response to the historic step agreed between two peoples imbued with mutual esteem and respect and desirous of cementing the new alliance that will assure the world of an open canal, in peace and concord, to contribute to the growth of world trade and the development of all nations.

**Address by Mr. Giuliano Monterastelli,
Alternate Governor for Italy and Central Director of the Bank of Italy**

I should first like to address my warm thanks to the people and Government of Jamaica for its hospitality in this beautiful island, and for the efficient organization of the Meeting. Mr. Filippo Maria Pandolfi, Minister of the Treasury, being unable to attend the Meeting, asked me to convey to this Assembly his wishes for success.

The Development of the International Economy

During 1978, the increase in real income in the countries of the Organization for Economic Cooperation and Development (OECD), which is also one of the main stimuli to the development of the emerging countries, was fairly modest and much the same as in the previous year (around 3.5 per cent).

In particular, investment has not yet picked up sufficiently to trigger a sustained and steady growth. Consequently, the average unemployment rate has remained at the high levels recorded over the preceding two years.

The volume of world trade has risen by around 5 per cent, which is in line with the average values registered in the years following the 1973-74 oil crisis and almost 50 per cent lower than the average for the 1960-73 period (8.8 per cent).

The balance of current account for the OECD area has shown a considerable improvement, chiefly because of the small rise in the prices of imported goods and the containment of oil demand on the part of the industrial countries, thus assisting the re-absorption of the previous year's deficit of nearly \$30 billion.

The rate of economic growth in the industrial countries gained speed in the last months of 1978, but has slowed down in the first quarter of this year, during which there have been large and widespread rises in the costs of raw materials on international markets, which is largely due to the well-known political crises and to the rise in oil prices. This had led to a considerable increase in the rates of inflation, which were already too high at the end of 1978 despite some slight improvement during that year. As a result of these developments, the growth prospects of most industrial and non-oil developing countries have been revised downward, just when the United States is showing signs of a slow-down.

The improvement in the terms of trade of the OECD area was counter-balanced mainly by the members of the Organization of Petroleum Exporting Countries (OPEC), and also, but to a much smaller extent, by the non-oil developing countries, including those in Latin America. Nonetheless, these countries were still able to continue substantially increasing their imports, owing to the stability of oil prices, better conditions on international financial markets and, in addition, the increased competitiveness of recently industrialized countries in some manufacturing sectors. Moreover, the non-oil developing countries further increased their international reserves during 1978, thus confirming the tendency, already apparent in the preceding two years, for their share in the distribution of reserves to increase despite the persistence of large current account deficits.

In 1979, however, these deficits might increase further, following the recent rise in oil prices, creating difficulties in balance-of-payment financing, especially in those countries which are already engaged in repaying loans taken out to cope with the oil crisis.

The Italian Economy

As regards the Italian economy, progress has been made with the process of stabilization begun in 1977 to restore the equilibria upset by the oil crises of 1973-74. The most significant results were obtained in the area of foreign trade and led to a surplus on current account of \$6.4 billion which was due not, as in the previous year, to a fall in import volumes, but to a large increase in exports. Among other things, this surplus made it possible to repay a huge foreign debt (\$4.5 billion) contracted by the Italian monetary authorities vis-à-vis official bodies and the market.

The Gross National Product has increased by 2.6 per cent, compared with 2 per cent in the previous year, mainly as a result of the development during the last quarter. Fixed investment recorded a 0.4 per cent decrease on average, although some improvement was achieved in the second half of the year.

Also unsatisfactory were the results in terms of inflation, which, after a considerable improvement in 1977, is still in double figures, and unemployment, which further increased in 1978.

Growth prospects for 1979 indicate an improvement compared with the previous year's results, particularly in view of the satisfactory recovery shown in the last quarter of 1978. However, the rate of inflation, which has risen in recent months, particularly in import-linked wholesale prices, may hinder the upturn in investment and employment.

The Activity of the Bank in 1978

The guidelines of the last three-year plan once more oriented the activity of the Bank in 1978. The new operations approved—equal to \$1,870 million of which 37 per cent came from the Fund for Special Operations (FSO)—increased the value of outstanding loans by 16 per cent, so that at the end of 1978 they amounted to nearly \$14 billion. These loans, in turn, have made it possible for projects amounting to \$57 billion to be undertaken in Latin America.

The sizeable increase in disbursements—more than \$1 billion—is an important achievement of the Bank's management in 1978. With regard to fund-raising, the operations carried out on national and international capital markets deserve special mention, also for their technical financial aspects.

The IDB's catalytic and selective functions were further confirmed by the complementary loans, which amounted to \$133 million. This doubled the funds obtained with this instrument, whose utility we stressed at last year's meeting.

In order to promote the mobilization of additional resources, it appears essential that there should be a further strengthening of successful cooperation carried out in 1978 with other public and private international organizations through parallel loans and co-financing. In the same way, the high standing of the IDB on international markets will make it possible to single out and prepare projects which can be financed with the participation of private operators and

export credits. The latter channel saw \$144 million flow from Italy to Latin America in 1978.

The Program of the Fifth Multi-Year Cycle

Starting this year, a new cycle of activity begins with the utilization of the resources provided by the Fifth Replenishment which was approved by the Governors last December.

The Replenishment is notable for the large volume of funds allocated—\$9.75 billion—and for the change in the destination of loans with more going to the poorest countries and populations.

Important for the success of the Fifth Replenishment is the role being played by countries outside the region. They are contributing 11 per cent of the increase in the Bank's capital and as much as 30 per cent of the FSO resources. This demonstrates the interest and involvement of the nonregional member countries in the development of Latin America, and justifies a more adequate representation for them on the Board of Executive Directors.

In connection with the development priorities fixed by the Latin American countries themselves, attention has been drawn to the crucial importance which a number of sectors—such as balanced rural and urban development, energy and water resources, and strengthening of external positions—have for the creation of productive jobs, the struggle through this means against situations of extreme poverty, and the elimination of sectoral bottlenecks.

This tendency should result in the agricultural sector receiving a larger share of the resources than in the past, and likewise social infrastructures. There remain, of course, natural interdependencies which make it desirable to coordinate projects whose benefits will cover several sectors and be spread over many years: those in the field of energy offer a wide range of applications due to the multi-use of water, from the preconditions for industrial initiatives, also linked to agriculture, to better living conditions.

Technical cooperation, which has been increasingly supplied in recent years, could be given even greater impetus, especially that directed towards lower income groups and agricultural areas, and full use made of its educative potential to orient human resources towards more advanced technologies and greater productivity.

Naturally, the projects in question should be coordinated within the framework of the interventions and policies prepared or foreseen by the individual countries concerned.

The Bank's funds necessarily remain small when compared with the economic and social development requirements of Latin America.

Nevertheless, the catalytic action of the Bank itself and the selective channeling of its funds towards projects which are definitely productive even when these funds provide the means of satisfying the fundamental needs of the poorest, ensures that the IDB gives a strong impulse to and accelerates the process of development in the region.

The objectives of the program strengthen the guiding role played by the IDB in the development of Latin America, and place greater demands, firstly, on its function of conveying resources towards investments benefiting groups and

sectors whose ability to raise credit generally depends on regional and international solidarity, and especially on development institutions and, secondly, on that of acting as a catalyst for the flow of funds towards regions which have achieved a greater degree of financial autonomy, partly through initiatives which attract funds both from the capital markets and through joint ventures.

I would like to conclude by expressing my appreciation to Mr. Ortiz Mena, to Mr. Sternfeld and to the staff of the Bank for the way they operated in their respective roles, adding my warm wishes for their continued success in leading the IDB organization and operational capacity toward the new engaging and vital goals for the further development of Latin America and the Caribbean.

ADDRESSES

FIFTH PLENARY SESSION

May 30, 1979

Closing Session

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

It has often been said that the annual meetings of our Board of Governors are a proper forum for the analysis of development problems of the region which extend beyond those relating strictly to the financial aspects and the Bank's activities. That description has rarely been more true than at this Meeting, in which the Governors for Latin America and the developed countries have expressed candidly their views on the difficult international situation and the prospect that its effect on the region and, consequently, on our tasks will continue to be felt for some time to come.

It is gratifying to note that although approaches for solving economic and other problems are different according to whether a country is developed or developing, this Twentieth Annual Meeting has reaffirmed our goal of achieving the consensus which sustains this institution. Thanks to that, following several days of intense deliberations, we have been able to reach agreements which will enable the Bank to continue to play its rightful role as the principal agent in the financing of regional development.

In the opinion of the Governors, that role has been enhanced by the recognition made regarding the insufficiency of public external assistance and the restrictions impeding broader access of new regional exports to the markets of the industrialized centers. The Latin American countries also have reaffirmed their confidence that the Bank through its active presence in world financial markets, will assist in the mobilization of additional resources necessary to overcome that insufficiency.

Lastly, the Bank's role has been strengthened because, in spite of the limitations on the availability of concessional resources, it is virtually the only organization which can supply such resources to our region and deal with the complex task of allocating them on the basis of the degree of development attained by the recipient countries.

As an example of the type of initiatives made possible at our Annual Meeting, at the suggestion of the Governor for Peru, discussed in an informal meeting with his Latin American colleagues, a working group made up of the Latin American Economic System (SELA), the Center for Latin American Monetary Studies (CEMLA), the Latin American Association of Development Institutions (ALIDE) and the Bank was established to study the means of institutionalizing, concurrently with each meeting of the Board of Governors, an annual meeting of consultation of the Ministers of Finance and Economy of the region, to discuss joint measures to deal with international economic developments.

In the course of this Meeting, we have signed 23 loan contracts with 11 countries for \$665 million, some for very recently approved loans. That amount includes \$80 million in complementary loans, evidence of the growing importance of that type of financing, of which so many Governors spoke approvingly.

I shall now refer to the most important results of this Meeting and then to some valuable comments by the Governors on the various aspects of our future work.

First, the approval by the Board of Governors of the report of the Working Group on Functions and Policies and the Committee of the Board on the most directly related to the Fifth Replenishment of Resources constitutes considerable progress.

The Bank can now proceed to design the methodology to be applied in defining the low-income groups which are to benefit from 50 per cent of its financing over the four-year period just begun. Those definitions should be both quantitative and qualitative and should be devised as soon as possible with the assistance of the member countries in order to facilitate the adoption of viable operational criteria. The methodology will include quantification of benefits—direct and indirect, short-, medium-, and long-term. I would like to make very clear, however, that the Bank will not interrupt its financing for social projects waiting until that work is completed. Since we have been engaged in financing a broad range of projects in that field for many years, we will continue those activities while applying the criteria which experience has proved to be most effective in achieving our objectives.

A new system has been established that will simplify the determination of the amount of Bank financing in foreign exchange by basing it on fixed percentages of the total costs of projects, which would vary according to the field of activity and the country group. Since these percentages have been designed to favor, generally, the less developed countries and agricultural and social projects, the system will make it possible to increase the number of projects financed in these two sectors as well as to finance a larger portion of the total cost of individual projects. This new system will shorten the time required for the initial analysis of loan applications and provide incentives to those sectors in which the Governors have recommended that the Management focus its efforts.

I appreciate the interesting suggestions put forward by several Governors for the nonregional countries concerning the types of projects that would best satisfy our social objectives, as well as their offer to place their countries' institutional and technological experience at the Bank's disposal to help achieve the best results.

I have mentioned these first two items together because their interdependence has been so frequently stressed. It has been made abundantly clear that projects directed to these sectors are not the only means of benefiting low-income groups, and that a wide variety of investments for economic development can be found that will, directly or indirectly, provide tangible benefits to those groups. Furthermore, there has been general agreement that the paucity of productive employment is a major problem which has to be overcome by Latin America in its efforts to assist the disadvantaged sectors of the population.

I should also like to refer to the question of the allocation of resources from the Fund for Special Operations, especially stressed by the Governor for Guyana speaking on behalf of the Caribbean countries, and by other Governors as well. I referred to this point in my opening address and I would merely like to reiterate our agreement with what the Governor for Guyana said about the need

for flexibility in methodology and operational strategy which will enable us to get the most out of the resulting mix of funds.

It is my belief that out of the diversity of views expressed by the Governors at this Meeting, we shall be able to identify areas of agreement and consensus. In that connection, I should again like to underscore the significance of the contribution in convertible funds increasingly being made by the most developed countries of the region to make up for the shortfalls resulting from the decline in the percentage contributed by the United States. Attention should also be drawn to the pledges announced by the Governors for Chile and Peru which relate to that subject, although their actions should not be interpreted to mean, as the Governor for Brazil rightly pointed out, that the transfer of "soft" funds from some Latin American countries to others, can or should replace external assistance obtained through the Bank from the developed countries.

As I reported in my opening address, the policy of investing our liquid assets in the developing countries of the region is already being implemented and we shall be very happy to report periodically to the Governors on the progress we achieved in this respect.

We are giving careful consideration to the remarks of the Governor for Peru regarding this expression of confidence in the capacity of the region to meet the indispensable criteria of security, liquidity and yield, but we must also remember that it also reflects the confidence of the financial centers in a regional Bank in which the debtor countries have preponderant voting power. This has been a gradual process, which will be intensified as we acquire more experience.

The adoption at this meeting of the alternative recommended by the Committee for instituting a procedure for the sharing of the exchange risk by the borrowers during the life of the loans will enable us to move ahead towards the solution of another problem mentioned by several Governors.

I am certain that, as the year advances, we shall make further gains in the joint effort of reviewing the policies and functions of the Bank in accordance with the approved timetable for submitting relevant documents to the Board of Executive Directors for its consideration and presentation to the Working Group.

We are encouraged by the expression of confidence embodied in the Governors' recommendation that the study of the role of the Bank in Latin America in the 1980s be carried out by the staff of the Bank with the help of such outside experts as may be needed to assist with that task.

Allow me at this point to thank several Governors for their references to the professional capacity, skills and dedicated service of the Bank's personnel. We are convinced that the IDB's human capital is its principal asset, an asset to be preserved under conditions that will enable it to make its contribution to the region's development solely on the merits of each case, without political interference. This is not inconsistent with the austerity policy we have been following. I also want to point out that we are very mindful of the need to continue the process of adjusting the Bank's organization, as we have been doing, to the needs of the new programs.

While I am on the subject of the professional quality and dedication of the Bank's staff, I could not fail to include a specific reference to Mr. Jorge Házera,

to whom the Governors paid a richly-deserved tribute upon learning of his intention to retire before our next annual meeting.

Among topics which have been mentioned again as meriting prompt attention are the revision of the maintenance of value clause and the desire of the non-regional countries to increase their presence on the Board of Executive Directors. We are certain that the Governors have taken due note of them so that the corresponding decision will be taken at the proper level.

Several Governors have made constructive suggestions regarding loan disbursements and loan administrative procedures. It is appropriate to recall, I believe, that an important function of a development bank is precisely to monitor the execution of projects through all their stages, and that we would not be performing that function if we operated simply as a mechanism for the transfer of resources. Of course, there is always room for improvement in administrative machinery, but this is a task both for the Bank and the relevant national institutions. I am pleased to note that in this meeting a group of Governors from the borrowing countries made a thorough analysis of the problems involved in contracting loans and the slow utilization of their proceeds. It has been suggested to us that a working group might make a comparative analysis of the legal systems currently in effect in the different countries and recommend measures to help expedite loan contract processes.

Other valuable views were expressed on the integral financing of projects and on procedures for determining how much should be contributed by the Bank and how much by domestic resources. I would like to reiterate what I said at the inaugural session: namely that in its current review, the Working Group—bearing in mind the limitations on the availability to Latin America of public financing—should examine the policies for the use of the Bank's resources in the light of the current situation and the different needs of the Latin American countries at their respective levels of development.

The approval by the Venezuelan Investment Fund of the draft protocol amending the Agreement with respect to the use of the resources of the Venezuelan Trust Fund which we administer as a trustee, just announced to us by the Governor for that country, will enable us to expand our operations to include specific assistance to less developed countries in economic difficulties through the provision of resources requested to supplement other international financing. We look forward to receiving that protocol to present it to our Board of Executive Directors.

Finally, I welcome the virtual unanimity of the Governors with respect to the points I made earlier, reaffirming the Bank's multilateral character, the essential priority that attaches in the present circumstances to the financing of regional integration, and the larger dimension we must give to our technical cooperation activities.

I want to close with a renewed expression of appreciation to the Government of Jamaica for the hospitality extended to us, and most particularly to Governor Eric O. Bell for his able direction of our proceedings.

The Prime Minister of Jamaica, who honored us with his presence during the inaugural session, was very kind to say that this has been the most important international conference ever held in his country. It is gratifying to us that over 1,500 participants, representing our 41 member countries, the principal inter-

national agencies concerned with the region, and the international financial and banking community, have been able to see for themselves the economic and social realities that the Prime Minister so candidly described to us. I think we have all taken due note of his message that there need be no incompatibility between economic progress and social justice, and that we all have an important part to play—each in his own sphere—in helping to make possible the achievement of these twin goals.

When we meet again one year from now in another Latin American country to take stock of the year gone by and of the IDB's first 20 years, we will have to keep in mind that the pursuit of these goals holds the key to development, which has to be understood as the full participation of the ordinary man in the processes on which his spiritual and material welfare depend.

**Remarks by Mr. Eric O. Bell,
Chairman of the Board of Governors, Governor for Jamaica
and Minister of Finance and Planning**

I should first like to express thanks on behalf of my Government and country for the many kind compliments that have been paid to us. We in turn would like to pay tribute to the very professional staff of the Secretariat of the IDB, who have done so much to make this meeting run smoothly and efficiently. We hope that the technology transfer to Jamaica by the IDB in organizing this conference will be a permanent one.

We fully endorse the universal expressions of support which have been made for President Ortiz Mena on his consistently high performance as President of the Bank. We recognize that his sound leadership has contributed considerably to the success of the Bank so far, and look forward to continued good working relationships with him in the future.

In these concluding remarks, I wish to touch briefly on a few themes which ran through this Twentieth Annual Meeting. Concerns have been universally expressed about the state of the world economy. Whereas various delegations have emphasized different aspects of the international situation, I believe there is generally a feeling of deep concern reiterated here, but which has been tackled for decades in every international forum including the North-South talks on the need for a New International Economic Order; but about which, so far, the World Community has been unable to take effective action.

There is urgent need to deal with the question of energy—(1) in terms of cost and assistance needed, especially to non-oil producing and energy deficient countries, and (2) the longer term problem of developing alternative non-conventional energy supplies which are inexpensive and easily available, if we are to tackle this gigantic task which faces mankind. It has been generally conceded that the Bank has made a significant and useful beginning in dealing with this aspect of development.

Neo-protectionism has had negative effects on the export performance of many countries of the region and this has added to continued monetary instability. Timely assistance by the Bank in this area and aggressive systems which allow for the use of Latin American goods and expertise in executing development projects could lead to more effective economic recovery of some of our countries.

In spite of these problems we have also heard expressions of optimism about the economic performance of some member countries. The growing interest displayed by nonregional members is evident and very welcome and there is also a clear commitment on the part of many countries of the region to cooperate for their own development. The move from sentiments toward actual measures for integration shows that not only has the political will to cooperate been heightened but, at the same time, the technical ability to ensure its implementation is being developed. This can only augur well for Latin America's growth and development.

There is general support for the proposals to re-direct 50 per cent of the Bank's resources towards providing for the needs of the poorest people of Latin America. While it is universally accepted that this must be given emphasis in the Bank's lending policies, both social and economic criteria must be used if these people are to be accurately identified. Whatever measures are adopted, it is clear that they will have to be flexible if they are to be of benefit to these groups on a permanent basis, so as to ensure that they no longer remain among the poor. Innovative action by the Bank related to integrated urban and rural development and the development of our human resources is recognized as a part of this exercise. We are assured that the Bank has promised to treat this matter with the urgency it requires.

We are particularly pleased that the Bank has clearly indicated that it has the will to adjust to the variety of needs and requirements of its member nations on the eve of the decade of the 1980s. It is clear that one area of priority is the need to set in place counter measures to deal with the problem of the brain-drain which plagues many of our societies and impedes our planning and implementing capabilities.

The Bank's increasing ability to cooperate with borrowing countries in obtaining other sources of finance and in stimulating flows of private foreign investment and technology on appropriate terms has already been stated by you, Mr. President. The Bank in its lending policies supports the assault upon social inequalities and certainly, a reversal of this support would be unacceptable, as the transfer of private foreign capital and technology is effected with the assistance of the Bank.

Thought must be given and action taken aimed at dealing with the problems of countries faced with heavy international indebtedness and at the same time severe balance-of-payments problems. These are issues that have to be dealt with by all financial institutions including the IDB who have taken various initiatives in this respect, if our countries are to pursue rational and consistent economic policies.

Distinguished Governors, I believe that the measure of consensus which has emerged through the statements presented to this meeting provides a good omen for the work of the Bank in the future and I take some measure of satisfaction that this consensus has emerged in Montego Bay.

As your Chairman, I feel that you would wish me to thank the Jamaican Task Force, the staff of the Rose Hall Inter-Continental and other hotels, the Security and the Press for the part they played so excellently in making the conference a success.

Finally, I should like to express the thanks of the Jamaican people to the IDB for having the confidence to choose us to host this Twentieth Session and also in choosing me to be its Chairman. It is a task which has been made easy by the great support that we have received from all of you.

South Session

**RESOLUTIONS APPROVED
BETWEEN THE NINETEENTH AND
THE TWENTIETH ANNUAL MEETINGS**

Resolution AG-10/78

Remuneration of Executive Directors

WHEREAS:

The Committee of the Board of Governors designated pursuant to Resolution AG-2/72 has examined the remuneration of the Executive Directors and made recommendations in that regard,

The Board of Governors

RESOLVES:

1. To accept the recommendations of the Committee and to stipulate, that pursuant to Article VIII, Section 2(b)(v), of the Agreement Establishing the Bank, the Executive Directors and their Alternates shall receive, for the time they devote to the service of the Bank a remuneration computed at the rate of US\$43,500 per annum for an Executive Director and US\$34,200 per annum for an Alternate Executive Director, net of national taxes in both cases, effective July 1, 1978.

2. To retain without change the annual allowance established by Resolution AG-12/75.

(Approved October 26, 1978)

Resolution AG-11/78

Approval of the Report on the Proposal for an Increase in the Bank's Resources Presented in Compliance with Resolution AG-5/78

WHEREAS:

The final report issued pursuant to Resolution AG-5/78 containing the study of the Committee of the Board of Governors on the status of the resources of the Bank and recommending the increase thereof and the minutes of the meeting of the Working Group on the Fifth Replenishment of Resources of 26 and 27 October 1978, have been examined by the Board of Governors at the Special Meeting held today,

The Board of Governors

RESOLVES:

To approve the report entitled "Proposal for an Increase in the Resources of the Inter-American Development Bank" issued as document AB-648; to recom-

mend that the members take such action as may be necessary and appropriate to give effect to the resolutions contained in said report; and to urge the members to make available to the Bank as soon as possible their respective subscriptions and contributions.

(Approved December 11, 1978)

Resolution AG-1/79

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 1979 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 5, 1979)

**RESOLUTIONS APPROVED
AT THE TWENTIETH ANNUAL MEETING**

Resolution AG-2/79

Appreciation for the Work of the Secretary of the Bank

WHEREAS:

Mr. Jorge Hazera, Secretary of the Bank, has announced his intention to retire within the next few months;

Mr. Hazera performed outstanding work in the Commission responsible for drafting the Agreement Establishing the Bank in 1959;

Mr. Hazera has, since 1963, been the very able Secretary of the Bank and has earned the respect and esteem of the Governors of the Bank;

It is fitting to give formal recognition to the excellent work Mr. Hazera has accomplished in his post;

The Board of Governors

RESOLVES:

To express its sincere appreciation and profound gratitude to Mr. Hazera for his distinguished service as Secretary of the Bank, which he has served loyally and efficiently since 1960, contributing by his talent, ability, experience and dedication to the achievement of the objectives of the Bank and to facilitating the work of the Board of Governors.

(Approved May 28, 1979)

Resolution AG-3/79

Amendment of the Conditions of Service of the President of the Bank*

WHEREAS:

Pursuant to Article VIII, Section 2 (b) (iii) of the Agreement Establishing the Bank, it is the function of the Board of Governors to determine the remuneration of the President of the Bank,

The Board of Governors

RESOLVES:

To authorize the Chairman of the Board of Governors to sign on the Bank's behalf an amendment to the work contract of the President of the Bank increasing his annual remuneration and his representation expenses, with effect from June 1, 1979, on the terms approved by the Board.

(Approved May 27, 1979)

* See page 186.

Resolution AG-4/79

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, 1978, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 28, 1979)

Resolution AG-5/79

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, 1978, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 28, 1979)

Resolution AG-6/79

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, 1978, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 28, 1979)

Resolution AG-7/79

Reserves for the Inter-Regional Capital Resources*

The Board of Governors

RESOLVES THAT:

1. A general reserve is established with respect to the inter-regional capital resources to provide for possible future losses on loans or any annual excess of expenses over income, should either occur.
2. A special reserve is established with respect to the inter-regional capital resources for meeting liabilities of the Bank on borrowings or guarantees, in accordance with Article VII, Section 3(e)(i), of the Agreement Establishing the Bank. The special reserve shall be held in such liquid form, permitted under the Agreement, as the Board of Executive Directors may decide.
3. There shall be allocated to the general reserve of the Bank, with respect to inter-regional capital resources, three fourths of the accumulated earnings from such resources at December 31, 1978, and three fourths of any net income from such resources as may result in each fiscal year hereafter.
4. There shall be allocated to the special reserve of the Bank, with respect to inter-regional capital resources, one fourth of the accumulated earnings from such resources at December 31, 1978, and one fourth of any net income from such resources as may result in each fiscal year hereafter.
5. In the event of the merger of the inter-regional capital resources and the ordinary capital resources, the general reserve and the special reserve established hereby shall also be used for the purposes specified in paragraphs 1 and 2 hereof, respectively, with respect to the capital resources resulting from such merger.

(Approved May 28, 1979)

* See page 185.

Resolution AG-8/79

Amendment of the Regulations of the Board of Governors*

The Board of Governors

RESOLVES:

That the text of Section 1(a) of the Regulations of the Board of Governors be modified to read as follows:

"Section 1. *Meetings*

- (a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. The site shall be determined by rotation among the member countries, with meetings being held in a nonregional country once in every four-year period and in regional countries the other three years. However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action."

(Approved May 29, 1979)

* See page 185.

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

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

An account of the decisions adopted by the Board of Governors during the Meeting is presented below.

1978 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 1978.

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 ended December 31, 1978, as set forth in Resolutions AG-4/79, AG-5/79 and AG-6/79, respectively.

ESTABLISHMENT OF RESERVES IN THE INTER-REGIONAL CAPITAL

At the Second Plenary Session, the Governors considered the report of the Board of Executive Directors which recommends that the Board of Governors establish a general reserve and a special reserve in the inter-regional capital, similar to those existing for the ordinary capital, in order to enhance the financial position and standing of this source of funds. These reserves were established by the Board of Governors as set forth in Resolution AG-7/79. The report of the Board of Executive Directors appears on page 187.

COMMITTEE OF THE BOARD OF GOVERNORS

At the Second Plenary Session, the Governors took note of the report of the Chairman of the Committee of the Board of Governors on its work during the period from the Nineteenth to the Twentieth Annual Meeting of the Board of Governors. At the Fourth Plenary Session a change made in section 3 of the report was noted.

The report, which appears on page 193, refers to the progress of the work undertaken with respect to the fifth replenishment of resources and the evaluation of Bank functions and policies, entrusted to the Committee for study by Resolutions AG-5/78 and AG-9/78, respectively.

SELECTION OF THE SITE OF THE ANNUAL MEETING.

AMENDMENT OF SECTION 1(a) OF THE REGULATIONS OF THE BOARD OF GOVERNORS

At the Third Plenary Session, the Board of Governors considered the report of the Board of Executive Directors which recommends that the Board of Governors amend Section 1(a) of the Regulations of that Board in order to establish that the site of the Annual Meeting shall be determined by a system of rotation among the member countries, allowing a meeting to be held in a nonregional country once in every four-year period. This amendment was adopted as set forth in Resolution AG-8/79. The report of the Board of Executive Directors appears on page 189.

It was made clear that the amendment was not intended to set up a rigid system of rotation but rather to establish a general guideline to be employed as the Board of Governors itself deemed appropriate.

PLACE AND DATE OF THE TWENTY-FIRST ANNUAL MEETING OF THE BOARD OF GOVERNORS

At the Closing Session, the Board of Governors expressed its agreement with the recommendation of the Committee of the Board of Governors that the site of the Twenty-First Annual Meeting be decided on by means of the procedure set forth in document AB-476-2, approved by Resolution AG-1/76. The report of the Chairman of the Committee appears on page 196.

At the same session the Board of Governors took note of the offer presented by the Governor for Spain for his country to be the site of the 1981 Annual Meeting or of the first meeting held outside the region during the next four-year period.

The Governor for Colombia reiterated the offer made by his predecessors at the Annual Meetings in 1977 and 1978, for the 1981 Annual Meeting to be held in Cartagena.

PREINVESTMENT INFORMATION CENTER FOR LATIN AMERICA AND THE CARIBBEAN

At the Fourth Plenary Session, the Board of Governors received a proposal of the Governor for Ecuador, seconded by the Governors for Bolivia, Brazil, Chile, Colombia, Mexico and Panama, calling on the Bank to continue extending support to the Preinvestment Information Center for Latin America and the Caribbean.

On that occasion, in response to a request for information on the pertinent procedure to be followed, the Secretary explained that the minutes would show the support expressed for the proposal, which would be duly noted by the Board of Executive Directors when it meets to take cognizance of the summary of the Meeting. The Governor for Ecuador, in turn, stated his agreement with that procedure in order that, considering the consensus on support for the Center, such support could materialize in the near future.

AMENDMENT OF THE CONDITIONS OF SERVICE OF THE PRESIDENT OF THE BANK

At the Preliminary Session, the Board of Governors adopted Resolution AG-3/79 authorizing the Chairman of the Board to sign on the Bank's behalf an amendment of the conditions of service of the President of the Bank, effective June 1, 1979.

The Governor for the United States indicated that he had no objection to the resolution because it provided for the negotiation of the compensation contract of President Ortiz Mena who was held in the highest esteem by his government. However, he said that his agreement was limited to the language of the resolution and to President Ortiz Mena and should not be interpreted as establishing a precedent in any respect.

The President of the Bank, in expressing appreciation for the action taken, clarified the fact that he accepted the amendment of the conditions of service insofar as they pertain to the post but that, as long as he holds that position, he will do so on the basis of the present conditions.

APPRECIATION FOR THE WORK OF THE SECRETARY OF THE BANK

At the Preliminary Session, the Board of Governors approved Resolution AG-2/79 expressing its appreciation to Mr. Jorge Hazera for his service as Secretary of the Bank.

Report of the Board of Executive Directors on the Establishment of Reserves in the Inter-Regional Capital

In connection with the consideration of the 1978 financial statements of the inter-regional capital, the Board of Executive Directors recommends that the Board of Governors give consideration to the disposition of the accumulated net earnings of the inter-regional capital, which amounted to \$14,559,000 at December 31, 1978.

As the Governors are aware, there exist in the ordinary capital of the Bank two reserves. The Agreement Establishing the Bank provided for a Special Reserve, to be kept for meeting liabilities of the Bank on borrowings or guarantees chargeable against the ordinary capital resources, and held in such liquid form as the Board of Executive Directors may decide, into which a special commission is set aside (Article III, Sections 12 and 13, and Article VII, Section 3(b)(i)). The Board of Governors, pursuant to its powers which may not be delegated (Article VIII, Section 2(b)(ix)) established a General Reserve in 1961 in order to "provide for possible future losses on loans or any annual excess of expenses over income" (Resolution AG-3/61), and in 1963 decided to allocate to the General Reserve any net income of the ordinary capital "as may result in each fiscal year hereafter" (Resolution AG-4/63).

The creation and accumulation of reserves in the ordinary capital in accordance with the foregoing provisions of the Agreement and actions taken by the Governors have been important factors in the financial position of the ordinary capital, which has enjoyed the highest credit standing in private capital markets and has consistently been able to borrow large amounts in those markets, on advantageous terms. Consequently, it is considered desirable for the Governors to establish similar reserves in the new inter-regional capital, and to provide for setting aside in such reserves the net income of the Bank from inter-regional capital resources, in order to enhance the financial position and standing of the new inter-regional capital. The reserves which it is proposed to establish would be: a General Reserve, to provide for possible future losses on loans or any annual excess of expenses over income; and a Special Reserve, for meet-

ing the liabilities on borrowings or guarantees chargeable against the inter-regional capital resources. In the event of the merger of the ordinary capital and inter-regional capital resources, these reserves would be applicable to the capital resources of the Bank resulting from such merger.

In the absence of any provision in the Agreement for a special commission on loans from the inter-regional capital resources, it would be necessary for the Governors to expressly stipulate the share of total net income which would be set aside in a Special Reserve as well as the share of net income to be set aside in a General Reserve. Based on the experience of the ordinary capital, it is considered that it would be reasonable to provide for three quarters of net income to be channeled to a General Reserve and one quarter to a Special Reserve.

Accordingly, the Board of Executive Directors recommends that the Board of Governors adopt the proposed resolution submitted herewith, in order to establish in the new inter-regional capital of the Bank a General Reserve and a Special Reserve, and to provide for the net income of the inter-regional capital to be set aside in such reserves.

Proposed Resolution

Reserves for the Inter-Regional Capital Resources

The Board of Governors

RESOLVES THAT:

1. A general reserve is established with respect to the inter-regional capital resources to provide for possible future losses on loans or any annual excess of expenses over income, should either occur.
2. A special reserve is established with respect to the inter-regional capital resources for meeting liabilities of the Bank on borrowings or guarantees, in accordance with Article VII, Section 3(e)(i), of the Agreement Establishing the Bank. The special reserve shall be held in such liquid form, permitted under the Agreement, as the Board of Executive Directors may decide.
3. There shall be allocated to the general reserve of the Bank, with respect to inter-regional capital resources, three fourths of the accumulated earnings from such resources at December 31, 1978, and three fourths of any net income from such resources as may result in each fiscal year hereafter.
4. There shall be allocated to the special reserve of the Bank, with respect to inter-regional capital resources, one fourth of the accumulated earnings from such resources at December 31, 1978, and one fourth of any net income from such resources as may result in each fiscal year hereafter.
5. In the event of the merger of the inter-regional capital resources and the ordinary capital resources, the general reserve and the special reserve established hereby shall also be used for the purposes specified in paragraphs 1 and 2 hereof, respectively, with respect to the capital resources resulting from such merger.

**Report of the Board of Executive Directors on the
Selection of the Site of the Annual Meeting.
Amendment of Section 1(a) of the Regulations
of the Board of Governors**

The Board of Executive Directors recommends that Section 1(a) of the Regulations of the Board of Governors regarding the selection of the site of the Annual Meetings be amended. The present text of this section reads as follows:

"Section a. Meetings

- (a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action."

Since 1976 the membership of the Bank has expanded to include countries from outside the region as well as those in the Western Hemisphere. The question has arisen as to whether the Annual Meeting could be held in a nonregional member country. This matter has been discussed by the Executive Directors and they have agreed on the desirability of holding such meetings in countries outside the region. The consensus appears to be that the Annual Meetings should continue to be held primarily in regional countries, on a rotating basis, with a meeting being held in a nonregional country once in each four-year period.

This would enable the Governors to maintain a closer contact with the developing countries where the principal activities of the Bank are carried out, while permitting the financial community and other sectors in the nonregional countries that are particularly interested in the work of the Bank, to exchange views directly, although at less frequent intervals, on the occasion of the deliberations of the Board of Governors.

If this proposal is acceptable, it is suggested that a sentence be included in Section 1(a) of the Regulations, thus amending it to read as follows:

"Section 1. Meetings

- (a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. *The site shall be determined by rotation among the member countries, with meetings being held in a nonregional country once in every four-year period and in regional countries the other three years.* However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action."

In view of the above, the Board of Executive Directors recommends that the Board of Governors approve the following proposed resolution.

Proposed Resolution

The Board of Governors

RESOLVES:

That the text of Section 1(a) of the Regulations of the Board of Governors be modified to read as follows:

"Section 1. *Meetings*

- (a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. The site shall be determined by rotation among the member countries, with meetings being held in a nonregional country once in every four-year period and in regional countries the other three years. However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action."

**REPORTS OF THE CHAIRMAN OF THE COMMITTEE
OF THE BOARD OF GOVERNORS ON THE
WORK DONE SINCE THE NINETEENTH
ANNUAL MEETING OF THE BOARD**

Report of the Chairman of the Committee of the Board of Governors on its Activities Since the Nineteenth Annual Meeting of the Board of Governors

At its Annual Meeting held in Vancouver in April 1978, the Board of Governors charged the Committee with the study of two matters: the fifth replenishment of resources and the evaluation of the functions and policies of the Bank.

Fifth replenishment of resources

For the purpose of examining the fifth replenishment of resources, pursuant to Resolution AG-5/78, the Committee established a Working Group which during 1978 held four meetings, one in Vancouver, another in Madrid, and the last two at Bank Headquarters.

At its Twenty-first Meeting held in Washington, D.C. on December 4, 1978, the Committee considered the proposal presented by the Working Group on the fifth replenishment of resources and, with the amendments agreed upon, submitted its report to the Board of Governors.

At its Special Meeting held at Bank Headquarters on December 11, 1978 the Board of Governors, by Resolution AG-11/78, approved the report on the fifth replenishment of resources (Document AB-648) and recommended to the member countries that they adopt the measures necessary to implement the proposed increase of \$8,000 million in the authorized capital and of \$1,750 million in the Fund for Special Operations.

With this action, the Committee concluded its work in connection with the study of the fifth replenishment of resources. The necessary measures have now been adopted by some member countries, while in others considerable progress has been achieved in this regard.

Evaluation of the functions and policies of the Bank

With respect to the evaluation of the functions and policies of the Bank, the Committee appointed a Working Group which met three times at Bank Headquarters and held its Fourth Meeting in Montego Bay on May 26, 1979, on which occasion it presented to the Committee a progress report on the activities carried out so far. As regards this report, the Committee makes the following observations:

1. Definition of low-income groups

The Committee took note of the report of the Working Group on the results of the discussions in the Board of Executive Directors on the definition of low-income groups as regards the 1979-1982 lending program of the Bank.

The Committee concurred with the Working Group in that document FP-31 presented by the Board of Executive Directors was a good start toward arriving at a definition of low-income groups that would be more precise as well as operative. With this end in view, the Governors made mention of the various economic and social indicators that in their opinion should be taken into account in determining the methodology to be used in the definition of these groups, and

to measure the benefits that would flow from the channeling of 50% of the Bank's operations in their favor during the four-year period.

The Committee agreed that it would be desirable that any procedures adopted should be flexible. It was recognized that in order to meet the goals of the fifth replenishment of resources it was essential that the study of this matter be done as quickly as possible, for which purpose Management was requested to allocate the necessary resources and member countries were invited to submit their own proposals as soon as possible. The Committee directed Management to present to the Board of Executive Directors, not later than August 1, 1979, a new report proposing in detail the methodology for defining low-income groups, including numerical and qualitative indicators developed in consultation with each borrowing country. The report should also deal with the methodology and operating guidelines to be used to measure project benefits accruing to low-income groups and to translate these benefits into amounts of lending allocable to the 50% goal. This methodology would include the quantification of direct and indirect benefits on short, middle and long term. The Committee urged the Board of Executive Directors to examine the report and transmit it to the Working Group along with its recommendations, during the month of August so that the Working Group might reach a final decision not later than October 31, 1979.

2. Investment of the Bank's Liquid Assets

The Committee took note of the Working Group's report on the investment of the Bank's liquid assets. The report states that the Board of Executive Directors has modified the current policy so as to enable the Bank to invest these resources not only in the developed countries but in the developing countries as well, within the guidelines of security, liquidity and return that have always governed these operations. Likewise, it agreed to recommend to the Board of Executive Directors that it report periodically to the Governors on the situation and progress of the investments made under this new policy.

3. Financing of Direct and Indirect Foreign Exchange Costs and of Local Costs with Foreign Exchange

The Committee took note of the report of the Working Group on the financing of direct and indirect foreign exchange costs and of local costs with foreign exchange and of the recommendation of the Board of Executive Directors that a procedure be established for the financing with foreign exchange of up to certain percentages of the total costs of projects, depending on the sector of activity and group of countries concerned.

The Committee noted that in the report of the Working Group it was explained that the proportions of foreign exchange financing of the total costs shown in the table contained in document FP-33 were the normal percentages which the Bank should apply consistently. It was stated also that these proportions were the ones that the Bank would apply normally and consistently. While it was recognized that in certain exceptional circumstances the financing may be greater or at the request of the borrower less than the percentages shown in that table, it was agreed that financing may exceed such percentages only in the exceptional case described in document FP-33 concerning projects in which the

cost of goods to be specifically imported for a project exceeds the indicated percentages.

With regard to the preceding paragraph, a Governor stated that he would have preferred the following wording:

"The Committee noted that in the report of the Working Group it was explained that the proportions of foreign exchange financing of the total costs shown in the table contained in document FP-33 were the percentages up to which the Bank could finance, with the exception of the case specified in document FP-33. This exception concerns projects in which the cost of goods to be specifically imported for a project exceeds the specified percentages."

The Committee noted that the Working Group had regarded as acceptable in principle the proposal of the Board of Executive Directors contained in the document and that a majority of Governors was of the opinion that the proposal should be presented in these terms to the Committee for consideration. It also noted that other Governors did not agree that the proposal be presented to the Committee until a decision was reached on the criteria to be applied in defining low-income groups and for measuring the benefits of Bank operations for them, inasmuch as they considered the two matters to be intimately linked. No decision was reached on this matter.

4. Disbursements of Currencies and the Exchange Risk Problem

The Committee took note of the report of the Working Group on the disbursement of currencies and the exchange risk problem.

There was consensus in the Committee to recommend that the Bank adopt the system of shared exchange risk by borrowers during the life of loans, which was similar to the system recently adopted by the World Bank. It was further recommended that the system be evaluated periodically.

5. Work Program for Evaluation of the Bank's Functions and Policies

The Committee took note of the report of the Working Group concerning the proposal of the Board of Executive Directors on the work program for evaluation of the functions and policies of the Bank and expressed its concurrence with the schedule for submission of the relevant documents to the Board of Executive Directors.

There was also consensus in the Committee to recommend that the study of the Bank's role in Latin America in the eighties should be carried out by Bank staff with the assistance of experts to be retained if necessary. It was noted that the study would take about 18 months to prepare and would cost approximately \$200,000.

Report of the Chairman of the Committee of the Board of Governors on the Selection of the Site for the Twenty-First Annual Meeting of the Board

In accordance with the mandate given to it by the Board of Governors at the Preliminary Session of the Twentieth Annual Meeting, held on May 27, the Committee met on May 28 to consider the invitations received in connection with the Twenty-First Annual Meeting of the Board of Governors.

The Governor for Bolivia reiterated his offer that the Meeting be held in La Paz and proposed that if for any reason this was not possible, the Meeting should be held in Punta del Este, Uruguay, as first choice, or in Asunción, Paraguay, as second choice.

The Governor for Panama reiterated his offer for the meeting to be held in Panama City.

The Governor for Brazil stated that in case for any reason the Meeting could not be held in one of the URUPABOL countries, he offered his own country as an alternative site.

Following an exchange of views, the Committee agreed to recommend to the Board of Governors that the site of the next Annual Meeting be decided on by means of the procedure set forth in Document AB-476-2, approved by the Board of Governors by Resolution AG-1/76. If this recommendation is approved, steps will be taken as soon as possible to evaluate the facilities available in La Paz, Panama City and Punta del Este.

**SUMMARY RECORDS OF THE MEETINGS OF
GOVERNORS FOR THE NONREGIONAL COUNTRIES
TO ELECT TWO EXECUTIVE DIRECTORS**

**Summary Record of the Meeting of
the Governors for Belgium, Denmark, Federal Republic of Germany,
Finland, Italy, The Netherlands, Sweden
and The United Kingdom**

Montego Bay, May 29, 1979

The Governors for Belgium, Mr. Emiel Kestens; Denmark, Mr. C. Ulrik Haxthausen; Federal Republic of Germany, Mr. Horst Goltz; Finland, Mrs. Annikki Saarela; Italy, Mr. Giuliano Monterastelli; the Netherlands, Mr. G. H. Ledebøer; Sweden, Mrs. Margareta Hegardt and the United Kingdom, Mr. C. R. A. Rae, met in the city of Montego Bay on May 29, 1979, at 3:30 p.m., for the purpose of electing an Executive Director, as provided in Article VIII, Section 3(d) of the Agreement Establishing the Bank, to complete the term ending on June 30, 1981, to replace Mr. Günther Schulz, who had resigned effective June 30, 1979.

The Secretary of the Bank reported that the only candidate for Executive Director whose name had been received up to that time was Mr. C. R. A. Rae, nominated by the United Kingdom.

The Governors for this group of countries unanimously elected Mr. C. R. A. Rae as Executive Director for the remainder of the term of office ending June 30, 1981.

**Summary Record of the Meeting of
the Governors for Austria, France, Israel,
Japan, Spain, Switzerland and Yugoslavia**

Montego Bay, May 29, 1979

The Governors for Austria, Mr. Walter Neudoerfer; France, Mr. Jean-Yves Haberer; Israel, Mr. Ben-Ami Zuckerman; Japan, Mr. Michiya Matsukawa; Spain, Mr. José Ramón Álvarez Rendueles; Switzerland, Mr. Hans Meyer and Yugoslavia, Mr. Petar Kostić, met in the city of Montego Bay on May 29, 1979, at 4:30 p.m., for the purpose of electing an Executive Director as provided in Article VIII, Section 3(d) of the Agreement Establishing the Bank, to complete the term ending on June 30, 1981, to replace Mr. Torao Aoki, who had resigned effective July 8, 1979.

The Secretary of the Bank reported that the only candidate for Executive Director whose name has been received up to that time was Mr. Alberto Pico, nominated by Spain.

The Governors for this group of countries unanimously elected Mr. Alberto Pico as Executive Director for the remainder of the term of office ending June 30, 1981.

PARTICIPANTS

OFFICERS

CHAIRMAN OF THE BOARD

Eric O. Bell
Governor for Jamaica

PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK

Antonio Ortiz Mena

EXECUTIVE VICE PRESIDENT

Reuben Sternfeld

SECRETARY

Jorge Hazera

DELEGATIONS

Argentina

Governor

José Alfredo Martínez de Hoz
Minister of Economy

Alternate Governor

Adolfo César Diz
President
Banco Central de la República Argentina

Advisors

Francisco P. Soldati
Director
Banco Central de la República Argentina
Carlos Alberto Canedo Pero
President
Banco Hipotecario Nacional
Carlos Fabián Etcheverrigaray
Vice President
Banco de la Nación Argentina
Santiago Enrique Julio Gilotaux
Vice President
Banco Hipotecario Nacional
Alberto Solá
Executive Director
International Bank for Reconstruction and
Development
Carlos Alberto Furlotti
Vice President
Banco Nacional de Desarrollo
Dante Simone
Financial Representative in Europe
Ministry of Economy
Guillermo Blanco
Coordinator, External Financing Area
Ministry of Economy
Juan Carlos Iarezza
Financial Representative in the United States
and Canada

Domingo Torea Paz
Advisor, Minister of Economy
Alberto Santiago Insúa
Advisor, Minister of Economy
Alfredo Le Pera
Advisor, Minister of Economy
Pedro Camilo López
General Manager
Banco Central de la República Argentina
José González
Manager, Financial Resources
Banco Hipotecario Nacional
Roberto Ancarola
Deputy Manager
International Agreements and Agencies
Department
Banco Central de la República Argentina
Mónica Alicia Merlo
Division Chief
International Agreements and Agencies
Department
Banco Central de la República Argentina
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

Advisors

George Smith
Minister of Agriculture and Fisheries
Livingston B. Johnson
Ambassador of The Commonwealth of The
Bahamas to the United States of America

Warren L. Rolle
Managing Director
Bahamas Development Bank

Barbados

Temporary Alternate Governor and Head of Delegation

Nigel A. Barrow
Senator
Minister Without Portfolio

Alternate Governor

Steve Emtage
Director of Finance and Planning
Ministry of Finance and Planning

Advisors

Charles A. T. Skeete
Executive Director
Inter-American Development Bank
Woodline A. Davis
Attorney

Belgium

Temporary Alternate Governor

Emiel Kestens
Director General of the Treasury
Ministry of Finance

Advisor

Robert Puttemans
Executive Secretary
Ministry of Finance-Treasury

Bolivia

Governor

Javier Alcoreza M.
Minister of Finance

Alternate Governor

Enrique García A.
President
Banco Central de Bolivia

Temporary Alternate Governors

Claudio Calderón
Advisor
Instituto Nacional de Financiamiento
Ramiro Velasco
Deputy Director, Budgeting
Ministry of Finance

Raúl Romero
Executive Deputy Director
Instituto Nacional de Financiamiento

Advisors

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General Manager
Banco Central de Bolivia
Jaime Delgadillo
Assistant to the Offices of the General Manager
and the President
Banco Central de Bolivia

Brazil

Governor

Karlos Rischbieter
Minister of Finance

Alternate Governor

Carlos Brandão
President
Banco Central do Brasil

Temporary Alternate Governors

Álvaro Gurgel de Alencar
Coordinator of International Affairs
Ministry of Finance

José Carlos Madeira Serrano
Director, External Area
Banco Central do Brasil

Luiz Barbosa
Chief, International Agencies and
Agreements Department
Banco Central do Brasil

Advisors

Armindo Branco Mendes Cadaxa
Ambassador of Brazil in Jamaica
Francisco Thompson Flores
Secretary, International Economic and
Technical Cooperation

Planning Secretariat
Office of the President

José Carlos P. M. da Fonseca
Executive Director
Inter-American Development Bank

Alexandre Kafka
Executive Director
International Monetary Fund
Luiz Felipe Lampreia
Minister Counselor
Embassy of Brazil in the United States of
America

Ney Werneck de Campos Curvo
Chief, Press Advisory Office
Ministry of Finance

Pedro Paulo Pinto Assumpção
Chief, Financial Policy Division
Ministry of Foreign Affairs

Eimar de Andrade Avillez
Chief, Office of the President
Banco Central do Brasil

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 Ministry of Finance
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 Press Advisor, Office of the President
 Banco Central do Brasil
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 Economist
 Banco Central do Brasil
 Luiz Antonio Sande de Oliveira
 President
 Banco Nacional do Desenvolvimento Econômico
 Antônio Machado de Macedo
 Director, Foreign Operations
 Banco do Brasil S.A.
 Wolmen Carvalho
 Regional Superintendent for North
 and Central America
 Banco do Brasil S.A.
 Octávio Juarez Távara
 Attaché and Vice Consul in
 Kingston, Jamaica

Canada

Alternate Governor

Michel Dupuy
 President
 Canadian International Development Agency

Temporary Alternate Governor

K. Bezanson
 Director
 Financial Institutions Division
 Multilateral Branch
 Canadian International Development Agency

Advisors

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 International Programmes Division
 Department of Finance
 J. Gorman
 Financial Institutions Division
 Multilateral Branch
 Canadian International Development Agency
 D. Halchuk
 Financial Institutions and Corporate
 Liaison Branch
 Department of Industry, Trade and Commerce
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 Canadian International Development Agency
 John D. Blackwood
 Executive Director
 Inter-American Development Bank
 William A. Kilfoyle
 Alternate Executive Director
 Inter-American Development Bank
 Geza Tatrallyay
 Technical Assistant to the Executive
 Director
 Inter-American Development Bank

Chile

Temporary Alternate Governor and Head of Delegation

Luis Danús Covián
 Minister and Executive Vice President
 Corporación de Fomento de la Producción

Alternate Governor

Sergio Undurraga Saavedra
 President, New York Office
 Corporación de Fomento de la Producción

Temporary Alternate Governor

Sergio de la Cuadra Fabres
 Vice President
 Banco Central de Chile

Advisors

Martin Costabal Llona
 Advisor to the Minister of Economy,
 Development and Reconstruction
 Hernán Felipe Errázuriz Correa
 Legal Advisor
 Banco Central de Chile
 Enrique Tassara Tassara
 Director of International Operations
 Banco Central de Chile
 Guillermo Greene Pinto
 Manager, International Organizations
 Banco Central de Chile
 Andrés Vásquez Salas
 Chief, International Organizations Department
 Banco Central de Chile
 Joaquín Prieto Pomareda
 Vice President, New York Office
 Corporación de Fomento de la Producción

Colombia

Governor

Jaime García Parra
 Minister of Finance and Public Credit

Alternate Governor

Rafael Gama Quijano
 General Manager
 Banco de la República

Temporary Alternate Governors

Eduardo Wiesner Durán
 Planning Director
 National Planning Department
 Carlos Sanz de Santamaría
 Chairman, Board of Directors
 Banco de la República

Advisors

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 Under Secretary
 Banco de la República
 Leonor Montoya de Torres
 Director General of Public Credit
 Ministry of Finance and Public Credit

Fidel Cuellar
Chief, Office of Planning and Economic
and Fiscal Analysis
Ministry of Finance and Public Credit

Costa Rica

Governor

Hernán Sáenz Jiménez
Minister of Finance

Alternate Governor

Guillermo González Truque
Executive President
Banco Central de Costa Rica

Advisors

Raúl Fernández Bianchi
Director, External Financing
Ministry of Finance
Javier Brenes
Banco Central de Costa Rica

Denmark

Temporary Alternate Governor

C. Ulrik Haxthausen
Head of Division
DANIDA-Multilateral Aid
Ministry of Foreign Affairs

Dominican Republic

Governor

Eduardo Fernández Pichardo
Governor
Banco Central de la República Dominicana

Temporary Alternate Governor

Eduardo García Michel
Assistant to the Management
Banco Central de la República Dominicana

Advisor

Manuel R. Arísty
Alternate Executive Director
Inter-American Development Bank

Ecuador

Governor

Juan Reyna-Drouet Santacruz
Minister of Finance and Public Credit

Alternate Governor

Francisco Swett
President
Junta Nacional de Planificación y Coordinación
Económica

Temporary Alternate Governors

Miguel Salazar Haro
Director of Public Credit
Ministry of Finance and Public Credit
Ricardo Muñoz Chávez
President
Monetary Board

Advisors

Jorge González Guzmán
General Supervisor of External Debt
Ministry of Finance and Public Credit
Rafael Pérez Reyna
Advisor to the Minister of Finance and
Public Credit

Oscar Loor Risco
Executive Director
Comisión de Estudios para el Desarrollo
de la Cuenca del Río Guayas

Carlos Julio Emanuel
Manager
Banco Central de Guayaquil
Otto Andrade S.
Deputy General Manager
Banco Nacional de Fomento

El Salvador

Governor

José Eduardo Reyes
Minister of Planning and Coordination of
Economic and Social Development

Alternate Governor

René López Bertrand
Minister of Finance

Temporary Alternate Governors

Manuel Antonio Robles
Vice President
Banco Central de Reserva de El Salvador
Félix Castillo Mayorga
Secretary
Office of the President of the Republic

Advisors

Rafael Antonio Coto
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Ministry of Planning and Coordination of
Economic and Social Development
Alberto Benítez Bonilla
Deputy Credit Manager
Banco Central de Reserva de El Salvador
Jesús Guillermo García Iraheta
Projects Division
Ministry of Planning and Coordination of
Economic and Social Division

Finland

Governor

Annikki Saarela
Financial Counsellor
Minister of Finance

Temporary Alternate Governor

Pertti Ripatti
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Embassy of Finland in the United States
of America

Advisors

Inga-Maria Groehn
Secretary of International Affairs
Ministry of Finance

Sakari Eraepohja
Secretary of Section
Ministry of Foreign Affairs

France

Alternate Governor

Jean-Yves Haberer
Director of the Treasury
Ministry of Economy

Advisors

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Civil Administrator
Chief, Latin American Division
Treasury Bureau
Ministry of Economy
Henri Pezant
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Embassy of France in Argentina
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Technical Assistant to the Executive Director
Inter-American Development Bank
J. M. Vogt
Commercial Counsellor of France for
the Caribbean Area

Germany, Federal Republic of

Temporary Alternate Governor

Horst Goltz
Assistant Secretary
Federal Ministry for Economic Cooperation

Advisors

Günther Schulz
Executive Director
Inter-American Development Bank
Siegfried Schumm
Head of Section
Federal Ministry of Finance
Wolfgang Rieke
Head of Department
Deutsche Bundesbank
Paul Koehling
Deputy Division Chief
Federal Ministry for Economic Cooperation
Karl-Heinz Kuntzschmann
Senior Officer
Federal Ministry for Economic Cooperation

Guatemala

Governor

Hugo Tulio Búcaro García
Minister of Finance

Temporary Alternate Governor

Marco Antonio Aparicio Rendón
Director, Exchange and Financial and
International Institutions Department
Banco de Guatemala

Advisors

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Ministry of Finance

Fernando Barillas
Assistant Chief, Public Finance
Ministry of Finance
Luis Francisco Ortega
Advisor
Ministry of Finance
Mario David García
Advisor
Ministry of Finance

Guyana

Governor

Franklin E. Hope
Minister of Finance

Temporary Alternate Governor

Ivan Hamilton
Deputy Secretary to the Treasury
Ministry of Finance

Advisor

Carl Greenidge
Chief Planning Officer
State Planning Commission

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

Alternate Governor

Guillermo Bueso
President
Banco Central de Honduras

Temporary Alternate Governors

Virgilio Cáceres Pineda
Executive Secretary
Consejo Superior de Planificación Económica
Mario Rietti-Matheu
Advisor to the Minister of Economy
and Commerce

José Vicente Díaz Reyes
Executive President
Corporación Hondureña del Banano

Advisors

Manuel Antonio Fontecha
Banco Central de Honduras
Rigoberto Pineda Santos
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Pablo Ulises Gómez
Consejo Superior de Planificación Económica
Paul Vinelli
President
Banco Atlántida, S.A.

Angel A. Boesch Matute
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Empresa Nacional de Energía Eléctrica
Jaime Rosenthal Oliva
President
Banco Continental, S.A.

Israel

Alternate Governor

Ben-Ami Zuckerman
Commissioner of Capital Markets,
Insurance and Savings
Ministry of Finance

Temporary Alternate Governor

Channa Weinberg
Economic Adviser
Bank of Israel

Advisors

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Embassy of Israel in the
United States of America
Saul Hanono
Technical Assistant to the
Executive Director
Inter-American Development Bank

Italy

Alternate Governor

Giuliano Monterastelli
Central Director
Bank of Italy

Temporary Alternate Governor

L. Fernanda Forcignano
First Director
Ministry of the Treasury

Advisors

Alfredo Ginex
Director at the Bank's Research Department
Bank of Italy
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Technical Assistant to the
Executive Director
Inter-American Development Bank

Jamaica

Governor

Eric O. Bell
Minister of Finance and Planning

Alternate Governor

Richard Fletcher
Minister of State in the
Ministry of Finance and Planning

Temporary Alternate Governors

Horace G. Barber
Financial Secretary
Ministry of Finance and Planning
Herbert Walker
Governor
Bank of Jamaica

Advisors

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Deputy Financial Secretary
Ministry of Finance and Planning
Jacqueline Mayers
Director, Development Division
Ministry of Finance and Planning
Everett Marcel Knight
Director, Projects Division
Ministry of Finance and Planning
Joan Ferguson
Deputy Director, Projects Division
Ministry of Finance and Planning
Norman Paul Girvan
Chief, Technical Director
National Planning Agency
Ministry of Finance and Planning
Headley Brown
Trade Administrator
Trade Administrator's Department
Ministry of Industry and Commerce
Dhiru Tanna
Managing Director
Jamaica National Investment Co. Ltd.
Roy A. Jones
Managing Director
Jamaica Development Bank
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Ministry of Foreign Affairs and Tourism
Doris Chin
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Embassy of Jamaica in the
United States of America
Marjorie Lamont
Director
National Planning Agency
Ministry of Finance and Planning

Japan

Temporary Alternate Governors

Michiya Matsukawa
Special Adviser to the
Minister of Finance
Ministry of Finance
Koichi Kakimizu
Deputy Director-General
International Finance Bureau
Ministry of Finance

Advisors

Shuzo Nakamura
Assistant Director
Secretariat Division
Ministry of Finance
Hiroshi Watanabe
Assistant Director
Overseas Investment Division
International Finance Bureau
Ministry of Finance
Torao Aoki
Executive Director
Inter-American Development Bank

Nobuhiko Matsuno
 Counsellor (Financial)
 Embassy of Japan in the United States
 of America
 Tatsuo Noguchi
 First Secretary
 Embassy of Japan in the Dominican Republic
 Mitsunori Namba
 Multilateral Cooperation Division
 Economic Cooperation Bureau
 Ministry of Foreign Affairs
 Yoshiaki Toda
 Deputy Director
 Foreign Department
 Bank of Japan

Mexico

Governor

David Ibarra Muñoz
 Secretary of Finance and Public Credit

Alternate Governors

Gustavo Romero Kolbeck
 Director General
 Banco de México, S.A.

Temporary Alternate Governors

Jorge Espinosa de los Reyes
 Director General
 Nacional Financiera, S.A.
 Octavio Hernández
 Director General
 Banco Nacional de Obras y Servicios Públicos

Advisors

Alfredo Phillips Olmedo
 Deputy Director for International Affairs
 Banco de México, S.A.
 Bernardo Sepúlveda Amor
 Director General of International
 Financial Affairs
 Department of Finance and Public Credit
 Alfonso García Macías
 Financial Director
 Nacional Financiera, S.A.
 Patricio Ayala
 Executive Director
 Inter-American Development Bank
 Pedro Galicia Estrada
 General Manager for Official Financing
 Nacional Financiera, S.A.
 Francisco Suárez Dávila
 General Manager
 Banco de México, S.A.
 Jesús Rodríguez y Rodríguez
 Director General
 Instituto para el Depósito de Valores
 Luis Manuel Martínez Loaneza
 Private Secretary to the Secretary of
 Finance and Public Credit
 Guillermo Ramírez
 Press Director
 Department of Finance and Public Credit

Carlos Planck Hinojosa
 Director, International Economic Agencies
 Department of Finance and Public Credit
 Luis R. García
 Financial Manager
 Banco Nacional de Obras y Servicios
 Públicos, S.A.

Antonio Aspra
 Deputy Director of Public Credit
 Department of Finance and Public Credit
 Ricardo Peñaloza Webb
 Deputy Manager
 Banco de México, S.A.
 Susana Mignon Sevilla
 International Affairs
 Department of Finance and Public Credit
 Alvaro Vizcaino Velasco
 Press Chief
 Banco de México, S.A.
 Arturo Ortiz Hidalgo
 Representative in Washington, D.C.
 Nacional Financiera, S.A.

Netherlands

Temporary Alternate Governor

G. H. Ledebor
 Deputy Director
 Foreign Financial Relations
 Ministry of Finance

Advisors

Johan S. Hilbers
 Alternate Executive Director
 Inter-American Development Bank
 J. A. Weyers
 Investment and Banking Division
 Ministry of Foreign Affairs

Nicaragua

Governor

Roger Blandón Velásquez
 Minister of Economy, Industry and Commerce

Temporary Alternate Governors

Samuel Genie Amaya
 Minister of Finance and Public Credit
 Guillermo Solórzano A.
 Executive Assistant
 Office of the President
 Banco Central de Nicaragua

Advisors

Rodolfo Bojorge Moreira
 President
 Banco Nacional de Nicaragua
 René Jarquín S.
 General Manager
 Instituto de Fomento Nacional
 Mario B. Alonso I.
 Director
 Special Development Fund
 Banco Central de Nicaragua

Mauricio Baca Muñoz
Advisor to the Minister of Economy,
Industry and Commerce

Carlos Pérez Alonso
Director, International Agencies
Ministry of Economy, Industry and Commerce

Panama

Governor

Gustavo R. González
Minister of Planning and Economic Policy

Temporary Alternate Governor

Fernando Aramburú Porras
Director General of the Revenue
Ministry of Finance and Treasury

Advisors

Reinaldo Decerega
Alternate Executive Director
Inter-American Development Bank
Jaime Anguizola
General Manager
Banco de Desarrollo Agropecuario
Félix Armando Quiros
Executive Manager and Economic Advisor
Banco Nacional de Panamá

Ramón Gilberto Pérez
Executive Manager for Credit and Finance
Banco Nacional de Panamá

José Guzmán
Technical Director
Instituto Panameño de Turismo

Alexis Cobos
Coordinator of Congresses and Events
Instituto Panameño de Turismo

Ernesto Córdova
Representative of Corregimiento de las Cumbres

Adán de Gracia González
Personal Credit Manager
Banco de Desarrollo Agropecuario

Hugo Wood
Ambassador of Panama in Jamaica

Miguel E. Moreno
Planning Manager
Banco de Desarrollo Agropecuario

Paraguay

Temporary Alternate Governor

Oscar Jacinto Obelar
Under Secretary of State
Ministry of Finance

Advisors

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Department of Economic Studies
Banco Central del Paraguay

Julio C. Gutiérrez
Executive Director
International Monetary Fund

Peru

Governor

Javier Silva Ruete
Minister of Economy and Finance

Alternate Governor

Jaime Quijandria Salmón
Senior Director, Economy
Ministry of Economy and Finance

Advisors

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Director General for Public Credit
Ministry of Economy and Finance
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Alternate Executive Director
Inter-American Development Bank
Oscar G. Espinosa Bedoya
Alternate Executive Director
International Bank for Reconstruction
and Development

Alonso Polar Campos
General Manager
Banco Central de Reserva del Perú

Spain

Alternate Governor

José Ramón Alvarez Rendueles
Governor
Banco de España

Temporary Alternate Governor

Manuel García Aranda
Deputy Secretary General (Technical)
Ministry of Commerce and Tourism

Advisors

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Ambassador, Permanent Observer
of Spain to the Organization of
American States

Antonio José Sánchez-Pedreño
Director General
Foreign Department
Banco de España

Agustín de Alcocer Moreno
Secretary General
Banco de España

Mercedes Rubio Domínguez
Alternate Executive Director
Inter-American Development Bank

Alberto Pico Maeso
Deputy Inspector General of Services
Ministry of Commerce and Tourism

Sweden

Governor

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Under Secretary of State
Ministry of Commerce

Temporary Alternate Governor

Ulf Dinkelspiel
Economic Counselor
Embassy of Sweden in the
United States of America

Advisors

Thord Bengtson
Ambassador of Sweden to Jamaica
Lars Engstroem
First Secretary
Ministries for Foreign Affairs and Commerce
Rolf Bergman
First Secretary
Office for International
Development Cooperation
Ministry for Foreign Affairs
Caroline Fleetwood
Second Secretary
Ministries for Foreign Affairs and Commerce
Jorgen Hallsenius
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Executive Director
Inter-American Development Bank

Switzerland

Alternate Governor

Hans Meyer
Deputy General Manager
Swiss National Bank

Advisors

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Development Policy Service
Division of Commerce
Federal Public Economic Department
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Embassy of Switzerland in the
United States of America

Trinidad and Tobago

Temporary Alternate Governor

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Ambassador of Trinidad and Tobago to the
United States of America

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Finance and Economics Division
Ministry of Finance
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Senior Research Officer
Central Bank of Trinidad and Tobago
E. Pierre
Secretary to the Delegation

United Kingdom

Alternate Governor

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Under Secretary
Ministry of Overseas Development

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G. Crabtree
Ministry of Overseas Development

United States of America

Temporary Alternate Governors

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Department of the Treasury
John Bushnell
Deputy Assistant Secretary for Inter-American
Affairs
Department of State
Joseph A. B. Winder
Director
Office of International Banks
Department of the Treasury

Congressional Advisors

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Chairman
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Chalmers Wylie
Member
Committee on Banking, Finance and
Urban Affairs
House of Representatives

Advisors

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Executive Director
Inter-American Development Bank
E. Jay Finkel
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Inter-American Development Bank
Marshall Brown
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Bureau for Latin America and the Caribbean
Agency for International Development
Robert Free
Office of International Banks
Department of the Treasury
Richard Jones
Office of Development Finance
Department of State
Deirdre Maloney
Technical Assistant to the
Executive Director
Inter-American Development Bank

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Office of the General Counsel (International)
Department of the Treasury

Van Dyne McCutcheon
Office of International Banks
Department of the Treasury

John V. Sweeney
Office of Developing Nations Finance
Department of the Treasury

Barbara Upton
Bureau for Latin America and the Caribbean
Agency for International Development

Uruguay

Temporary Alternate Governor

Juan Antonio Chiarino
Director
Banco Central del Uruguay

Venezuela

Governor

Leopoldo Díaz Bruzual
Minister of State
President, Fondo de Inversiones de Venezuela

Temporary Alternate Governor

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Executive Director
Fondo de Inversiones de Venezuela

Advisors

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General Manager
Fondo de Inversiones de Venezuela
Aguiles Viloria
Manager, International Financial Cooperation
Fondo de Inversiones de Venezuela
Ildegar Pérez-Segnini
President
Fábrica Nacional de Tractores y Motores

Yugoslavia

Governor

Petar Kostić
Federal Secretary for Finance

Temporary Alternate Governor

Toma Granfil
Director General
Export Credit and Insurance Fund

Advisors

Danica Ostojić
Head of the Office for Cooperation with
Developing Countries and Senior Adviser
Federal Secretariat for Finance

Predrag Vucković
Advisor
Export Credit and Insurance Fund

Mihailo Nikolić
Associate
Federal Secretariat for Finance
Milica Borlja

OBSERVERS FROM INTERNATIONAL INSTITUTIONS

African Development Bank

W. M. Girma
Director of Operations

Andean Development Corporation

Julio Sanjinés Goytia
Executive President
Enrique Roldán
Vice President for Finance

Andean Reserve Fund

Fernando Gaviria
Executive President
Claudio de Blois
Secretary General

Asian Development Bank

S. Stanley Katz
Vice President

Bank for International Settlements

Warren D. McClam
Deputy Manager
Monetary and Economic Department

Caribbean Development Bank

Neville V. Nicholls
Vice President

Center for Latin American Monetary Studies

Fernando Rivera Arnaiz
Deputy Director

Central American Bank for Economic Integration

Alberto Galeano M.
President
Francisco Büchting Palma
Director
Victor Manuel Cuéllar Ortiz
Director for El Salvador
Félix Martínez Dacosta
Legal Advisor
Victoria de Díaz
Financial Manager

Central American Monetary Council

Tomás Alfonso Medina
Executive Deputy Secretary

Central American Research Institute for Industry

Luis Felipe Vettorazzi T.
Administrative and Financial Manager

European Economic Community

Manfredo Maciotti
Head, Latin American Delegation
Commission of the European Communities
Caracas

Johannes Westhoff
Delegate
Delegation of the Commission of the European Communities in Jamaica

European Investment Bank

C. Richard Ross
Vice President
F. Weber-Krebs
Department for Operations Outside the European Community

Fund for the Development of the River Plate Basin

Antonio Luiz Marchesini Torres
Chairman of the Board of Executive Directors and Director for Brazil

Inter-American Council of Commerce and Production

Jorge H. B. Dellepiane
President
Buenos Aires Securities Exchange

Inter-American Regional Workers' Organization

Lascelles Beckford
Caribbean Area Representative
Kingston

Inter-American Savings and Loan Bank

Emmanuel Sader
President

Iari Martins Ribeiro de Andrade
Financial Manager

International Monetary Fund

E. Walter Robichek
Director
Western Hemisphere Department
Luis Rubén Azócar
Assistant to the Director
Information Office

Latin American Association of Development Finance Institutions

Tomás Pastoriza¹
President

José Andrés Bellido
Secretary General

Latin American Economic System

Jaime Moncayo García
Permanent Secretary
Augusto Bermúdez
Director Programming

¹Also represented the Corporación Financiera Dominicana, S.A.

Latin American Export Bank

Arthur Giraldi
Executive Vice President

Mario Luis Typaldos
Department Manager

Nordic Investment Bank

Bert Lindström
President

Organization of American States

E. Patrick Healy
Director
General Secretariat Office in Jamaica

Inter-American Institute of Agricultural Sciences

Rodolfo Martínez Ferraté
Director of Regional Coordination for the
Northern Zone
Guatemala

Lyndon Edison McLaren
Director of Regional Coordination for the
Antilles Zone
Santo Domingo

Percy Aitken-Soux
Director, National Office in Jamaica

Organization of Petroleum Exporting Countries, OPEC Special Fund

Mehdi Garadaghipour
Assistant Director-General

Pan American Health Organization

José María Salazar B.
Chief-Office of Liaison with International
Organizations

Permanent Secretariat of the General Treaty for Central American Economic Integration

Raúl Sierra Franco
Secretary General

United Nations Development Programme

G. Arthur Brown
Deputy Administrator

Michael Gucovsky
Director
Country Programme Division
Regional Bureau for Latin America
Bozidar Radović
Resident Representative in Jamaica

United Nations Economic Commission for Latin America

Marco D. Pollner
Deputy Director
Washington, D.C.

United Nations Educational, Scientific and Cultural Organization

Herschelle Challenor
Senior Liaison Officer

United Nations Food and Agriculture Organization

Martha Aida Eid
Deputy Director of the Investment Centre

United Nations Industrial Development Organizations

Irene Lorenzo
Head, Governments and Intergovernmental
Organizations Relations Section

United Nations International Fund for Agricultural Development

Moise Mensah
Assistant President
Project Management Department

World Bank Group**International Bank for Reconstruction and Development****International Development Association
International Finance Corporation**

Ernest Stern
Vice President, Operations
International Bank for Reconstruction and
Development

Nicolás Ardito Barletta
Regional Vice President
Latin America and the Caribbean
International Bank for Reconstruction and
Development

Gordon F. McClure
Vice President
International Finance Corporation

Kurt B. Eckrich
Director of Investments
Latin America and the Caribbean I
International Finance Corporation

Carl W. Ludvik
Assistant for Co-financing
Latin America and the Caribbean
International Bank for Reconstruction and
Development

OBSERVERS FROM NON-MEMBER COUNTRIES

Norway

Ove Christian Danbolt
First Secretary
Embassy of Norway in the United States of
America

Portugal

A. Almeida
Secretary of the Treasury
A. Oliveira Pinto
Vice Governor
Bank of Portugal
Antonio S. Labisa
Alternate Executive Director
International Bank for Reconstruction and
Development

Rumania

Ioan Petre Mada
Senior Economist
Ministry of Finance

SPECIAL GUESTS

The Twentieth Annual Meeting of the Board of Governors was attended by 712 special guests from 41 countries.



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GO-Meeting-Annual Proceedings
GO - 20th Meeting Board of 1979 -1979
Montego Bay, Jamaica 1979

SEC/SEC

