

INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Ninth Meeting
of the
Board of Governors

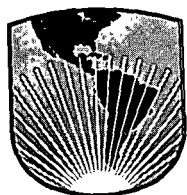
Bogota, April 1968



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**Ninth Meeting
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Board of Governors**

Bogota, April 1968

Preface

The Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in Bogota, Colombia, April 22-26, 1968. The Inaugural Session took place in the Olympia Theater, and all other sessions in the Tequendama Hotel.

Mr. Carlos Lleras Restrepo, President of the Republic of Colombia, attended the Inaugural Session and formally opened the Meeting. Mr. Abdón Espinosa Valderrama, Governor for Colombia and Minister of Finance and Public Credit of Colombia, was elected Chairman of the Board of Governors at the same session.

This publication contains the address delivered at the Meeting, and the resolutions adopted by the Board of Governors during the Meeting and in the interval between the Eighth and Ninth Meetings. It also includes a roster of the delegations of the member countries and the observers who attended the Meeting, as well as the participants in a Round Table discussion on *Multinational Investments, Public and Private, in the Economic Development and Integration of Latin America*.

Jorge Hazerra
Secretary

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Agenda

1. Election of the President of the Bank
2. Election of the Chairman of the Board of Governors
3. Eighth Annual Report of the Bank, 1967
 - a. Financial Report, Ordinary Capital Resources
 - b. Financial Report, Fund for Special Operations
4. Place and date of the Tenth Meeting of the Board of Governors

Schedule of Sessions

Monday, April 22, 1968

- 9 a.m. Preliminary Session (Chiefs of Delegations)
- 5 p.m. Inaugural Session (First Plenary Session)
1. Address by Mr. Henry H. Fowler, Governor for the United States
 2. Approval of the Agenda of the Meeting
 3. Election of the Chairman of the Board of Governors
 4. Address by the Chairman, Mr. Abdón Espinosa Valderrama, Governor for Colombia
 5. Address by Mr. Antonio Delfim Netto, Governor for Brazil, on behalf of the delegations
 6. Address by Mr. Carlos Lleras Restrepo, President of the Republic of Colombia

Tuesday, April 23, 1968

- 10 a.m. Second Plenary Session
1. Eighth Annual Report of the Bank of 1967
 - a. Financial Report, Ordinary Capital Resources
 - b. Financial Report, Fund for Special Operations
 2. Address by Mr. Felipe Herrera, President of the Bank
- 3 p.m. Round Table: *Multinational Investments, Public and Private, in the Development and Integration of Latin America* (Part I)

Wednesday, April 24, 1968

- 10 a.m. Third Plenary Session
1. Address by Mr. Pedro Eduardo Real, Governor for Argentina

2. Address by Mr. Héctor Hurtado, Alternate Governor for Venezuela
 3. Address by Mr. César Barrientos, Governor for Paraguay
 4. Address by Mr. Antonio Ortíz Mena, Governor for Mexico
 5. Address by Mr. Francis C. Prevatt, Governor for Trinidad and Tobago
 6. Address by Mr. Oscar Víctor Rachetti, Governor for Uruguay
 7. Address by Mr. Ramón Remolina, Alternate Governor for Peru
- 3 p.m. Round Table: *Multinational Investments, Public and Private, in the Development and Integration of Latin America* (Part II)

Thursday, April 25, 1968

10 a.m. Fourth Plenary Session

1. Address by Mr. Galo Pico Mantilla, Governor for Ecuador
2. Address by Mr. Sergio Molina, Governor for Chile
3. Address by Mr. Arnaldo Ramírez Eva, Governor for Nicaragua, on behalf of the Central American countries
4. Address by Mr. Alberto Larrea Humérez, Governor for Bolivia
5. Address by Mr. Covey T. Oliver, Alternate Governor for the United States

Friday, April 26, 1968

10 a.m. Closing Session (Fifth Plenary Session)

1. Address by Mr. Clovis M. Désinor, Governor of Haiti
2. Physical integration of Latin America
3. Preferential treatment for countries of relatively less economic development and those of insufficient market
4. Continuity of operations of the Institute for Latin American Integration
5. Place and date of the Tenth Meeting of the Board of Governors
6. Observations by Mr. Felipe Herrera, President of the Bank
7. Address by Mr. Francis C. Prevatt, Governor for Trinidad and Tobago, on behalf of the delegations
8. Closing Address by the Chairman, Mr. Abdón Espinosa Valderrama, Governor for Colombia

ADDRESSES

**INAUGURAL SESSION
(FIRST PLENARY SESSION)
APRIL 22, 1968**

**Address by Mr. Henry H. Fowler,
Governor for the United States and Secretary of the
Treasury, at the Inaugural Session**

Today we move another step forward in achieving the dreams and ideals of the outstanding patriots of the hemisphere—from Bolívar and San Martín, Morazán and Juárez, Washington and Jefferson, to the current expressions embodied in the Declaration of the Presidents of the Americas at Punta del Este. The world, with its modern science, technology and communications, requires us to examine the tasks we have before us in the broadest context of democracy, tranquility, self-determination, social justice and the aspirations of the people of the hemisphere.

It was a great honor for me, in my capacity as the representative of the Government and people of the United States, to have presided over the Eighth Meeting of the Board of Governors of the Inter-American Development Bank. It is now my most happy task, as the outgoing Chairman of the Board of Governors, to welcome the delegates to the Ninth Meeting. May I express on their behalf our gratification for the hospitality extended by the Government of Colombia in offering for our deliberations this historic site—one that is so important in the history of this hemisphere, the beautiful and cultured city of Bogotá, where so many of the beginnings of our contemporary concepts of hemispheric solidarity were nurtured by the Liberator, Simón Bolívar.

In the tradition of Bolívar and the Congress of Panama of 1826, the Inter-American System formally began with the Washington Conference of 1889-90. The spirit of hemispheric solidarity developed constructively during the 1930's and 40's with President Roosevelt's Good Neighbor Policy. The Organization of American States was founded in Bogotá in 1948.

The movement for a cooperative hemispheric program for the development of Latin America found further expression in the 1950's in the Brazilian initiative known as "Operation Pan America" and in statements by a number of leading Latin Americans, including the current President of Chile, Eduardo Frei, and the President of Colombia, Carlos Lleras Restrepo. In this period our Bank was founded and was given strength by the Act of Bogotá of 1960, which recognized the need for greater social progress and more balanced economic growth.

In March of 1961, President Kennedy called for an Alliance for Progress. The Alliance was given specific expression that same year in the Charter of Punta del Este. Contained in this Charter was the aim of a "democratic modernization" of the continent, including a decisive economic and social advance. With the creation in 1964 of (*CIAP*)—the Inter-American Committee on the Alliance for Progress—to review both self-help efforts and the adequacy of external assistance, the machinery of the Alliance was viewed in a new focus. It was just a year ago last week that the Presidents of the Americas convened in an historic meeting at Punta del Este where a new action program was given to our Alliance. This, in the words of President Johnson, was "a response of farsighted Latin American leadership to the needs of present and future generations."

As part of this process, the Bank's role in the social and economic development of the hemisphere has undergone a profound change in the short period of less than a decade. The initial emphasis of the Bank on financing specific economic development projects has been substantially expanded. It now includes increased attention to social investment, cooperation in planning for the study and implementation of institutional reforms, and the promotion of multinational undertakings aiding the process of regional integration.

Since its early period the Bank has sought to fulfill the hope and vision of President Herrera that it serve as "The Bank of Integration" within the Alliance for Progress. Its contributions in the field of regional integration already are manifold and include the Preinvestment Fund for Latin American Integration, an institute for the study of problems of integration, a comprehensive examination of the prospects for the integrated development of such areas as the River Plate Basin, as well as the commitment of substantial sums for integration projects.

The Bank's role in the integration process is one of broad significance. More is involved than the narrow function of providing technical and financial support to projects that happen to involve both sides of some international boundary. The main impact of integration on intraregional relationships is already reasonably well understood. We should now recognize that the Bank's activities in support of integration are helping to propel Latin America as a region into new economic and trade relationships with the rest of the world.

The shape, speed and effectiveness of this integration will depend primarily upon the follow-through on the commitment by Latin American governments. But the Bank can and should stimulate and

catalyze governmental and private action toward an outwardly-oriented Latin American economy. The Bank can make difficult steps easier for governments by providing expert technical and capital assistance. The Presidents of the Americas agreed at Punta del Este to mobilize resources within and without the hemisphere in support of integration. The Bank is the logical channel through which these funds can be applied. By thus performing its tasks in support of the creation of a unified Latin American economy, the Bank will at the same time be preparing the way for new and powerful Latin American voices to be heard in the world's trade and financial circles.

With considerable realism, the Presidents at Punta del Este last year coupled their plan for the creation of a Latin American common market with a plan of equal daring for the creation of the physical underpinning which is basic to the emergence of a viable common market. The Bank is clearly a hemispheric body in a special position and especially equipped to supply both the required expertise and external financial resources for the creation of the facilities of physical integration.

For many years President Johnson, who has long held a deep personal interest in Latin America and its problems, has been concerned with the possibilities for major advances in tying Latin America closer together through physical projects. He wished me to greet you, and it would be particularly relevant if I read to you at this point the following letter, which I received from him just before my departure from Washington:

Dear Secretary Fowler:

It has been a matter of pride that you, as United States Governor of the Inter-American Development Bank, have served during the past year as Chairman of the Board of Governors of that distinguished organization. Before you relinquish your duties as Chairman, I would appreciate it if you would convey the following personal message from me to the Ninth Annual Meeting in Bogotá:

It is a pleasure for me again to be able to salute the annual gathering of the Inter-American Development Bank—the financial cornerstone of hemispheric cooperation in the urgent tasks of the Alliance for Progress. Last year, the Governors took a far-reaching action to expand the Bank's resources. The United States responded promptly with its \$900 million share over a three-year period in the \$1.2 billion increase for lending by the Fund for Special Operations.

Our Congress is now well along in its consideration of the \$412 million increase in our callable subscription to the Bank's Ordinary Capital. These expanded resources and the loans they will make possible hold the promise of record levels of achievement by a Bank that is already making a major contribution to Latin American development. Under Felipe Herrera's skillful and inspiring leadership, the Executive Directors and staff have responded to the challenges before it.

When I joined with my fellow Presidents of the Americas at Punta del Este a year ago this month, it was evident to all of us that the master key to full development of Latin America's rich human and natural resource potentials was the achievement of integration of the markets and economies of the Latin American community. We foresaw the vital importance of establishing a common market through the convergence of the Latin American free trade areas and the Central American Common Market.

It was equally clear that a necessary prerequisite was a solid beginning in achieving the physical integration of Latin America—building the visible and tangible interconnections that make possible the free interchange of economic factors—the roads and river systems, power grids and pipelines, transport and telecommunications.

My thoughts since that historic gathering at Punta del Este have continued to dwell on the vast perspectives that lie in the physical integration process. The Inter-American Development Bank is in a position to play a leadership role in the work to be done in this field, as is the Inter-American Committee on the Alliance for Progress.

We must organize hemispherically for this task and draw on the best available wisdom and expertise to plan the way ahead. I hope that your meeting and related ones in Washington this month will enable us to spell out in great detail a mechanism by which we can, together, chart our way toward the bright prospect of full realization of this fundamental goal of the Alliance.

(Signed) Lyndon B. Johnson

The special responsibility of the Bank for financing physical and other approaches to integration, as well as its continuing fundamental responsibility for financing economic and social progress within national frameworks, require financial resources adequate to the tasks. Our Meeting last year set in motion major efforts to ensure that such resources would be available and more effectively used.

We must follow through on each phase of these efforts—replenishing the Fund for Special Operations, increasing the callable

capital, increasing utilization of a part of the Fund for Special Operations contributions of rapidly advancing Latin American countries for projects in other member countries, expanding the ability of the Fund to finance needed imports by reducing the use of its hard currency resources for local cash, and increasing the availability of resources from nonmember countries.

I have tried thus far to place the Bank's activities as described in its lucid and impressive Annual Report in their broadest regional perspectives. But there is an even broader relationship. That is the place of the Bank and its individual member countries, singly and collectively, as elements in an active, viable and effective world trade and payments system. In such an improved system, goods and services can move more freely across national boundaries and between continents and hemispheres, with public and private capital flowing easily in the directions indicated by both the need for economic growth and development and economic return.

In such a broad context, recent developments in the international monetary system, and the imminent prospect for major improvements in that system, are of great relevance. We have confronted in the past year—and have surmounted—the most serious threat to the world monetary system of the postwar period. We are emerging into a period in which new strengths are becoming apparent. They are strengths born of a spirit of multilateral financial cooperation.

The action taken in Washington on March 17 with respect to gold by the central banks of the seven members of the former gold pool, and subsequently endorsed by most other monetary authorities, has relieved the pressure of speculative private activity in gold and its drain on official stocks. The favorable response in Latin America and elsewhere to the new monetary gold arrangements is another example of the same spirit of financial cooperation that brought this Bank into being and that will motivate all of us here today and in the future to continue our mutually beneficial cooperation as new opportunities emerge.

This year is one of great opportunity for the international monetary system. To assure adequate reserve growth to support expansion of world trade and payments, we should now turn our full energies to bringing into effect the new Special Drawing Rights facility in the International Monetary Fund. Latin America was the scene last September when, at the Rio conference of the Fund, a decision was taken to press

forward with the proposal for a new reserve asset in the form of Special Drawing Rights.

The International Monetary Fund today released in Washington the text of the proposed amendment to the Articles of Agreement of the Fund that will permit the implementation of the Special Drawing Rights system. The resolution embodying these changes is being submitted to the Governors of the International Monetary Fund to be approved by them by May 31 as satisfactory for submission to member governments for ratification.

For our part, I will promptly cast my vote as U.S. Governor of the Fund for the resolution approving the Amendment for submission to governments. After my return to Washington, I expect that early in the month of May legislation to authorize final acceptance of the Special Drawing Rights arrangements by the U.S. Government will be submitted to the Congress, where I can assure you it will be vigorously pressed by the Administration and, I hope, accorded strong support by our lawmakers in both major political parties.

We can all view Special Drawing Rights as contributing to a better world economic structure, within which both expanding trade and development efforts can move ahead more effectively. For a penetrating analysis of their particular meaning for developing countries, I commend for your reading the excellent study by the distinguished Managing Director of the International Monetary Fund, Mr. Pierre-Paul Schweitzer, entitled, *The New Arrangements to Supplement World Reserves and Their Implications for Developing Countries*.

I do not wish to suggest that we regard Special Drawing Rights as a panacea leading to an immediate solution of all world monetary problems. Nor should we have any illusions that they will provide immediate solutions for national balance-of-payments problems, either our own or yours.

The urgent business that requires my return to Washington tomorrow will have a direct effect on the ability of the United States to achieve balance-of-payments equilibrium and thereby strengthen the stability of the international monetary system. In that light, this business is of concern to each of you and the Bank as our trading and financial partners in the world economic system. I refer to our tax increase and expenditure reduction program, which will determine to an important degree our budgetary and aggregate demand levels in the crucial period ahead.

An economy like ours, simply because it is huge, does not acquire an immunity to the need for belt-tightening to bring dispositions of resources into better balance with availabilities of resources so as to avoid damaging and dangerous inflation. This is a problem which I know you will understand from your own experiences. Except for the question of scale, we all engage in the same difficult struggle to order our priorities wisely.

I deeply regret that I will not be able to remain with you all week. My experience in Mexico City and Washington convinces me of the great value of these deliberations. I shall continue to follow them closely through the U.S. delegation. You may be assured of unflagging United States support for the multilateral goals and objectives of the Bank.

I wish you continued success in these important deliberations and invite the election of my successor to the Chair.

**Address by the Chairman of the Board of Governors,
Mr. Abdon Espinosa Valderrama,
Governor for Colombia and Minister of Finance and
Public Credit, at the Inaugural Session**

Please accept the cordial and heartfelt greetings of the Government and people of Colombia and their gratitude for the selection of their capital city as the site of this Meeting to review the operations of the Inter-American Development Bank over the last year and reaffirm our faith in the principles that inspired its auspicious creation and have strengthened and broadened its purposes over the years. Allow me to express as well my enduring appreciation for the very high honor of having been singled out to preside over these sessions. Colombia takes pleasure in the presence on her soil of spokesmen for the hemisphere who are outstanding not only for their intellectual powers but also for what they represent as leaders and workers on behalf of the integration and economic and social progress of our people.

Rarely has a cause met with a greater or more nearly unanimous response in any nation. Our common purpose of joining forces to expand our confined markets and to work together for development is one of the most spontaneous, dynamic and popular undertakings in my country. It is also one of the basic aims of the administration of President Lleras Restrepo, who will address you today. This is undoubtedly the case in the other countries as well. The hemispheric wave that surged across our continent at the beginning of the previous century is welling up anew in another way, generated now as then by the aspiration for a life of greater prosperity and dignity. The desire for change, a hallmark of our time, guides our national destiny, inspires us here in this hall, and finds expression in the fight against ignorance, disease and poverty. The rapid growth of our population permits no pause; nor do our long-cherished aspirations sanction the laggard pace of days past. Economic and social development, formerly the vague and disembodied hope of a select few, has become a goal clamorously demanded by the population at large; achievement of this goal will naturally require a sizable measure of discipline, cooperation and justice. It cannot be a halting, fitful development, but rather must come on a continuous basis: development not for restricted groups, but rather for the broad masses; development that is not in fleeting episodes, but rather a process that is both accelerated and stable, that is untrammelled either by inflation or by privilege. Words, however, are not enough. We must move on to deeds, free of aimless outbursts

of impatience that can undo all our achievements and free as well of spells of dejection or missteps that might, for one reason or other, cause the enterprise to founder between periodic spurts of progress.

One of these deeds, and a source of encouragement, was the creation of the now mature Inter-American Development Bank in 1959 to contribute to the individual and collective development of its member countries, as stated in its Establishing Agreement. This credit and technical assistance cooperative, founded in partnership with the United States of America, has in eight years fulfilled the hopes that were vested in it. The brilliant success of its operations should dispel any doubts that may have been harbored. Its staff, drawn from different parts of the hemisphere, has demonstrated that our America has the capacity to employ modern instruments to meet the demands imposed by the problems of today. This is precisely what the Inter-American Bank is: a flexible and effective instrument, rooted in our own soil, that has intensively supplemented the operations of other international organizations.

The fact that loans totaling \$2.4 billion have been granted to assist in the execution of programs costing \$6.4 billion conveys the extent to which the Bank has fulfilled the mission of channeling its own resources and attracting savings from other sources, including other continents. Each year it exceeds its performance of the previous year, both in volume of its operation and in their induced effects. The fact that, in addition to the contributions of the United States and Latin America, a total of \$117 million has been provided by nonmember countries is the best evidence of its prestige and soundness. But to stand still now is, of course, to lose ground. And the Inter-American Development Bank has neither stood still nor lost ground, to judge from the yearly increases in its capital, disbursements and new undertakings. The volume of its annual operations, which in 1966 had reached a record figure of \$396.1 million, climbed still further in 1967 to \$496.4 million. But figures tell only part of the story. The Bank is also to be praised for its increasing orientation toward the support of economic and social progress, and lately toward the integration of our national economies.

The Inter-American Bank was not founded simply to replace ordinary income from commerce, much less to offset our steadily deteriorating terms of trade. The shortcomings and irregularities in these fields are being remedied in other ways. It was born of the need to overcome limitations of capital formation by providing

additional flexible financial assistance on a systematic basis, thus enabling Latin America to expand its economy and strengthen its society. It could not completely fill the void nor could it reasonably have been expected to do so, but no one can deny that it has been an admirable and effective instrument under the equally admirable and effective management of its President, Dr. Felipe Herrera, who has been re-elected at this session on the strength of his outstanding merits and services, for the good of the Bank and the hemisphere.

He has given us a clear definition of another highly interesting aspect of the operations of the Inter-American Development Bank. In 1966, when noting the importance of strengthening multilateral machinery for the evaluation of domestic efforts and the discovery of adequate solutions on a regional scale, he said that no rigid formulas should be applied to all countries and all situations without regard for structural differences and the degree of development attained by the various zones of Latin America. Nor should multinational organizations impose their views and standards with respect to the goals and means to progress in each country. The very structure of the Inter-American Development Bank determines the course of action that its President has so accurately reaffirmed. The specific objectives of development with peculiar characteristics or difficulties of the process in each nation, the instruments for achieving them and the employment of those instruments are the function and responsibility of each country. Far from impeding the Bank, this entails a commitment to work for the economic integration of our countries—by coordinating their energies and talents in multinational enterprises, overcoming geographic barriers through telecommunications and transport and, in short, by expanding markets—as agreed to by the Presidents of America in their meeting at Punta del Este.

Punta del Este was the scene of two historic declarations that have influenced the direction of Inter-American Bank activities. First, there was the profound and quite revolutionary declaration that launched the Alliance for Progress—which awakened, or, to put it more precisely, which gave expression to the hopes of so many. Then, there was the Declaration by the Presidents of America, in which another stride was made toward integration. To what extent has the Bank fulfilled the functions assigned to it? It has given practical expression to the Alliance for Progress and has been one of the primary implements of the Declaration of the Presidents of America. We have only to observe how it has begun to concern itself actively with higher edu-

cation, science and technology by providing funds to stimulate institutions of higher learning to new growth; how to its loans for sewerage and water supply systems it has added technical and financial assistance to hospitals and rural centers of preventive and curative medicine, the promotion of research and the training of technical personnel; how it is sponsoring and supporting regional integration projects and undertakings programmed to this end; how well it has comprehended the danger that backward areas can present—either in a country or on the continent; how it strives for agricultural output sufficient both to feed the people and to supply raw materials for essential industrial development that can no longer be postponed; how it offers financing for sufficient feasible public and private projects to protect countries against setbacks and delays. In summary: a policy fully consistent with social and cultural needs that focuses on the human element and from the development standpoint does not hesitate to recognize the preponderant importance of science and technology, just as it earlier acknowledged the very real significance of housing.

Another aspect has had the attention of the Bank, that of commerce, or, more exactly, an adequate level of income within each country. Initially, this took the form of limited credit for intraregional exports of capital goods; later, unrestricted credit was made available from the Fund for Special Operations. It is clear that our nations are assigning increasing importance to trade with each passing day. The gradual exhaustion of possibilities for import substitution, together with what Raúl Prebisch had called the external strangulation of development, is compelling us to strike for irreplaceable foreign trade earnings. Where structural disequilibrium exists in the balance of payments, as in the case of Colombia, the situation becomes more urgent—at the very time when the credit needed to help national economies generate enough foreign receipts on their own is dwindling. In view of current market conditions, the shortage of capital and other concurrent factors, we need to follow procedures similar to those the Inter-American Bank has begun to utilize in connection with intraregional exports of capital goods, together with an increase in output and productivity. Reciprocal trade within Latin America requires something more than good will. Political decisions are needed, to be sure, but they must be backed by financial and administrative mechanisms to make them practicable.

But the sources of the Inter-American Bank, gratifying and encouraging as they may be, do not detract from the magnitude, complexity and difficulty of the task immediately before us. These eight

successful years will be followed by others more difficult and demanding. We have barely reached the threshold of a virtually endless undertaking made urgent by the pressure of demands, some new, but most of them many years standing, which can no longer be deferred. Demographic growth is daily obliging us to generate more employment opportunities and to guarantee access for a burgeoning population to the benefits of culture and civilization. Not far from, and even within, the urban centers, with their twentieth century enlightenment and progress, one finds marginal and disadvantaged groups who yearn for self-realization through the discipline of work and for release from the hairshirt of ignorance. There is no metaphor implied in describing our continent as young, although it would be better characterized as a hemisphere of the young. In Colombia, for example, where over six hundred thousand citizens are born each year, more than fifty per cent of the population is less than twenty years old. Do we realize what this means in terms of schools, technical training, higher education and employment levels? Of course we do. The Inter-American Bank has set an example by associating itself with educational extension programs, but a greater, I might even say a colossal effort, is still needed to lay the human foundation for development and, of course, for more dynamic and egalitarian society.

Acting as the "Bank of Integration," another of its purposes is to prevent the growing Latin American enterprise from failing to take advantage of expanded markets—markets which otherwise will, simply and passively, be taken over by exclusively foreign organizations. With encouragement by the state, private enterprise should play its part, competitively by preparing itself to enter a larger but also a harsher world. On this basis, more favorable consideration has been sought for products of Latin America, especially capital goods, in the utilization of foreign loans. We must work for tomorrow as well as for today. And since we are engaged in the enterprise of integration, nothing could be more desirable than to further it by this means, as well as through mechanisms such as the regional clearing houses and their related financing facilities.

The highest authority for the task on which we are embarked is to be found in the Charter of the Alliance for Progress and in the Declaration of Presidents of America. Both documents envisage international cooperation and self-help as co-factors. I may be pardoned if, as a Colombian, I now mention with pleasure that as far as our country's domestic obligations are concerned, the validity of these precepts is gaining full acceptance. Urban and rural housing programs, launched

in 1940 and culminating in such accomplishments as Ciudad Kennedy, whose importance you can appreciate; health and hygiene programs, designed specifically to control tropical epidemics; the maintenance of a monetary and fiscal policy that protects the purchasing power of the majority while avoiding the calamities of inflation and deflation and encourages savings; several years of experience and achievements in agrarian reform; tax reforms, beginning with discouragement of tax evasion in strict adherence to the recommendations contained in the Charter of the Alliance for Progress; careful planning of public investment and initial guidelines for the planning of private investment; acceleration of integration, with emphasis on its subregional applications, which President Lleras Restrepo has worked for since the very prologue, if I may so describe it, of his administration; and, on the other hand, the mobilization of domestic savings from previously neglected sources.

In his address to you this afternoon, the President of the Republic proposes to spell out the tremendous importance we attach to this Meeting. His voice will be, of course, the voice of Colombia. Allow me, then, to conclude by expressing my fervent wishes that your stay here may be as much of a pleasure for you as it is an honor for us. And may these sessions serve to strengthen the Inter-American Development Bank and to augment our cooperation in the great joint undertaking of economic and social development and integration of our nations.

**Address by Mr. Antonio Delfim Netto,
Governor for Brazil and Minister of Finance,
at the Inaugural Session**

In the name of the Brazilian Government, I should like to express our appreciation of the great privilege of serving as spokesman for the Latin American community at this Ninth Meeting of the Board of Governors of the Inter-American Development Bank. It is a vote of confidence for which we are profoundly grateful.

The annual examination of the accomplishments, the problems and the prospects of the Inter-American Development Bank brings us today to the hospitable city of Bogota, historically associated with landmark decisions in the cooperative efforts of the American nations. Important advances in juridical, political and economic aspects of the inter-American system were made here, ensuring a level of action that permits us to carry out a joint and constructive exploration of our problems in order to arrive at solutions of mutual interest. Here new impetus is given, especially at the beginning of this decade, to the movement to transform traditional methods and processes in the struggle against underdevelopment in Latin America against a background of social and political unrest, the inevitable accompaniment to intolerable backwardness and glaring economic inequity.

Motivated by the same concern to make more dynamic efforts and to accelerate advances toward progress and well-being throughout the hemisphere, we meet here now to strike a balance in the policies by which we are endeavoring to attain these objectives. My country is greatly honored that its representative has been asked to serve within the framework of these endeavors as the interpreter of the Latin American nations, which, both domestically and regionally, have striven valiantly for socio-economic stabilization and development, have been faced with identical problems, and have expressed with kindred language the same concerns and aspirations.

Since the Eighth Meeting of the Board of Governors in April 1967, events of unquestionable importance have altered the world economic order, inevitably affecting the economies of all countries and exerting their influence on the actions of governments and international institutions. On one hand, the crisis in the international monetary system called for prompt measures, not only in countries with a deficit balance but also in those enjoying a surplus, revealing at the same time the need for close cooperation by all in the adoption of appropriate

solutions. On the other hand, the Second United Nations Conference on Trade and Development (UNCTAD) was entrusted with the task of establishing the policies governing international economic relations in order to ensure that financial cooperation and suitable trade regulations would operate as joint factors in the rapid promotion of economic development in vast areas of the world.

In each of these fields Latin America is confronted by a dangerous trend toward broadening the gaps between our region and the developed world, a situation which imposes upon us the heavy responsibility of seeking more effective formulas with which to speed up our development, by attempting to chart a sensible course of action based on the trinomial of domestic effort, foreign trade and procurement of external assistance.

The strict policies of sound fiscal procedure, stabilization and development promotion which have been implemented in Latin America attest to the firm resolve of our peoples to overcome backwardness and achieve decent living standards compatible with the progress of civilization. These policies reveal an awareness of the true nature of the economic growth process, with its qualitative implications in terms of structures, fundamental values and procedural patterns, entailing sacrifices, reforms and governmental techniques capable of preventing the continuing action of factors that have in the past hampered the acceleration of economic and social progress. Much has been achieved in regard to capital formation, a basic element in this process, and to the orientation of fiscal and monetary policies toward better utilization of domestic savings for effective control of inflationary pressures.

However, even more important is the strong conviction that basic responsibility for development must be assumed by the Latin American countries through their domestic efforts; the incontrovertible evidence that we are doing our part places Latin America in a position to demand that developed nations share the responsibility assigned them within the context of international cooperation.

With reference to the mechanics of development, balance-of-payments limitations directly affect the supply of capital goods, a basic factor in the growth process. Consequently, in the present international economic situation, developing countries find the utilization of foreign credits to be one of the major means of accelerating their progress. Trade and financial cooperation have an important function in the overall development effort, inasmuch as the flow of resources from the two processes is reflected positively in both the specific expansion of savings

and the multiplier effect of receipts, exerting a decisive influence on the rate of investment.

In these two fields, in which the responsibility of the richer nations is greater, the repercussions of the international monetary crisis, as well as the failure to implement measures approved by UNCTAD add to both the apprehensions and aspirations of Latin America. It is a well-known fact that the prime objectives of domestic policy, maintenance of the development rate and employment at a high level combined with the inflexible resistance to a reduction in financing costs, lead to rigidity in the behavior of the international financing system since they eliminate one of the variables by which balance-of-payments adjustments were previously processed, i.e., action in connection with domestic receipts. However, the cooperative effort toward which our countries contribute and the adoption of rigid economic policies by the deficit countries serve to ensure the stability of the international monetary system. It is important now that the industrialized nations, both those that have chosen to retain greater control over demand and those that will experience the effects of such adjustments, refrain from resorting to restrictive aid policies or to protectionist attitudes that would drastically affect the developing countries. The agreement on establishment of the special drawing rights in the International Monetary Fund provides a sound basis for strengthening the world monetary system and should induce, on the part of the industrialized countries, a greater liberalization in the granting of funds for development, as well as progressive abandonment of the procedure of tying loans to exports.

Strengthening of the monetary system encourages us to undertake a mutual endeavor designed to prepare a series of measures of great interest to Latin America, among which the following deserve mention:

- Urgent study of new criteria for providing a greater volume of financial assistance from the industrialized countries, especially as channeled through international financial agencies.
- Implementation of a system of supplementary financing to ensure the execution of development programs in the event export receipts are reduced or other unforeseen circumstances occur, by making additional funds available.
- Establishment, by world and regional financial agencies, of a system for financing buffer stocks would ensure the stabilization of raw material prices, if possible with additional voluntary contributions

from the developed countries, which would help producers and consumers to assume regular financing of such stocks on a fair-share basis.

- Reexamination of the preferential treatment currently extended to domestic suppliers in bids, including service contracts, financed by international agencies, taking into account the stage of industrial development, and eventually making this a region-wide procedure.

An improvement in the terms of international financial assistance can no longer be postponed, not only because of the need for very substantial sums to finance development, but also in view of the burden created by the inequitable terms of foreign loans on amortization programs and loan servicing of the recipient countries. A substantial increase in assistance would make it possible, on the other hand, to attenuate the frustrations experienced by the developing countries in the field of trade, which have been aggravated by the lack of results from the conference in New Delhi. Reorganization of some of the bases of international trade is a task that cannot be put off, for this process will provide the emerging countries with more suitable means of achieving economic development than can be furnished by foreign aid. However, it is unrealistic to expect that in the near future our countries can procure solely through foreign trade the external funds required for economic modernization and expansion. It is important to promote and expand trade and assistance simultaneously. The interest of our countries in securing facilities and access preferences in the markets of the developed countries should be particularly stressed. Nevertheless, until these aspirations materialize, we trust that there will be no obstacles to entry into the markets of the developed countries of primary products processed in the country of origin, even though they may benefit from tax incentives granted in accordance with the general regulations of international commerce necessary for their marketing.

These problems of international cooperation, so vital to the future of our countries, also affect our regional financial institution, the Inter-American Development Bank. Strengthening the international capital market by means of a suitable financial policy on the part of the capital-exporting countries is an essential prerequisite if the Bank is to expand its capacity to acquire funds from outside the region for financing Latin American development. However, it has not always been possible for the Bank to gain the desired access to the financial markets of the great industrialized countries, whose cooperation is be-

coming increasingly necessary in order to guarantee a minimum volume of financing essential to the region.

When the possibility of spontaneous collaboration by the developed countries is thwarted, the Bank has no alternative but to follow a policy as it recently has done, of channeling application of its loans to those nonmember countries that stand ready to participate more actively in its capital formation. It would be neither just nor reasonable to attempt to change these principles in defense of the financial mechanism set up to promote regional development; nor can we accept the neglectful attitude of those who still fail to appreciate the efforts that Latin America has been making to break free from the bonds of underdevelopment.

However, despite the difficulties noted, the Inter-American Bank has been able to find the necessary means to increase substantially its application of funds. In 1967, financing authorized by the Bank reached a total of approximately \$500 million, representing an increase of \$100 million, or 25 per cent over the previous year.

From the beginning of its activities until the end of 1967, the net contribution of the Bank to the economic and social development of its members amounted to some \$2.4 billion, assisting to finance projects whose total cost has been estimated at approximately \$6.4 billion. Not even the most confirmed skeptics, who did not believe in the capacity of our countries to generate or manage domestic savings for the benefit of development ideals, will fail to recognize our efforts in supplying roughly three dollars for every two loaned by the Bank.

There is, however, a long road still to be traveled, especially in view of the challenge confronting all of us in determining the approach and the means required to promote regional integration. The formation of a multilateral fund for the financing of multinational projects, with resources drawn from both member and nonmember countries, permitting loans on liberal terms, would ensure better prospects for the execution of important projects whose volume already amounts to almost \$30 billion, in the vital areas of power production, communications and physical integration of the countries of the region.

Once the policy decision of our countries to achieve regional integration has been announced, the Bank should be prepared to undertake the task of financing this process. The special nature of multinational projects will require special financing terms, especially

in reference to the ratio of coverage for local costs, and it would be advisable to ensure that approval of these projects would be based on economic criteria. Taking into consideration the importance of the technological and capital factors in the process of economic modernization, integration further demands incentives favorable to Latin American production and the formation of authentic Latin American enterprises that can profit from the advantages of economies of scale created or fostered by the process of integration itself.

The outstanding performance by the Inter-American Development Bank will surely provide incentive for undertaking the numerous tasks it now faces. Its principal mission continues to be the procurement of ever-increasing volumes of funds for the region, since the present experience of Latin America illustrates a firm determination to bring to a close the long period of backwardness, now that mechanisms for programming and mobilizing both national and foreign resources have been improved in each of our countries. The modernization of regional infrastructure and the dynamic process of industrialization require a large volume of financing resources that can only be obtained through the Bank. On the other hand, because of the need to provide more favorable terms for certain types of credits and in view of the heavy foreign indebtedness of Latin America itself, which justifies a multi-lateral financial scheme for this purpose, it would be useful for the Bank to conduct the studies necessary for adoption of a system designed to reduce present financing costs to the region.

Careful examination of the reports presented for consideration to the Governors in this Meeting enables us to gauge the wisdom of our decisions regarding the establishment of this Bank and the choice of its management, entrusted opportunely to the dynamic, enlightened and constructive leadership of President Felipe Herrera. The enormous amount of work accomplished by the Bank in only seven years is the surest guarantee of the success of its future undertakings. It was clearly mandatory, therefore, to recommend that this work be continued. So it was with the greatest satisfaction and most sincere acknowledgment that the Government of my country immediately supported the proposal presented by Governor Henry H. Fowler and unanimously acclaimed by all of my fellow Governors.

I could not conclude without expressing our appreciation to the government and the people of this great country, our most excellent hosts. In this atmosphere of progress and dynamic activity, moved by the demonstrations of friendship and affection showered upon us, we are firmly convinced of the complete success of this Meeting.

**Address by Mr. Carlos Lleras Restrepo,
President of Colombia,
at the Inaugural Session**

Speaking for our Government and all my countrymen, the Minister of Finance of Colombia has already told the illustrious visitors who honor us with their presence how glad we are to have them among us and how appreciative we are that Bogota was chosen as the site of this Ninth Meeting of the Board of Governors of the Bank. I reaffirm those sentiments, which are imbued with force and spontaneity by our traditional spirit of Inter-American brotherhood.

I will not dwell, while these sessions are in progress, on the superb accomplishments of the Inter-American Bank. The Minister of Finance has already enumerated them, and no one will be able to describe them and convey to us the varied aspects of their progress with more authority than the Bank's President himself, Mr. Felipe Herrera. My only purpose is to attempt a summary analysis of some problems relating to economic cooperation policy and international capital movements.

International Cooperation

Colombia has long been a party, making necessarily modest contributions, to the formulation of a policy of economic cooperation among nations. Over the last thirty years, either in Pan-American working groups and conferences or on the wider stage of world gatherings, it has always fought for the recognition of two principles which were and remain the cornerstones of its position and which today have happily come to be shared by treaty makers and statesmen both in countries in the first stages of their development and in others. The first of these two principles is the recognition of economic solidarity as a source of international juridical obligations, a recognition which in turn has been a source of great social reforms associated with the redistribution of income, within each country. As long as 22 years ago, addressing the first meeting of the United Nations on behalf of my country, I said something that I can today repeat with undiminished conviction and, moreover, supported by the solemn commitments of regional or world organizations. "We are confident," I said then, "that a fertile internationalism will ultimately take the place of the self-centered vision of isolated nations. After all, national bound-

aries are no more than compartments which shut men in but cannot alter the underlying equality of mankind and the right of all to a minimum level of well-being, or freeze for all time the colossal difference that history, the headlong growth of industrial capitalism and unequal opportunity have already generated in the world."

Recognition of Solidarity

We cannot yet say that this national self-centeredness has been completely eliminated. It still wells up, sometimes with fresh vitality, to trouble international relations, and even interferes, either openly or covertly, in the functioning agencies of cooperation or works its way into certain clauses of the contracts intended to make them operationally effective. Certain events, however, such as the United Nations Declaration on the Development Decade, the launching of the Alliance for Progress, the reform of the Charter of the Organization of American States, and the action of the Inter-American Development Bank and other agencies of cooperation, demonstrate that, despite partial failures, hesitations and timidities, the recognition of solidarity as a source of juridical obligations in the international sphere as against the more cramped and mean idea of cooperation as a simple act of charity or an instrument of imperialist policy, is gaining ground with mounting vigor. We must make this recognition secure and strengthen it further because such solidarity is the only approach compatible with the dignity of nations and the only solid foundation for friendship among peoples in a great society that must become increasingly egalitarian. And again, it alone can prevent cooperation from being converted into but another weapon in the arsenal that the stronger build up to support their rivalries in a world in which peace has not yet been able to triumph over the atavistic instincts of discord, domination and intolerance that have scarred the tormented history of our species with destruction and death.

Commercial Relations

The second principle which I shall now call to mind is that trade relations among countries must be governed by an acceptance that absolutely equal treatment for all in the form of exactly equivalent concessions and the use of identical procedures may actually lead to monstrous injustice. Commenting on the draft Charter on Trade and

Employment which we discussed in Havana in late 1947, I said, on behalf of Colombia, something which it is pertinent to recall today:

The rules and exceptions that are to be applied to all the participating countries are practically one and the same. No distinction is made between those which have already achieved the highest degree of development and enjoy high living standards and those which are still lagging in the exploration of their natural and human resources and whose people still lack, to a considerable extent, the most elementary requisites for well-being. Equal treatment is given to enormously unequal conditions and this, judged by the principles of human solidarity, equity and even simple general utility, is inadmissible. An international organization such as we propose must accept, first of all, that existing differences among living standards today in the different countries that will be joining it, must progressively disappear. If to achieve this it is necessary to write into the Charter certain exceptions for the benefit of the most backward, as we think it is, we must proceed to do so, and no respectable argument can be adduced against such a natural aspiration. The duties implied in international solidarity have been and are still invoked in justification of aid to the industrial nations of Europe for the reconstruction of their economies and the recreation of their old prosperity. Why should they not be equally invoked for the benefit of those who have never enjoyed those blessings? We may perhaps be told in reply that the prosperity of the great nations is an indispensable precondition for the prosperity of the others. This is true; but the former alone does not guarantee the achievement of the latter, and the prosperity of a great nation can be built, as it has been in the past, on the backwardness and economic enslavement of other nations. We, on the other hand, feel that prosperity for all can be achieved more solidly, more stably and more equitably by raising the living standard of the more backward, by diversifying their economies, by enhancing their capacity to consume.

Accomplishments

After the 21 years that elapsed between the Havana Conference and the recent one in New Delhi, the problems broached at the former are still with us to a considerable extent and the inequalities among nations have become more accentuated despite the emergence in the intervening years of agencies specifically designed to work toward progressive integration of the world economy either directly or through the integration of regions: the General Agreement on Tariffs and Trade and the United Nations Economic and Social Council, for example, and, in the

Americas, the Inter-American Economic and Social Council of the Organization of American States and the various mechanisms of the Alliance for Progress, among them the Bank, whose Governors are met here today and which has been exerting such important and dynamic influence.

This would be neither the time nor the place to attempt a new and comprehensive analysis of the causes of these developments. Floods of eloquent and learned dissertations on them issued from the United Nations Conferences on Trade and Development at Geneva and New Delhi. But I do want to point out in a relatively optimistic vein that, despite greater inequalities, the effort of those years has borne its fruit: the creation of institutions which are progressively acquiring a dynamism of their own and, above all, the arduous and at times still only theoretical amendment of certain concepts. In the field of trade policy, for example, it is no longer thought possible to demand strict reciprocity in customs or other such concessions, nor is the indiscriminate application of the most-favored nation clause to developed and undeveloped countries alike obstinately defended as the supreme embodiment of justice and general utility. Drastic conceptual and practical changes have also taken place in respect of international capital movements. I would like especially to avail myself of the unusual opportunity afforded by this Meeting to offer a few comments on these changes.

Changes in the International Flow of Capital

Prior to World War I and, to a lesser extent, in the years between the two great conflicts, it was generally taken for granted that international capital flows should result, with a few rare exceptions involving political considerations, from "market conditions." Financial flows were influenced primarily by the rate of return in the lending and borrowing countries and were also motivated to a large extent, as they still are, by a desire of the industrially more advanced countries to control certain sources of raw materials or fuels. After the initial stage of the industrial revolution, technological innovation in manufacturing and transportation and change in consumer habits slowed to a point where they no longer created domestic investment opportunities and profit rates sufficiently attractive to preclude the investment of relatively large amounts of capital in other geographic areas.

The flow of international capital accompanied the great migrations that populated many new lands with persons of a comparatively high

cultural and technical level. This was the age of free or almost unimpeded movement of persons, goods and money nostalgically recalled by Stolper in an eloquent book filled with intelligent insights into contemporary conditions.

The development of the more backward countries appeared more or less to be the almost spontaneous result of the movement of capital, drawn by the prospect of higher profits and more abundant investment opportunities, or by mass migrations to thinly populated lands.

Induced Movement of Capital

All this has been changed by a number of phenomena which it would not be in order to examine closely at this time and which can only be outlined in very simple and elementary fashion. In presenting such an outline I would venture to say, first of all, that the international flow of capital today is largely an induced rather than a spontaneous movement. And I must add that this will have to be so if the existing world imbalances are not to be further widened and if there is a genuine desire to attain a reasonable integration of the world economy through sound development policies.

The characteristics of human migration have changed, and the famous remark of the Argentine statesman, "to govern is to populate," is no longer axiomatic in most of Latin America. Instead of this, many of us are today beset by the problem of the population explosion which often makes it necessary to divide the arable land into parcels too small to be viable, which concentrates tremendous masses of people in cities incapable of assimilating them properly, substitutes a surplus of unskilled persons for the shortage of labor, and requires overwhelming investments to provide even minimum sanitation facilities, housing and education for those large conglomerations of humanity.

At the same time, the world is witnessing the most profound and far-reaching technological revolution in the history of mankind, a revolution involving not just the discovery of new power sources, or the ability to perform computations in a few moments, taking into account an almost infinite number of variables, computations that would formerly have required a lifetime or the combined efforts of many persons, nor even only the perfection of automation. As a result of these and other factors, this revolution involves also an increasing need for those extremely large amounts of investment—the need so deftly explored by John Kenneth Galbraith in a recent book—associated, as he explains,

with a substantial extension of the time lapse between the initial research on a new product, the decision to manufacture it and the moment when it is placed on the market, all of which tends to enlarge the role and opportunities of the financially more powerful companies.

Consequences of Change

All this has given rise to phenomena profoundly affecting the fortunes of countries with a low rate of capital formation. On the one hand, their capital needs, for both infrastructure and directly productive investments, have grown incomparably larger. On the other hand, the more developed countries, many of which were formerly net exporters of capital, are now in need of capital and are offering new and attractive investment opportunities. The very size of the enterprises, a result of the factors described by Galbraith, along with the demand for scientific personnel and the cost of sophisticated new research, imposes a need to produce for larger markets, leading to the formation of what Maurice Byé has termed "major interterritorial units," which are organized groups of means of production subordinate to a single decision-making center controlling plants in different countries, or to the establishment of customs unions, blocs of countries composing common markets or true economic unions, capable of providing a free demand that will justify investments on the scale required by technological progress.

The last and most drastic stage of these changes was preceded by the financial disruption of the capital markets caused by the great depression and its attendant wave of moratoria. Before World War II, it was already evident that the crisis of confidence would have to be conquered through new procedures. If one takes into account the so-called "currency demand," the protracted period of exchange instability which prevailed almost throughout the world and continues or re-emerges in many places, it is easy to understand why the old systems of capital movement have become inoperative or have been largely transformed and why others have arisen which imply the induction of international capital flows which would not otherwise take place.

Methods of Induction

It cannot be denied that some of the causes leading to direct foreign investment in countries of limited development are still operative today. The principal cause is the one I have already mentioned,

namely, the desire to control certain sources of raw materials and fuels. Another is the natural expansionist trend of the great trusts. It is only right to point out, however, that many countries have found it necessary to establish special insurance schemes or negotiate international guarantee agreements as a means of encouraging their nationals to invest in other countries.

But the principal spur to direct investment in the last few decades has probably been the establishment of large common markets which, as I have said, are more in line with economic requirements imposed by technological progress than are the limited and compartmentalized market areas.

I shall return briefly to these matters concerning direct foreign investment. For now I should simply like to point out that, to the more traditional means of inducing investment—treaties or regulations to prevent double taxation, special incentives by the prospective borrowing countries, and so forth, and to the natural stimuli which I have mentioned—various special insurance and guarantee schemes have now been added.

The greatest change is doubtless the one affecting the international flow of capital by means other than direct investment. A characteristic of the post-war period is the establishment of international agencies that raise public and private resources for their operations, or of national funds earmarked specifically by some governments for lending on special conditions to other countries. As a rule, borrowers no longer endeavor to float their bonds or securities on the major capital markets. Instead, they turn to organizations like those I have mentioned. There is still suppliers' credit, of course. But to ensure its orderly use, it is not uncommon for the purchaser to enlist the aid of international organizations or for these, as recent developments have shown, to combine their resources with suppliers' credit in specific operations. Moreover, suppliers' credit is also often induced through special insurance systems or subsidies granted by the lender countries.

The creation of agencies like the International Finance Corporation, or formulas like the "Horowitz proposal," is evidence of the depth of change in the pattern of recourse to the international capital markets, although the more traditional methods of placement are still used in exceptional cases when warranted by especially favorable circumstances.

In any event, the bulk of the international capital transfers, other than those arising from direct investment, is no longer dependent on the influence of market conditions but on negotiations with international organizations of foreign governments, the funds being derived

either from contributions by the treasuries or central banks of the various governments or from bonds issued by those organizations as their direct obligations backed by a collective commitment of their member countries. For all these reasons it is appropriate to speak of "induced capital transfers" in contrast to transfers resulting from direct placements on the financial markets. As I have said, these new means of induction will have to be used on an increasing scale, probably with a rising participation of public funds from the wealthier countries. Only in this way can sufficiently rapid progress be made toward a more equitable distribution of world income.

The Inter-American Development Bank affords a good example of this trend, which in addition to other advantages, is more conducive than the old systems to a reasonable planning of international investment.

Pioneering New Techniques

The idea of establishing an Inter-American bank was first conceived a long time ago, and I do not propose to recapitulate now the history of its changing fortunes. But when I hear expressions of sterile scepticism on the part of excessively impatient people concerning certain ambitious plans, such as Latin American integration, the final flowering of the Alliance for Progress, regional economic complementation, or a system of preferential treatment for exports of manufactures of the developing countries, then I cannot refrain from thinking back upon the events in the early development of the Bank which I personally witnessed: how the form of organization proposed for the Bank in 1939 was the precursor of many of the *modus operandi* later incorporated into the organization of the International Bank for Reconstruction and Development for the revitalization and orientation of international investment; and how many years of patient and persevering work culminated in fertile materialization of what had been regarded by some as an unattainable chimera or a purposeless effort.

The first step in the conversion of the concept of the Bank from an abstract idea to an organic project was taken by the Inter-American Economic and Financial Consultative Committee as long as 28 years ago. When one rereads the third preliminary draft agreement drawn up by that Committee, one cannot help admiring the clarity of vision displayed by its authors, while at the same time regretting that an idea of such great importance failed to gain acceptance at that time, with the consequence that the establishment of what has since become the

most important instrument for economic cooperation in our hemisphere was delayed for two decades. That draft assigned to the Bank powers to carry out many of the operations in which it currently engages, including the issue of bonds and other obligations on the financial markets as a means of augmenting its resources, and the contracting of loans from governments. In addition, however, it provided for other functions such as acting as a clearing house. This does not normally form part of the activities of a development bank but I consider it an essential ancillary of a payments union supported by a special fund, the necessity for which, to facilitate the process of Latin American integration, is becoming clearer and more urgent every day.

When the agenda for the Pan American Conference held in Bogota in 1948 was being prepared, Colombia transmitted to the Pan American Union the bases for the establishment of a Development Fund that would have certain functions similar to those performed by the Bank today, as well as certain additional ones.

The Conference approved merely a vague resolution containing recommendations that consideration be given to the matter. Several more years were to pass before the next step forward was taken, in the form of a comprehensive study, sponsored in 1954 by the Economic Commission for Latin America (ECLA) in preparation for the Quitandinha Conference, of a possible economic policy for Latin America and the consideration therein, and later in the Conference itself, of the creation of the Bank—a proposal that encountered strong opposition and many dogmatic attitudes and which was not to culminate in the establishment of the Bank for another six years.

From Abstract Idea to Reality

Today, however, the Bank stands before us as a reality, as a functioning and fertile organization that is growing stronger every day and is diversifying its operations and perfecting its methods. Had the necessary faith and steadfastness been lacking; had the concept of the Bank been abandoned in the face of initial resistance; had the spokesmen of the Latin American countries and the men of vision in the United States who shared their views accepted as valid the presumptuously sustained arguments of those who, as is almost always the case, presented their personal views, their prejudices and their one-sided attitudes as the absolute truth and the only approach within reason and with economic science, then this Bank whose Ninth Meeting of the Board of Governors we are celebrating here today would never

have come into existence and would not today be serving, with an efficiency acknowledged by all of us, the interests of Latin American economic and social development and the cause of hemispheric solidarity.

This historical evolution of inter-American relations offers us a valuable and eloquent lesson with which to counter the skepticism of those—whether in the southern or the northern parts of our hemisphere—who have failed to show faith in the soundness and effectiveness of the Alliance for Progress or who hasten to denigrate it when difficulties are encountered in carrying it out. It offers also a sound lesson for those who lose hope because such complex undertakings as the establishment of the group for the integration of the Andean subregion, the establishment of the Latin American common market, or hemispheric economic cooperation—undertakings that can be realized by stimulating spontaneous current trends for the creation in America of new forms of division of international labor—run up against obstacles and inevitably call for a process of thorough study, of publicity and of inevitable compromises. Not one of the great and stable international organizations has come into being as the result of easy, ad hoc improvisation. All have passed through a more or less protracted and complex process of materialization. When the Treaty of Rome establishing the European Economic Community was signed in 1957, numerous economists and statesmen in the old world had been working for more than 35 years to achieve even a customs union, and, as Robert Pinto has recalled, more than a hundred years had passed since the idea was first discussed, at the Congress of Friends of Peace, of a United States of Europe and of a future Atlantic Union.

Let me make it quite clear, however, that when I speak of these protracted periods of gestation, my sole purpose is to combat skepticism and lack of faith and to point out how there are times when we must hope for, and must persevere to bring about, the recognition as reasonable and useful of a plan initially regarded as unworkable or utopian. I do not by any means wish to disregard the faster pace of modern history or to overlook the obvious fact that we are obliged today to press forward with greater speed toward the perfecting of international organizations and economic systems, for the simple reason that science and technology continue to evolve more rapidly than ever before, and because the aspirations and needs of our peoples are growing at a pace that no one foresaw a few years ago. Life today imposes its own tempo and we must adapt our efforts to it. Today, lack of boldness no longer signifies prudence but improvidence, and clinging to old ideas is no

longer a respectable form of conservatism; it is a highly dangerous form of inertia.

Cooperation for Development

This Meeting of the Governors of the Bank, attended also by distinguished economists and statesmen, furnishes an invaluable opportunity for a reexamination of some of Latin America's development problems, of hemispheric cooperation and of the scope for financial and technical cooperation on the part of countries outside our hemisphere. The mere fact of reviewing the operations of the Bank, which have been undergoing continuous diversification and expansion, leads us naturally to a reexamination of this kind.

I shall not myself attempt such a reappraisal. But I should like to offer some personal views on certain vitally important aspects of hemispheric economic policy on which the Bank is exerting an influence that is already great and that can and must be intensified.

The problem of resources for development presents certain characteristics common to almost all the Latin American countries. There is an insufficiency of foreign exchange earnings, that is, the volume of balance-of-payments assets is almost invariably lower, in the absence of external financial assistance, than that needed to sustain an adequate rate of development.

To make up this deficiency until the growth of ordinary receipts on the balance-of-payments account reaches an adequate level is one of the goals of the Alliance for Progress, and one of the purposes for which the Inter-American Development Bank was created to accomplish. The evolution of world prices for certain of Latin America's vitally important export products, the application of certain protectionist and at times discriminatory policies on the part of some of the large industrial countries, and the falling off in the rate of economic expansion of the developed countries themselves have combined with our own deficiencies and our frequent errors to retard the increase of ordinary foreign exchange earnings or to make the volume of temporary supplemental financial assistance from abroad inadequate. Leaving aside questions of trade policy, it must be reiterated that suppliers' credit, even when it is granted on more favorable terms than in the past, does not offer an appropriate solution. The reasons for this are, first, that the effects of the increases in foreign exchange earnings or of import substitution are not such as to avoid aggravation of the burden imposed by debt service on the balance of payments; second, it is

frequently necessary to contract external loans for purposes that raise living standards and, in the long run, productivity, but which do not generate a short-range increase in foreign exchange earnings.

New Sources of Lending Funds

As part of a policy aimed at expansion of world economic activity, the industrialized countries should increase, as they have promised to do, the volume of their long-term financing. An ideal method of doing this is the subscription of Inter-American Bank bonds, with direct support from the governments. The United States has made a clearly important effort in favor of the Bank, with Canada making a similar effort. Also, as the President's report reveals, the Bank has succeeded in placing more than \$200 million worth of bonds on market outside the hemisphere. This latter figure, however, falls short of the effort that could reasonably be expected of those markets, to the benefit of the lending countries themselves as well as of our development. I believe that I speak for all Latin American countries when I state that we look for new and increased extra-hemispheric funds to augment the Bank's long-term lending resources, through the subscription of bonds both by governments and by private entities and individuals.

Nor do I think it too much to suggest that if the socialist countries wish to expand their trade with Latin America, without subjecting it to the rigidity of bilateral compensation agreements, operations with the Inter-American Development Bank could perhaps provide a good avenue for such expansion. It is not difficult to conceive of systems that would facilitate multilateral operations within the socialist bloc and with nations outside that group. The artificial "three worlds" concept is being broken down, and it is becoming clearer every day that we must progress toward integration of the world economy, a process that is not necessarily incompatible with differences between national economic systems.

Direct Investments

The expansion of the operations of the Bank in the form of increased lending to Latin American countries leads us to consider another important aspect of the problem of Latin American development: the relative roles of obligation capital and direct investment. There was a time when the emphasis was placed almost exclusively on the need to

promote direct investment. It is now more clearly understood that, although direct investment can play an important role and is frequently indispensable and accompanied by an invaluable accretion of technological know-how and fertile innovation, it is both economically and politically essential that each affected country maintain control over a considerable proportion of entrepreneurial activity as a whole in each country. There is no lack of grounds to support this view, nor is it necessary to enumerate them here. But it points not only to the urgency of the need to increase the rate of public and private capital formation in Latin America, even at the cost of certain sacrifices, but also to the conclusion that a loan will in many cases prove preferable to direct foreign investment for agricultural, livestock, industrial and mining development projects. A loan is an advance against the future savings of the borrowing country. It constitutes an incentive to local capital formation and, provided it is granted on reasonable terms, imposes a lower burden on the balance of payments than direct investment.

The importance of the system of international loans for industrial development is even further enhanced by the establishment of the Latin American common market. The development of a common market whose important components are controlled by foreign capital is not an inspiring prospect for anyone who examines with foresight the problems to which a situation of that kind can give rise. For this reason I share with many other Latin Americans the enthusiasm over the tendency of the Bank to support integration, not only by financing infrastructure works or intraregional exports of capital goods, but also through loans for the establishment or expansion of industrial enterprises. As we know, the United States is at present studying the best means of providing financial assistance for industrial reconversion necessitated by integration. This is an intelligent and laudable act of foresight that can open up for the Bank suitable channels for action and an irreplaceable source of experience.

Special Development

Any examination of the activities of the Bank would be seriously inadequate if it omitted to take into account what has been done to stimulate social development. The well-being of the individual in our societies must in the final analysis constitute the goal of all our efforts, and loans for the improvement of public health and education services enrich us as much as or even more than those for direct economic development. They are also in keeping with the spirit of the Alliance

for Progress, expressed both in its initial postulates and in those proclaimed at Punta del Este last year. The Alliance is not an operation extraneous to concepts of justice; on the contrary, it seeks to extend to all the American peoples the hallmarks of an egalitarian society. It is this characteristic that ennobles it, that elevates it beyond the mere operations of financial management and channeling funds on more or less favorable or onerous terms. This is how the Bank has interpreted it, and this is how I believe it must go on interpreting it.

Just a few days ago, on the occasion of the anniversary of the Meeting of American Chiefs of State in Punta del Este, President Johnson recalled some of the accomplishments of the Alliance during the ensuing period. The Bank has played a vitally important part in these accomplishments, but I wish to take advantage of this opportunity also to stress achievements in other areas. The efforts to modernize methods and to raise productivity in farming and stock raising, the establishment of the Inter-American Export Promotion Center and the examination of a scheme for the development of high-level studies in the fields of science and technology—these constitute, alongside our own efforts in the fields of social and agrarian reform, housing, health and education, advances of fundamental importance toward the transformation of our continent.

Needed: an In-depth Study

Notwithstanding these achievements, it has been clearly demonstrated by the statistics over recent years that with rare exceptions the Latin American countries are not achieving those rates of development envisaged when the Alliance for Progress was first founded; that the value of Latin American exports is not appreciating fast enough; that in spite of the numerous and valuable efforts made, the present rates of capital investment are still too low; that the region's relative share of world trade has fallen, and that servicing of the debt resulting from the contribution of capital to Latin America's development is very heavy.

It is essential to correct these deficiencies, which, in conjunction with the high population growth rates, constitute a threat to the future of our countries. I have been able only to list a few principles and to call attention to certain aspects of development policy. An in-depth study is an increasingly urgent necessity, and I venture to suggest that the Inter-American Bank should take the initiative in carrying it out, in collaboration with the Inter-American Committee on the Al-

liance for Progress (*CIAP*) with the Economic Commission for Latin America (*ECLA*) and with the Director of the Latin American Institute for Economic and Social Planning (*ILPES*), who is also the Secretary General of the United Nations Conference on Trade and Development. What I propose is an over-all study that will utilize the findings of the partial studies already carried out; an evaluation of the true significance of international assistance to Latin America during the last decade or so; an evaluation of our own effort and of what can and must be done to correct defects at the national level and those of external cooperation. I recall that I participated in 1954 in a study similar to that which I now propose, and I know what advantages can accrue from such an over-all approach, from a study of this kind conducted with complete objectivity and entirely free from any negotiation or controversy.

The Bank of Colombia

The sectors of the Colombian economy for which the Bank has furnished its financial support are many and varied. The nature and purpose of the various loans are described in detail in the Bank's report, and I shall not dwell on them here. I wish only to say that we are fully appreciative of the value of this cooperation, which has very recently taken new and extremely valuable forms.

We join with the rest of the Latin American countries in hoping that the Bank will continue to expand its operations on the basis of the same high principles that have guided it to date. As I have already said, we particularly wish to see it furnish its support for the great enterprise of Latin American integration. In the special case of the subregional integration of the Andean Group, I believe that the assistance of the Bank to the Andean Development Corporation, whose charter has already been signed and is about to receive parliamentary approval, would have extremely important effects. We base this assurance on the example of the Central American Bank for Economic Integration.

I am sure that I speak for all the original member countries of the Bank in expressing pleasure at the recent admission to membership of Trinidad and Tobago, and the hope that Barbados will also join us very soon. These events will facilitate support by the Bank for the process of integration of the Caribbean subregion, which the rest of America views in a spirit of profound and justified fellowship.

The Board of Governors has acted well in reelecting Mr. Felipe Herrera as President of the Bank for an additional term. Mr. Herrera was intimately associated with the efforts undertaken since 1954 for the establishment of the Bank, and has directed its operations since it was first founded with great skill, prudence and fairness. His reelection is good news for all the American countries, who regard him as one of their most distinguished spokesmen.

The Colombian people are honored by your presence here. They express their thanks for all that you have done for the cause of Latin American development, and repose their hopes in your future work.

SECOND PLENARY SESSION
APRIL 23, 1968

Address by Mr. Felipe Herrera, President of the Bank, at the Second Plenary Session

In these first words, I should like to express my deep appreciation for the hospitality tendered to us by this great country, whose very name honors the discoverer of the New World, epitomizes America and betokens the understanding and brotherhood which I am sure will be demonstrated among our countries in these discussions.

Bogota occupies a prominent place as the site of meetings which have produced documents of historic significance for the development of the inter-American system. In the political field these have ranged from the Charter of the Organization of American States to the American Declaration on the Rights and Duties of Man and the American Treaty on Pacific Settlements. In the economic field they have ranged from the Economic Agreement of Bogota of 1948, which was the first inter-American proposal for multinational cooperation in solving our countries' problems, to the Act of Bogota of 1960 which is the basis for our current mutual cooperation endeavors. Thus it is with high optimism that I welcome the governors, the observers from international organizations and all other participants to this meeting.

I note with particular pleasure the first appearance of Trinidad and Tobago at an annual meeting of the Bank as an active member, exercising its full rights and enjoying the benefits derived from membership.

The 1967 activities of the Inter-American Development Bank have been presented to you in advance in the Bank's reports. At this meeting, you will have an opportunity to express your views on these reports and on the Bank's financial statements. Without going into great detail, I should now like to mention some of the highlights of the Bank's activities during the period just completed and to make certain observations concerning its current progress and future prospects.

The Inter-American Bank in 1967

During 1967 the bank achieved the highest rate of operations in its history, authorizing 60 loans amounting to nearly \$500 million. To date the Bank's total contributions to Latin America's economic and social development amount to more than 450 loans totaling \$2.5 billion. Considering that all international public financing for specific projects in Latin America in the 1961-67 period amounted to \$7 billion,

it is apparent that the Bank has contributed slightly more than one-third of these funds and in 10 of its member countries is currently the chief supplier of such financial assistance.

About 35 per cent of the Bank's lending during the past year was made from the ordinary capital resources; the bulk of the remainder from the Fund for Special Operations, and \$12.5 million from funds made available to the Bank by the Governments of Canada and the United Kingdom.

The rate of utilization of loans also increased in 1967. Disbursements totaled more than \$240 million, a figure 15 per cent higher than in 1966. These brought cumulative disbursements at year end to more than \$1 billion. Counting only those loans eligible for disbursement, the effective utilization of funds has been close to 60 per cent of the amount committed. This clearly reflects a growing degree of institutional efficiency as well as the sizable efforts being made by the Bank's member countries to carry out the respective projects, whose total estimated cost is about \$6.5 billion.

I might emphasize that the Bank constantly strives to promote the balanced development of the hemisphere. It seeks to harmonize the needs of the public sector with those of the private sector, of industry with agriculture, of economic infrastructure with social development. At the same time, it endeavors to meet the needs stemming from national development processes as well as those growing out of the regional economic integration movement.

In doing so, the Bank has acquired invaluable first-hand experience in financing certain sectors, particularly agriculture, higher education and urban infrastructure, areas in which the Bank has accounted for more than 50 per cent of all the external financing.

Agricultural Development: the Agro-Industrial Process

The priority given by the Bank to agricultural development in Latin America during the past year is shown by the fact that almost one third of its loans during the period went to that sector. The Bank's cumulative portfolio in this field amounts to more than \$600 million, or 25 per cent of total Bank loans. In 1967, the Bank's support for agriculture was particularly noteworthy in Mexico, Brazil, Argentina and Colombia. The Bank's activities in agriculture have been particularly important in irrigation, in farm mechanization, in the diversification of agricultural production, and in the processing and improved marketing of farm commodities.

During the Eighth Annual Meeting of the Board of Governors last year, the Bank reported on measures adopted to expand its agricultural activities. Since that time, it has strengthened its technical staff in that field and has stepped up the pace of its authorizations in that sector. In 1966, Bank loans for agricultural development amounted to \$108 million; in 1967 they had risen to \$154 million.

Historically economic growth has resulted from progress stemming from the interaction of agriculture and industry, through a process of complementation and of reciprocal and cumulative incentives. Modern agriculture demands increasing levels of technology, not only for large-scale commercial undertakings but also for small-scale farms. Today, through agricultural credit facilities and farm extension services, even the most backward communities are beginning to employ fertilizers and pesticides and to improve seeds. Particularly noteworthy in this regard have been the experiments undertaken in the Philippines and in Mexico by international research institutes, which have brought about an unprecedented increase in rice and corn productivity. These experiments illustrate the fact that land is no longer at the mercy of nature and that technology is helping man to transform into a new, controllable factor of production.

Furthermore, higher income for farm operators and workers leads to the expansion of the rural market for goods and services produced in the urban sector, which open up new avenues for industrial development. Or, stated negatively, agrarian backwardness inevitably inhibits and in some cases even wholly precludes rapid economic expansion.

Accordingly, industrialization creates better conditions of productivity in the rural sector while agricultural development in turn serves to stimulate industrialization, setting up a dynamic and expanding relationship between the two sectors. As a result of this close inter-relationship between agriculture and industry, activity affecting both sectors, that is, the agro-industrial process, has become one of the fields of greatest practical significance for economic growth.

The Bank has increasingly oriented its leading activities towards that process. I should like to mention by way of example two loans approved last year. The first for \$25 million was granted to the *Banco do Brasil S.A.* to help underwrite a credit program designed to promote the processing of farm commodities near production centers, to improve systems for the conservation and transportation of such products, to increase the country's food supply, to improve employment opportunities in rural areas, to expand exports and, in general, to

contribute to the diversification of the economy. The second, a loan for \$7 million, is helping to build and improve grain elevators in Argentina thus helping to reduce the cost of handling grain at embarkation depots, reduce ship layover time in ports and generally improve the marketing of crops in a country which is one of the world's major grain exporters.

Industry: National and Regional

In industry, the Bank has continued to finance certain large enterprises, both public and private and of central importance; and at the same time it has sought to meet the needs of intermediate- and small-scale enterprises through over-all loans. On a cumulative basis through 1967 the Bank had lent more than \$500 million for the development of Latin American industry. The industrial sector has been the most dynamic element in Latin America's economic development, as reflected in a growth rate of 6 per cent a year during the recent past. Industry is the field in which the struggle for the modernization of economic structures is being waged and where new job opportunities—essential to a continent undergoing rapid demographic expansion and spiraling urban growth—are being created.

However, Latin America's industrial growth has been encouraged through excessive protectionism, which has resulted in higher costs than those prevailing on international markets, thus favoring the growth of uncompetitive industrial operations. It is therefore not surprising that for some time now the expanding rate of growth of the industrial sector has shown signs of faltering, owing to the exhaustion of import substitution possibilities in a growing number of manufactures, especially in the most developed countries of the area. For that reason Latin America's economic integration must be bolstered, thus opening up new industrial markets beyond national boundaries and enabling industry to operate within a broader economic space and to aim at the markets of third countries; helping to modify the structure of Latin American exports, and contributing in general to the solution of the trade and balance-of-payments problems afflicting our countries.

These hopes are justified by the experiences of the Latin American Free Trade Association (LAFTA) and the Central American Common Market. Significantly, in the case of LAFTA, while trade in primary products rose an average of 3.5 per cent per annum between 1962 and 1965, trade in manufactures climbed by about 20 per cent, while in Central America manufactures accounted for 85 per cent of the growth

in regional trade during the same period. These developments explain the concern of the Bank for adapting its policies to the prospects offered by the integration process and to the needs of Latin American enterprise at this decisive stage in which its activities are acquiring a new horizon.

In 1967, the Bank granted the industrial and mining sector \$88 million in loans. The most notable were those for the construction of plants for petrochemical products—ethylene and polyethylene—in Colombia and Chile and for a cement factory in Uruguay. Of that sum, \$72 million was channelled towards intermediate- and small-scale firms in Brazil, Ecuador, Chile, Venezuela and Central America through over-all loans granted to development institutions.

The Bank's purchasing policies have also aided the industrialization process of Latin America. More than 50 per cent of the value of purchases financed with resources provided by the Bank has been spent in the borrowing countries themselves, thus furnishing a strong inducement to their manufacturing industry. With the same purpose in mind, a reasonable margin of preference has been established in favor of goods and services originating in the countries utilizing the loans to allow local producers to participate advantageously in bids on projects financed by the Bank.

I might point out that a growing proportion of the demand for capital goods generated in member countries by the Bank's loans is oriented toward other Latin American countries. Although the amount of this additional \$20 million demand is not spectacular, it does demonstrate that promising prospects exist for increasing trade in industrial goods among the countries of the area through regional financing of Latin American development.

Exports of Capital Goods

The Bank also continues to support the industrial development of the continent through its program for the medium-term financing of intraregional exports of capital goods, which has now completed its fourth year of operation and functions through the granting of lines of credit to national financing agencies.

The purpose of this program is to ensure that the conditions on Latin American export credits are equivalent to those prevailing on the world market so that local exporters may compete with suppliers from outside the region. The Bank has endeavored to adapt this program

to the requirements stemming from its operating experience and to the needs of the member countries, as permitted by its resources and the provisions of its Charter. This has made it possible to finance operations covering a wide range of products, such as steel tubing for the petrochemical industry, transport vehicles, and machinery and equipment for the automotive industry.

In addition to the general lines of credit which it has granted to financing agencies in Argentina, Brazil, Chile, Mexico, Nicaragua, Peru and Venezuela, the Bank has extended credits for specific financing operations that cannot be covered under the former lines of credit. I should like to mention, by way of example, that in 1967 the Colombian National Railways called for international bids for the acquisition of 1,200 freight cars. At the request of several national agencies, the Bank decided, in principle, to authorize a line of credit for any of the agencies ultimately selected to finance the export, in the event that a supplier in its country should be the successful bidder. This support enabled exporters in Argentina, Brazil, Chile and Mexico, along with suppliers from 11 countries outside the region, to compete in the bidding. The contract was recently awarded to a Mexican firm which bid in combination with Colombian industrialists who will produce parts that can be manufactured locally.

The success of this program should be evaluated not only in terms of the financing amounts made available to intraregional trade, but also in the light of the institutional improvements it brings about. At the time the export financing program was launched, national systems for medium-term financing of exports existed only in Argentina, Brazil and Mexico. Since then, these systems have been strengthened and similar mechanisms are beginning to operate in Chile, Colombia, Peru, Nicaragua and Venezuela. At the same time, some countries are starting to set up export credit insurance systems, a necessary supplement for the effective utilization of the facilities offered by the program.

Overall Loans and Development Agencies

With regard to agricultural and industrial operations of the Inter-American Bank, I might point out that more than half have taken the form of overall loans, channelled through national development agencies. In this way, the Bank has been able to provide its resources to small and intermediate Latin American enterprises which otherwise, due to their small size, would remain outside the scope of Bank activities. Another result of this policy has been the improve-

ment of the administrative and technical capacity of these agencies, which are increasingly assuming a large and pivotal role in the process of savings and investment in the continent.

The result of the Bank's support to these organizations is demonstrated by the fact that, of the 450 loans aggregating nearly \$2.4 billion approved as of December 31, 1967, 113 totaling more than \$600 million were "overall loans" for investment and preinvestment purposes granted to some 50 institutions. More than half of this amount was channelled to industry. This contribution has served to augment the resources derived from local savings, transforming the Bank at present into an authentic "central bank" of the development corporations of its member countries. Furthermore, the Bank has also provided them with valuable technical assistance in the form of training programs at its headquarters or in the countries themselves which have benefited 1,200 staff members of 140 different institutions.

Recently the representatives of 41 development banks and agencies from 17 member countries agreed to set up a Latin American Association of Development Finance Institutions, with headquarters in Lima, Peru. Through this association a steady flow of information among members will be maintained, studies of mutual interest will be carried out and the bases for an exchange of experiences and for coordinated action among these agencies will be established. In view of the beneficial results expected from such cooperation, the Bank has supported this initiative.

Bank of the Latin American University

The year 1967 was the Bank's most important in supporting higher education, confirming its role as "the Bank of the Latin American University." During the year, the Bank approved loans totaling \$36 million for higher education in Brazil, Chile, Costa Rica and Venezuela. While such assistance seems limited in the face of the enormous needs confronting the Latin American countries in the educational field, the results obtained have nonetheless been decisive. At the end of last year the Bank's total financing in this field exceeded \$100 million, distributed among 120 centers of higher and technical education whose total enrollment exceeds 150,000 students. Three fourths of this financing was devoted specifically to improving scientific education.

I might point out that between 1960 and 1966, university enrollment in Latin America increased 80 per cent and secondary enrollment by 140 per cent, that is, by rates respectively four and seven times

higher than the population expansion. In view of this, it is expected that by 1980, expenditures for higher education must increase to more than \$2 billion, a figure three times higher than the total current outlay for university education.

Moreover, the process of adaptation of Latin American education to scientific and technological progress must be accelerated. The university in our countries has not basically reformed its traditional academic structures. Thus of the 71,000 students graduating from Latin American universities in 1965, almost 50 per cent were humanities graduates; only 8 per cent were natural sciences and agricultural graduates. The effectiveness of higher education in the developing countries can be measured to the extent it permits them to incorporate scientific and technological advances—the most dynamic factors of progress in today's world—into their economic life. I might recall here my remarks at the Seventh Annual Meeting of the Board of Governors, held in Mexico City in 1966, when I said:

The ability to transfer scientific and technological progress is one of the distinctive characteristics of the modern world and, therefore, our region is in a position to benefit from advances in the more developed centers, provided we make the necessary effort to adapt them to our needs. . . .

We must be capable of absorbing scientific and technological advances, without subordinating our identity, by automatically applying the progress achieved in other societies. . . .

It is up to our centers of higher education and advanced training to provide not only leaders and operating personnel for the development process, but also research workers to facilitate their task.

The same concern was reflected by the American Chiefs of State, when they acknowledged a year ago that "this effort calls for inter-American cooperation, in view of the magnitude of the investments required and the level attained in such knowledge." To this end, they stressed the need for preparing a Regional Scientific and Technological Development Program, setting up an Inter-American Fund for this purpose and forming multinational technological and scientific training and research institutions at the post-graduate level. The efforts made to implement these decisions culminated in the recent meeting held in Maracay by the Inter-American Cultural Council, which set up a multilateral mechanism for evaluation and programming in this field. In view of its responsibilities in this area, the Inter-American Bank has sought the advice of outstanding experts with a view to preparing

itself for collaborating with its member governments in promoting vigorous scientific and technological policies, both at the national and the regional levels.

Economic and Social Infrastructure

For the construction, expansion and improvement of economic and social infrastructure, which is essential to the development and integration of our economies at both the national and regional levels, the Bank has extended in the recent period a total of nearly \$250 million in financing in the sectors of transportation (Central America and Argentina), electric power (Argentina, Brazil and Paraguay), telecommunications (Chile) and urban development, that is, housing and environmental sanitation (Bolivia, the Dominican Republic, Panama, Peru, Uruguay, Chile and Honduras). In several of these cases, these projects have had a multinational impact.

Among hydroelectric projects, I should like to point to the Bank's financing of the Ilha Solteira project in Brazil and the loan approved a few days ago for the construction of the first stage of the Tavera dam in the Dominican Republic. The Ilha Solteira project, whose first stage will cost \$300 million, received a Bank loan of \$34 million. The installation supplements the Jupia project, which the Bank also helped to finance. This Ilha Solteira project on the Parana River will have an initial capacity of almost 1.8 million kilowatts and a final capacity of more than 2.5 million kilowatts, making it the largest hydroelectric project in Latin America and one of the largest in the world. Most of the financing for this project has been drawn from local resources and suppliers' credits.

The Tavera dam has entailed financing by the Bank of \$23 million, the major share of a total cost of \$35 million. The balance of this undertaking will be financed with local Dominican resources and by the United States Government. Upon conclusion of this project, the electrical capacity of the Dominican Republic will have been expanded by 40,000 kilowatts, representing 25 per cent of the country's present supply, and irrigation will have been improved over an area of 49,400 acres in one of its most promising regions.

Although we have on other occasions emphasized the importance of the Bank's work in environmental sanitation, through the provision of adequate water supply and sewage systems, we should like to recall the extraordinary progress achieved by Latin America since the Charter of

Punta del Este was signed in August 1961, proposing as the goal for 1961 a water supply serving 70 per cent of the urban and 50 per cent of the rural population. Since that time, resources of more than \$1 billion have been mobilized, with an external contribution of nearly \$500 million, of which the Bank has accounted for 80 per cent.

Technical Assistance

During 1967 the Bank extended an important volume of resources for technical assistance, both reimbursable and non-reimbursable, to its member countries for the preparation of development programs and projects, the execution of general and specific preinvestment studies and the improvement of management structures and managerial capacity. Total commitments in 1967 amounted to \$17 million, bringing the cumulative total at year end to \$97 million.

Through all of these activities the Bank is exerting a strong impact on the formation of Latin America's physical capital. I might note in this connection that 126 of the Bank's loans, representing more than one third of the volume of committed resources, have been fully disbursed, and the respective projects have been completed. Bank financing is helping to build 50 large-scale industrial plants; to install or expand more than 3,000 small and intermediate local industries; to improve through irrigation or other means 5.9 million acres of farm land; to supply the needs of more than 500,000 small- and medium-scale farmers through overall credit lines; to expand electric power generating capacity by 4.5 million kilowatts; to construct 11,400 miles of main highways and access roads; to build or improve 3,000 environmental health systems benefiting 40 million Latin Americans; to construct 300,000 housing units for low-income families, and to expand and improve 120 centers of higher and technical education.

The Bank's Role in Colombia

As an example of the Bank's specific accomplishments in these various sectors, I might point to our experience in Colombia.

Colombia is both typical and atypical within the framework of regional economic development. It is typical because it obviously has the characteristics of potential wealth shared by all the Latin American nations, as well as the general problems and failings of

their economic structure. It is exceptional because Colombian progress in recent years provides outstanding proof of the effectiveness of strong economic planning, efficient mobilization of domestic efforts and skillful utilization of external financial assistance in overcoming the inherent weaknesses of a national economy and setting a country on the road to the attainment of its goals.

At the time the Inter-American Bank initiated operations in October 1960, Colombia already had a history of maturity and experience from both the planning and financial standpoint in carrying out its development policy. Colombia was the first country to submit its plans for consideration to the joint action agencies provided for in the Charter of Punta del Este and was the first nation in Latin America to utilize the mechanism of the Consultative Group, organized by the World Bank, in which the Inter-American Bank has participated actively.

The Bank's portfolio in Colombia is sizable, representing one fourth of the long-term loans received by the country between 1961 and 1967. To date, it consists of 39 loans totaling more than \$200 million, a figure equivalent, at the current rate of exchange, to almost 3.26 billion Colombian pesos. The total cost of the projects is \$500 million and disbursements on current loans amount to almost \$100 million. Furthermore, it is a well-balanced portfolio, whose variety clearly indicates the Bank's interest in supporting the priorities of the Colombian Government in its effort to strengthen the country's economic infrastructure, expand the productive capacity of national industry and diversify agricultural output. The sectors covered by the Bank's loans include economic infrastructure (24 per cent), agriculture (20 per cent), environmental sanitation (18 per cent), industry (13 per cent), housing (13 per cent) and higher education (11 per cent). The Bank has also collaborated in Colombian development through technical assistance programs and the financing of preinvestment studies.

Financing by Sectors

In view of the vital importance of the agricultural sector to the general development of the country, Colombia has channelled a considerable share of its investment capital in recent years into that sector, particularly through credit programs, agrarian reform programs, land cultivation and rehabilitation, and the promotion of new crops, for which purposes the Bank has to date granted loans totaling some \$41 million. During the past year the Bank granted two overall

loans, one to the *Caja de Crédito Agrario, Industrial y Minero* and the other to the *Banco Ganadero*, to contribute to the execution of programs aimed at farm mechanization and livestock development, respectively. Earlier, the Bank had authorized loans for the *Instituto Colombiano de la Reforma Agraria*, the *Fondo de Diversificación de Zonas Cafeteras* and the private enterprise *Industrial Agraria La Palma, S.A.*, for land settlement and development and crop diversification projects.

To date, the Bank has extended financing amounting to \$26 million for industrial purposes in Colombia. Part of this amount was channelled through the *Corporación Financiera Colombia de Desarrollo Industrial* and the *Banco de la República* in the form of overall loans designed to promote long-term credit programs for intermediate and small-scale private enterprise. In addition, the Bank has helped to finance important projects for the construction of a sodium carbonate and caustic soda plant; a synthetic yarn and fiber factory; a plant for the preparation of wood pulp, and a large polyethylene plant that will operate in connection with the main petroleum refinery of the *Empresa Colombiana de Petróleo*.

Approximately one fourth of the Bank's loans in Colombia have been devoted to economic infrastructure. The Bank is helping to raise electric power capacity in Colombia by 140,000 kilowatts and is helping to expand transmission and distribution systems by almost 1,240 miles through four loans totaling almost \$23 million. These are helping to build a hydroelectric plant on the Rio Prado which will supply the Departments of Tolima and Huila and the industrial center of Girardot in the Department of Cundinamarca; to expand the Tibú plant in the Department of Norte de Santander; to install the San Francisco hydroelectric plant in the Department of Caldas, and to expand the distribution system of the city of Cali. To help improve transportation in Colombia the Bank has furnished \$28 million, including two loans for the *Empresa Puertos de Colombia* to improve and expand the ports of Buenaventura, Cartegena, Barranquilla and Santa Marta, and a loan approved just two days ago to help build a highway between the communities of La Ye and Paraguachón.

The development of higher education in Colombia has also been the object of special attention by the Bank, which has granted loans for more than \$22 million to four universities: the National University of Colombia and the Universities of Valle, Antioquia and Los Andes which together account for more than one third of the Colombian student body.

The Bank has also committed \$35 million in loans for environmental sanitation, particularly in the cities of Medellín, Cartagena, Cali and Cúcuta and, through the *Instituto de Fomento Municipal*, for the water supply and sewage systems of almost 400 communities throughout the country.

In the housing sector, the Bank has granted three loans totaling \$25 million to help construct 25,000 units for low-income sectors in various urban centers, primarily in association with the *Instituto de Crédito Territorial*.

Geoeconomic Projection of Bank Activities

While a substantial share of the Bank's operations have taken the form of overall loans which have helped to finance development projects throughout Colombia, many have been devoted to specific economic zones. Let me describe these. In the Atlantic Zone, which includes the Departments of Atlántico, Bolívar, Magdalena and La Guajira, the Bank has supported the improvement of the ports of Barranquilla, Santa Marta and Cartagena, as well as the construction of an industrial soda and sodium carbonate plant and the installation of water supply and sewage systems in Cartagena. It has also helped implement a land settlement project in Bolívar, given technical assistance loans to the *Corporación del Valle del Magdalena* and financial assistance to a program for the cultivation of African palm in the Magdalena Valley. The La Ye-Paraguachón highway will also serve to promote various programs currently under way or to be undertaken in the near future throughout its area of influence.

In Western Colombia, comprising the Departments of Antioquia, Caldas, Valle and Cauca, the Bank's activity covers the cities of Medellín, where it is collaborating on a project to improve the University of Antioquia; Manizales, in whose environs it is helping to finance the San Francisco hydroelectric plant and Cali, where the Bank is contributing to a better supply of electric power and to a pulp and paper factory. In these three cities, the Bank's role has also been significant in the construction of water supply and sewage systems. The Department of Valle further benefited through the Bank's co-operation on the projects promoted by Valle University, a settlement project in the Roldanill La Unión-Toro area and improvement of the Port of Buenaventura, while the Department of Caldas received assistance under a program for diversification of coffee growing areas

and the Department of Antioquia through establishment of a synthetic yarn and fiber factory.

In Central and Eastern Colombia, whose territory includes the Departments of Norte de Santander, Santander del Sur, Cundinamarca and, by extension, Tolima, the following works are being constructed with our help: a polyethylene plant in Barrancabermeja, Department of Santander del Sur; installations for the Tibú thermo-electric plant in the Department of Norte del Santander, and the Rio Prado power plant, in the Department of Tolima. The Bank has promoted higher education through loans to the National University and Los Andes University of Bogota and for installation of sanitation systems through the *Empresas Municipales de Cúcuta*.

In line with its continuing interests, the Bank also provided firm support for the integration of the Colombian areas bordering on Venezuela and Ecuador. To this end, it sponsored study groups for each zone, both of which made recommendations for the joint execution of specific projects in the fields of transportation; development of river basins; expansion and interconnection of sources for the generation of electric power; sanitation and health; agricultural, industrial and fishery development, and education. In the Colombian-Venezuelan zone some of these projects such as the Tibú plant are already under way and some, such as the La Ye-Paraguachón highway, are ready to be initiated.

The Bank for Integration

I should now like to talk about what we have done in the past year in our role as the Bank for Latin American Integration. You will recall that last year's Meeting of the Board of Governors was held only a few days after the meeting of American Chiefs of State at Punta del Este, Uruguay. On that occasion the Governors decided that the Bank should harmonize its operating procedures with the principles, objectives and goals stated in the Declaration of the Presidents of America, which strongly emphasized the need to accelerate economic integration of the region, to promote multinational initiatives and to provide for the harmonious and balanced development of the Latin American countries.

Last year there was a significant upswing in the volume of the Bank's operations in support of the collective efforts of the Latin American countries to forge closer bonds of trade and cooperation. Of the more than \$200 million assigned to the Bank to date for

integration purposes, \$84 million, or more than 40 per cent, was authorized in 1967.

Integration Activities

To analyze these operations in detail, I will divide the Bank's support for Latin American integration into five headings.

- In 1967, the Bank focused its major integration efforts on financing multinational investments, committing almost \$60 million for regional works, chiefly in the fields of infrastructure and industrial development. The operations approved last year brought the total financing of the Bank for projects of multinational scope to \$170 million, a sum which is contributing to undertakings aggregating \$325 million.

The transportation sector was given a powerful boost through loans of \$34 million in Argentina for the construction and improvement of highways that will complete the interconnection of that country with its neighbors and a loan of \$5 million to Honduras for the improvement of its highway system and its interconnection with the Central American highway network.

In the power field, the Bank approved loans of \$14.5 million to complete execution of the second phase of the Acaray hydroelectric project in Paraguay, which will double the electric power generating capacity of that facility and provide the installations needed for the sale of power to the province of Misiones in Argentina and to the southern part of Brazil.

Continuing its support for the Central American Bank for Economic Integration, the Bank last year granted it a loan of \$15 million to augment the resource in the fund established by that institution to finance subregional infrastructure projects and another of \$10 million with which to continue a program for industrial development of the isthmus launched in 1963.

- Under the program for the financing of intraregional exports of capital goods a new line of credit totaling \$2 million was opened last year for Brazil and another for \$3 million was made early this year to Venezuela, bringing the Bank's commitments under this program to a cumulative total of some \$24 million.

- During 1967, the Institute for Latin American Integration (INTAL) continued its highly important training, research, consultation and information work in connection with integration process of

the continent. Up to the close of last year, the Bank had invested close to \$2 million in this type of activity, much of it channelled through the Institute.

- Last year the Bank continued its vigorous support for LAFTA and the Central American Common Market for the expansion of their technical capacity to meet a variety of needs generated by the integration process in their respective areas. The amounts committed for these purposes came to more than \$400,000, bringing the resources allocated by the Bank to such institutional cooperation to about \$1.5 million.

- The Bank's Preinvestment Fund for Latin American Integration is financing preinvestment studies, which may later lead to the identification of multinational projects and their eventual financing. Last year the Bank applied \$2 million to this purpose, raising the total of its outlays in this field to \$10 million.

Multinational Studies

In the Declaration of Punta del Este, the Presidents of America also stressed the need for a vigorous effort to complete and modernize the region's physical infrastructure; they adopted a series of agreements aimed at accelerating the execution of multinational projects in the fields of transportation, communications and energy, and at the integrated development of international watersheds, frontier regions and other geoeconomic areas that include the territory of two or more countries.

These activities may well require more financial and technical resources than are currently channelled into Latin American development. This is why, at the last Meeting of the Board of Governors, I said that "the Inter-American Bank, with the increased resources proposed to the Governors at this meeting, expects to cover part of those additional requirements. However, the task exceeds the financial capacity of our Bank, and calls for the participation of a variety of national and international sources, particularly the support of capital-exporting countries. In the light of its previous activities, some of which have been mentioned, the Bank can play an important role in promoting and coordinating these tasks."

I can now confirm that the Bank has fulfilled those commitments, and I would like to mention a few of the undertakings that have been set in motion or reinforced since the last Meeting of the Board of Governors:

- In early 1967, the member countries, through the Inter-American Telecommunications Committee (*CITEL*), asked the Inter-American Bank to promote and coordinate the work that needs to be done with a view to the installation in Latin America of modern telecommunications systems that can be integrated into the Inter-American Telecommunications Network (*ITN*). Late last year, the United Nations Development Programme (*UNDP*) decided to contribute to the financing of the second stage of this undertaking, which includes detailed technical-economic feasibility studies to analyze the requirements for interconnection of the national systems incorporated into the *ITN*. The *UNDP* will put up about \$1 million for these studies and the Bank another \$1 million, apart from the funds that the countries themselves will contribute.

- A beginning has been made on a study of the basic data needed by the Latin American countries to articulate their highway policies within a framework of multinational systems in a gradual process which in the long run should lead to the formation of a regional transport system in Latin America. It may be noted along these lines that a group of seven Latin American airlines has approached the Bank for support in the preparation of a project aimed at establishment of a Latin American air freight service.

- Strong momentum has also been given to the overall studies for integrated development of the River Plate Basin, which covers more than 1,235,000 square miles and supports close to 80 million inhabitants and is connected to the principal industrial centers in that part of Latin America. The purpose of these overall studies is to define short- and long-range programs for better exploitation and joint development of the abundant resources of that vast area. The programs deriving from these studies will lead to the identification of specific projects for raising crops and livestock on millions of acres; the launching of a vast industrial development program of regional implications; the generation of electric power in the quantities needed to sustain that growth; the proper use of the river system for transportation; in short, the dynamic and coordinated development of one of the great river basins in the world.

In 1960 Dr. Carlos Lleras Restrepo aptly conveyed the importance of this type of undertaking when he wrote:

Economic development experts assert today that the most natural, most logical development unit is the river basin. This idea has been much improved upon since the time when it

was first adopted to change the face of the Tennessee River Valley to an awesome degree. What a great difference there is between studying the overall situation in an entire river basin or in a well-defined sector of that basin in order to plan its development with a maximum economy of resources and a maximum of results, and the execution of isolated works. The problems of irrigation, drainage, electric power generation, communications, agricultural zoning, schools, credit, crop storage, industrialization, etc., can be dealt with by the former procedure not only more rationally and methodologically but also with greater cooperation on all sides.

The Inter-American Bank, which has already committed \$700,000 to this undertaking, is coordinating its efforts with those of other regional and international agencies, and a contribution is expected from the United Nations Development Programme. Moreover, the governments of the riparian countries—Argentina, Bolivia, Brazil, Paraguay and Uruguay—have set up machinery for consultations at a high political level to lend impetus to this process. The effectiveness of these consultations was demonstrated at the past conference of foreign ministers of the basin countries. A second meeting will be held shortly in Santa Cruz, Bolivia.

- In addition to the foregoing, last year the Bank directed that studies be initiated on the status of Latin American agriculture as affected by integration; on financing at the regional level for the control of foot-and-mouth disease; on the regional prospects for scientific and technological development; on the promotion of tourism on a regional scale, and on the juridical and institutional infrastructure of multinational enterprises.

The concern of the Bank in promoting multinational studies and programs is shown by the fact that the Round Table at this Meeting of the Board of Governors is titled, *Multinational Investments, Public and Private, in the Economic Development and Integration of Latin America*. Multinational enterprises have an essential part to play in combining the capital, the technical expertise and the entrepreneurial capacity of two or more countries in the region—and of these associations with the industrialized nations supplying capital and technology—in order to exploit the opportunities stemming from the new economic spaces created in the integration process. This Round Table also proposes to analyze the experience of the United States and Europe, as well as those of Africa and Latin America in this field; the role of and relationships between regional and foreign investments;

conditions and access to modern technology, and the specific opportunities existing for investments of this type in Latin America.

The Less Developed Countries

During 1967, the Bank stepped up its efforts to promote a more harmonious and balanced growth of the countries in the region as a prerequisite to the integrated development of the continent. By the end of last year the Bank had provided, in per capita terms, about twice as much financing to the less developed countries as to the intermediate and large countries. Analysis of our loans to the "less developed countries" shows they were made at far lower average interest rates, on longer terms, and that they were for larger amounts, in proportion to the local counterpart funds, than were applicable to loans to the other member countries.

Economic Integration Gains

The year 1967 was decisive for the advancement of Latin American integration. It was the year in which our collective aspirations toward an integrated Latin America jelled at the meeting of Punta del Este in top-level political decisions to undertake the progressive establishment of the Latin American Common Market within not more than 15 years after 1970, by merging and improving the two existing integration systems, LAFTA and the Central American Common Market.

The Declaration of Punta del Este is important not only as the origin of this commitment, but also because in it Latin American Chiefs of State defined the principles which, in their judgment, will give direction to this process. It made clear that the Latin American countries conceive of economic integration as a collective tool with which to accelerate their own individual development, as a way to promote the harmonious and balanced growth of countries in the region, and as a process wholly committed to the needs of Latin America, which requires the strengthening of Latin American enterprise.

In keeping with that declaration, at a meeting in Asunción, Paraguay, the Council of Foreign Ministers of LAFTA, the foreign ministers of the Central American Common Market countries and representatives of the countries not parties to either association, set up a coordinating committee to promote the union of the two integration systems; in addition, the LAFTA Foreign Ministers recog-

nized the compatibility of subregional agreements with the Treaty of Montevideo and approved specific basic provisions for the agreement that will formally establish the Andean Group.

Intrazonal commerce accounted for 6 per cent of the trade of the LAFTA countries when the system first began to function; in 1967 it had increased to 10.5 per cent of that trade. In the Central American Common Market, intrazonal trade in 1967 was 20 per cent of total trade by the five participating countries which compares most significantly with the 6 per cent recorded in 1960.

Unquestionably, the countries of Latin America have now become thoroughly convinced that, in addition to trade measures, they will need to take action on the level of financial policy if their integration is to be consolidated. This is why the Inter-American Bank has participated so actively in meetings sponsored by other international organizations to consider these financial aspects.

Noteworthy among these were the meetings of government experts held in Mexico City and Washington. The first addressed itself to the monetary and payments problems generated by the Latin American integration process, with particular scrutiny of how the reciprocal credit systems were working in LAFTA and the Central American Common Market and of the possibility of establishing a common reserve fund to finance transitory balance-of-payments deficits. The second expert meeting focused on the financial requirements of exports, industrial conversion, investment projects and preinvestment studies in the light of the prospects opened up by regional integration.

Economic Regions and Subregions

Gaining ground over the last year has been the idea that sub-regional cooperation is a powerful force for progress toward the ultimate, long-range goal of an integrated Latin America. It is in this context that we should view the movements toward integrated development of the River Plate Basin, the initial efforts of some of the British Commonwealth countries in the Caribbean which propose to create a free trade association and, as a step in this direction, have opened negotiations toward the establishment of a Caribbean Bank, and the formation of the Andean Group.

Unquestionably, the most constructive and significant application of the subregional approach has been the consolidation in 1967 of the Andean Group. Unlike the Central American Common Market, which consists of relatively homogeneous nations, the membership of

LAFTA is so disparate that it has had to limit its objectives to those of a free-trade area. Perception of the need for more rapid progress toward economic integration has led some of the LAFTA countries to take steps supplementing the Treaty of Montevideo, which will bring them closer together within a smaller and more closely knit framework.

As a matter of fact, it was here in this city, when Dr. Carlos Lleras Restrepo took office as President of Colombia in August 1966, that this country joined with Chile, Ecuador, Peru and Venezuela in signing the Declaration of Bogota, thereby laying the basis for a subregional agreement which, since the adherence of Bolivia, embraces all the countries in the geographic area known as the Andean Zone.

According to the ground rules adopted by the LAFTA Foreign Ministers during the Asunción meeting, this subregional arrangement is of a temporary nature, since it is not intended to continue after the Latin American Common Market is established; the agreement includes a schedule for the removal of internal tariff barriers and of non-tariff barriers on subregional trade at a pace faster than that in LAFTA as a whole, and be accompanied by the drafting of a common minimum external tariff; in addition, the tariff reductions effected under this agreement will not be extended to third countries.

The joint committee established under the Declaration of Bogota began full operations last year and has already held several meetings to translate general principles into specific machinery. Thanks to the efforts of this committee, the agreement on complementation in the petrochemical industry has been concluded and progress has been made in negotiations on complementation in the automotive and electronic industries.

Another accomplishment of the joint committee was the negotiation and signature of the Agreement Establishing the Andean Development Corporation. This corporation will be an international public agency with special features; its purpose will be to foster integration of the subregion through the exploitation of investment opportunities within the area and the active mobilization of available resources. In this connection, the corporation will have to ensure that these investments are equitably divided among the participating countries and to give preferential attention to projects in the least developed ones. It will have a subscribed capital of \$25 million and an authorized capital of \$100 million, which will be used to attract additional funds.

The establishment of such a subregional financing agency is a project of major significance. The performance of the Central American Bank for Economic Integration, to which the Inter-American Development Bank has contributed substantial financial and technical resources, is an interesting example of how a Latin American region united by special geographic, economic and political ties can set up a financial institution particularly qualified to supply the specific requirements of a subregional integration process and make it work. As it has to the Central American Bank, the Inter-American Bank should be able to lend the Andean Corporation substantial support, insofar as its Establishing Agreement and policy guidelines allow.

Resources for the Bank

I shall now turn to the Bank's efforts in 1967 to obtain additional resources with which to augment its lending capacity. Its member countries took a very important step in this direction at the meeting in Washington last April when they decided to increase the Fund for Special Operations by \$1.2 billion and the ordinary callable capital by \$1 billion, while instructing the Board of Executive Directors and the management of the Bank to seek larger contributions from nonmember countries.

Today I can report with pleasure that, in less than one year, 20 member countries have taken the legal and administrative action to give effect to the increase in the Fund for Special Operations. I may add that the first of the installments into which this increase was divided, totaling \$400 million, has now been entirely paid in. Consequently, the Board of Executive Directors and the Management of the Bank take pleasure in announcing to the Governors that activities under the Fund for Special Operations can be sustained, and even reasonably expanded, during the next three years. This is especially significant in view of the fact that recent financial developments have imposed serious limitations on international public financing.

The increase in the callable capital will become effective when the member countries have committed themselves to subscribing at least three fourths of the recommended amount. Although the term for ratification of the increase does not expire until October 31 of this year, 12 countries have already approved it.

According to the terms of reference approved by the member governments for use of the new "soft loan" resources, the current

operating policies of the Bank for the financing of agricultural and educational projects will not be altered. For other sectors, however, financing of local costs with these resources will be limited to 37 per cent of the total amount of the respective loans, which was the average proportion in 1966 for the financing of local costs with dollars from the Fund for Special Operations. I do not wish to ignore the fact that these guidelines can limit our activities on occasion, especially when a project is largely local in composition, as is usually the case in urban development.

Capital Market and Soft Funds

The increase in callable capital will allow the Bank to continue its quest for resources in the world's capital markets. During 1967, the Bank sold \$146 million in bonds, of which \$110 million were placed in the United States and the rest in Belgium and in short-term operations. In recent days we rolled over \$43 million in short-term bonds maturing this year, sold to 15 central banks and public agencies in Latin America and Israel.

I might emphasize here the understanding arrived at by the Latin American Central Banks during their meeting in Jamaica in April 1966 to institute a system to support the liquidity of the short-term bonds of the Inter-American Bank. Under this system the central bank in any one of our member countries may acquire the bonds which another country is forced to sell because of reserve difficulties, as happened once last year.

Through these issues, together with those of earlier years and direct loans, the Bank has mobilized \$514 million on the capital markets, two thirds in the United States and one third in nonmember industrialized countries and in Latin American nations.

During 1967, the Bank also sold a total of \$9.3 million in participations in its loans; such sales now total almost \$40 million. These sales are an important addition to the Bank's ordinary capital resources.

These increased resources enabled the Bank greatly to expand its operations with its ordinary capital last year while maintaining the lending rate it had achieved in the Fund for Special Operations, thus bringing the commitments of the Bank with each type of resources into closer balance.

Inevitably, the borrowing activities of the Bank were affected by the rising cost of money on the financial markets during the past year

and this compelled the Bank to readjust the interest rate on its "ordinary" loans.

Fortunately, the Inter-American Bank has been able to lend the greater part of its resources on soft terms, in regard to interest rates and repayment in local currencies. Despite the high costs which the Bank has paid recently in replenishing its ordinary funds, its lending policy has held the interest paid by its member countries to an average of no more than 4 per cent. Moreover, more than 50 per cent of amortizations on such loans may be paid in local currencies. These soft conditions have been made possible by the contributions the Bank has received from its member countries. This underlines the fact that without direct government financial assistance at present it is impossible to obtain adequate conditions for the financing of the investment programs and projects of developing countries.

At this point I would like to re-state observations I made at last year's Meeting of the Board of Governors. The balance-of-payment difficulties now besetting many of the industrialized nations and the protectionist measures with which they are reacting have seriously affected the possibility of channelling private resources to the developing countries through multinational agencies. I refer not only to the high interest rates that must be paid to obtain those resources, which, in my judgment, are often incompatible with the costs which the developing countries can pay, but also to the restrictions which limit access to the international capital markets.

Contribution of Nonmember Countries

Regarding the resources obtained by the Bank from nonmember countries in 1967, I would like to point out that the Government of Canada made a contribution of 10 million Canadian dollars for use on soft terms, raising the contribution by that government to Bank activities to 40 million Canadian dollars.

I also wish to point to a bond issue in Belgium for 300 million Belgian francs, and the recent purchase by the Bank of Israel of \$5 million in short-term bonds. These resources bring the total volume of contributions from nonmember countries in the form of bond purchases, trust funds, participations, parallel financing operations, etc., to a cumulative total of more than \$200 million.

Last year, the Governors recognized the effectiveness of the efforts made by the Board of Executive Directors and the management of the Bank to obtain funds from such sources and directed them to take

further steps in the same direction. As a result of that mandate, the Bank is now engaged in negotiations for sizable amounts with several non-member industrialized countries and since January 1, 1968, the Bank has had in effect operating policies requiring that purchases made in such countries with the resources derived from its loans be proportional to the relative magnitude of resources which the Inter-American Bank has obtained from them. This policy serves to provide a special incentive to countries which contribute funds to the Bank.

The Bank has been urging that nonmember industrialized countries, especially those in Europe, establish a "multilateral fund" to foster development in the Latin American countries, which could be entrusted to the Bank for administration. A proposal to this effect was presented in late 1966 to the Executive Committee of the European Economic Community for consideration.

Total Volume of Resources

Just as 1967 proved to be the year of the highest volume of lending activity in the history of the Bank, so it also witnessed the absorption of the greatest volume of resources for the furtherance of its purposes. In addition to the \$300 million in payments on the last installment of the previous increase in the Fund for Special Operations received in 1966, the Bank during the year took in \$146 million from long- and short-term bond issues; \$46 million in amortization payments on its loans, and C\$10 million from the Government of Canada, for an aggregate of \$500 million.

It is interesting to note that the Bank commenced operations at the beginning of 1961 with authorized resources equivalent to \$1 billion, of which \$850 million constituted its ordinary capital and the remaining \$150 million, the Fund for Special Operations. Today, the actual and potential resources available to the institution, both in its own resources, increased several times, and in funds entrusted to it for administration and contributions from nonmember countries, total about \$5 billion.

Fiscal Results

The results of the 1967 fiscal year eloquently demonstrate the extent the Bank has prospered financially and operationally. The net profits of the three funds administered by the Bank—the ordinary

capital resources, the Fund for Special Operations and the Social Progress Trust Fund—rose substantially. These profits enabled the Bank to increase greatly its reserves, after deducting its nonreimbursable technical assistance expenses which are charged to the Fund for Special Operations. The earnings of the Bank rose from \$14 million in 1966 to some \$19 million in 1967, total reserves from \$36 million to \$52 million, and outlays for reimbursable technical assistance from \$3 million to \$5 million.

Amortizations on loans as a source of replenishment of the Bank's lendable resources also grew in importance during the year. Through the end of 1967, the Bank took in a total of \$104 million in repayments on loans from its various windows. Such repayments increased 40 per cent last year alone.

The soundness of the Bank and its portfolio is borne out by the high rating (Triple A) enjoyed by its bonds on the financial markets. This factor has enabled the Bank to obtain resources at costs comparable to those paid by other world financial institutions.

Institutional Aspects

The growing rate of the Bank's lending activities, the greater utilization of its funds by the public and private borrowers and its member countries, and the increased technical cooperation extended them, have made it increasingly imperative for the Bank to expand its professional field staff. Last year the Bank completed a program of placing regional offices in each and every one of its Latin American member countries, and also placed a greater number of experts, mainly engineers, in the field to supervise the execution of the projects to whose financing it contributes. For the latter purpose a special inspection and supervision fund has been set up, maintained by small contributions from the users of our funds.

Along these lines, the Board of Executive Directors and the management of the Bank are working on plans to improve the Bank's audit and external control systems in order to obtain the most effective use of its lending resources and obtain accurate appraisals of the ultimate benefits of its operations.

Lastly, the amendment, requested by the Eighth Meeting of the Board of Governors, of the regulations for the election of Executive Directors will doubtless lead to a consolidation of the representation of various groups of member countries on the Board of Executive Directors of the Bank.

Some Final Thoughts

Financial Aid Limitations

The favorable aspects of our financial report today must not blind us to the present unfavorable conditions of international development financing. Although at the beginning of this decade the developed countries stated their willingness to provide financial resources amounting to 1 per cent of their gross national product for the developing countries, the fact is that, far from reaching this goal, the world has actually moved farther away from it. The flow of development financing declined from 0.87 per cent of domestic income of the industrialized countries in 1961 to 0.62 per cent in 1966. In addition, the conditions and forms of this financing are tending to become more onerous and less flexible.

On the face of it, the balance-of-payment problems confronting certain industrialized countries, especially those which have distinguished themselves by the relative generosity of their foreign financing policy, make it difficult to discern how Latin America can, in the short range, attract any substantial volume of additional international financing. Moreover, the domestic resources of those advanced countries are being subjected to further pressures by local and international problems. All of these circumstances explain the reluctance noticeable in many industrialized nations to adopt policies of broader international financial cooperation. Another factor in this attitude is exaggerated impatience with the speed at which conditions for self-sustained growth can be achieved in the developing world. Long-term solutions are required for the complex and deep-rooted problems of underdevelopment.

After a period in which a tendency toward multilateralism seemed to be gaining ground, external aid has lately been increasingly channelled through bilateral arrangements which, by tying the resources provided to purchases in the capital-exporting country, often amount to export promotion devices rather than the expressions of solidarity towards the developing regions.

The renewed outbreak of protectionism and economic nationalism in the industrialized world is dangerously reminiscent of some of the factors leading up to the great depression of the early thirties. These tendencies are also appearing in the flows of international financing. Protectionism or financial nationalism can be said to be seriously

undermining hopes for building a world of new relationships for the transfer of resources between advanced and underdeveloped countries.

The limitations of external financial assistance appear more evident at the present time in the face of the progressive improvement in the international machinery which now includes such financial agencies as the World Bank, the Inter-American Bank and other regional banks, organizations which have prepared the new countries to absorb assistance more effectively.

Latin America is a case in point. During this decade, virtually all the Latin American countries have established mechanisms for programming their development and have improved their institutional structure with a view to mobilizing a larger volume of domestic and foreign resources.

They have also experienced remarkable improvement in their technical capacity to prepare new projects and in their managerial and administrative skills. In its seven years of operations, the Inter-American Bank has allocated close to \$100 million to foster technical cooperation and preinvestment activities. As a result there has been a heightened demand for domestic and foreign resources.

The experience of international and regional financial organizations in Latin America has been favorable on all counts, particularly since 1961, the year the Alliance for Progress began. During these years, development aid from international sources of public financing has totaled more than \$1 billion a year, almost three times higher than the average level during the 1956-1960, five-year period. With few exceptions, the multilateral and bilateral public resources provided to finance Latin America's development have been well used and have exerted an extraordinary multiplier effect on the general effort to mobilize financial contributions and manpower and to create new institutional forms, as shown in the annual evaluations conducted by *CIAP*.

Latin America has made outstanding progress in the mobilization of its domestic financial resources. Capital formation in Latin America today is increasingly based on resources derived from domestic activities. In this connection, we note that public tax revenues have increased, in real terms, by 44 per cent since 1960. Nevertheless, capital formation does not exceed 18 per cent of the gross regional product. That figure is obviously inadequate for a continent undergoing rapid population expansion and whose peoples are demanding greater living improvements of every kind.

Foreign Trade Weaknesses

International financing difficulties aggravate the foreign trade factors currently restricting the growth of the Latin American economy. Latin America's share of world trade has contracted from 10 per cent in 1950 to a mere 6 per cent in recent years. While the physical volume of its exports are increasing at a rate of 4.6 per cent per year, its real foreign purchasing power is rising by only 3 per cent per year: in other words, Latin America's terms of trade are deteriorating badly. At this 3 per cent rate, foreign purchasing power is barely keeping up with the growth of population. Estimates indicate that, to accomplish the improvement in "per capita" income levels envisaged in the Charter of Punta del Este, Latin America will have to double the present growth rate of its real capacity to import: this can be done only by expanding Latin American exports and securing an adequate inflow of foreign financial resources.

The sluggish growth of Latin America's exports and the inadequate terms of its international financing are reflected in the fact that, between 1956 and 1966, service on its external public debt rose from 6 per cent to 18 per cent of export revenue.

These facts clearly demonstrate that the concepts of foreign trade and international financial cooperation need to be unified into an overall approach to Latin American development. In this connection, the question of whether trade can replace financial inflows or vice versa is becoming increasingly academic. The two terms are inevitably complementary for a community of nations that is striving for an economic "take-off."

Toward a Global Development Strategy

The solution of these two problems, which decisively affect Latin American growth by producing "strangulation," lies to a substantial degree in the application of general formulas for international economic arrangements, that is, a "global strategy" for dealing with the imbalances of the "third world." Unfortunately, the recent UNCTAD meeting in New Delhi failed to evolve commitments between the industrialized and the commodity-producing countries to forge these new relations; this is all the more regrettable in view of the fact that mankind has never been better prepared economically, technologically and intellectually to cope with those problems. United Nations Secretary General U

Thant could not have been more right when he said, referring to the irreversibility of economic growth processes, that the problem is:

... how [development] will occur and within what international framework. Do we envisage a framework of international cooperation or a framework in which the developing countries are forced back largely upon their own resources and are compelled to take the political and economic steps required for an autarkic pattern of development? No responsible person will expect the problem of centuries of economic backwardness to be solved overnight. The world is, however, entitled to expect a clearer definition of the objectives to be achieved in the longer run and an indication of the steps which each country and group of countries intends to take for the realization of these objectives. That is the question to which the world expects an answer.

In the last year there have been some favorable steps taken in international cooperation which deserves mention. I refer to the results of the Kennedy Round, to the new mechanism set up through the International Monetary Fund to augment world liquidity, to the statements issued by the New Delhi meeting favoring establishment of a system of "general preferences" for the backward countries, and especially to "regionalism" as a philosophy and approach of groups of developing countries for overcoming the weaknesses that limit their economic viability.

Although recent events suggest that the path to accord between rich and poor is becoming rockier, there are definite and unmistakable signs that this challenge to both sectors has been clearly grasped. It is widely acknowledged that the extraordinary technological progress of modern civilization must be harnessed for the eradication of poverty; it is also recognized that under other political conditions, a modest portion of the \$140 billion now being spent annually on armaments would be more than enough for far-reaching action aimed at better conditions for international economic growth. The inevitable dialogue for creation of these new conditions for survival of the world of tomorrow is only beginning, and Latin America can hope for much from its results.

The Domestic Effort

Our countries have in recent years been able to offset the weaknesses generated by their foreign sector through their own domestic efforts. Proof of this is the fact that we have managed in the last 15 years to increase steel output from 2 million tons per year to more than 9

million tons, cement production from 7 million to 22 million tons and electric power generating capacity from 26 million KWH to more than 100 million.

True, agriculture has been unable to maintain the same pace as industry, but the region has nonetheless avoided a "Malthusian crisis" and the urbanized process itself, for all the serious problems and dangers it entails, is generating new incentives and dynamic forces. The gross product of the region has doubled in the last 15 years, and even at today's sluggish per capita growth rate it is not impossible to foresee that the 600 million Latin Americans living at the close of the century will enjoy an average income of \$700 a year.

Demographic and social pressures have made it essential to step up the domestic effort, chiefly in order to achieve a substantially higher rate of capital formation and to lay the foundations for a much more extensive integrated economic area in which productive forces can expand more dynamically. These tasks are the justification for the Inter-American Development Bank.

With the realism characteristic of men who are accustomed to handling financial resources and to dealing with the harsh economic and social facts of life in new nations, we can assert our firm faith in Latin America in the coming decades. The nations which have during the past two decades resolutely confronted the problems of underdevelopment have committed themselves to progress; if we can raise that commitment to a continental scale for the building of a united Latin America now, and if, moreover, the essential international economic and political solutions are adopted, we can expect the coming generations to enjoy conditions of greater prosperity and diminished anxiety.

The process of social change in Latin America can hold no surprises for us; as politicians, bankers, administrators and economists of development we must be prepared to face and to understand its contradictions, its difficulties and its erratic nature. We must become increasingly aware of the fact that ours is a young continent on which new social groups and new generations, eager to share in our collective future, are now emerging. It is with this human material that the Latin America of tomorrow is being molded; to this task, not only as an institutional responsibility, but also as a human historical undertaking, we owe our unconditional dedication.

Let us therefore echo the words of the poet, in this land of
saga from which Bolívar drew the strength for his heroic deeds:

Liberator, you brought forth a land of peace;
Peace, bread, wheat flowed from your very blood;
From our young blood, descended from your own,
Will flow peace, bread and wheat for our new world.

THIRD PLENARY SESSION
APRIL 24, 1968

**Address by Mr. Pedro Eduardo Real,
Governor for Argentina,
at the Third Plenary Session**

Once again the honor falls to me to represent the Argentine Republic at the Annual Meeting of the Board of Governors of our regional Bank, during which time we shall evaluate the work accomplished and formulate suggestions and recommendations for its future operations.

The presence of government delegates and representatives of agencies and international financial institutions confers on this forum a scope that permits us to examine not only our own internal programs but also the repercussions of world events upon our institution. It is with pride that we proclaim before such a distinguished audience our satisfaction concerning the work accomplished by the Bank in the credit and assistance fields in the seven years that have elapsed since it made its first loan. During that period it has developed into a valuable instrument of Latin American progress.

The credit due to the President of the Bank, Mr. Felipe Herrera, in the accomplishment of this task has been justly recognized by this Meeting by its resolution to reelect him in order to ensure continuity in his truly exemplary work. The unanimity and wording of that resolution make further comment superfluous.

The Bank's general report and the masterly statement delivered by its President contain an exhaustive analysis of the work accomplished during the past year. It is clear that the Bank has continued to carry out with ever increasing efficiency the task to which it is resolutely committed, promoting regional efforts and channeling international cooperation in the search for solutions to the economic and social problems of Latin America.

The unswerving support of the member countries, reflected in the decision substantially to increase the Bank's resources, allows a continuation of financial support both for programs with immediate economic benefits and for those designed to accomplish social objectives not covered by other financial agencies; to contribute to the preparation of preinvestment studies; to support the strengthening of intraregional trade links, and—though this does not purport to exhaust the list—to collaborate in the study and execution of multinational projects that further the aims of regional integration.

It is clear, however, that the support of the Latin American countries, whose capacities are limited by the present rigid structure

of their economies and the restrictions imposed by their traditional markets, is not in itself sufficient to provide the Bank with the resources needed for the accomplishment of its mission.

The flow of financial assistance from outside the region continues therefore to be indispensable for achieving within a reasonable time the goals to which we have committed ourselves. The good will and the imagination of experts and political leaders must prevent circumstantial difficulties that would cause certain industrialized countries to abandon the principles of cooperation that are the basis of the international economic system to which we belong. Such a prospect would discourage the efforts being made by the countries of our region, and would be equally unfavorable for those nations whose financial support, in the final analysis, is a determining factor in the expansion of the demand for their products.

We believe, however, that the Bank's dynamic character will allow for an expanded effort to find new sources of external funds through traditional forms of contribution or other operational schemes. Meanwhile, the optimum allocation and utilization of the existing resources will enable it to continue its outstanding programs. The evaluation that the Board of Executive Directors has resolved to make of current operations and of those resolved upon in the future will contribute to the achievement of that objective. In our judgment the experience gained during the last few years points to the advisability of placing greater emphasis on the granting of new loans for those activities which are adapted to the characteristics of individual countries, thus making more effective use of the funds made available by the Bank and multiplying their benefits.

Rapid utilization of the resources already allocated by the Bank continues to ensure that resources will not remain idle but will instead be dynamically put to use by member countries. From 1961 to December, 1967, the Bank granted loans for the equivalent of \$2,400 million, of which the equivalent of \$1,041 million was disbursed during the same period.

In his address, the President of the Bank referred to the increase in the rate of loan utilization. This is a matter of great satisfaction to us, but we must strive for even better results. This is a well known fact, one that has been discussed often in our meetings. I apologize for stressing it now, but I believe that its importance justifies the search for suitable solutions. In this connection, our joint efforts present a contrasting pattern: some projects have been carried out with a high

degree of efficiency, while others are lagging very far behind schedule. It would be a mistake for us to attempt a sweeping, unilateral analysis of the causes for this.

My own country can point with pride to the completion of programs that have yielded valuable benefits to our economy. Permit me to cite a model project involving 71,000 sub-borrowers which has made it possible to extend the benefits of farm mechanization to a large part of our territory. At the same time, however, execution of some other projects is proceeding slowly and with difficulty.

Our countries must adopt all measures in their power to accelerate the rate of loan disbursement, which, as the report rightly points out, is linked to the progress in execution of the projects. At the same time, it will be necessary in some cases to exclude from the contracts those clauses which, because they are ill-adapted to the conditions of each country, would generate obstacles difficult to overcome. In other cases, prior requirements whose fulfillment is not entirely within the control of the borrowers should be eliminated.

In the Annual Report submitted to this meeting reference is made to the fact that permanent offices have now been established in all the member countries. We unreservedly support this policy. We are able to testify to the fact that these offices, because of the praiseworthy dedication of their staffs, their knowledge of the local environment, their continuous contact with those executing and those benefiting from the projects, all these promote practical solutions to the above-mentioned problems.

Special mention should be made of the Bank's steadfast cooperation with Latin American countries for achievement of the goals of regional integration set by our Presidents. This subject was covered in the excellent and substance-filled addresses delivered during the inaugural session of this meeting and also by President Herrera himself, in terms that make any comment by me unnecessary.

Nonetheless, I must underline my adherence to the concept that integration will foster development of our presently limited markets and continuous growth of our industries. Conscious of this fact, Argentina has substantially reduced its customs tariffs in order to foster the development of a competition we regard as beneficial.

We should also like to point to the highly fruitful work accomplished by the Institute for Latin American Integration. Our country will continue to support further development of its operations, among which the execution of feasibility studies on multinational projects and

the comprehensive projects relating to the River Plate Basin will be of incalculable value in helping to achieve the level of progress to which America aspires. We therefore warmly welcome the views of President Johnson in the letter read to us by Mr. Fowler in his speech on Monday: "It was equally clear that a necessary prerequisite was a solid beginning in achieving the physical integration of Latin America—building the visible and tangible interconnections that make possible the free interchange of economic factors—the roads and river systems, power grids and pipelines, transport and telecommunications."

Before concluding, I should like to recall an observation made by President Lleras concerning the need for an in-depth study of the deficiencies observable in certain aspects of the development policy of our countries. The President suggested that the Inter-American Development Bank take the initiative in carrying out this study, in collaboration with other Latin American organizations. I regard this as a valuable suggestion, and the Argentine delegation warmly supports it.

We have been received in this city with the most cordial hospitality. We have also had the pleasure of hearing excellent statements by the President and his Minister of Finance. For all this, our sincere appreciation.

**Address by Mr. Hector Hurtado,
Alternate Governor for Venezuela,
at the Third Plenary Session**

We are gathered once again in a Meeting of the Board of Governors of the Inter-American Development Bank, its Ninth, to evaluate, as is done each year, the work done by the institution during the previous year. And we are privileged this time to meet in the gracious city of Bogota, whose proverbial hospitality is as ample as the plain on which it lies:

The addresses of the Governors and the President of the Bank have outlined clearly its accomplishments during the past year. By reelecting Felipe Herrera President of the Bank, just recognition has been accorded the work done in 1967 and earlier years by the Board of Executive Directors in the formulation of policies, and by the Bank's technical and administrative staff in the implementation of policies as rapidly as the complexity of operations permits.

The policies of the Bank have improved the well-being of Latin American peoples. Its quest for balance in the apportionment of its resources has led it to operate in the most diverse fields, and it has done pioneer work in the granting of loans for social development, a distinct achievement for the institution.

As of December 31, 1967, 35.3 per cent of all funds made available by the Bank had been channeled into productive activities (including industry, preinvestment, export credits, and about half of the amount loaned for agricultural purposes), 19.1 per cent for infrastructure (transportation and power) and the remaining 45.6 per cent for the social sectors.

In spite of our sense of accomplishment, we must not fasten our gaze on the past, but should rather draw from it the encouragement to chart courses through new and changing external circumstances toward the solution of the next set of problems.

The efforts of the world on behalf of economic development are beset by mounting difficulties. The industrialized countries are suddenly finding that their traditional instruments of growth are no longer adequate to cope with changing situations and new problems without precedent. Current balance-of-payments difficulties in all these countries, and even worse monetary problems in some of them, are adversely affecting their national economies and leading to situations quite different from the widespread prosperity of earlier years.

The effect of these difficulties in Latin America has been to aggravate the structural problems in the foreign sector of our economies; these problems demand careful attention, not only through conferences such as the recent United Nations Conference on Trade and Development, but also through action by the countries of the inter-American system.

As asserted in a recent study by a regional economic agency, Latin American development continues to exhibit two basic characteristics: slowness and irregularity. During the first six years of the Decade of Development, the per capita gross product rose by a yearly average of only 1.3 per cent, far from the minimum goals required to achieve development. This low rate of growth was influenced by various problems which have become all too familiar through the abundant literature that has had to be produced in an unceasing effort to understand and analyze them. The trend of our exports and imports, the characteristics of our public debt and balance of payments, and our trade gap and the new approaches deriving from integration are all constituents of the complex situation in Latin America today.

In recent years, the purchasing power of our exports has barely increased. Although keeping pace with the rate of population growth, it is rising too slowly to support an adequate development of our economies. And what is more, the structure of exports indicates that manufactures account for scarcely more than 10 per cent of Latin America's foreign sales, against 60 per cent for the rest of the world. In addition, the latest economic study by ECLA shows that in 1967 the current value of exports of goods actually slipped for the first time in this decade. However, since the volume of exports showed some gains, the 2.6 per cent decline in the value of exports "must have resulted from falling prices."

In contrast to this situation, and in response especially to rising consumption and the emergence of new productive sectors with their additional requirements in capital and intermediate goods, our imports were climbing in terms of volume and economic significance. Thus we could almost say, if it were not a contradiction in terms, that development is operating to the detriment of our countries. As the distribution of income and wealth improves, imports of manufactured goods rise, but not necessarily the exports with which to pay for them.

Domestic resources have not been available in sufficient amounts to finance the development of our economies, and increasing recourse to foreign capital to bridge the gap has piled up a sizable debt. The

so-called "debt explosion" and its balance-of-payments effects have been the end result of this almost irreversible trend.

This situation calls for corrective action. Important in this connection are the efforts now being made to achieve integration at the regional and subregional levels, which must not be thwarted by either unrealistic haste or unwarranted delays, and "inevitably calls for a process of thorough study, publicity and compromise," as President Lleras put it. Be that as it may, our only concern at this time is to suggest contributions which the Inter-American Bank can make.

Actually, the more dynamic sectors, especially industry, which could help to improve the conditions I have noted, have perhaps not been receiving due attention in the development process. As the President of the Bank has said, industrial development is the field where the struggle to modernize economic structures is being waged and where the new job opportunities so essential to a continent experiencing rapid demographic expansion and spiraling urban growth are emerging.

There are, of course, factors in play here which are beyond the power of the Bank to control or offset, such as the shortage of projects—*earlier the dominant circumstance—which led to the channeling of resources into areas in which projects were simpler to prepare and execute and referred precisely to modest undertakings, important enough in the context of the overwhelming problems in those sectors, but of minor priority compared to the magnitude of the basic questions mentioned before.*

We hold, therefore, that the resources of the Bank, which fall far short of needs, should be funneled into the productive sectors, especially industry. We are aware of the difficulties that derive from the application of new sectoral priorities such as those proper to the industrial sector. Import substitution, once dynamic enough as a course of action, has practically run its course, which makes it important to foster more complex technologies aimed at producing for markets beyond a single nation's boundaries. It must be borne in mind that the production of intermediate and capital goods at competitive prices requires substantial economies of scale. The Latin American tendency to small-scale plants, established in such large number for the production of consumer goods, will have to be avoided if these economies of scale are to be achieved.

The technical-economical aspects of the new industrial projects, their location in response to zonal criteria, the formulation of priorities

by branches, and the combination of these three elements with due regard to the needs of the relatively less developed countries are all tasks which pose a real challenge to the technical and administrative powers of the Bank.

To the natural difficulties entailed in the formulation and implementation of correct policy in this field are added the obstacles that the Bank is today encountering in its efforts to obtain financial resources. In view of the restrictions that surround the international capital market today, the mobilization by the Bank of resources other than those of its member countries amounts to a real feat. The \$200 million obtained from those sources to date have increased substantially the funds available to the Bank.

However, the recent trend of international finance indicates that new funds are becoming more difficult to obtain, not only because of higher interest rates, but also because of restrictions on access to those markets. This compels the adoption of new procedures, the substitution of others and the strengthening of the better ones now in existence.

In this connection we must view as imperative the policy of pegging purchases in nonmember countries to the contributions they make through the Bank for Latin American development. This is a curious requital in terms of the practice of tied aid of the large countries which make loans only if purchases are made in the lending country. This new position merely suggests that the coin has two faces, that it is possible to tie our purchases to the availability of new loans. We believe this policy should be continued. It might be made more flexible later to permit the eventual attraction, through negotiation, of new resources to the Bank in proportion to the relative capabilities of friendly supplier countries. These will ultimately share our position, that international cooperation is indeed a two-way street.

Moreover, the world problems mentioned before point to the advisability of taking positive action on the trend of our exports and on the machinery set up by the Bank for the financing of intrazonal exports. The rise in interest rates on these resources is undermining the competitive position of our countries vis-à-vis the developed nations, which keep the interest rates of their export-promoting mechanisms below those prevailing on the capital markets. It would hence be advisable to seek a formula by which the interest on these operations could be reduced; this might well consist of the use of ordinary capital in combination with resources from the Fund for Special Operations.

It has already been mentioned many times at this meeting that it was here in Bogotá where inter-American recognition was accorded

to the new ideas of the close connection between economic and social development and of international solidarity, of which the Inter-American Development Bank is an embodiment that we can point to with pride. President Lleras, in a masterful stroke of oratory with a certain autobiographical flavor—which we do not know whether to admire more for the profundity of its content or the quality of its style—has shown us how those principles of international solidarity have gradually and laboriously gained ground against self-centered nationalism during the last quarter century.

But there is another event, more remote in time, to which I must refer because it is closely bound up with the work the Bank has been doing in the field of Latin American integration. We may recall that Bogota was the city chosen by Bolívar as the capital of the great nation he had conceived in a dream painfully frustrated, the focus of his concern up to his last hours in Santa Marta, which he had wanted to leave as a bequest in his abortive call for the union of our nations, as if seized by a premonition that a century later it would fall to other generations to bring his integration program to fruition as a lasting memorial to his genius "great enough to endure through abandonment and death as the tragic expression of greatness."

**Address by Mr. Cesar Barrientos,
Governor for Paraguay and Minister of Finance,
at the Third Plenary Session**

One year after the Eighth Meeting of the Board of Governors of our institution in Washington, we meet in this beautiful capital of the Republic of Columbia, whose Government has, in a gracious gesture, placed the city at our disposal for this event. We meet to ratify with great satisfaction the significant undertakings and achievements of the Inter-American Bank during the 1967 fiscal year.

If we think back to the Latin America of the decade before the crystallization of new hope with the establishment of our organization in 1960, we would find ourselves at a very different stage, owing to the strong impetus given to the various fields of activity, but we most acknowledge that much still remains to be done in resolving the factors that stand in the way of more rapid progress.

Pan American brotherhood has now been consolidated through a policy of economic cooperation among our countries, a policy which is, fortunately, based on a broad criterion of mutual commitment. We have passed through a great many stages in laying the groundwork for our organization to achieve the ideal of perfection in the regional and subregional system of Latin America whose projections are universal.

Latin America is an oasis of peace and promising future which, thanks to the aid of our institution, is now in a position to exploit its immense wealth.

We are particularly pleased to point out the praiseworthy efforts made by our agency in behalf of the member countries, as summarized in the detailed documentation presented by our illustrious President, Felipe Herrera, in an evaluation report stressing the progress made by our countries in the various aspects of their drive toward development. Our satisfaction is even greater when we consider the well-deserved prestige enjoyed by our Bank inside and outside of the hemisphere. It is a source of pride to all the American peoples. We need only analyze the operations carried out and the future tasks to be undertaken in its capacity as the "Bank of Integration."

In this connection, we have observed the emphasis placed on activities designed to accelerate integration of the Americas and the interest in all spheres of action in financing projects relating to agricultural and community development, electric power production, water

supply and sewerage, industry and mining, housing, education and the preparation of preinvestment studies, and training and industrial development activities, as well as the financing of exports of capital goods.

The Bank has recently redoubled its efforts to contribute to the economic and social development of Latin America, with the highest volume of loans in the history of the institution. We have remarked that a sizable share of the resources was allocated to finance projects sponsored by private enterprise, in addition to others holding high priority. Mention should also be made of the self-help endeavors of the member countries, estimated at a ratio of three dollars for every two dollars loaned by the Bank.

Furthermore, we should note among other outstanding activities, our success in attracting financial resources through the placement of bonds issued by the Bank in the capital markets of Europe and the United States, on advantageous conditions. In this regard, Paraguay has also helped to strengthen the operating capacity of the Bank by subscribing to the last bond issue in accordance with its possibilities.

In Paraguay, the beneficial financial assistance of the Inter-American Bank has taken the form of 21 loans granted us to date, totaling \$56 million. One of the most important of these is for expansion of the Acaray hydroelectric plant, which will provide us with a total capacity of 90,000 kilowatts. At the time this loan contract was signed, the President of the Bank stated: "Three years ago, in signing the contract for the initial contribution to a work with spectacular projections for the future, I had occasion to say that it signified, in addition to a positive affirmation of Paraguay's political independence, the seed of its second, or economic independence. Events have demonstrated the truth of this statement. The Acaray hydroelectric plant is laying the foundations for the economic independence of this noble nation."

Undoubtedly, operation of this important plant will enable Paraguay to generate sufficient electric power for a broad area of the country in order to promote basic industrialization of our raw material output as an inevitable requirement for national development, while at the same time it will be able to supply bordering regions of certain neighboring countries, as an important step toward integration of undeniable benefit to the countries involved in the economic and social process of the hemisphere.

Our country attaches the greatest significance to the program for development of the River Plate Basin, whose execution will demand

the joint efforts of its component countries in order to realize the lofty purposes of regional and subregional integration to enrich the economies of this group of countries.

We view with satisfaction the growing support which the Inter-American Development Bank is giving to steps designed to integrate the River Plate Basin; one encouraging development is the decision of the Board of Executive Directors to allocate funds for financing preliminary studies on overall development of the Basin, which envisages integral systems of communications and transportation, as well as other sectors important to the five component countries of the River Plate Basin.

In this connection, the President of Paraguay, General Alfredo Stroessner, stated recently at the Organization of American States during his visit to the United States: "I take pleasure in expressing my faith in the efficiency of subregional pacts as inducements to regional trade; in this regard, we welcome the Andean Pact, comprising a group of sister nations on the continent. Paraguay forms part of the River Plate Basin and my government offers its full collaboration in developing this geographic aggregate into an economic group of far-reaching benefits for the continent."

The expansion of government activity in my country has demanded additional resources for fulfillment of the various programs designed to promote and strengthen national economic infrastructure. In 1963, expenditures on public works and communications, education and health represented 27.4 per cent of the general budget of the nation and in 1967, they amounted to 30.8 per cent. During 1963-67, public health spending rose by 50 per cent while education appropriations doubled and public works and communications costs rose by 300 per cent. The additional expenditures in this sector are designed basically to free a suitable volume of resources for allocation to these sectors that constitute the basic infrastructure of the national economy.

With reference to evaluation of the external public debt and its annual amortization, the National Government complies strictly with its contracted obligations; in accordance with traditional policy it is formally fulfilling its international commitments. We note that the foreign payments position does not create pressures leading to an imbalance in the liquidity of the domestic market and will not, therefore, affect international monetary reserves.

The gross domestic product recorded an average annual growth of 4 per cent as of December 31, 1967. The reaction registered in 1967 derived essentially from industrial production through the incorporation

of new industrial plants in such subsectors as fruit packing, dairy products, petroleum by-products and others, as well as the expansion of existing installations producing textiles, oleaginous products and foodstuffs.

Execution of programs for roads, school buildings, hospitals and the Acaray hydroelectric plant, plus certain important private initiatives, were responsible for growth of the construction sector.

Despite the government's continuing efforts to develop agricultural activities, this sector has not expanded as dynamically as expected, owing to poor weather conditions and the unfavorable trend of prices on the international market.

Paraguay's balance of payments has recorded successive favorable showings since 1961. These balance-of-payments surpluses are based mainly on external financing deriving from imports of goods and services and investments of foreign private capital not requiring immediate remittances of foreign exchange abroad.

International monetary reserves increased significantly beginning in 1963, reaching their highest level in 1965, with a figure of \$8.6 million. In addition to these reserves, contingent credits have been made available to my country by the International Monetary Fund through annual stand-by agreements which it has not been necessary to call upon since 1960.

The country's international reserves easily cover seasonal foreign exchange demands without creating imbalances that can affect the dollar ratio exchange, which has been stabilized for more than a decade.

The financial and monetary development of Paraguay is governed by the projections of the International Monetary Fund and there is no danger of undermining the monetary stability of the guarani, achieved through the efforts of the government and the cooperation of all sectors in the country.

Finally, we should point out that, in the documentation distributed to us by the Inter-American Bank, we find proof that the work carried out during the past fiscal year by the President, the Executive Directors and the technical staff of the Bank has been dedicated, arduous and most efficient. For these reasons, we again convey to them our congratulations.

To President Felipe Herrera, our sincere congratulations on his reelection for the 1969-74 period, a well deserved reelection that is maximum expression of the confidence of the governments of all the

member countries of the Bank, to which he has, since its inception, devoted his best efforts and his full intelligence in outstanding leadership of our institution.

In closing, may I express, on behalf of my country's Government and of the Paraguayan delegation, our sincere appreciation of the generous hospitality extended to us by the government and the people of Colombia, which in its name immortalizes the discoverer of this hemisphere and, through the example of its sons, points to the splendid future of this continent.

**Address by Mr. Antonio Ortiz Mena,
Governor for Mexico,
at the Third Plenary Session**

To come to Bogota is, for all Mexicans, to make a historical, sentimental pilgrimage, for not only is this one of the most outstanding capitals in the tradition of Bolívar, but it is the cradle of the hemispheric movement that inspired our own Juárez, Hero of the Americas.

In this vein, my first words will be to render homage to our sister nation of Colombia and to its distinguished Government, which welcomes us today with open arms. This solemn act offers me an excellent opportunity to extend to you, in the name of the President of my country and of the Mexican people, our most cordial greetings.

These Annual Meetings, where the financial operations and the policies of the Inter-American Bank are formally reviewed, take the pulse of the hemisphere, so to speak, since they are in effect a propitious forum for the exchange of information and experiences, as well as for discussing economic matters of the greatest interest to our republics, with the constant aim of eliminating poverty and the low living standards in Latin America which, as President Díaz Ordaz has noted, demand action, not words.

A great deal of action is evident in the report of President Herrera. Both because of the splendid achievements of the past year and in recognition of his brilliant performance ever since our Bank was founded, I am very pleased to manifest publicly the satisfaction of my country with his exceptional work and to congratulate as well the Bank's Board of Executive Directors and staff for the outstanding discharge of their respective duties and their dedication to the multinational concept that must guide the work of this organization.

Since you are all engaged in time-consuming occupations, I still refrain from any detailed examination of our operations, but I do feel that mention should be made of the fact that in 1967 we surpassed the already good record made during the previous year, for at its close, the Bank had approved 60 loans for a total of \$496.4 million which increased the cumulative total of credits granted to \$2.39 billion. This amount is added to the more than \$4 billion of domestic capital mobilized in the member countries, an achievement indicative of what they have been able to accomplish in funneling savings and national efforts into well-planned investments in genuine development.

Since it coincides with Mexico's decision to assign high priority to official farming and livestock programs, we note with special interest

that the Bank, in recognition of the generally slow increase in Latin American agricultural production, has furnished 24.2 per cent of its total financing to such activities.

We should not forget that in this hemisphere the problem of a low income rural sector not only affects the rate of general development but, still more important, is a factor in the maintenance of social tranquility which demands satisfaction of the urgent needs of the masses.

The President of Mexico has stated that the country's most delicate problem continues to be the rural situation and, therefore, the government is exerting its greatest efforts to assist the rural population. Consequently, we are channeling the largest possible volume of resources to the agricultural field, and in order to do so we are utilizing both domestic savings and credits obtained from international financial institutions on a long-term, low-interest basis. We especially insist on favorable terms of repayment because a long period gives these funds a revolving character that multiplies the opportunities for their use.

I greatly appreciate the cooperation that the Inter-American Bank has given us in this task, evident in the fact that 80 per cent of the total loaned to us has been for the benefit of rural development. Included in this total, of course, is the financing of feeder roads whose essential function is to connect widely separated areas having great agricultural potential. All of this has allowed Mexico, in spite of the adverse weather conditions in some years, to continue improving its agricultural production indices, a fact referred to in the regional analysis contained in the Seventh Annual Report of the Social Progress Trust Fund.

To take a date that already has been established as a milestone in the history of the hemisphere, I will remind you that in 1961, in the Punta del Este Charter, an annual per capita increase of 2.5 per cent was proposed. In Mexico we have managed to surpass this rate of development significantly since, beginning in 1962, the increase in real income—7.2 per cent per year—duplicated the rate of growth of the population, which increased by more than 7 million. The 3.6 per cent average annual increase in per capita income made it possible in 1967 to achieve an annual income level equivalent to \$536.

Within this context, total agricultural production increased by an average of 4.1 per cent a year in the 1962-67 period, while the food supply rose by 5.7 per cent. Because of this, Mexico has not been faced with the serious problem of not being able to establish a satisfactory balance between the population and food supply. Not only has it been

possible to meet the domestic demand for these consumer goods by increasing the amounts available per person—at a rate of approximately 2 per cent per annum—but also to build up exportable surpluses. The flexibility of supply is clearly evidenced by the yearly rates of increase in the production of some of the basic crops during this same period of 1962-67: corn, 4.3 per cent; wheat, 8.1 per cent; beans, 6.5 per cent; and rice, 8.3 per cent. And this we Mexicans have been able to achieve largely through our own efforts, although in some cases with the cooperation of international organizations. Yet we have always been careful to avert any interference that would seem to imply an external attempt to shape the agricultural policy of Mexico. I am sure this will continue to be the case in the future.

The requirements for new capital for the Inter-American Bank have been satisfactorily met. In 1967 an increase of \$1 billion in callable capital was authorized, along with an increase of \$1.2 billion—which has been almost completely paid in by the member countries—in the Fund for Special Operations.

It is therefore possible to regard the years immediately ahead with renewed optimism, since the Bank can continue to count on a source of funds on the terms and interest rates most appropriate for the basic projects of the Latin American economies.

The Bank, in order to procure additional resources, continues to issue bonds and to sell loan participations, supplementing these resources with those derived from agreements for the administration of funds and for parallel financing. During the past year it succeeded in placing \$146 million in bonds at rates that varied from 5 to 7 per cent.

The availability of these funds enables the Bank to serve the highest aims of integration by financing intraregional exports of goods produced by highly capitalized industries that are unable to operate at full capacity because of the difficulty of financing large-volume orders on competitive terms.

It is evident that the international financial organizations cannot by themselves solve the problems afflicting the Latin American economies as a result of the deterioration of the external sector, problems which, unfortunately, show no signs of disappearing. We are reminded that, even though the total value of the hemisphere's exports has increased in absolute terms, the region's relative share in world trade has declined during the past five years.

Therefore, in view of the possibility that our export earnings may decrease, we must search for new ways to offset this loss. One of these, and a proven one, is tourism, that splendid occupation which, along with providing significant economic benefits, is a means of fostering friendly ties between different cultures, which makes it still more valuable internationally.

In fact there are few activities as effective as tourism for achieving a wide distribution of monetary resources and providing a constant source of income and employment. The demand for a multiplicity of goods and services, transportation, hotels and related services creates employment for a large number of persons and rapidly raises their living standards. Because of this, it is a source of satisfaction for us that the Bank is working out new criteria that will permit the financing, under favorable terms, of the infrastructure for the tourist industry.

The formation or improvement of this infrastructure will result immediately in the activation of domestic efforts, since the Bank's financial support will generate new investments in access roads, installation of power and water supply systems, construction of small piers for pleasure boating, and of landing strips, sanitation programs and training of hotel personnel. All of this, related to areas of unquestionable tourist potential, will encourage national entrepreneurs to construct hotels and other facilities.

We note with pleasure that the Bank is increasingly calling on Mexican experts to carry out studies and projects of regional interest; their knowledge is being used in studies in a variety of fields, including the use of minerals as a fertilizer base, geological surveys in the Central American Institute of Industrial Research and Technology (ICAITI) and industrial studies financed by the Preinvestment Fund.

How remarkable it is to observe, ever since arriving in Colombia, how greatly revered are this nation's heroes who were instrumental in gaining its freedom. As in the other countries of the Americas, but especially evident in this great nation, the harbingers and leaders of the wars of independence were men who distinguished themselves in arms and the law. Santander and Narino—and so many others—judiciously blended these virtues that shaped the Republic and gave it a lasting tradition of strength combined with respect for civil authority. This should be the destiny of the hemisphere: absolute respect for law and the individual; unyielding determination by the state to achieve that goal.

**Address by Mr. Francis C. Prevatt,
Governor for Trinidad and Tobago
and Minister of Finance, Planning and Development,
at the Third Plenary Session**

Permit me in the first place to offer you my sincere congratulations on your most deserving election as Chairman of the Board of Governors of the Inter-American Development Bank for the 1968-69 term. Your address at the inaugural session was a further proof of your deep knowledge and understanding of Latin American problems and needs and I am confident that the Board of Governors will benefit greatly from your able and effective guidance and that meetings under your chairmanship will proceed with smoothness and dispatch.

Permit me in the second place to extend my heartiest congratulations to Mr. Felipe Herrera on his reelection to the high office of President of the Bank for a further five-year period commencing on July 1, 1969. Dr. Herrera's praises have been rightly sung by several Governors yesterday and I take this opportunity to endorse these sincere expressions of our trust in and admiration for Dr. Herrera on behalf of the Government of Trinidad and Tobago.

My delegation would also like to extend to the Government and people of Colombia our gratitude for the excellent arrangements which they have made for this Meeting and for the other measures which they have taken to look after our personal comfort while we are here in this beautiful city of Bogota. My delegation would respectfully request that you convey to the illustrious President of this great republic its high appreciation of the speech which he so kindly delivered at the inaugural session of this Ninth meeting of the Board of Governors of the Bank and its gratitude for the very pleasing reference which he made during the course of his speech to Trinidad and Tobago.

At this stage, I crave your indulgence to express my country's gratitude for the generosity of the Governors at the Eighth Meeting of the Board in approving the application of Trinidad and Tobago for membership in the Inter-American Development Bank. On behalf of my country I wish to thank the Governments of Chile, Venezuela and Colombia for inviting us to share their representation on the Board of Executive Directors and to express my country's complete satisfaction with the manner in which our interests have been represented.

It is fitting that we should acknowledge at this Meeting our appreciation of the contact we have had with the President and staff of the Bank during our comparatively short association. We have been impressed by the realism of the approach adopted by the distinguished President and his staff, by the methods of appraisal and analysis which they have utilized and by the logic and speed with which they have dealt with our applications. Already we have been fortunate in having three loans approved, for which I take this opportunity to thank the Board of Executive Directors, the President and the technical staff. These loans are small in amount but their effect will be great as they will finance the studies which will lead to the formulation and implementation, with the help of the Bank, of projects which will have a great impact on the economic and social development of Trinidad and Tobago. The Bank's interest in its newest member was clearly demonstrated by the speed with which arrangements were made to establish an office in Trinidad and Tobago and to appoint as its resident representative Mr. César Atala, who has already impressed us with his energy and sympathy for our problems. This office will be formally opened on May 2 and we are looking forward to welcoming those members of the Bank who will be present on this occasion.

We are met to review the operations of the Bank for the past year. After a close scrutiny of the various reports and rapt attention to the brilliant exposition of the operations for the past year and of its ideals and outlook for the future by the President, I have great pleasure, on behalf of Trinidad and Tobago, in reaffirming our approval of the statements and reports presented.

There are two points mentioned in the Eighth Annual Report, 1967, which aroused the particular interest of my delegation. The first reference is to a study contemplated in the Caribbean as part of a feasibility study for the establishment of a regional transportation system in Latin America. The second reference to studies carried out by the Bank on integration policy in the fields of industry, urban development, agriculture, tourism and transportation. My delegation would request that the Bank take into account the interests of Trinidad and Tobago in these studies and I wish to reaffirm my country's commitment to the goal of Latin American integration which these studies are designed to serve. Trinidad and Tobago is actively considering joining one of the regional groupings and expresses the hope that access to groupings and sub-groupings, as enjoined by the Presidents at Punta

del Este, is provided for members of the Organization of American States not yet associated with these groupings and sub-groupings.

This is the first Meeting of the Board of Governors at which Trinidad and Tobago is represented as a full member. I consider it a great privilege to attend this meeting as my country's Governor and to establish contact with my many colleagues in Latin America at what I am sure will be the first of many fruitful and productive meetings.

I welcome the attendance at this Meeting of the representatives from Barbados, a sister Caribbean island which has recently entered the Inter-American family and with which Trinidad and Tobago has had long historic ties of friendship. I trust that we will have the privilege of welcoming Barbados to membership in the Bank in the not too distant future.

Finally, I pledge the full support of Trinidad and Tobago for the Inter-American Development Bank in its most important work for the economic and social improvement of Latin America.

**Address by Mr. Oscar Victor Rachetti,
Governor for Uruguay,
at the Third Plenary Session**

On behalf of the Government and the people of my country, I should like to convey to the people and Government of Colombia our most cordial and fraternal greetings and our appreciation for the friendship and hospitality with which this halcyon land has welcomed us.

Like other capitals of the hemisphere in the past, Bogota today is a focus for the expectations of the hemisphere and the world. All of us gathered here are fully aware of our responsibility; we know that the economic independence of the American nations is a goal toward which we are bending every effort, in the conviction that political independence is contingent upon economic independence.

We do not want to fall prey to extremist or optimistic views that distort reality, and even less to pessimistic excesses bordering on the dangerous abyss of demoralization and desperation.

Our approach is, therefore, essentially realistic. It is becoming increasingly urgent and essential for us to attack our common problems directly; to this end, we must determine in advance the scope of these problems and difficulties. Underdevelopment is no mystic concept but a very real situation.

The work accomplished by the Bank to date allows us to confront optimistically this ceaseless struggle to which we are all devoting our finest efforts. It gives us faith in the future, for we trust in the peoples and the government of the Americas and we are convinced that intelligent effort and capacity for work consistent with sound technical requirements will, by implementing the gigantic task we have undertaken, lead us to the certainty of a better world.

Very briefly, and by way of indication only, we note that the evolution of hemispheric economy during 1967 reveals an increase of 7.4 per cent in the gross national product and that, according to the preliminary *CIAP* report, only five of the 18 countries have achieved the 2.5 per cent per capital increase required as the minimum rate of increase by the Charter of Punta del Este.

It should also be emphasized that exports from the region declined in that year by more than \$300 million, as a result of two simultaneous occurrences: a drop in prices for most traditional products and a reduction in sales to the United States. If we also consider that Latin America's significance in world trade has been reduced by almost one

half since the postwar period, we can grasp the full implications of the tremendous problem that must be solved by our continent.

Today we are witnessing a contradiction, for while the highly industrialized countries are steadily increasing their per capita output of goods and commodities, this ratio is decreasing in traditional food-producing countries.

An imbalance is becoming increasingly evident: modern techniques and capital contributions in the developed countries are day by day curtailing their demands on the Latin American market. For our part, the absence of these prime movers of development force us to maintain extensive crops characterized by low productivity.

While prices for manufactured products rose by 11 per cent between 1953 and 1966, raw material prices declined by 6 per cent. Furthermore, to complete this picture, between 1962 and 1967, although the volume of exports of agricultural products by the underdeveloped countries expanded by 38 per cent, the value of such exports dropped by 18 per cent.

This confronts us with a desperate dilemma: we must overcome our status as mere exporters of raw materials and construct an industrial economy integrated at the national level which should comprise an expanding agriculture, or resign ourselves to the concept and status of permanent neglect and underdevelopment.

Studies by the Food and Agricultural Organization (FAO) estimate that, in order to achieve adequate development levels in hemispheric agricultural production, the cultivated area should be expanded by 30 million hectares and yields by 50 per cent. For these purposes, additional capital assistance of from \$1 to \$1.5 billion a year would be required over the next decade, that is, more than 60 per cent of current levels for that sector alone.

It should be pointed out that net financial aid to Latin America during the past five years from international financing agencies amounted to about \$500 million a year. But all of this net external financing received by Latin America is almost totally committed by the burden of service on short- and medium-term indebtedness. This situation is strangling development and calls for a study of debt scheduling, in general terms, to coordinate service with the purposes of such aid.

Accordingly, it is advisable to accelerate the currently sluggish processes of integration by seeking procedures that will overcome delay

and stagnation once and for all in order to reach, through sure, definitive channels, the goals sought by establishment of LAFTA.

Clearly, we are faced with an undeniable reality: the stagnation of LAFTA and even the impossibility of defining composition of the second common list, which would include 50 per cent of intraregional trade and lead to new steps, at other levels, in the negotiations under way.

Without rejecting any of the proposals for continental integration, there is, nevertheless, a need for a subregional response designed to accelerate the process of economic integration. The objectives will not be so broad, but the results will be more specific and effective.

For this reason, several countries in the hemisphere have formed the Andean Development Corporation, pursuant to the agreement signed a few months ago in this very city of Bogota. Its major purpose: to formalize closer economic ties among Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. The fundamental idea was to gather corporations concerned with development of the six countries to decide on projects that can be better handled multilaterally than individually.

These are, of course, long-range plans, and although certain positive results may be achieved immediately, they cannot be evaluated until the 1970's.

The governments of the countries located in the River Plate Basin have, for their part, agreed upon the bases for execution of a multinational program aimed at greater economic and social development through better utilization of their resources in order to benefit the aggregate. Each riparian nation will solve its problems in accordance with the economic interests of the neighboring countries.

We are today convinced that Latin American integration, for which the Bank serves as promoter, will be strengthened by subregional concepts along the lines of those announced. We base this statement on the excellent example already offered by the Andean Development Corporation.

In the specific case of the River Plate Basin, solutions of general interest have already been evolved: the improvement of communications between neighboring nations will encourage a regional progress that unquestionably cannot be achieved by any of them singly. By way

of example, Brazil and Uruguay inaugurated the Artigas-Quarai Bridge in a ceremony attended by the Chiefs of State, in keeping with the outstanding significance of this project. A similar proposal exists for the Uruguay River, in conjunction with Argentina.

The Inter-American Bank is making an important contribution to these programs, through *INTAL* and the Advisory and Coordinating Board and by financing preliminary studies. But we are convinced that more can and should be done. We believe an ambitious approach must be adopted in promoting, in financing and in executing projects within the area.

Accordingly, we feel that our problems, because of their complexity and the importance of this zone (covering an area of 3.2 million square kilometers, with an estimated population of 191 million inhabitants by the year 2000), deserve very special attention. It is our opinion that a development agency, or a special department within the Bank, should be set up to handle the basin. This seconds the proposal made by the Uruguayan delegation at the meeting of the Intergovernmental Coordinating Committee (*CIC*), with experts of the basin countries.

That proposal aims at the following:

- Objectives: to provide medium- and long-term funds for investments in the basin and to furnish technical assistance to implement such investments.
- Scope and purposes: to set up an organization especially concerned with promoting economic and social development of the zone by ensuring equitable distribution of investments within the area. Its basic function will be to mobilize resources by maintaining contacts with financial and technical assistance institutions.

Logically, the Bank will have to support and promote this service, which will help to expand its sphere of competence by facilitating the efforts of the basin countries to execute important programs serving to foster integrated multinational development.

Since we are fully convinced of the need for accelerating this process, in order to achieve practical results as promptly as possible and provide an immediate solution to our problems, and considering that the Second Meeting of Foreign Ministers on this subject will be held in mid-May, I propose that a communication be issued announcing the Bank's support for the establishment of a development organ for the River Plate Basin. This would in no way detract from development at the national level, which is assigned top priority.

During the course of 1967, when a new constitution entered into effect in my country that eliminated the Government Council and reinstated the presidential system, our contribution to the aims of the Bank were as follows:

- Disbursements. Disbursements on approved loans amounted to 33.1 per cent. Disbursements on loans with all prerequisites fulfilled amounted to 44.2 per cent.

- Increases in Bank resources. The pertinent legal provisions were approved authorizing subscription of the increases in the Fund for Special Operations and the ordinary capital.

- Instrumentation of loans in foreign currency. Legal authorization was obtained for the *Banco de la Republica Oriental del Uruguay* (BROU) to document in foreign currency loans made on terms and for purposes consistent with financing obtained from abroad. This has permitted the initiation of credits for small-scale and intermediate industry.

It should be recalled that 1967 was a year of extremely adverse climatic cycles in Uruguay that lasted for weeks on end (drought, floods and frosts, the last the worst in 100 years).

In closing, allow me to offer our congratulations to the President and leader of the Bank, Mr. Felipe Herrera, and to the Board of Executive Directors, as well as to the administrative and technical staff, who by their activity, their intelligent concern, their dedication and their absorption in the work at hand, make it possible for us to record steady progress, year after year, in this peaceful struggle for the welfare of mankind.

Finally, I am honored to serve as spokesman at this Meeting for my Government in conveying its offer of the Republic of Uruguay as the site of the Annual Meeting in 1970. Your presence in my country will provide living proof of the consecration of our efforts to continental development.

**Address by Mr. Ramon Remolina,
Alternate Governor for Peru,
at the Third Plenary Session**

It is for me a signal honor to occupy this rostrum on behalf of the Governor for Peru and Minister of Finance, General Francisco Morales Bermúdez, who, because of current fiscal problems requiring his attention, is unable to attend this Ninth Meeting of the Board of Governors.

I have also derived enormous satisfaction, complying with the personal instructions of President Fernando Belaunde Terry, from warmly supporting the reelection of Felipe Herrera to the post of President of the Inter-American Development Bank for a new term of five years. The continuation of Felipe Herrera's role in guiding the Bank management will serve to consolidate our institution and enable it to capitalize upon his extraordinary experience and extremely broad knowledge of the problems of each and every one of our countries. In congratulating Felipe Herrera upon his reelection, I should also like to congratulate the Governor for Argentina on his brilliant initiative.

Although the Governor for Peru has, at all our earlier meetings, consistently pointed to the monetary stability enjoyed by our country as its greatest triumph and proudest achievement, an economic crisis arose in September 1967 following revision of the exchange rate and devaluation of our currency by 44 per cent. This deterioration resulted from the accumulation of consecutive budget deficits and from the rise in external indebtedness for medium-term obligations, whose service this year represents 18 per cent of our foreign exchange earnings.

The situation, caused by our enormous effort and extensive mobilization aimed at attacking the problems of development and implementing many urgent social projects, has nonetheless and most unfortunately served to encourage primary production for export of agricultural, fishing and mining products.

Today, normal conditions have been reestablished through equitable wage adjustments and application of the system of foreign exchange certificates, which guarantees that the foreign currency obtained for exports will be employed solely to pay for imports, remittances abroad by foreign concerns and expenditures by the public sector, thus containing the flight or hoarding of foreign exchange. The *Banco Central de Reserva* intervenes in the certificates market to ensure that the rate of exchange remains at 38.70 soles to the dollar. The remaining foreign exchange is traded on the free drawing market at fluctuating rates, currently about 41 soles to the dollar.

But the adjustments do not end there. The Peruvian Government, as the Minister of Finance has just proposed to *CIAP*, firmly intends to achieve a truly balanced budget, consistent with actual receipts, to restrict public spending and to propose to the National Congress new taxes that will provide the treasury with a permanent source of revenue for the successful continuation of development programs.

It is now that international aid is most sorely needed to finance development and to contribute to the replenishment of monetary reserves. I take this opportunity to convey the Peruvian Government's appreciation to the Inter-American Development Bank and the other financial institutions participating in the *CIAP* Meeting for their support of our Finance Minister.

Furthermore, in reporting to this Meeting of the Board of Governors on the current fiscal and monetary situation in Peru, I cannot fail to recall a paragraph from the address delivered by President Lleras. I refer to his opinion of suppliers' credit, which, as he accurately states, does not help to solve the problems of development financing but, to the contrary, accelerates external indebtedness and produces balance-of-payments difficulties.

We may well ask why such funds are employed. The answer is because resources for long-term development credits are inadequate and unfortunately tend to bilateralism, as the Bank President has explained, and the standards required for planning, evaluating and justifying loans delay their approval.

But in view of the anxieties of our people, which call for better housing, improved sanitary conditions and larger areas of irrigated land, our leaders cannot remain inactive and are forced to utilize all the financial resources they can obtain.

For this reason, it is essential to procure and channel a larger volume of resources from outside the region and to improve methods and systems in order to ensure that loans, not only from the Bank but from all development agencies, will be more flexible and can satisfy our growing and increasingly urgent demand.

Allow me as a development banker to speak to you of a long-cherished aspiration. I view the Inter-American Development Bank as a central bank of the national development institutions for long-term operations, just as the national central banks function in this capacity for short-term operations. I realize that such a step would only be possible if multilateral resources untied to purchases or acquisitions

were available and financing covered all the programs of those banks rather than specific projects only. The fact that we cannot achieve this goal immediately is not important, but we should work toward the ultimate objective of facilitating operations and expanding aid by this means.

In reference to the concerns or anxieties of our people just mentioned, one of these, and perhaps the most important, is the shortage of arable land. Peru has the lowest population-land ratio in the hemisphere: one fifth of a hectare per inhabitant. Consequently, President Belaunde has taken upon himself the task of expanding this area by one million hectares: 200,000 on the coast through irrigation and diversions from the Amazon Basin to the Pacific coast; 200,000 hectares in the inter-Andean valleys by means of irrigation and erosion control, and 600,000 in the forest along the Bolivarian Highway.

It is in this last zone that we have begun to utilize a Bank loan of \$15 million designed to settle 5,000 colonists, to be relocated from the more heavily populated areas of the central *sierra* on a tract of 86,000 hectares.

In the region of the Andes we have, in turn, begun to utilize another loan, also granted by the Bank for \$20 million to promote the integral development of Indian communities in an area of 240,000 square kilometers, where joint action is being undertaken by 12 public institutions. The program includes farming and stock-raising development, health care, housing, schools, community centers, roads and markets. However, the most important consideration is that such activity is directed toward the poorest sector of the rural population, which is acquiring a new awareness of its own potential and glimpsing a new horizon never before suspected.

This has only been possible with the assistance of the Fund for Special Operations. We may well ask whether the Huallaga settlement and the Indian Communities Plan could have been financed without the Bank. The answer is self-evident and provides clear proof of the vital importance of the role of our regional credit institution.

Yet this does not complete our account of aid received. In the report on the last fiscal year, which you now have at hand, it is noted that Peru received a loan of \$16 million to construct water supply and sewerage installations in eleven cities with an aggregate population of 800,000 and another of \$3 million to supply water to 307 rural communities totaling 240,000 inhabitants.

Already in this fiscal year, and in this very week here in Bogota, the Board of Executive Directors has approved a loan of \$12.5 million for housing and the third loan to Peru's *Banco Industrial* for \$2.5 million, supplementing the fourth over-all line of credit amounting to \$10 million.

In mentioning the *Banco Industrial* of Peru, I must point out that, in connection with the integration process, this institution has been entrusted by the Government with the task of promoting the exportation of manufactures and serving as technical secretariat for the regional and subregional integration mechanism, which has led to a reorganization of the bank in order to adapt to its new and important duties.

In this area of export development, in which the assistance of the Bank is extremely important for financing exports of capital goods, we are confident that the Board of Executive Directors will soon approve expansion of the resources earmarked for these purposes and that resources of the Fund for Special Operations can also be allocated for the same fund.

I must recall at this point what Bogota represents in the process of Latin-American integration. When Presidents Lleras of Colombia, Frei of Chile and Leoni of Venezuela and presidential representatives Galo Plaza of Ecuador and Fernando Schwald of Peru signed the Declaration of Bogota, it called for agreements between the less economically developed countries and those with insufficient markets aimed at bringing about more rapidly liberalized trade than that projected in the general commitments of LAFTA.

This concept, in a more advanced and developed form, was specifically included in the Declaration of the Presidents of America signed at Punta del Este, which established the need for concerting subregional agreements permitting expansion of markets and liberation of trade among the participating countries prior to 1985, the date set for full evolution of the Latin American Common Market. Pursuant to a presidential order, intensive work was initiated by the joint committee composed of Chile, Colombia, Ecuador, Peru and Venezuela, later joined by Bolivia, in formulating the bases for the subregional agreement, which were subsequently incorporated within the legal framework of LAFTA through Resolution 203 of the Conference of Foreign Ministers, meeting in Asunción in August 1967, that is, only a year after the Declaration of Bogota was signed.

At present, the six countries of the Andean Group are engaged in drafting the final agreement to launch this subregional integration,

the fundamental basis for the materialization of regional economic integration.

The Declaration of Bogotá also undertook the commitment to form a development corporation as the promotional organ of sub-regional integration. This measure was also fulfilled, for less than two months ago, in this very city of Bogotá and in the presence of President Lleras, the Agreement Establishing the Andean Development Corporation was signed. The Corporation will be composed of the six countries of the Andean Group and will have its headquarters in the city of Caracas. Although the Corporation will have its own capital, its basic function will be promotional and in this connection it will serve as a suitable vehicle for the aid offered by the Inter-American Development Bank, as is the case with the Central American Bank for Economic Integration.

Allow me now to refer to a Peruvian initiative that has become a reality and which has already been mentioned by the President of the Bank. When the Bank convoked a meeting of Latin American development finance institutions in November 1964, the Peruvian delegation proposed the establishment of an agency to consolidate these entities and furnish them with continuing, systematic technical assistance. The support of Felipe Herrera and his collaborators and the institutional sponsorship of the Bank led to foundation of the Latin American Association of Development Finance Institutions during a second meeting, held in Washington last January.

In setting up the Association, the participating institutions were kind enough to select the city of Lima as its headquarters and to designate the *Banco Industrial* of Peru as institutional secretariat for the initial stage. In behalf of the Government of Peru and of the Peruvian development institutions, I express our most sincere thanks to the management of the Bank for having enthusiastically backed our initiative; again we offer to provide all possible facilities for optimum progress of the institution.

May I now present to you a new initiative. We are all aware of the guarantee program established by the United States Agency for International Development for housing finance. This program has mobilized a sizable volume of resources but with varying results. It is our suggestion that the program might be administered by the Bank or serve as a basis for forming a multinational fund. We would like to have the management of the Bank explore both alternatives and study the problem with a view to expanding and systematizing the program.

The former Chairman of the Meeting and Governor for the United States has proposed that the Bank broaden its efforts to finance physical integration of the continent, a subject that is now being studied by a work group. We concur with and support this step, which is consistent with President Belaunde's repeated assertion that physical integration is a basic and essential prerequisite to economic integration. Particularly significant at this time is the project for the Bolivarian Highway, now under way, which will interconnect the eastern areas of Bolivia, Colombia, Ecuador, Peru and Paraguay, linking up with the Orinoco in Venezuela, Paranaguá in Brazil and the River Plate in Argentina. Finally, I should like to refer to two very important matters discussed and resolved by the Board of Executive Directors. One is the other program for review and evaluation of the Bank's operations; the other is a policy of limiting purchases in nonmember countries in proportion to their contributions to the Bank's resources.

With regard to review and evaluation, I believe that the Board of Executive Directors should, unquestionably, consider periodically the results of its loans in order to review or reorient its credit policy. The system provided for choosing auditors and determining their qualifications provides a guarantee of positive achievement which I believe to be extremely important.

With reference to application of the new policy of determining the countries' eligibility for purchases in terms of their contributions to Bank resources, I strongly support this as a fair and proper measure. If we consider that the World Bank permits purchases only in its member countries, with the single exception of Switzerland because of the volume of its contributions, it is apparent that the broad criterion for Bank operations was not the most desirable. Therefore, the new policy will certainly serve as an inducement in channeling to the Bank a greater volume of extraregional resources.

We realize that the nonmember countries are reluctant to subscribe bonds and purchase participations because they have no voice in the administration of the Bank. Accordingly, some form of financial affiliation must be evolved to provide the incentive currently lacking for those countries to make the capital contributions which they are in a position to provide and which Latin America urgently requires to speed up in its development.

By way of example, in constituting the capital of the Andean Development Corporation, Class A shares were established for governments and Class B for the private sector. But Class C shares are also

available for countries or institutions outside the subregion; these may only be issued by authorization of the Board of Directors. The holders of such shares are entitled to elect a director, ensuring sufficient minority influence to provide an incentive to participation. This formula, or any other of the alternatives under consideration and study by the Board of Executive Directors, such as the European Multilateral Fund, would constitute a positive means of channeling to our Bank resources from outside the region.

In closing, I should like to express to the Chairman of the Meeting the appreciation of the Peruvian delegation for the warm Colombian hospitality and kind attentions shown to us and for the fraternal welcome which we most cordially return and extend to include the distinguished Governors of all our fellow countries in the hemisphere.

FOURTH PLENARY SESSION
APRIL 25, 1968

**Address by Mr. Galo Pico Mantilla,
Governor for Ecuador
and Minister of Industry and Trade,
at the Fourth Plenary Session**

Gathered here at the Ninth Meeting of the Board of Governors of the Inter-American Development Bank, we must state our views in the interests of arriving at the best formulas for cooperation, understanding and encouragement in order that the most rapid and harmonious development of our countries and of the region will take place.

It is true that technological progress has shortened distances across the world; that export and import trade in goods and products has intensified; and that developing countries are pursuing the plans and programs of the developed nations as an incentive for improving their own living standards and attaining similar levels. Yet the gap between developed and developing countries, far from narrowing, is actually widening. And the per capita product of the former is rising by \$60 per year, while that of the latter has risen barely two dollars in the same period.

While the share of the developed countries in world trade climbed from 61 per cent in 1950 to 70 per cent in 1966 and that of the East European socialist countries rose from 8 per cent in 1950 to 10.2 per cent in 1960, the share of the developing countries shrank from 31.2 per cent in 1950 to 19.1 per cent in 1966.

Exports of the developing countries have grown barely 6 per cent between 1960 and 1966, against 8.8 per cent for those of the developed market-economy countries and 8.3 per cent for those of the socialist countries, not to mention the ever deteriorating terms of our trade which frustrate the efforts of farmers and rural workers to improve their crops and increase their harvests by withholding a satisfactory return.

Capital transfers from the developed to the developing countries have fallen off from 0.87 per cent of gross national product in 1961 to a mere 0.62 per cent in 1966, and these transfers have consisted of ever harder credits at rising interest rates, shorter grace periods and shorter amortization terms.

As a result, developing countries have persisted in their quest for devices that can help them to continue economic development. They gathered at the recent United Nations Conference on Trade and Development which, if it did not result in total failure, at least gave these

countries the feeling that their just aspirations had been frustrated. The New Delhi Conference was prepared by our countries with devotion and enthusiasm, its agenda was studied by the regional conferences of the countries in Latin America, Africa and Asia, and its purposes were summarized in the Charter of Tequendama, the Declaration of Algiers and the Declaration of Bangkok.

In addition, the Group of the Seventy-Seven gathered in Algiers signed the charter named for that city. Afterwards, full of optimism and faith, they presented themselves at New Delhi. But their proposals and hopes collided with adamant opposition which from the first to the last moment of the two long months of the conference presented an obstinately deaf ear to their arguments, and betrayed an ineffable indifference to the anguish of the less developed countries.

Only at the end during extended conference meetings were a few resolutions passed on basic, complementary and compensatory financing and basic products and on special measures for less developed countries, along with a weak resolution which barely conceded the principles for a general agreement on preferences.

In the face of this obvious lack of will to solve the problems of less developed countries on a worldwide basis, I am convinced that we must concentrate more on a regional effort to develop Latin American nations.

We are aware of the basic and fundamental effort that our countries will be called upon to make in this undertaking. But we have accepted this responsibility and we will bend every effort to accomplish our development.

Yet our effort, the effort of the developing countries themselves, is not enough. The level of domestic savings—high relatively speaking, and considering the low per capita income of our people—fails to cover the investment needed to achieve a growth rate substantial enough to close the gap between the poor countries and the rich.

Alive to their own responsibility, the governments of the American countries have drawn up a strategy for their development and have created the machinery for their integration: the Latin American Free Trade Association, the Andean Group in South America, the Central American Common Market in Central America, and the Inter-American Development Bank, which has aptly been called the Bank of Integration. Let us therefore turn to America for our strength. Let us work for harmonious and balanced development of all our countries through sound application of the principles that govern our integration

systems. Let us all share equitably in those benefits by distributing industrial opportunities fairly through concessions aimed at balanced development, through appropriate investment, and through the opening of adequate markets.

Let those of our countries which are most highly developed understand the problems of the less developed among us. Let us not in our regional and subregional negotiations present the same spectacle that marked the UNCTAD negotiations. Only by avoiding this will we be able to say that we have done our part to strengthen machinery and agencies of Latin American integration.

It has already been said on several occasions that Ecuador, in keeping with its commitment under the Charter of Punta del Este, was one of the first countries to present and adopt a general development plan and to program the execution of basic structural reforms in taxation, administration, education and agrarian affairs. We may also derive satisfaction from highly significant progress in the field of economic and social infrastructure, highways, electrification and housing. Also, we are fully embarked on diversification of our exports and on opening new markets which in 1967 allowed us to increase our exports by about \$19 million over the 1966 level. We have encouraged new and expanded industrial enterprises and have especially encouraged research and exploration in mining and oil, all of which have yielded favorable unprecedented results.

As Minister of Industry and Trade of Ecuador and the person vested by law with the administration of mining and petroleum, the task has fallen to me of intensifying this important latter activity. It was on March 29, 1967, while the Presidents of Ecuador and Colombia met on the common border of the two countries to reaffirm the bonds of friendship between them and to coordinate the programs for frontier integration by signing the Act of Rumichaca, that in the Ecuadorian Province of Napo oil gushed from the first well drilled in the eastern part of the country at the impressive rate of 2,730 barrels per day. Today, about 10,000 barrels is the yield in just three structures into which six wells have been sunk, all of them productive. I am confident that in the not too distant future Ecuador will be one of the principal oil exporters in America.

With these economic advantages, the efforts of our people will change the face of Ecuador in the coming years, and the number of those years will gradually shrink if we succeed in obtaining the financial resources we need and which I now expressly invite. I must candidly

say that in the last two years Ecuador's share of capital from the international financing agencies has been minimal indeed.

After some 18 months of long and laborious negotiations, Ecuador in 1967 received from the Inter-American Bank just two loans totaling \$5 million, which comes to a mere 1 per cent of the \$496.4 million in loans granted by the Bank in the same year.

Of course we hope and trust that this situation will change, that this lack of capital from international financing agencies will prove transitory, and that Ecuador, in what remains of 1968 and thereafter, will receive a substantial flow of capital, chiefly from the Inter-American Development Bank, to finance such projects of national interest as electrification and irrigation in Pisayambo; Tungurahua; the Saucay project for electrification along the Azuay River; the one for potable water and sewerage in several cities of the country; the urban and rural projects of the Ecuadorian Housing Bank in the different provinces of the country; the multinational project of the Quito-Papallacta-Baeza-Puerto Putumayo highway, and other social and economic infrastructure projects. Only in this way will we be able to put an end to the absurd position of Ecuador, a poor and small country, as a net exporter of capital, paying, as it does, more in the service of its public debt than it receives in loans for its undertakings.

Allow me to close by thanking the Government and people of Colombia for their generous hospitality and by quoting the significant phrase of Pope Paul VI: "Development is the new name of peace."

**Address by Mr. Sergio Molina,
Governor for Chile,
at the Fourth Plenary Session**

The addresses by President Lleras and the President of the Bank, as well as certain subsequent statements by the Governors, have caused me to redraft my own. Moreover, since I left the post of Minister of Finance a little over two months ago, this will probably be the last time I will attend as a Governor of the Inter-American Bank. Therefore, my discussion this morning will cover three topics, and I shall try to follow an outline as closely as possible for the sake of brevity. These three topics seem to me essential in evolving a policy that will enable our countries to overcome their underdeveloped status: the imperative need for integration; domestic efforts, and international cooperation.

Our countries display common characteristics in the evolution of their development. While the timing of the various stages probably varies from one country to another, these features have taken shape and given us a distinctive, and in many respects a common profile. In our initial development we were basically exporters of raw materials in growing demand as a result of the industrial evolution first in Europe and then in the United States. This was sufficient to meet all the needs of a small elite from the proceeds of these raw material exports. The initial, fairly prolonged stage corresponded for some countries to the 1860-1930 period.

We then entered upon our second stage of development, an inward-directed growth, with the replacement of imports of consumer goods. The characteristic of this period, which also gives a particular definition to many of our countries, was the discovery by our entrepreneurs of an established market whose demands required satisfaction. Generally speaking, these entrepreneurs were not comparable to those in the developed countries who seek out and open up markets. Usually, economic size necessarily reduced domestic competition and this incipient industrial development required a strong tariff barrier against outside competition. During this period, which lasted from 20 to 25 years, we failed to resolve the problems of foreign trade. Actually, we merely substituted and changed the composition of our imports; importation of manufactured consumer goods dropped sharply, but raw material imports required for operation of our industrial system and the capital goods needed for expansion increased. In contrast, no basic change occurred in the position of exports during this period and, as a result, our prospects for development were gradually strangled owing to the

conditions of our foreign trade. In many countries this second stage of inward growth has virtually reached a point of saturation, confronting us now with a new and different situation in which we must again expand outward, but on conditions wholly at variance with those prevailing during our first stage. Now it is no longer a matter of exporting simple raw materials; we must seek to export more highly processed manufactured products. This indicates the basic characteristic of the new period, efficiency, since we must now compete on the international level. Consequently, we must transform the spirit underlying prevailing conditions of Latin American development. Regardless of how important the natural resources of some of the Latin American countries may be and regardless of the extent of their territory and the size of their population, they are not at present in a position to take off into the new stage of development within their own borders. This situation is restricted not only by scope but also by the conditions of income distribution in the Latin American countries. Accordingly, there is no possibility whatsoever of rapid, immediate growth.

This then determines the inevitable, absolute need for integration of the Latin American countries. It is helpful to recall the basic principles underlying the integration proposals, which we often forget in the press of daily discussions. The pioneer thinking of ECLA in the 1950's, particularly of one of its most outstanding officers, the late Jorge Ahumada, clearly indicated that the characteristic of Latin American integration was a dynamic dimension, that is, a self-contained, cumulative and progressive process of growth. Today, we often become involved in fruitless discussions on the effect of this or that measure and overlook completely the new dimension which we must give to the Latin American economies.

A market which is expanding because of increased income for the population on this continent and the incorporation of neglected zones and groups provides a guarantee that the benefits of integration will be extended to all the countries.

In the evolution of our integration we can discern, or at least so I believe, three levels which I should like to define. First, the political level; second, the commercial level, and third, the level of investments.

Agreement exists on the political level; the most recent demonstrations of this agreement are the Declaration of the Presidents at Punta del Este in 1967 and the impetus acquired by subregional agreements. Particularly in the case of subregional agreements, it is our belief and

conviction that those of us who are committed to them will help to accelerate integration of all our countries.

With regard to the Declaration of the Presidents, there have been no subsequent precise definitions of the amount of financial support for integration, procedures for such support, terms, channels or other characteristics of this financing.

In the realm of both domestic and international policy, our countries often fail to put their general declarations into practice. President Johnson, in a recent important proposal, suggested acceleration of the physical integration of Latin America. It is our responsibility to give specific expression to this declaration, so that it will become, unlike so many others, something more than a good intention.

On the commercial level, extraordinarily slow progress has been recorded in the lifting of tariff barriers. Experience shows that product-by-product negotiation does not provide an incentive to integration to the extent and within the term required. It is therefore obviously necessary to evolve an automatic system. With a view to avoiding complications in a system of automatic removal of tariffs, consideration could be given to three different levels of progress. This would depend on the availability of products in the area, on their inclusion within industrial complementation agreements and on their definition as traditional products. In addition, a system of protection should be provided for the less developed countries, operating through corrective mechanisms and redistribution of the benefits derived from integration that open up commercial possibilities.

A second factor in the commercial policy designed to accelerate the integration process is definition of a common external barrier and the means of achieving it. In this connection, the Inter-American Bank could furnish valuable cooperation, together with other international agencies. With regard to payment mechanisms, another basic element of integration and of commercial policy, a real improvement has been achieved through the agreements of the central banks. It is desirable for all the Latin American banks to participate in these agreements, which provide greater flexibility for commercial transactions within the area and make it possible to save extra-regional foreign exchange.

The third level, investments, represents the most dynamic factor of integration and is of vital importance in supplying a broader, rapidly expanding market. A drastic change in market size entails a substantial change in the size of the enterprise. This leads us to a basic question of integration strategy. Who is responsible for integration? For, generally speaking, the foreign enterprise is better able to make

the new investments required. This should be a matter of concern in all meetings of experts and politicians and of the specialized agencies.

On the national level, the next step should be, in many cases, to merge existing enterprises in order to give them the efficiency required to produce for the international market. The establishment of multinational enterprises should be encouraged in the international field, and to this end a study should be made of current limitations and restrictions in the various countries, which are accustomed to think in terms of an economy basically enclosed within their own borders.

We recognize the determined efforts which the Bank, in its own operations, and the Institute for Latin American Integration (*INTAL*), in its diverse programs, are making in behalf of the integration process. But there are some fields in which the Bank could coordinate with other agencies, as in the case of improvement of the project evaluation systems, by introducing the concept of integration. The Latin American Institute for Economic and Social Planning is making progress in this direction, and I believe the Bank should make a similar contribution.

Investments relate directly to national development plans. Since the concept of the national plan diminishes in importance within an integrated economy, the international agencies should encourage, through their evaluation mechanisms, the inclusion of an integration perspective in national plans.

The second topic I proposed at the beginning of this statement refers to domestic effort. I should like to emphasize only three aspects: savings, organization for proper allocation of resources, and the training of manpower at the higher technical level and of skilled labor.

The deficient generation of domestic savings is often a decisive factor in the rate of development. With some frequency, financing is procured abroad for a sound project but execution is blocked or delayed for lack of domestic resources. Prospects for an increase in the savings rate depend mainly on the level of company profits, the surplus deriving from voluntary savings and public savings.

Some countries have placed certain restrictions on the possibilities of increased savings through these traditional channels. Company profits are often restricted by policies on taxes, income redistribution and containment of inflation. In these cases, an increase in profits per product unit is unlikely and it is only possible to generate a larger volume of savings on the basis of expanded production.

There are two basic limitations on the increase in voluntary personal savings: the instability of prices due to social or political

causes and the high consumption propensity of the higher income groups in our countries. The margin for increasing public savings is fundamentally governed by the systems of taxation of the individual countries and by the growing pressure on current expenditure generated by the rapid social change envisaged.

In a process of change in which economic and social development must be tackled simultaneously, new formulas are needed to expand participation in the generation of savings. The task of our political leaders of creating a development mentality and making acceptable the efforts that change entails is an arduous but an unavoidable one. For this reason, I am convinced that it is necessary to create savings mechanisms that reach the entire community and at the same time provide guarantees that the community will enjoy not only the fruits of the increased income generated by development but also ownership of the new wealth created.

The second aspect of the domestic effort is organization at the level of both political decision and the public and private administrative entities responsible for implementing the decisions. I am certain that in this field much remains to be done in our countries.

The third point relates to training of the manpower required for advancement of a process of development in which technology plays a vitally important role. The Bank is making a laudable effort in its support for higher education, but little or no progress has been made in investigation on a regional scale of our actual technological needs. It would be unjustified to undertake an investigation of this magnitude at the individual country level, but I believe it would be justified for a regional-scale economy. Up to now, we have imported techniques developed by countries with very different characteristics from our own. An effort to develop this proposal would be well worthwhile, and part of the talent and resources available to our regional institutions could be allocated for a joint study designed to throw light on this most important topic.

Similarly, programs should be undertaken, with international assistance, within each country to train the skilled manpower required for the more highly developed process of industrialization upon which we are all embarked.

The third and final topic that I wish to touch on at this occasion is international cooperation. In the first place, I believe that the term cooperation in itself embodies a concept of change. Cooperation is not aid, nor, as President Lleras has said, is it a form of charity. In this

connection, I most fervently support the idea put forward by President Lleras that there is need for an in-depth evaluation of the system of international cooperation and technical assistance. I believe that the Bank and other agencies can provide financial and human resources for such an evaluation, which, in my judgment, should take explicit account of the new dimension imparted by integration. In other words, it is not a matter of isolated evaluations of the experiences of each of the Latin American countries.

With respect to international cooperation, I wish to discuss only trade and external credit and foreign investment. In the field of foreign trade, I believe that extremely limited progress has been made, a fact that is borne out by the poor results of the UNCTAD Conference.

With respect to the change in the structure of foreign trade, which could be the most interesting topic for us from the standpoint of our current examination, I should like to make a few specific suggestions relating to the activities of the Bank in the financing of exports of capital goods. In the first place, the resources of the Fund for Special Operations might be utilized for this type of financing, with the dual objective of lowering the financial cost of the operations and increasing the resources available for this purpose. Secondly, this financing could be extended to exports of semifinished goods or components, provided that this leads to the perfecting of industrial complementation agreements. Finally, it might be desirable to increase the financing of exports of capital goods from 70 to 80 per cent, assuming that the remaining 20 per cent would be divided equally between the profits of the exporter and the cash installment paid by the purchaser. These are a few specific suggestions designed to supplement change in the trade structure of our countries and to assist capital goods exports, thereby constituting a dynamic nucleus for development of the individual countries and of the region as a whole.

Another fundamental aspect of international cooperation concerns external credit and investment. Credit plays a fundamentally important complementary role and, in my opinion, as indicated by President Lleras, external credit takes priority over the other financial assistance mechanisms. Nevertheless, it is essential that both government credit and that of the international agencies meet certain requirements. It must be sufficient in volume. It must be timely since, sometimes, after long discussion, an external loan is obtained but delaying of the operation means loss of many of the benefits sought. Finally, it must be granted on amortization and interest terms adapted to balance-of-payments positions which are almost always precarious. With respect

to interest rates, it is suggested that the Inter-American Development Bank study formulas for giving concrete form to the proposal regarding subsidies put forward by the Israeli delegate at the last UNCTAD Conference. Moreover, in the case of financial management of the Bank itself, it would be useful to study the possibility of adopting a similar procedure to that suggested by the Governor for Venezuela, Mr. Hector Hurtado, with a view to lowering the cost of the loans granted by the Bank from its ordinary resources.

As for external loans, I find extremely alarming the figure given by the President of the Bank indicating that no more than 60 per cent of the goal proposed by the industrialized countries themselves has been attained. In other words, instead of 1 per cent of their national incomes they are allocating only about 0.6 per cent to this purpose. This appears to me to indicate that good intentions have only come this far, rather than to a real and specific effort in behalf of the less developed countries.

With regard to foreign investments, I consider these to be necessary to our development and in certain specific fields, in fact, absolutely indispensable, particularly when they contribute two basic elements: specialized know-how and the market for an export commodity.

Stressing a point I have referred to previously, I feel it is necessary to study the conditions of foreign investment. I believe that the Latin American countries are competing in the provision of incentives to foreign investment. In my judgment, this competition is unfavorable not only for the Latin American countries but also for foreign investments themselves, for the simple reason that internal antipathies are being created toward privileged investments or investors, who sometimes reap greater benefits than domestic investors. I therefore consider that we must try to formulate and apply a common policy toward foreign investment so that we can profit from the advantages which a purely Latin American capacity for negotiation can offer, without competing among ourselves in the matter of incentives.

I believe it is also important, within the framework of this scheme for attraction of foreign investment, to study two additional factors that are very important. For one thing, foreign capital, after a specific predetermined period covering a reasonable depreciation and withdrawal of profits, must make it possible for national private and/or government capital to acquire ownership of the investment. Additionally, foreign investments agreements should, in my opinion, contain

a very clear clause specifying that the investment shall be accompanied by technical assistance in the training of national personnel to enable them to assume the management and the administration of an enterprise launched with foreign capital. Generally speaking, I think we must seek those types of foreign investment which in our opinion are best suited to the procedures and thinking that are evolving in Latin American countries.

Finally, on behalf of the Government of Chile, I wish to thank the Inter-American Development Bank for the attention and assistance it has consistently furnished us. The economic and social development of our country is closely associated with the name of the Bank, which has aided us in industrial, agricultural and social development and, particularly, in the field of education. I therefore wish to tender our thanks and appreciation to the President and staff of the Bank, who have supported us in all efforts directed to the development of our country. I wish to express our special thanks to the authorities of the Government of Colombia and to its friendly people for their unfailing hospitality. Their country and their history have imparted a special luster to this Meeting.

**Address by Mr. Arnaldo Ramirez Eva,
Governor for Nicaragua and Minister of Economic
Affairs, on Behalf of the Central American
Countries, at the Fourth Plenary Session**

On behalf of the five Central American countries of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, and of their common market, it is my pleasure to convey to you, in the spirit of integration and solidarity, our most cordial greetings, and to express our confidence in the success of this Ninth Meeting of the Board of Governors and in the future of the operations of the Inter-American Development Bank.

We do not consider it necessary on this occasion to refer to the brilliant work accomplished by the Bank, since this has already been commented upon expertly and in depth by its President, Dr. Felipe Herrera. Moreover, those operations are described in the Bank's Annual Report, which the Central American countries have studied very carefully.

I do, however, wish to postulate some of the problems confronting international cooperation and to suggest how, in our judgment, these problems can be solved in the Central American area with the support of the Bank.

We believe we are fulfilling a fraternal duty to put before this important forum the pattern of events affecting the countries of relatively less economic development, especially considering that they are embarked upon a dynamic process of regional integration as the most feasible means of accelerating their economic development. We also regard this meeting, because of its high-level status and spirit of cooperation, to be the best forum for consideration of the most appropriate and viable formulas for supplementing the domestic effort being made by our countries.

The fiscal and balance-of-payments situation in Central America, to whose critical state we referred during the Eighth Meeting of the Board of Governors, has continued to deteriorate during the past year. Under the effect of persistently low prices for our primary products on the world markets, of substantial restrictions on access by our products to those markets, and of export restrictions in some cases, the deficit on current account has continued to rise, reaching approximately \$200 million in the last fiscal year. As a result, our economies are daily becoming more dependent on net inflows of capital from abroad, while

at the same time our indebtedness capacity is declining relatively rapidly.

Moreover, no prospects appear to exist for short-range improvement of this problem, which has already reached alarming proportions. On the contrary, the results of the Kennedy Round, the conclusions of the Second United Nations Conference on Trade and Development, the trends of the trade policy followed by the European Economic Community, and the real possibility of the adoption of import restrictions by the United States point to conditions on the international scene that could well aggravate the correct critical economic situation in our countries.

The establishment of more reasonable conditions for the development of our foreign trade continues to constitute the essential means for ensuring a satisfactory and sustained rate of economic growth in Central America. It is very clear that unless such conditions are brought about, acceleration of that growth will not be feasible, and that it has not been possible to remedy this situation through more favorable volumes, terms and conditions of external financial assistance.

This situation is a matter for deep concern in Central America, for its persistence has considerably reduced the effectiveness of our efforts to satisfy the growing and urgent needs derived from our rapid population expansion, from the ever-increasing aspirations of our peoples and from the need progressively to close the gap that separates us from the countries already enjoying higher standards of living. But it is also a matter for concern because its existence is already affecting not only the behavior of our national economies but also, and very substantially, the functioning and prospects for progress of our multinational movement of economic integration.

The fact is that the Central American Common Market, which expanded rapidly during the first four years of its existence, as reflected in relative prosperity in the traditional external sector, has had to operate during the last two years under conditions of increasingly acute restrictions. These conditions have reduced its growth possibilities and, perhaps even more importantly, have hampered the efficient and smooth functioning of free trade and of tariff equalization.

For the past two years, repercussions of the fiscal and balance-of-payments situation felt by the Central American Common Market have constituted the major and most urgent problem of our multinational program. For this reason, our efforts have been being oriented toward the adoption of joint measures at the Central American regional

level, designed to help strengthen national policies of the individual countries in this field. It is a source of satisfaction to report that the work accomplished during the last twelve months by the Economic Council, the Monetary Council and the Ministers of Finance of Central America have enabled us to make substantial progress in clarifying these problems and formulating some of the needed solutions. We hope that the remaining necessary measures can be adopted during the present year and that their implementation will effectively further the accomplishment of their objectives and will produce a stock of very useful experience for successful undertaking of more ambitious tasks of economic integration later on.

In spite of these difficulties, the Central American Common Market has continued to grow in 1967 at a faster rate than the Latin American economies as a whole. Intra-Central American trade has continued to expand rapidly, rising from \$176 million in 1966 to \$210 million in 1967. At the same time, integration-induced investment has continued to increase, particularly in the manufacturing sector. This suggests that our movement is increasingly oriented toward exploitation of important natural resources of our region and toward diversification of traditional productive activity by the establishment of new activities of basic importance to the task of constructing the economic unity of Central America and of laying the bases for conditions conducive to our future economic growth.

In other fields, the progress of the Common Market has been reflected in a definite improvement in administration of the basic instruments of internal trade policy and tariff policy. It has also been reflected in an improvement in our industrial policy, which is now oriented both to the promotion of new industries and to the modernization and specialization of traditional industries, for which, as in the case of textiles, important prospects for import replacement, and perhaps certain opportunities for exports to other markets still exist.

A source of satisfaction is the increasing recognition in Central America of the principle that our Common Market, rather than being an instrument for economic isolation, is the best means for increasing and diversifying Central America's participation in the world economy. In this connection, external trade policy is destined to be one of the most important components of economic integration and is in fact already specifically oriented toward association of Panama with the Common Market, toward closer economic cooperation with Colombia, Mexico and Venezuela, and toward the exploration of possibilities

for the establishment of trade and investment links with the other Caribbean countries.

Moreover, we are ready to join with LAFTA in initiating the process of convergence toward establishment of the Latin American Common Market called for in the Declaration of the Presidents of America at Punta del Este. In addition to its support for this process of general convergence with LAFTA, Central America is following with fraternal interest the events leading toward a sub-regional movement of economic integration among the Andean countries, and notes with the same interest the possibilities for cooperation between our economic unit and the entity they are currently forming.

Thus we see economic integration as a goal pursued by all five Central American countries, in times both of prosperity and during critical situations we cannot always avoid, which best illustrates the internal effort being made by the five Central American states. However, the panorama we have attempted to describe would be incomplete if we did not add that in Central America we are fully aware that our domestic efforts alone would not suffice to achieve the goals we pursue both nationally and on the regional scale of the Common Market. We will also need additional external financing and technical assistance on better terms as a vital supplement to our progress toward these goals.

We realize that the Inter-American Bank has extended to Central America as a whole as much and as effective financial and technical assistance as has been possible under the circumstances prevailing in the area and as it has been able to provide on suitable conditions. An obvious example of the Bank's achievement, its aid to the Central American Bank for Economic Integration, has already been cited by its President in his report to the Meeting. This aid has included both additional resources for the local infrastructure being financed through the Central American Fund for Economic Integration and funds for industrial development of the region and specific technical assistance programs, notably evaluation of the Central American Bank itself, which has proved its effectiveness as a regional bank and has developed new guidelines by which its structure can be improved and its influence within the program of Central American integration extended. Other agencies, too, such as the Permanent Secretariat of the General Treaty on Central American Economic Integration (*SIECA*), the Central American Institute of Industrial Research and Technology (*ICAITI*) and the Central American Institute of Public Administration

(ICAP), have on several occasions received aid for which we Central Americans are most grateful.

Within the well-aimed strategy proposed for continental integration, it has been deemed appropriate to stress the importance of strengthening the integration movement as a whole through subregional institutions. Today more than ever before, a topic of outstanding substance and relevance is the existence of financing agencies such as the Central American Bank for Economic Integration and the Andean Development Corporation. The genuine interest of the Bank in the integration process, in the strengthening of subregional institutions and in the financing of multinational undertakings is sincerely appreciated by our countries, and we look forward with the utmost pleasure to its continued pursuit of this policy, confident that still further resources will be contributed to this cause.

In this field and within the concept of physical integration of the continent, which we firmly share and support, we do not doubt that continued Bank assistance will be furnished for construction of the Central American telecommunications network, a project of highest priority for the program of Central American integration.

It is also important for the Central American Bank to receive uninterrupted Bank support in order to expand its activities in the agricultural field.

Moreover, each of the five countries has received financial and technical assistance in keeping with the specific projects available and the priorities assigned to them by their governments. We are well aware of the need for a greater effort aimed at changing present conditions in our region in order to achieve, through the use of external resources, an even more rapid pace of development.

However, although the region has received appreciable external financial aid, we believe even more is required if it is to provide for those fields in which development is still deficient. We are convinced that the smaller countries need to make comparatively greater efforts than the larger ones and, consequently, need relatively more resources and technical assistance. This is why we have been insisting for years that, as financing grows in volume, it should be extended to the less developed countries on preferential terms and conditions. This is also why we bring our problems to the regional institution best suited and most flexibly organized to comprehend our aspirations, the Inter-American Development Bank, which in our view should be maintained as our major source of external financing.

Just last year we Central Americans enthusiastically affirmed our faith in the principles and provisions contained in the Declaration of the Presidents of America and in the amendments to the Charter of the Organization of American States. We underscored the need for Latin America to think and act from a continental standpoint untainted by unilateral considerations of any kind. On the basis of this conviction, we proposed that such principles and provisions be implemented immediately in all the countries and all the institutions of the inter-American system as a first step toward closing existing economic gaps and setting the entire process of Latin American integration in motion from the ground up. The Eighth Meeting of the Board of Governors approved a resolution instructing the Board of Executive Directors to harmonize the operating policy of the Inter-American Bank with those principles and provisions and to take all measures that might be required to implement them, particularly those relating to harmonious and balanced development of the countries of Latin America. At that time we recognized that, while the principle of preferential treatment to the relatively less developed countries was already part of the Inter-American Bank's operating policy, it could be implemented more effectively to improve the caliber of the Bank's aid to the smaller countries.

After pondering further the experiences of the past year, we feel that the principle of preferential treatment to the relatively less developed countries is becoming increasingly important in international financing as a means of helping the developing countries to narrow the gap that separates them from the more advanced nations.

We have listened with deep interest to the words spoken on this subject by the eminent statesman who today guides the destiny of Colombia, President Carlos Lleras Restrepo, who in his address inaugurating this Meeting reminded us of those two great principles of international cooperation which he himself enunciated twenty years ago: recognition of economic solidarity as a source of genuine international juridical obligations and the fact "that trade relations among countries must be governed by an acceptance that absolutely equal treatment for all in the form of exactly equivalent concessions and the use of identical procedures may actually lead to monstrous injustice." In explaining concepts of trade policy, which are equally applicable to international financing, President Lleras Restrepo asserted that it is necessary to keep in mind the distinction between countries which have already achieved the highest stages of development and enjoy high

living standards and those which still lag behind in the exploitation of their natural and human resources; he concluded that equal treatment for drastically unequal conditions is inadmissible in the light of the principles of human solidarity, equity, and even simple general desirability.

We are thoroughly convinced that it is in the interest of all the American nations that the small countries succeed in accelerating their development and in attaining to higher levels of demand and consumption, which will enhance the prosperity of all the countries in the inter-American system and further the goal of a great common market.

We believe that this principle of preferential treatment can best be implemented through new mechanisms which could be studied and implemented by the Bank. We do not doubt that both the Board of Executive Directors and the management of the Bank will give their attention to this matter at the earliest possible moment. For the present, it seems advisable to point out here some of the formulas which in our opinion could be employed under this principle to channel Bank assistance for the solution of our problems, without prejudice to the *exploration of mechanisms more ambitious in scope.*

One of the major obstacles in Central America to a rising flow of external financing into the region is the deficient capacity for project preparation often encountered in our national institutions. For this reason, we feel that vigorous support by the Bank is necessary for institutions which, like the planning offices, the development institutions, and in some cases specialized institutes such as those concerned with electrification, sanitation and housing need to strengthen their programs and train their technical teams in the preparation of feasibility and engineering projects.

On the regional level, though there are also certain shortcomings with regard to project preparation, the Central American countries have been concerned with improving the capacity of some of their regional agencies, such as the Central American Bank for Economic Integration (CABEI) and the Central American Institute of Industrial Research and Technology for proper preparation of the multinational projects so vital to the development of the region as a whole.

Of particular importance, within the preinvestment field, are the projects of technical-economic feasibility executed by ICAITI on both the national and regional levels, as well as those designed to contribute to balanced development of the region, a task that requires still greater

efforts. The Institute also operates in the promising field of the development of such natural resources as farming and stock raising, forestry and mining studies, and research in this connection calls for a strong contribution in every aspect of engineering, economy and technology. For these reasons, the Central American Governors would be most satisfied if the Bank would increase its assistance in this productive area of preinvestment studies and preparation of specific projects, and perhaps envisage the possibility of sponsoring *ICAITI* as an integration project in itself, capable of generating preinvestment projects on a continuing basis.

From another standpoint, the Central American countries have been pleased to note the Bank's concern for associating itself with the efforts launched by our Presidents at the historic meeting in Punta del Este in recognizing the importance of the contributions of scientific and technological progress to economic and social development of our peoples.

The Bank's decision to support the work of scientific and technological institutions in the region, while at the same time strengthening the universities, are helping to create, particularly in the less economically developed countries, the scientific and technical structure essential for adapting to industry, agriculture, services and economic activities in general, the result of scientific and technological innovations emerging in other parts of the world.

If, as we hope, these efforts are coordinated with strengthening of the mechanisms for preparation of development projects, Central America will soon be able to procure a greater volume of external financing resources to further not only the activities of economic and social progress at the national level but, to a large extent, the projects relating to Central American integration in which we are mutually concerned. In this way, the Central American area will be able to collaborate more easily with other subregional movements of integration in the hemisphere and will draw close to the ultimate goal of achieving the economic unity of all of Latin America.

In Central America, the Bank has extended stable financial support to one of its major trade union organizations, the *Federación de Sindicatos del Norte* of Honduras, enabling it to execute a significant housing program. A very important factor in greater momentum for the social development of Central America would be the continuation and intensification of financial and technical aid for social purposes, especially for those programs designed to improve manpower training in order

to meet the growing demand for skilled personnel to develop its economic activities. We consider improvement of the human factor to be essential to greater achievements in socio-economic integration of the region.

We should like to take this opportunity to express our full support for the Board of Executive Directors and the management of the Bank in their policy on the procurement of resources from nonmember countries. We believe that the short-range measures implemented this year should be applied on a strictly equitable basis and that a proper evaluation should be scheduled within one or two years.

As Central Americans, we could not conclude without emphasizing that the effort being made by our countries toward economic integration is a consequence of our ambition and of our obligation as citizens of Central America to recreate our national image. Central America has always dreamed of building a Fatherland anew and has found that economic integration is the only true path to a rebirth of the Central American Republic.

Nor could we leave this rostrum without manifesting in this blessed land, cradle of liberators and forger of the great epics of the Americas, the great pleasure which we Central Americans experience in visiting and drawing inspiration from the strivings of this land for independence of the Americas and the strivings of our great founders, Simon Bolivar in Colombia and Jose Cecilio del Valle in Central America, and in contemplating the ultimate goal they bequeathed to us, which is the creation of our Latin American identity. In our case, Central America is resolved to fulfill its historic obligation. We of this generation will bequeath to our sons the foundations on which they can build to realization the dream of our forefathers.

to permit rapid closing of the wide gaps, in absolute terms, that exist between our individual nations. We say this in plain and straightforward terms because we have confidence in the Bank, which participates actively in solving the problems of financing the execution both of infrastructure projects and of projects of a directly productive nature.

On the basis of this confidence, and of the acknowledged need for countries like Bolivia to achieve a higher rate of development than the average for Latin America, we take this opportunity to present certain proposals designed to give practical effect to the numerous resolutions adopted by international conferences concerning the economically less developed countries.

With the object of satisfying the rising expectations aroused in Latin America through the adoption of appropriate resolutions by this meeting of Board of Governors, Bolivia's intention is none other than to contribute by tracing broad lines of action in the hope that these will be translated into specific resolutions.

We consider it necessary to increase the availability of "soft" loan resources for relatively less developed countries for the execution of strategic projects in the fields of infrastructure and of parallel projects of a directly productive nature. A matter of concern to us in this connection is that experience has shown that lending is governed by criteria adopted as a general standard for all the Latin American countries, without regard to their distinguishing social or economic characteristics.

We do not consider it equitable to lay down uniform conditions for countries in different stages of development. President Lleras Restrepo spoke on this very topic in his masterful address. Moreover, it is clear that debt capacity constitutes a limiting factor on the execution of projects of a certain magnitude whose fruition period and benefits cannot always be given due weight within strict criteria of economic feasibility. At the same time, it must be admitted that expansion of credit will be possible only through the development of a sound economic and social infrastructure aimed at expansion of the present sharply restricted capacity to absorb new loans. On this same subject of soft loans, consideration must be given to the matter of the local contribution to the execution of projects. This contribution must be financed out of resources deriving from the national budget, which in turn must normally be balanced in order to sustain monetary stability. While the Bolivian Government concurs fully in this aspect, it cannot agree with the principle that the execution of projects shall be sub-

ordinated to financial difficulties of a budgetary nature, which, moreover, are always of a transitory nature in developing countries. The low level of national income makes it impossible to generate domestic savings of any significance for channeling toward capital formation for the establishment of enterprises of a remunerative nature that offer attractive conditions for secure investments.

In spite of this situation, the fact must be recognized that these countries do not possess adequately organized capital markets to permit a dynamic flow of securities capital. It is therefore recommended that the Governors study the possibility of amending the Agreement Establishing the Bank to introduce the concept of allocation of resources for the support of institutions, such as the *ADELA* Investment Company, able to participate directly, assuming the entrepreneurial risks, in the establishment of such economic units, which undoubtedly constitute the nuclei for dissemination of the benefits of development to the whole of society.

A fact familiar to everyone is the difficult situation of Latin American industry because of the lack of operating capital, which in many cases makes it necessary to operate below installed capacity. The Government of Bolivia has drawn the attention of the Bank's management to this situation on a number of occasions and has suggested the need to study the possibility of establishing a fund for industrial working capital. This would be a practical measure of benefit to the countries of relatively less economic development.

The smallness of their markets has generally constituted the bottleneck to industrial development of our countries. Hence, another most important topic is that of integration through capital formation to further the objective of establishing great economic areas upon which all the Latin American countries have embarked. LAFTA is a cherished aspiration of many years' standing. Already, however, the subregional agreements concluded offer prospects for active coordination on a more significant scale. In this connection, we wish to express our satisfaction at the information given by President Herrera concerning the financial support to be furnished by the Bank to the Andean Development Corporation. A similar situation may well arise with respect to exploitation of the resources offered by the area of the River Plate Basin.

With respect to the program for financing exports of capital goods, we consider it necessary to expand the present lists to include inter-

mediate goods, such as mining products, with a view to strengthening the most important sector of the countries of relatively less economic development, which are at the same time the least industrialized.

On behalf of my Government, I wish to express our thanks to Dr. Felipe Herrera for having honored us by his visit last January, on which occasion, thanks to his effective cooperation, a loan contract was signed for a total of \$11 million to finance water supply and sewerage works in three cities. We also thank Board of Executive Directors and management of the Bank for the approval in Bogota of the loan to Bolivia of \$9.5 million for financing, jointly with local resources, the first phase of the National Telecommunications Plan, a project of great importance for the economic development of my country.

Finally, permit me to express my thanks to the Government and people of the great Republic of Colombia for the hospitality they are so cordially extending to us.

**Address by Mr. Covey T. Oliver,
Alternate Governor for the United States,
at the Fourth Plenary Session**

Let me first express my pleasure at once again being in Bogota. As most of you know, I spent several years here as United States Ambassador to Colombia. I am sure my Colombian friends know how much I grew to love this country. I admire this handsome city of Bogota where my family and I had our home; but I know, also, what priceless assets Colombia has in its numerous other cities, its rich countryside, and, above all, its people. It is a great pleasure to be here with so many good friends and colleagues from Colombia and from the other countries of the hemisphere. I am only sorry I was not able to arrive sooner; but, along with the distinguished Chairman of the Inter-American Committee on the Alliance for Progress, I had a good reason: presence at President Johnson's important call for a new great step for speeding up the physical integration of Latin America, made at the White House in an impressive ceremony on April 23.

In the past few days, President Lleras, President Herrera and the Bank's Governors who have spoken have given us an excellent review of the Bank's past and future activities. Too, they have analyzed the basic problems that continue to impede more rapid, total development of the hemisphere.

I shall not go over again what has been said with so much wisdom and science. Instead, I offer a few modest perspectives of my own. The events described by President Lleras, Secretary Fowler and others are logical outgrowths of the evolution which has been taking place during this century in the economic, social and political relationships between the northern and southern halves of our hemisphere. I think the most momentous decision we have made is to rely on the evolutionary process, one that I do not believe has been fully appreciated. To accept rational but humanistic evolution is to assume that we can plan and shape our own destiny. Our creation of the Alliance for Progress is the evidence that we no longer believe we have to accept whatever fate has in store for us, including bloody, violent, chaotic, exportable revolution. We affirm that we are the masters of our own destinies. We can plan the society we want to live in; and then, using our own resources of men, minds, and things, we can work to make reality of our plans—and more, our dreams. With the creation of the Alliance for Progress, we jointly abandoned the old Freudian rat-maze model of change in which men

merely reacted to stimuli, and could only achieve a haphazard and unpredictable development.

It is only through the Alliance for Progress, our planned approach to the elimination of poverty in the hemisphere, that we can hope to solve our problems. The Alliance aims to reach the common man, whether he is a rural peasant, an unemployed urban worker or a struggling student. It is only through the planned and orderly cooperative approach of the Alliance that we can achieve the goals of the Alliance and reach this man, the man of the street that President Herrera spoke of.

The Inter-American Development Bank, a worthy precursor, has now become a key Alliance instrument for reaching this man and giving him hope and security. Since its beginning in 1960, the Bank has been a leader in the economic and social development of Latin America. Some of the physical evidence of the Bank's ability to benefit ordinary people include: the construction or improvement of 18,750 kilometers of highways and farm access roads in areas where inability to reach markets often prevents small farmers from increasing their income; the construction or expansion of about 3,000 new water supply systems for 40 million people in countries where water-borne disease is one of the major causes of death; loans of approximately \$100 million to improve 120 centers of learning with 155,000 students in countries where lack of training keeps people from better jobs and lack of trained people slows execution of development programs; and the construction of 300,000 housing units for low income families. In industry, along with financing large plants, the Bank has provided financing through lending institutions to improve more than 3,000 small- and medium-sized plants.

The importance of agriculture and education, both as they relate to the improvement of the general economic and social condition of a country, and as they can affect the life of our man in the street or in the country, has been recognized by all. Close to one fourth of the loans the Bank has authorized—or more than \$575 million—have been for the development of the agricultural sector. We understand the Bank expects, in the coming years, to further increase the amount of its funds which are devoted to the development of agriculture and improvement of rural life. The more than 90 agricultural projects the Bank has already financed have meant, among other things, that close to 128,350 hectares of farm land have been improved or brought into production through irrigation.

**Address by Mr. Alberto Larrea Humerez,
Governor for Bolivia and Minister of Economy,
at the Fourth Plenary Session**

First of all, permit me to convey the cordial greetings of the Government of Bolivia to this important meeting, during which we shall discuss problems affecting the economic and social development of the member countries of the Inter-American Development Bank. Permit me also to congratulate the Governors on the decision taken at the beginning of this Meeting to reelect Dr. Felipe Herrera as President of the Bank, an act which demonstrates the respect and confidence of our countries toward the Bank and our recognition of the capacity and efficiency of our distinguished and esteemed President.

This Ninth Meeting of the Board of Governors takes place against the background of the adoption by the member countries of decisions of special importance for the economic and social future of the peoples represented here. Thus, the cordial welcome extended to us by our sister Republic of Colombia calls to mind the significance for six countries of the Andean subregion of the approval of the Agreement Establishing the Andean Development Corporation. Of similar importance is the decision by the River Plate Basin countries to hold a meeting of Foreign Ministers in the city of Santa Cruz in my country next May to discuss organizational aspects and projects of common benefit for countries of the area, and to conclude mutual agreements to facilitate exploitation of the enormous natural resources of our territories and development of the potential sources of wealth that have up to now remained latent, awaiting only the creative hand of man.

In these ways we are advancing toward the establishment of operational institutions that are the fruit of numerous recommendations and commitments, deriving from such international meetings as the Declaration of the Presidents of America at Punta del Este, which opens up extremely attractive prospects for countries like Bolivia whose present level of development is below the average for the region; the Action Program approved by the Fifth Meeting of the Inter-American Economic and Social Council, at Viña del Mar, and the resolutions adopted a short time ago by the Second United Nations Conference on Trade and Development held in New Delhi.

Bolivia considers that the Inter-American Development Bank should embrace the recommendations of the latter conference in favor of the landlocked developing countries and, most particularly, the resolutions relating to the matter of priority attention by the inter-

national financing agencies to the financial needs for execution of transportation projects, particularly with respect to land communication, such as the Ilo-La Paz and La Paz-Puerto Salinas highways which, respectively, will link Bolivia with the Pacific and Atlantic Oceans and thereby help to solve the problems posed by our landlocked situation.

The foregoing considerations pose a challenge to the international financing agencies to which, we are confident, the Inter-American Development Bank will, as always, respond with boldness and resolution by adopting the necessary measures to ensure its dynamic and unswerving support for the coordinated efforts being accomplished in this part of the world to conquer backwardness and poverty.

The report on the Bank's operations during 1967 reveals that, although the number of loans made was lower than in 1966, the volume of lending, amounting to \$496 million, exceeded not only the volume for 1966 but also the average for the previous six years. This is practical evidence of the increasing participation of the Bank in meeting the financing needs of its member countries. This expansion of activity has in turn demanded of the Bank's administration an increased and sustained effort, to which it has faithfully responded.

In view of the present conditions of development of a number of the Latin American countries, the number and volume of loans from the Fund for Special Operations undoubtedly continues to be a matter of importance, since their greater flexibility with respect to amortization terms, grace periods and interest rates permits the execution of projects necessary for development, particularly of the relatively less advanced countries.

It is accepted that the maintenance of a cumulative annual rate of development in excess of 5 per cent, as recommended at Punta del Este, requires at present a net ratio of investment to GDP of approximately 20 per cent. Having regard to Bolivia's present level of development and the consequent inadequate rate of domestic savings, this means that a higher percentage of investment will have to be financed from abroad.

In general terms, this situation applies to a number of Latin American countries. It is, however, particularly serious in the case of countries of relatively less economic development. We believe that it is necessary to apply to these countries effective operational policies that ensure in practice a continuous flow of capital to the more needy that is adequate not only to sustain uniform rates of growth but also

It is projects which reach the rural poor, and which can fairly quickly produce an improvement in a man's economic situation, that have made such an impact in Latin America, and it is the Bank's Fund for Special Operations which is so particularly suited to financing these projects.

The development of the agricultural and rural sector is important, not just because of the macroeconomic benefits, in terms of such things as increased foreign exchange receipts, or the decrease in an economy's dependence on only one or two foreign exchange earners which can be brought about through agricultural diversification. I am sure none of us here would downgrade the importance of such improvements as these; but agricultural and rural development is socially and politically important because it is the key to the improvement of the lives of so many individuals. With half of Latin American laborers working on the farm, and between 85 and 90 million people living in rural areas, the importance of reaching this population group is evident. These people cannot be ignored. They are no longer content to lead the same meager lives they have led in the past. The Alliance for Progress has taught them they can expect and deserve much more.

When they cannot satisfy their desires in the rural areas, they come to the cities. This they have already done throughout Latin America. Many of the cities of Latin America are already faced with problems that seem to them almost impossible to solve. Continued dissatisfaction with country life will only lead to a further exodus to the cities, and further aggravation of the problems of housing, streets, electricity, sanitation, water and jobs. The United States can provide grim evidence of the tragedies and the political problems that arise when the problems of the cities and the disadvantaged sectors of the population are not dealt with promptly.

Another sector in which the Bank, as a major instrument of the Alliance, has been able to reach the individual is education. While authorization of loans for education totalled only \$101.6 million at the end of 1967, or 4.3 per cent of total Bank authorizations, we should not underestimate the activity of the Bank or its influence in this area. The authorization figure appears small only because many of the individual projects involved relatively small amounts of money. By December 31, 1967, the Bank had approved 40 loans for education.

Besides reaching the individual directly through projects such as those in agriculture and education the Alliance and its implementing agent, the Bank, help the poorer citizens of the hemisphere through

projects that raise the general level of the economy by speeding industrial development and increasing jobs. Next to agriculture, the sector which has received the largest amount and percentage of Bank funds is industry. Industrial projects have a high priority because they can help reduce foreign exchange outflows by substituting domestically produced goods for imports, and because they increase foreign exchange inflows by producing export goods. The Bank has assisted industry both through global loans and through individual project loans.

With its concern for the economic integration of Latin America, the Bank can be particularly useful in promoting those industrial projects which are most consistent with the integration of a particular region. The Bank is in a good position to review a project from the point of view of how it fits into the integrated development of a specific area. Is the project competitive, not just from a present national point of view, but also from a short future subregional or regional point of view? The Bank is in a position to view the industrial development of the region as a whole and to help avoid the creation of situations where each member has its own highly protected plant. This kind of wasteful use of resources represents the type of defensive approach to development which the Alliance was meant to replace. In his excellent speech, which I was sorry to miss but which I read yesterday, President Herrera referred to "the excessive protectionism of some industries which has led to higher costs than those prevailing on the international markets and has favored uncompetitive industrial operations." The Bank's assistance in the industrial field must lead to a more rational and economic use of the resources, both public and private, foreign and domestic, which are available for industrial investment, now and in the future.

The Bank has also greatly assisted the industrial sector with its export credit program. We in the United States are prepared to support an increase in the amount of ordinary capital resources devoted to the program, to become effective when the bulk of the funds presently available are committed. This expansion would respond to the understanding reached among the Presidents at Punta del Este last year. The United States is also prepared to support the maintenance of the present rate of interest applicable to the program. This rate of 6.5 per cent, which has not been changed since the increase of the Bank's general lending rate to 7.75 per cent, provides the program with a viable rate of interest. Our impression of the prevailing rates ordered by national

export financing agencies leads me to believe a viable program can be operated on the basis of this 6.5 per cent rate.

We have spent much time in the past year or two reviewing our accomplishments. I feel that in this perhaps we have reached a plateau of effort. I share with President Johnson his belief, as he expressed it at Punta del Este and, again in Washington last Tuesday, April 23, on the occasion of the signing of the OAS Treaty Amendments, that basic human needs demand many new commitments, most of them social and political, and that we must consider this a decade of urgency as to action. President Lleras Restrepo in his speech referred to the acceleration of history and to the need to move more rapidly to perfect international economic systems and organizations. He told us that contemporary life imposes its rhythm on us and we must accommodate our efforts to it. This is a very true statement from a very wise man.

As we have tried to measure the progress that has been made in the first five years of the Alliance, we have become painfully aware of the vastness of the problems we set out to solve. We realized that the Alliance for Progress, our cooperative dream, was a very ambitious one which would take years to realize. We must not let the human failing of impatience overtake us and become depressed and disheartened with what, in terms of our goals, looks like a lack of progress. It would be too human of us to decide we can, and will, change the world and then to be upset because we were not able to finish the job in five years. We need to keep reminding ourselves not to lose heart. Changing the world will take a little longer. Our goals, however, are still valid and we must move ahead with greater dedication and determination. There are still so many people we have not reached.

I think that the developing countries' commitment to the economic, social and physical integration of the hemisphere provides overwhelming evidence that they will not allow themselves to become discouraged and that all of us will rededicate ourselves to the achievement of our Alliance goals.

The Bank has been a leading and active force in the field of integration. The United States strongly supports the resolution we have just approved. This view was made clear in President Johnson's letter to you through Secretary Fowler and in his remarks on Tuesday, April 23, in Washington. We are happy that the Bank, in conjunction with *CIAP*, will be working to set up the task force to develop a five-year plan and action program for physical integration. In its key role in the preparation of a blueprint for physical integration the Bank will be

able to draw on the knowledge and experience it has gained in the last few years as it has financed multinational projects and studies.

Financed by the Preinvestment Fund for Latin American Integration, the Bank has underway a study of the legal and institutional problems to be surmounted in financing a multinational project which has two or more borrowers. Hopefully, it will not be long before this study will be finished and we have the guidance we need to move ahead with loans involving multiple borrowers.

The United States, which supports the Fund and believes it has been well and ably administered by the Bank, made a second transfer of Social Progress Trust Fund resources to the Preinvestment Fund at the end of last year. At the time we made this transfer, we stated that we would be willing to consider further contributions to the Preinvestment Fund when the need arises. The transfer was also made with the understanding that the Bank would take steps to multilateralize the Fund by obtaining contributions from other sources besides the United States Government, and the Bank itself, which also made a second contribution to the Fund. We hope that in the coming year some of the member governments may find themselves in a position to contribute to the Fund's resources.

Contributions to the nonreimbursable resources of the Fund would be particularly useful. So far only one loan has been made by the Fund. This is understandable in the first year of the Fund. We all know it takes time to develop loan projects. Hopefully, 1968 will see a greater use by the member countries of the resources available to them.

Perhaps one of the most exciting studies being financed by the Fund is the preliminary study for the integrated development of the River Plate Basin. The many benefits to be gained by all the River Plate Basin countries argue for the rapid completion of this study and the prompt approval by the participating countries of the agreements dealing with the development of this area.

The Bank, like the trading partners of the United States, affects and is affected by the balance-of-payments problem of the United States. The Board of Governors last year took a number of major actions that were constructive in terms of the Bank's own operations and, at the same time, reflected a cooperative contribution to mitigating the impact of the Bank on the United States balance of payments.

These actions included agreement on a new procurement policy designed to increase the availability of nonmember resources for ordinary capital operations. Greater long-term support of Latin American

development by the advanced nonmember countries in Western Europe and elsewhere is vital to the satisfactory achievement of the Bank's goals. I welcome the statement by the Governor for Brazil at the inaugural session, on behalf of the Latin American delegations, strongly supporting the new policy. The Governors also agreed last year on the use of part of the Fund for Special Operations contributions of several more advanced members for lending in other member countries and a restraint on the use of the Fund's hard currency resources for financing of local costs. We welcome the progress achieved to date in these new directions and look forward to their full implementation in the near future.

With considerable wisdom and understanding, President Herrera has offered the full cooperation of the Bank in accommodating its operating objectives with the circumstances of the United States balance of payments. I was gratified to know that in his statement President Herrera confirmed our brief that it has, in fact, proved possible to harmonize our separate objectives and maintain the highest level of achievement by the Bank.

Finally, I would like to point out that although some of the huge infrastructure projects and our grandiose plans for the integration of Latin America may seem far removed from the man in the street and in the *campo*, we must never forget that the Alliance was created for this man. It is this man and his urgent unmet needs that we must constantly keep in mind, whether we are designing a project which will directly provide him with a few additional pesos a year, or which will enable his government to more rationally plan the course of his country's development. In supporting the recent increase in Bank resources, the United States was mindful of the Alliance goals and of our responsibilities as a major shareholder in the Bank. We are confident that, under Felipe Herrera's excellent leadership, and with the participation of the Bank's very able Board of Executive Directors, management and staff, these additional resources will be administered in a fashion which will provide the poor of the hemisphere, whether they be individuals or countries, with the greatest possible benefits.

CLOSING SESSION
(FIFTH PLENARY SESSION)

April 26, 1968

**Address by Mr. Clovis A. Desinor,
Governor for Haiti
and Minister of Finance and National Economy,
at the Closing Session**

First of all, permit me to offer the thanks and fraternal greetings of the Haitian Government and people to the Government and people of Colombia.

I should like to take this opportunity to reiterate, on behalf of both President François Duvalier and myself, our warmest congratulations to President Herrera upon the indisputable and undisputed confidence that has just been shown in him by his reelection even before the expiration of his present term of office. We are convinced that in so acting, upon the instructions of our respective governments, we have taken a valuable step by thus assuring the stability of the Bank and the continuity of its operations.

From the reports and other documents presented to this Ninth Meeting of the Board of Governors of the Bank, from the several statements made by President Herrera and from the various documents produced by the working groups, we have been able to gain an even deeper insight into the philosophy that governs the operations of the Bank under the wise and dedicated direction of President Herrera, assisted by the Board of Directors and by all members of its technical and administrative staff. The Bank has assumed responsibility for solution of the urgent needs of our countries. It has also assumed responsibility for guiding them in their choice of short programs of action.

Nothing would have pleased us more than to have erased all shadows from this general picture. But we ourselves cast that shadow. We are the poignant drama, a drama whose poignancy becomes all the greater with the growth of the Bank, with the expansion of the authority and capability it places at the service of the member countries for the solution of their urgent needs and achievement of their development.

President Duvalier has said, "I led the infant Bank to the baptismal font with Herrera. This is a new inter-American family in which the spirit of family unity, understanding and solidarity must find a practical forum for its development and for its expression." He has also commented on the change between past and present: "Time flies eternally by. It is for me a cause of profound grief and sadness to note that my country, Haiti, appears to be regarded not as a fatherless child but rather as a child unrecognized by the inter-American family. What a

misfortune to be subjected to such anachronistic treatment and to note that it has been forgotten how the generosity of Haiti, including the very blood of its sons, marked the pages of history of the Americas of Washington and Bolivar. . . ."

We cannot, like the colleagues who have preceded us in speaking before this meeting, cite figures, volumes of investment, rates and percentages, management and such concepts. This would do violence to reality. One need only glance through the reports to begin wondering about the situation of Haiti. Nevertheless, we believe in the human adventure of our times. It is an adventure without precedent, from the dawn of the gods to the age of man. It is even inspiring. We are witnessing it in the shape of the Bank itself, which is the materialization of a necessary organization whose avowed purpose is to assist our communities in achieving economic and human progress through the maximum development of man's capacities. We are masters of our destinies, as Mr. Oliver stressed yesterday; we are able to organize them.

We cannot, like our colleagues, cite figures and that sort of thing. It is therefore with the object of securing in due course vigorous and impartial action for redress for my country on the part of the President of the Bank, who is responsible, in our view, for implementation of the over-all philosophy that he has so well expressed and so competently defined, that I raise my voice at this Meeting, trusting in, and at the same time resolved to insist upon, discussion within the Bank of the necessary and obvious measures that it must adopt to contribute efficiently and effectively to Haitian development. The application in Haiti of one fifth or even one tenth of the aggregate investment made in one or two large sister republics, in sectors as vital to Haiti as electric power, port facilities, higher education, a national highway and the communications system, would have resulted in the accomplishment of an example of that integrated and balanced development which the Bank pursues and has consistently pursued ever since it was first established.

No, we cannot speak of figures and of investment results. Among examples of domestic investment, Haiti, alone and unaided, after having suffered three cyclones and seven armed incursions, after having been refused credit on the financial markets, has built its jet airport, at a cost, as shown in a financial statement presented by the Chief of State to the Haitian people on October 22, 1967, of \$1,995,684—plus the cost of construction of a terminal—without owing a single cent. Alone, Haiti is pursuing construction of the Port-au-Prince-Cayes national

highway linking western and southern Haiti and the improvement of roads in the northern part of the country. Alone, Haiti is undertaking the building of hydroelectric plants aimed at industrialization of the country, thereby making remunerative an investment of more than \$20 million which it has allocated to the construction of the Peligre Dam, augmented by the interest paid in dollars, even though it has never derived any advantage from it. Alone and unaided, Haiti is straining every effort to offer an example of its willingness to rescue more than 4 million people from the wretchedness of underdevelopment by applying its scant resources to such purposes and at the same time repaying its external debts.

What better proof could there be of the courage, of the good faith and of the good will of a people, of a nation, of a responsible Chief of State who has assumed the mantle of the government, the nation and its development, in the conviction that its security lies in its economic development? For we, whose contribution in the form of studies and logical analyses no one would deny, can assert that the comparison of figures expressing the per capita income of several billion human beings on the one hand and of a few million on the other, merely highlight the explosive situation that exists in the world.

In a recent book, *Le défi américain* (*The American Challenge*), the author states, "Let us not be hypocritical. Unless the rich nations of the world make an intensive and coordinated effort to close the gap that yawns between the two halves of our planet, none of us will be able any longer to guarantee the security of his country against inevitable catastrophe, against the waves of violence that will sweep away our defenses."

What better proof of the courage, of the good will, of the good faith of a people, of a nation and of a responsible Chief of State who has assumed the mantle of the State, of the nation, and of development, in the conviction that development is the key to security and to peace!

Nevertheless, we fear that we will continue to labor under the burden of the racial anathema that marked the Congress of Panama in 1826, this in spite of the historic learning and example offered by the proud and valiant Negro of Haiti, who claims his place in civilization characterized by the equality, solidarity and brotherly love of all men.

We have unwavering confidence that the human dialogue which must take place will inevitably lead to understanding, and faith in the Inter-American Bank. This justifies our forecasting, Mr. Chairman,

Mr. President and Governors, that as early as 1969 Haiti will most certainly be able to present to you in Guatemala City, the valiant and proud capital of Guatemala and site of our next Meeting, a statement, in figures, of investments which the Bank, inspired by the will to make the necessary reparations to Haiti, will have made in the key sectors of the economic infrastructure of my country in order to contribute efficiently and effectively to its development. Haiti, its Chief of State and its people have faith.

Remarks of Mr. Felipe Herrera, President of the Bank, at the Closing Session

At the closing session of each Meeting of the Board of Governors it has become customary for the President of the Bank to recapitulate the subjects to which the Governors gave special attention. On this occasion I should like to begin by pointing out that the Annual Meeting of the Bank has again become, in the words of the Governor for Mexico, a true forum for the discussion of economic and financial conditions in Latin America and a genuine exercise of "continental introspection." In this regard, I want to note the presence of more than 600 persons who have come from outside Colombia to attend our deliberations. At the same time I must note that the city of Bogota has provided us with a remarkable setting in which we have enjoyed, in addition to intellectual stimulus, the generous hospitality and affection of the Colombian people.

I think the pervading mood of our meeting was expressed by President Lleras at the inaugural session when he said that we must acknowledge the acceleration of history, that is, the clear evidence that today we must make haste to improve international economic organizations and systems, simply because science and technology are developing more rapidly than ever, and also because the aspirations and needs of our people are increasing at a rate no one could foresee but a few years ago. "Modern life," said the President, "imposes its pace upon us and requires that we adapt our efforts to it. . . . The obstinate clinging to outdated attitudes is already no longer the mark of a respectable conservatism but of an inertia fraught with perils."

It is in this spirit that the Governors have evaluated the Bank's activities and have set new goals to chart its future progress.

In this summation, I shall first refer to those aspects of the Bank's work that you have singled out specifically, and then go on to deal with more general factors which condition its activities and which also were brought out in a number of addresses.

The Bank of Integration

In regard to the Bank's activities, it is interesting that this Meeting of the Board of Governors once more became an "integration meeting." On a number of occasions in the past we have attempted to define the spirit that has characterized each of our annual gatherings. Thus, we

have had meetings at which the dominant theme was agriculture, planning, foreign trade, and industrialization. I recall that in Asunción in 1965, I said that for the Inter-American Development Bank it had been an "integration meeting." I believe I was right, for that meeting marked the beginning of a period of extraordinary progress in the whole movement toward regional economic integration. And now, on this occasion it seems that again you have placed the theme of Latin American integration at the center of your concerns. This has therefore been a second "integration meeting," albeit differing in many respects from the one I have just mentioned. Three years ago at Asunción you supported certain general principles basic to the formation of a common market and an economic community in Latin America. On that occasion, the desirability of the Bank's association with that regional movement was stressed. At the Meeting ending today, in which you have so brilliantly participated, we have refined and spelled out the general concepts we discussed at Asunción. I think our deliberations have produced practical and working ideas about how the Bank can be effectively transformed into the "Bank of Integration."

Physical Integration

In this connection, it is a matter of satisfaction to point to the amount of resources which the Bank has already mobilized in support of the integration movement, as well as the very precise guidelines which have been laid down at this meeting for strengthening preparatory activities for this type of financing through regional planning, general studies and preinvestment activities.

I believe that one of the most important decisions adopted in the eight years of the life of the Inter-American Development Bank, was the one you have just taken to help accelerate the overall planning of Latin American integration by having the Bank participate more closely in the promotion of multinational projects related to the region's physical integration. As your resolution notes, this is a task which the Bank cannot undertake alone, and for this reason it urges the Bank to join its efforts with those of the Inter-American Committee on the Alliance for Progress (CIAP), with which we have been closely associated.

The working group called for by the resolution will have the interesting task of programming technical and financial cooperation in the field of projects promoting the region's physical integration, not only among hemispheric agencies, but also, eventually, of other

international agencies and those of industrialized countries outside the hemisphere. This programming is to be carried out through a five-year plan and an action program to be fostered by that working group. The letter from President Johnson read at the inaugural session by Mr. Fowler, U.S. Governor for the Bank and Secretary of the Treasury, constitutes for all Latin Americans both an expression of confidence and a stimulus, because it shows the close association and understanding of the United States toward the process through which we are seeking to create an integrated Latin America.

It was by a happy coincidence that we planned beforehand to devote the Round Table that is traditionally held at our Board of Governors Meeting to a discussion of the role of multinational investment, public and private, in the development and integration of Latin America. I believe the exchange of experiences and ideas on the prospects and problems involved in the execution of multinational projects, not only in Latin America, but also in the United States, Europe, Asia and Africa, has provided a wealth of information to the participants.

Subregional Groupings

There is another aspect of the integration process whose importance was strongly underscored at this meeting: the efforts to achieve subregional integration agreements. Virtually all the Governors emphasized the need to strengthen activities designed to enable those countries that are joined by special historical, geographical, and economic bonds to associate themselves more closely and to participate jointly in the march toward a Latin American common market. It is worthwhile to note in this connection that this idea was supported not only by the representatives of the countries which presently form part of such groupings, but also by representatives of countries that are not directly associated with them, thereby acknowledging that the results of these subregional experiments will benefit all the countries of the hemisphere.

It was with great satisfaction that we heard the Governor for Nicaragua report that in recent years Central America as a whole, despite the external difficulties which its national economies have had to overcome, has been able to continue to consolidate that region's economic integration process. The Central American experiment is a powerful stimulus for all the subregional groupings being formed in Latin America, since it strengthens our confidence in the feasibility of

such subregional integration efforts as intermediate steps on the road to a Latin American economic community.

We have also listened to an account of the significant achievements of the members of the Andean Group, and we have been able to appreciate the efforts being made to accelerate the forging of special links among them in order to strengthen their respective economies and help them attain a more effective and balanced participation in the general integration of Latin America. In this connection I should like to state that the Inter-American Bank is closely following the steps being taken to establish the Andean Development Corporation, and that it is delighted with the prospect of being able to collaborate at a later date in the activities of that subregional agency.

I should also like to mention the comments of the Governor for Trinidad and Tobago, a country which, although not a member of either of the subregional groupings that have been formed in Latin America, has clearly indicated its willingness to participate directly in some of these joint activities. Also of great interest was the position expressed by the Governors representing the River Plate countries to the effect that their nations were politically prepared to accelerate that process. I should like to draw particular attention to the words of the Governor for Uruguay concerning the desirability of fostering that program through the establishment of some kind of multinational development mechanism which could supply the technical and financial assistance needed for implementing that plan.

Integrated Industrial Development

In the overall picture of Latin American integration certain concerns were expressed about the need to accentuate industrial complementarity among the countries in the area, especially by the Governors for Venezuela, Chile and Brazil. These Governors, and several of their colleagues, reiterated that the process of import substitution initiated by countries of the region in the 1930's was drawing to a close, and that Latin America thus is faced with the need to create new conditions capable of giving greater impetus to its economic development by extending to industry the advantages inherent in the expansion of the market through the promotion of integrated industries. I am very pleased to state that industrial financing by the Inter-American Bank is being increasingly guided by these concepts, and that our next Round Table, which will be held in Guatemala during the Tenth Meeting of the Board of Governors, will deal with some of these aspects.

A related point brought out in the addresses of the Governors and in the Round Table discussions at the meeting is the need for a clearer definition of the role of foreign capital in regional integration. One of the ideas arousing increasing interest in this connection is that of multi-national enterprises, which should facilitate the discovery of formulas and the establishment of arrangements to ensure better relations between foreign capital and local resources.

The Board of Directors and the Bank's management have also taken note of the interest expressed by several Governors in the Bank's mechanism for financing intraregional exports of capital goods. We are, of course, very grateful for the words of praise and encouragement which the system has elicited, and can assure you that the Bank will give serious attention to the proposals made, particularly by the Governors for Chile, Brazil and Venezuela, to the effect that our governing bodies should enlarge this mechanism and make it even more flexible. As I stated in my address at the first working session, the Bank is prepared—to the extent that its resources allow and in accordance with its Charter—to continue to improve this arrangement, surely one of the most positive in promoting Latin America's industrial development and integration.

The Less Developed Countries

In connection with the concern voiced about regional integration, interest was again expressed in giving special consideration to the problems of the relatively less developed countries. That is why we have just approved a resolution of major importance endorsing the work of the Bank and also entrusting it with the task of establishing new operating mechanisms geared to the particular needs of less developed countries. This is an appropriate occasion to point out to the Governors that the idea that the relatively less developed countries need preferential treatment has already become an integral part of the thinking of the bank and has influenced its operating procedures. Our figures indicate that this idea has been recognized not only in general resolutions or policy statements, but in practice as well.

Indeed, if we take the total operations of the Bank and project them on the total population of the region, it can be seen that in per capita terms our financing averages \$10 for every Latin American. If we take the larger countries—Argentina, Brazil, and Mexico—that ratio is \$7 per capita. On the other hand, if we group the relatively less developed countries of Central America, the Caribbean area, and

South America, the ratio rises to \$15 per capita. This clearly shows that in assigning its resources the Bank has followed the policy of giving priority to those countries or areas which for various historical reasons have lagged behind in the overall development process and which so far perhaps have not had the opportunity to obtain financial assistance on the same terms as the larger or medium-sized countries.

It is similarly noteworthy that this also applies to the conditions of financing. For Latin America as a whole, the average interest rate the Bank charges on its operations is 4 per cent. This figure is arrived at by averaging the rates applied to our ordinary capital loans and those of the Trust Fund and the Fund for Special Operations. On the other hand, the average interest rate of loans which have benefited the relatively underdeveloped countries has been 3.2 per cent.

Similarly, while the average repayment period of our loan portfolio is 17 years, loans extended to the relatively less developed countries provide for an average repayment period of 18.5 years. The same holds true of local funds, that is to say, the contributions which the beneficiary countries must make as a counterpart to our loans. The figures show that, for Latin America as a whole, an average of 62 per cent of the total cost of the projects financed by the Bank has been covered by local contributions. In the relatively less developed countries, that average is 46 per cent.

These figures do not mean that the Bank has completely fulfilled its task in this field, but they do show that it has already been concerned about fulfilling a task which today has been re-entrusted to it, both at the management and operational levels. In doing so, the Bank has based itself upon the philosophy so well formulated by Professor Perroux in his statement during our Round Table: "It is not enough that poles of development should exist; it is essential to develop those poles." This approach has led our institution to take an active part in fostering economic activities in those countries and areas which quite clearly have not attained the present level of over-all regional development. It also is to be noted that this approach is used not only toward those countries classified as relatively less developed but also toward certain depressed areas within those countries which on the whole show a greater progress or a higher degree of development—areas like the Brazilian northeast, certain provinces in Argentina, the extreme northern and southern parts of Chile, and the *Sierra* and the mountains in Peru.

Mention was also made in the course of the Meeting of certain very important institutional aspects of the process of regional inte-

gration. I should like to refer again to the statement of the Governor for Nicaragua, who spoke on behalf of all the countries of the Isthmus, and to congratulate him on the very optimistic and positive way in which he described the agencies and machinery for Central American integration. At the Inter-American Bank, we share these views and we attach great importance to the legal and institutional framework which every integration process must inevitably have, if it wishes to advance surely and rapidly, free of vacillations and retreats, toward its objectives.

This is the reason behind the considerable support, following the general lines of its policies, which the Bank has lent both to *SIECA* and to *LAFTA* and for the help it has given them to strengthen their technical capability and facilitate the execution of certain programs they have embarked upon. It is also the reason why within the Bank we have improved two mechanisms which have had the fullest support of the Governors, not only at this Meeting but also at others; both originated in decisions adopted by the Governors and thus represent an expression of the will of our members countries at the highest level. Those two mechanisms are the Preinvestment Fund for Latin America Integration and the Institute for Latin American Integration (*INTAL*).

I believe the comments of the Alternate Governor for the United States on the Preinvestment Fund have been of great interest to us all. I refer to the great importance he attached to the Fund, especially to studies designed to promote the physical integration of Latin America, and also his proposal that the Fund take on more of a multinational character by obtaining additional support from Latin American countries. The realization of these suggestions would very effectively help the Fund to expand its promotional activities in this field.

With respect to *INTAL*, the Governors have just approved a resolution which from the standpoint of the Bank's management is of major importance, for it is not only a vote of confidence in those who have been associated with *INTAL* at various levels, but a guarantee as well that the programs being carried out by the Institute will be continued for a further period.

Other Aspects of the Bank's Activities

We have also heard some highly interesting remarks on activities of the Bank that have a more direct effect on the national economies, and on certain institutional aspects of the internal life of the institution. I should like to speak briefly on those two points.

Field of Action

In the first place, I am gratified by the Governors' virtually unanimous recognition of the expansion and improvement in the Bank's operational capacity. The fact that in 1967 we increased the volume of credit to about \$500 million has had an impact not only on the minds and imagination of the Governors, but I would venture to say on public opinion in Latin America as well. The fact that this Bank—which opened its doors eight years ago and whose scale of activities was relatively modest—has become the principal public source of external financing for Latin America, has been corroborated at this Meeting in Bogota.

Among the comments made on general credit aspects, it is a matter of considerable satisfaction to underline the opinions expressed on the desirability of the Bank's continuing to adopt a balanced approach in selecting the specific fields and projects toward which its financing is channelled.

Strong opinions were thus voiced about the need for the Bank to step up its efforts to promote social investment side by side with economic investment. I should like to point to the comments of the Governor for Mexico about the vital importance of the Bank's agricultural financing in his country, where 80 per cent of our operations have been for the modernization and improvement of farming and ranching activities.

In the same way, very definite opinions have been voiced about the importance, for the future of Latin America, of the Bank's being involved in scientific and technological development. On this point, I should like to repeat at somewhat greater length some of the ideas I expressed at the first working session. First of all, this explains the importance we attach to Latin American universities as the institutional machinery for promoting and increasing scientific and technological absorption. Furthermore, it points to the need for more ambitious policies of regional scope and designed to channel and accelerate this process. On more than one occasion the Bank has convened groups of Latin American, European and North American experts to obtain their counsel and to draw inspiration from their views in formulating criteria which may help our countries undertake these tasks. One of these groups, which included several Nobel prize winners, came to such interesting conclusions that I should like to summarize them, because of their direct bearing on many of the concerns voiced by the Governors.

To begin with, these experts came to the conclusion that it was essential for the region to foster an independent scientific and technological development which could gradually replace the importation of technology, either by discovering its own techniques or by adapting the technology originating in the industrialized countries to its problems and needs. The mere massive transfer of advanced technology could endanger our levels of employment and also cause our economic development to become increasingly dependent on external centers. It should also be recognized that research in these fields should be closely associated with industry, agriculture, and, more generally speaking, with those economic activities peculiar to our own environment.

In the second place, it is essential, by the way of appropriate academic and administrative reforms, to continue supporting efforts aimed at institutionalizing the progress achieved in the teaching and practice of pure and applied research, and to foster collaboration between university and technical training schools and industrial and scientific research centers: thus through education, research can increasingly expand our store of knowledge, and in turn, can make possible the constant updating of scientific education.

In the third place, it is essential to give national research programs a larger framework, either regionally or subregionally, and so make it possible to bring together and mobilize on a larger scale financial and human resources of the magnitude required for such a complicated task. The best way of doing this would be to support those centers which have already proved their efficiency and their capability. Consideration must also be given to establishing multinational institutes to cooperate with existing agencies, or act directly where none exist, as a means of accomplishing the same ends.

Utilization of Funds

On the subject of our operating policy, I should like to draw attention to the remarks by several Governors which will be of immeasurable help in improving the efficiency of the Bank's daily work. They spoke of the desirability of expanding the Bank's preinvestment activities in the light of the multiplier effect that they have in the countries in which they are undertaken.

Similarly, when discussing the effect of the Bank's operations in the countries, the Governor for Argentina pointed out that in view of the experience gained, there could be further improvement in mech-

anisms for disbursement, project execution and evaluation. He specifically mentioned the Bank's lending in Argentina, where although a high proportion of the operations have been carried out within the periods provided, some relative delays have occurred.

We fully share these concerns. We believe that a manifest improvement in the use of the Bank's funds is being brought about by strengthening the Bank, particularly in the field through its regional offices and project engineers, and also by a deeper understanding within countries of the way in which financial resources should be absorbed.

In this connection, I should like to remind you that if we examine the total volume of our lending, the outlook is promising. At the moment, we have approved more than 460 loans, in only two of which have serious difficulties arisen. These two operations represent less than one half of one per cent of the total volume of resources committed by the Bank. No wonder then that our bonds have been rated Triple A, and that the price the Bank pays for the financial resources it absorbs on the world's capital markets is comparable to that paid by other international financial institutions of great prestige and maturity or by countries which enjoy great credit worthiness.

I should also like to refer to the support given by the Governor for Peru to the Bank's program for the review and evaluation of the end results of our operations. This will increasingly help to facilitate a continuing review of our credit policy with the aim of improving its orientation.

Financial Activities

I should also like to thank the Governors for their encouraging and understanding references to the way in which the Board of Executive Directors and the Bank's management have been conducting the initiatives to replenish the Bank's resources. As I stated in my first address, the Bank has not only increased its lending activities but has also expanded its financial resources. I should like to stress the ideas on this subject voiced by the Governor for the United States in the inaugural meeting when he referred to the understanding shown by the Board of Executive Directors and the management in using the Bank's soft currency funds in such a way as not to aggravate the balance of payments difficulties of our principal partner.

I am also gratified that the Governors are virtually unanimous in finding the rules we have adopted concerning purchases with Bank

funds in non-member countries to be realistically and effectively in the interests of the Bank.

I also wish to draw attention to the proposal of the Governor for Peru—which in many respects coincides with the views of President Lleras—to the effect that the Inter-American Bank should devote increasing attention both to the “multilaterization” of the use of its own resources and, as far as possible, to the establishment of multilateral machinery designed to obtain contributions from non-member countries. It is a matter of satisfaction to be able to report that the Bank for some considerable time has been moving in this direction and expects to obtain a positive response from capital-exporting countries. Of course the success of arrangements of this type depends not so much on our own wishes as on the extent to which the industrialized countries are prepared to channel their contributions on a multilateral basis.

Related to this subject is the financial contribution of Sweden to an operation approved in the course of this Meeting and intended to help finance the construction of a water supply project in the metropolitan area of Greater Sao Paulo in Brazil. The Bank's financing of \$16.5 million includes \$5 million which will be provided from a fund placed under Bank administration by the Government of Sweden. This contribution, whose use is not tied to purchases in Sweden, exemplifies one of the arrangements by which industrialized countries can co-operate in the development of Latin America.

Special Proposals

This Meeting has not only examined the activities the Bank has already been carrying out but has also advanced specific proposals to enable us to embark on new functions. These suggestions will be given very serious consideration both by the Board of Directors and the Bank's management.

I should first like to refer to the statement of the Governor for Mexico concerning the need for the Bank to explore the possibility of granting loans for the promotion of tourism in Latin America. I have already mentioned that, owing to structural deficiencies in the external sector of the Latin American economies, the availability of necessary foreign exchange for financing their development is severely restricted, a situation that is creating acute stagnation and penury in this field. Tourism, which for a number of countries outside the region has become an extremely important source of foreign exchange, could

become in Latin America a very effective means of alleviating this situation and of creating additional external payments capacity in a relatively short time. I might mention that the experience of some of our own countries is very eloquent on this matter. Accordingly, the Executive Directors recently have been studying policies that could enable us to collaborate both financially and on a technical level in the development of tourism in the Bank's member countries. We are therefore grateful that Mr. Ortiz Mena has contributed suggestions that are very pertinent and that will be a valuable additional stimulus to us in carrying out this task.

There is also the proposal of the Governor for Bolivia concerning the possibility of the Bank's making working capital loans to Latin American enterprises, and to the suggestion of the Governor for Peru that the present program of guarantees for investments for housing construction in Latin America be made multinational. Although both these possibilities have been examined by the Bank authorities in the past, we shall reconsider them with greater interest and in the light of the statements of the Governor so as to be able to provide appropriate technical advice.

General Economic Conditions

I should like to mention some general concerns which have been expressed in the statements of the Governors. As on other occasions, their comments have reflected more than a purely banking standpoint toward matters of direct interest to the institution: also taken into account are some of the international and regional factors affecting the member countries' economic development.

Recognition of the Gap

Many of the statements have revealed a mature understanding of the nature and implications of the so-called "development gap." I recall the very profound and significant words by the President of this Meeting on this matter, as well as the remarks of the Governors for Brazil, Chile, Ecuador, Venezuela and others, which show the degree of concern with the gap between our countries and the industrialized world, and its increasing incidence in the relations between the two groups of countries. These statements also have emphasized the relative discouragement with which our countries view this process of

deterioration, to which as yet there is no clear solution, as reflected in the results of the last UNCTAD meeting at New Delhi.

We recall that on the occasion of that meeting an observation was made about the rate at which the development gap has been widening in the past few centuries. Indeed, if we cast a backward glance, our concern about the future must necessarily increase. Toward the end of the 18th century, at the time of the industrial revolution in Europe, the disparity between those countries of the world regarded as the most advanced and those most backward was in the order of four to one: it has been estimated that the per capita income in the most prosperous countries of that period was not more than \$200 by today's standards, but on the other hand the per capita income in the great colonial areas of that time was estimated to be about \$50. If we compare the rich and poor countries which today are situated at opposite points on the scale of development of the world, we find that the income levels of 50 per cent of mankind are about \$100 per capita, whereas the annual per capita income of the inhabitants in the narrow group of highly industrialized countries is about \$3,000. Thus the ratio between the per capita income in the most advanced countries and that in the underdeveloped countries is no longer four to one but thirty to one. And if we project the current rates of growth and the trends visible in world economic development into the future we can predict that by the end of the century this disparity will double.

Need for a Global Strategy

In my opinion no adequate proposals or formulas exist at present, nor is there a mature political willingness to deal satisfactorily with this tremendous disparity and discrepancy. With several Governors expressing their concern at this meeting about the matter, I believe it is the first occasion Latin America has had an opportunity to evaluate officially the New Delhi meeting.

The Governor for Venezuela acknowledged in his statement that important progress was made at the second UNCTAD meeting in the matter of general preferences. But I believe that these partial solutions do not measure up to the size and complexity of the problem to be solved. I am therefore convinced that in the mind of us all, the future of Latin America is basically dependent on the formulation and application of a global strategy for international economic development. This global strategy, as the Governors for Brazil and Chile in particular have pointed out, must offer solutions to the problems of

the imbalances that affect world trade, the transfer of international resources, and the results and continuity of the internal effort of the underdeveloped countries themselves. In the case of Latin America this internal effort is not only that being made within national frontiers; it must be envisaged from the standpoint of the prospects created by regional integration.

Thanks to the presence of the Secretary of the Treasury of the United States, Mr. Fowler, we had the opportunity to acquaint ourselves more closely with the short-term problem his country is facing. In his frank statement Mr. Fowler gave us a clear and realistic picture of how the Government of the United States is endeavoring to handle its balance of payments problem and how in the short run those difficulties are influencing both the arrangements for and the volume of the resources which his country is transferring to the underdeveloped world. The words of President Lleras complement those of Mr. Fowler, since the President, taking the long view of this subject, put into its true context the problem of international economic relations and helped us to grasp better its future implications.

Final Remarks

I believe that we Latin Americans are becoming increasingly aware of the fact that, precisely because of the international financial difficulties to which I have referred, we must foster the internal process of capital formation and of mobilization of all kinds of resources by our own efforts. As was pointed out by, among others, the Governors for Ecuador, Uruguay and Venezuela, there is considerable concern at present about the factors extraneous to the Latin American economy which contribute to the slow rate of growth of the countries in the region. In the course of these discussions the danger for the economies of many of the countries accompanying the exaggerated growth of the international debt commitments allocated with the external financing of their development was repeatedly emphasized and, as someone put it, was truly a "debt explosion." The limitations imposed by all types of factors that deny our countries access to international capital markets were also underscored.

Together with these concerns about our slow rate of growth, there was wide recognition by the Governors of the steps taken by their respective countries to bring about improvements in those fields of action which, in the light of their own economic policies, they have designated as priority areas. In this connection, I should like to single out the statements of the Governors for Paraguay and for Peru.

When at the close of this Meeting we chose the city for the next meeting of the Board of Governors, we were not taking a routine decision but quite clearly we wished to support or highlight the efforts and the progress made by one of our member countries. I would go so far as to say that the choice of the capital of Guatemala for our next Meeting, has a special significance not only for that country, but for Central America as a whole. Therefore, on behalf of the Board of Executive Directors and the management of the Bank, I should like to offer my cordial congratulations to the Governor for Guatemala, and to tell him that we are all looking forward with pleasure to meeting in a year's time in his beautiful capital.

When we end our Meeting today we shall return home to our places of work with a much clearer understanding of what is meant by international cooperation through an organization such as our own. You will surely share my view that while our institution is a bank, it has succeeded in becoming something more than a bank. Indeed, this organization has only fulfilled its role of contributing to the financing of national development plans in the more familiar aspects, but has also succeeded in becoming for Latin America a Bank of Integration, a Bank of the University, a Bank of Agriculture, and, I would even venture to say, a Bank of New Ideas for this continent; for the history of our institution shows that it has never ceased to bring forth fresh ideas and to open up prospects for new solutions to the region's problems, and to give to Latin America a proper place in today's world.

During this Meeting of Governors a posthumous tribute was paid in this city of Bogota to the distinguished intellectual and Colombian statesman, Luis López de Mesa. I should like to join in the tribute which this meeting of the Board of Governors of the Inter-American Development Bank renders to Colombia, to its President, and to the outstanding leaders that this nation has always produced, as well as to the great intellectual and cultural contribution this country has made to our continent. In this connection I recall the words of López de Mesa himself, that

frequent communication, true knowledge, bonds of affection, the very fact of being present—in a word, the miracle of togetherness—would solve more difficulties and disputes than a century of separate discussions. Whatever is good and beautiful and meaningful in this world of man—love, language, culture, and spirit—comes from association; they spring from it, they are sustained by it; for to come together is to love one another, to understand one another.

**Address by Mr. Francis C. Prevatt,
Governor for Trinidad and Tobago
and Minister of Finance, Planning and Development,
on Behalf of the Delegations,
at the Closing Session**

A signal honor has been conferred upon me today by my fellow Governors and, through me, on my country in that you have been pleased to bestow upon me the honor of speaking on behalf of the visiting delegations at this closing session of the Ninth Meeting of the Board of Governors of the Inter-American Development Bank. This honor assumes special significance since it has been conferred on Trinidad and Tobago, the newest member of the Bank, at its first attendance as a full member at a Board meeting. There are many things for which the distinguished Governors here assembled would wish me to express gratitude on their behalf.

Firstly, for our good fortune in having our Meeting in Colombia, this country which can truly be said to be the cradle of Latin American solidarity;

Secondly, for the brilliant address which the illustrious President of Colombia graciously delivered at our inaugural session, an address which could only have come from a man whose very fibre is permeated with love for Latin America, from a man who has been for most of his life and continues to be in the vanguard of the development efforts, not only of Latin America, but of the world. Latin America, the rest of the developing world and the industrialized countries cannot ignore his call for greater coordination of their efforts to improve the standards of living of peoples everywhere;

Thirdly, for the encouragement which we have received from the message of President Johnson, brought to us by the Governor for the United States. I acknowledge on behalf of the Governors the great role played by the United States in the development of Latin American system and the immense financial contribution that it has made to its institutions. President Johnson's message has been translated into concrete form through the adoption by this Meeting of the resolution to establish a Working Group to prepare a five-year plan and program of action for projects of physical integration in Latin America.

There are at least three things for which, on behalf of the visiting delegations, I must place on record our feelings of great satisfaction.

To begin with, there was the election to the Chairmanship of the Board of the distinguished Governor for Colombia, Mr. Abdón Espinosa Valderrama, who has guided this meeting with such efficiency;

Then, there was the reelection to the Presidency of the Bank for a further period of five years beginning July 1, 1969, of Mr. Felipe Herrera, whose praises have already been deservedly sung, and under whose dedicated guidance we are assured of the continued progress and success of the Bank.

Thirdly, there are the results of the deliberations of our working group—the three resolutions which we have unanimously approved and which seek to involve the Bank more directly and in greater measure in the integration movement, both as regards physical integration, as regards special assistance to countries of relatively less economic development and those of insufficient market and as regards the continued operations of the Institute for Latin American Integration.

We are about to conclude a week of discussions in which all of Latin America has in this forum expressed its hopes and inspirations, its ideals and its concept of the role of the Inter-American Development Bank in the process of integration. The unanimous approval of the reports presented by the Bank is a measure of the satisfaction of the Governors with the manner in which the Bank is being administered, and this satisfaction was further expressed in the reelection of Dr. Felipe Herrera as President of the Bank for a five-year term beginning July 1, 1969.

In the presentations made by the Governors many excellent suggestions were advanced, all with a view to strengthening the role of the Bank as a major instrument of Latin American integration and economic development of the member countries. We are confident that the President, the Executive Directors and staff will give serious consideration to all these suggestions, and we look forward to their implementation as far as may be found practicable with the speed and efficiency which we have all come to associate with the Bank.

On behalf of the visiting delegations, I wish to thank most sincerely the Government and people of Colombia for the warm welcome they have given us in this beautiful and historic city, for the excellent arrangements which they have provided for our comfort during our all too short stay. I wish also to thank the secretarial staff, the translators and the interpreters for the efficient services they have rendered.

We are about to conclude the Ninth Meeting of the Board of Governors, a Meeting which has been fruitful and happy. The year ahead calls for hard work on the part of individual countries and the

region as a whole in our effort to realize as soon as possible the great goal of Latin American integration, and we now look forward to our next Meeting in Guatemala, which has so generously offered to host the Tenth Annual Meeting, at which we are all confident we will receive reports of significant progress on the road to realization of our goals.

**Address by the Chairman of the Meeting,
Mr. Abdon Espinosa Valderrama,
Governor for Colombia
and Minister of Finance and Public Credit,
at the Closing Session**

It has been a high honor for Colombia and for its Government to receive you and especially to have been host to a Meeting of such extraordinary importance. For me it was a privilege more than I deserved to have been named at the initiative of the Governors for Chile and Mexico to preside over these sessions. It is an honor to have thus been involved in the history of the Inter-American Development Bank.

I believe that we have held a Meeting of particular significance for the future, marked by a new, direct and realistic style, sincere and frank in words and generous and rich in ideas. I speak of a new style because the importance of this meeting cannot be measured solely by the proposals approved here. We did not come here to enact laws or issue decrees. We came to review the course of the Inter-American Bank during the most recent year of its very brilliant career and at the same time to concern ourselves with its immediate future, that is to say, the new annual period that begins today.

As Mr. Felipe Herrera observed, the Bank has been not only a development bank but also a bank of new ideas regarding development. I have been impressed by seeing how the ideas put before this Meeting spread through the delegations, were carefully considered, and found expression in the final summary that the President of the Bank has made. I have had the feeling that for the first time these words and these ideas have not plowed the sea or been sown in the wind. In the alert and restless mind of Felipe Herrera they found an immediate and full echo. And he construed them correctly, not excluding any that deserved careful consideration.

This Meeting has taken place, as the President of the Bank has said, under the sign of integration, applied to all fields. Of the human integration that is achieved by dialogue and by the exchange of ideas and experience, of accounts of difficulties and even of errors, of contact between individuals and a friendship projected toward the future that will enable us to keep in constant consultation with each other and to develop some of the multinational initiatives that have been so

well received at this Meeting. Of physical integration, in accord with the proposal approved at the initiative of President Johnson, which will level geographic barriers through modern transportation and telecommunications systems, and eventual multinational enterprises so that, as the Governor representing Chile advocated, development will primarily be directed toward Latin American enterprise, with enterprises combined not only at the national level but also, as has been the pattern with subregional groups, along international lines.

Mr. Fowler spoke to us of the need, already recognized by the Alliance for Progress, for "democratic modernization" of our hemisphere that will project it outward by promotion of exports principally within our own region, but also to other regions, under favorable conditions that will enable us to compete on the basis of strong and vigorous enterprises capable of entering both Latin American and world markets. Multinational enterprises are no longer a dream; they are already an operating reality. We are fully engaged in the process of integration, which is difficult and demanding, just as the development process is.

Another aspect that Mr. Felipe Herrera has noted, and that arises from the deliberations of this Meeting, is that of the formation of subregional groups. What appeared in the past as all but impossible, or as a timid approach toward the aims of integration, has now been strengthened by the subregional groups that are emerging, not in a spirit of mutual distrust or conflict, but with the purpose of establishing among the variously grouped countries the kind of interconnection which has been proposed for electrical, transportation or telecommunications systems.

This whole process will be carried out under the overall strategy of development of which Mr. Herrera spoke, a strategy that contemplates both the aspects of foreign trade and those of development financing. It is true that the development of our countries has been slow and perhaps sporadic and irregular. This is a matter that should be of concern to the whole hemisphere, because it is not possible to keep the national energies mobilized and in a state of tension, as contemplated by the Alliance for Progress, when a good period is followed by a bad period, or when an excellent year is followed by an abysmal one. If one thing is required for development, it is to keep alive the confidence and faith of the people in each country, for it is they whose cooperation in this rapid drive must be ensured if general skepticism, owing to financial policies that have failed because of their own faults

or for outside causes, is not to become a new obstacle to development. Certainly we ministers of finance know better than anyone else how the process of development is full of disturbing factors and sudden surprises. But it is essential to see that this process is as stable as possible and that there are no sudden developments that could seriously undermine confidence in the certainty of future successes, which, of course, must be larger than those achieved in the past.

The President of the Bank and the Governors have already told us that the growth of our economies during the last few years leaves much to be desired, especially if we compare it with the dizzying, extraordinary growth the great industrial nations have experienced. Mr. Herrera pointed out that the relationship between the two classes of nations at the time of the industrial revolution was on the order of 1 to 4 while today it is 1 to 30, and moving toward 1 to 60. Moreover, he recalled the fact that the industrialized countries have not been able to fulfill their offer to devote one percent of their gross national product to financing of the developing countries; on the contrary, this figure has declined from 0.87 per cent at the beginning of the decade to 0.62 per cent by 1966. It is essential to try to close this gap in development with disciplined and valiant efforts, and of course with long-term financing on favorable terms, until our countries are in a position to generate sufficient receipts from abroad on their own account.

Naturally, we raise these problems fully aware of the effort that we ourselves must make. As was recalled at this Meeting, internal efforts have been intensified in the last few years to the point that tax revenues have increased by 44 per cent since 1960. We have made this effort and, more importantly, we are going to continue to make it untiringly and ceaselessly. We realize that the task of development is our task, as the task of integration is also our task.

It is of interest to note the attention that has been paid in these discussions to the future of tourist travel in Latin America. When this topic was proposed by the Governor for Mexico, it was unhesitatingly welcomed by the President of the Bank. This shows that in these assemblies it is not necessary always to present specific proposals; it is more than enough to launch an idea so as to open the way in everyone's mind. I know that financing the tourist industry is already the subject of a plan of the Inter-American Development Bank, which will also constitute an aspect of the human integration of Latin America and stimulate the improvement of its infrastructure, as well

as produce the foreign exchange that is so greatly needed for our own development.

My attention was likewise attracted by the last part of Mr. Herrera's observations in which he spoke of the conclusions that had been reached by the group entrusted with studying scientific and technological matters in the hemisphere. This group felt that it was necessary to carry out the transfer of technology and science to Latin America while producing new science and new technology, without overlooking the specific circumstances of the region, among which we should call attention to the abundance of manpower. This is another example of the realism with which action is taken within the Bank and at these Meetings. We with our extremely abundant and inexpensive manpower cannot proceed in the same way as the large industrialized nations, where manpower is scarce. The Colombian Government thoroughly agrees with the conclusion of the working group, among other reasons because it coincides with our own ideas on the subject and our own efforts to multiply job opportunities and to absorb the increasing supply of manpower that we have in Colombia.

But it is not for me to review everything that was dealt with here. This has already been done brilliantly and accurately by Mr. Herrera. Rather, I wish to emphasize that the Inter-American Development Bank is the appropriate, competent, and effective instrument for attaining the objectives that have been raised or stated at this Meeting.

My country owes the Bank a special debt of gratitude for the invaluable cooperation we have received from it, and the President of the Bank has shown how broad that help has been from the standpoint of our various geographical regions. But all Latin Americans are also indebted for everything the Bank is doing and we have confidence in the great accomplishments it can bring about in the future.

Out of natural discretion, Mr. Herrera did not mention what was one of the most important decisions taken by this Meeting. I believe that the fact that he has been reelected for a term of five years dispels any uncertainty as to the Bank's future and give us the assurance that, with the captain of the ship at the helm for five more years beginning July 1, 1969, the Bank will continue its voyage without interruptions, in the face of all obstacles. Re-electing the man who has led the Inter-American Development Bank with clear wisdom and to the full satisfaction of all the member countries is another of the good things this Meeting has done. Presuming to speak for all the Governors, I wish to express to Mr. Herrera the great satisfaction we felt in voting

for his reelection and the absolute confidence with which we regard the future of the Bank.

It is with genuine sadness that I see this unforgettable Meeting draw to a close. I see approaching the dispersion of this very select group, which is to meet again in Guatemala City next year to resume our dialogue under the same auspices and certainly with the same faith and the same confidence in the future of America, in our work, in our struggles, in our duty, and in our commitment to surmount all difficulties. The Inter-American Development Bank is setting sail on a new voyage which we hope will be safe, with favorable winds and waters and free of storms. It is setting out on a voyage that we hope will continually be fruitful for the benefit of America, for the cause of its development, for the cause of hemispheric integration, for the cause of the peoples of our hemisphere, for the special cause of the battle against poverty, disease and ignorance which the Bank has inscribed on its banners. One of the most moving things for me is to see how the Bank is fighting against these scourges, as Mr. Herrera said, not merely as a bank, or even as a development bank, but as a bank of ideas, endowed with a mystique, oriented toward the needs of the people and eager to seek a more prosperous and equitable society.

The Colombian Government and people are especially pleased to have had the privilege of receiving you, although we do have one regret. What has been so beneficial and enriching for the crops and the agriculture of which you have spoken with such conviction and justice, we regret should have been so uncomfortable for you. The month of April is rich in rain and good for the land, but perhaps inhospitable to you. We trust that the next time our weather will be more favorable! We wish you a happy journey home, and we repeat our appreciation and our undying gratitude to you.

I want to say again how proud we are to have had you here and especially what a great honor it has been to preside over so select and illustrious a group of Americans of both North and South, alert in their concern for the needs of the peoples of the hemisphere.

RESOLUTIONS

**Resolutions Approved
by the Board of Governors
Between Its Eighth and Ninth
Meetings**

Resolution AG-10/67

Increase of \$1.2 Billion in the Resources of the Fund for Special Operations

WHEREAS, at the Seventh Annual Meeting of the Board of Governors it was resolved that the Board of Executive Directors study the possibility of enlarging the resources of the Bank by means of an increase in the authorized capital stock and an increase in the resources of the Fund for Special Operations and present a report and recommendations to the Board of Governors;

WHEREAS the Board of Executive Directors of the Bank, having considered said question, has concluded that action to increase the resources of the Fund for Special Operations would be desirable;

WHEREAS Article IV, Section 3 (g), of the Agreement Establishing the Bank provides for increases in the resources of the Fund through additional contributions by the members, and

WHEREAS the Board of Executive Directors has submitted an appropriate proposal therefor to the Board of Governors,

The Board of Governors

RESOLVES THAT:

- a) Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased in the equivalent of \$1.2 billion through additional contributions by the members as follows:

<i>Country</i>	<i>Contributions</i> (Expressed in U.S. dollars)
Argentina	\$ 66,213,000
Bolivia	5,316,000
Brazil	66,213,000
Chile	18,180,000
Colombia	18,168,000
Costa Rica	2,658,000
Dominican Republic	3,543,000
Ecuador	3,543,000

<i>Country</i>	<i>Contributions</i> (Expressed in U.S. dollars)
El Salvador	2,658,000
Guatemala	3,543,000
Haiti	2,658,000
Honduras	2,658,000
Mexico	42,570,000
Nicaragua	2,658,000
Panama	2,658,000
Paraguay	2,658,000
Peru	8,868,000
Trinidad and Tobago	2,658,000
United States	900,000,000
Uruguay	7,101,000
Venezuela	35,478,000
TOTAL	\$1,200,000,000

In the event any new member is admitted to the Bank prior to the effective date of this resolution, such new member shall contribute to the total established in this paragraph in proportion to the contribution required as a condition of its admission, and the contribution of the other members, except the United States, shall be reduced accordingly.

- b) Each member shall make its additional contribution in its own currency, and the entire amount of each contribution shall constitute national currency to which the provisions of Article V, Sections 1(c) and 4, of the Agreement Establishing the Bank, shall be applicable.
- c) The additional contributions shall be made in three equal installments, payable, respectively, on or before December 31, 1967, December 31, 1968, and December 31, 1969 or such later dates as the Board of Executive Directors may determine.*
- d) None of the additional contributions shall become payable unless at least 14 members whose increased contributions total not less than the equivalent of \$1,125 million shall

* By Resolution DE-160/67 of December 29, 1967, the Board of Executive Directors extended the period for payment of the first installment to February 29, 1968.

each have deposited with the Bank, on or before December 31, 1967, or such later date as the Board of Executive Directors may determine, an appropriate instrument setting forth their agreement to their making the contributions to the increase in the Fund for Special Operations in accordance with the terms of this resolution.

(Approved December 29, 1967)

Resolution AG-1/68

Designation of Outside Auditors

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2(b)(x), of the Agreement Establishing the Bank, the firm of Price Waterhouse & Co. is selected, with respect to the fiscal year 1968, 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 March 15, 1968)

Resolution AG-2/68

Modification of the Provisions for the Election of Executive Directors

WHEREAS, at the Seventh Annual Meeting of the Board of Governors it was resolved that the Board of Executive Directors examine the desirability of modifying the provisions for the election of Executive Directors set forth in the Agreement Establishing the Bank;

WHEREAS, the Board of Executive Directors of the Bank, having considered said question, has concluded that action to modify such

provisions for the election of Executive Directors would be desirable;
and

WHEREAS, the Board of Executive Directors has submitted an appropriate proposal therefor to the Board of Governors,

The Board of Governors

RESOLVES THAT:

Paragraph (c) of Annex C to the Agreement Establishing the Inter-American Development Bank is hereby amended to provide as follows:

"In the first place, as many ballots as are necessary shall be taken until each of four candidates receives a number of votes that represents a percentage not less than the sum of the percentages appertaining to the country with the greatest voting power and to the country with the least voting power. However, in the event that three of the candidates receive the required number of votes on one of the ballots, the fourth candidate shall be considered also elected if he receives a number of votes that represents a percentage not less than the sum of the percentages appertaining to the country with the greatest voting power which had not cast its votes in favor of one of the three candidates mentioned and to two countries with the least voting power. For the purposes of this paragraph, the total voting power of the countries entitled to participate in the voting provided for under this annex shall be counted as 100 per cent."

(Approved March 31, 1968)

**Resolutions Approved
by the Board of Governors
at its Ninth Annual Meeting**

Resolution AG-3/68

Election of the President of the Bank*

WHEREAS:

Because of the importance of the functions of the Presidency of the Inter-American Development Bank it is desirable that the elections to the office be effected at such times, in relation to the provisions of Article VIII, Section 5 (a), of the Agreement Establishing the Bank, as are most appropriate to assure normal and satisfactory continuity in the progress of the Bank's activities:

It therefore is convenient to elect in the present meeting the person who will have the responsibilities of the Presidency pursuant to the aforesaid provisions for the period beginning in 1969;

Mr. Felipe Herrera, the incumbent President of the institution, has demonstrated the ability and experience required to discharge such an important function and at the same time has continued to dedicate himself completely to the activities and responsibilities which were entrusted to him, with full devotion to the objectives and ideals that inspired the creation of the Bank,

The Board of Governors

RESOLVES THAT:

1. In accordance with the provisions of Article VIII, Section 2 (b) (iii) and Section 5 (a), of the Agreement, Mr. Felipe Herrera is reelected President of the Bank for a five-year term to begin July 1, 1969.

2. The Chairman of the Board of Governors is authorized to execute a contract of employment between the Bank and Mr. Herrera in accordance with the provisions approved by the Board.

(Approved April 22, 1968)

* At the preliminary session it was resolved to include the election of the President of the Bank as the first item on the agenda of the Meeting, following a proposal of the Governor for Argentina. The election was held at this same session.

Resolution AG-4/68

Financial Statement of the Ordinary Capital Resources (1967)

The Board of Governors,

Having reviewed the report of the outside auditors,

RESOLVES:

That the financial statement of the Bank with respect to the ordinary capital resources for the fiscal year ending December 31, 1967, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 23, 1968)

Resolution AG-5/68

Financial Statement of the Fund for Special Operations (1967)

The Board of Governors,

Having reviewed the report of the outside auditors,

RESOLVES:

That the financial statement of the Fund for Special Operations for the fiscal year ending December 31, 1967, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved April 23, 1968)

Resolution AG-6/68

Physical Integration of Latin America*

WHEREAS:

The Charter of Punta del Este, in establishing the Alliance for Progress, emphasized the need to proceed with economic integration as a condition for the acceleration of economic development of Latin America;

The "Declaration of the Presidents of America", signed on April 14, 1967, calls for positive action in achieving the physical integration of Latin America, particularly in the areas of transportation, communications, power, and the joint development of international river basins and frontier regions;

The Bank, pursuant to the decision of the Board of Governors in 1967, will devote increasingly higher amounts of its resources to finance physical integration projects, but there is need for the further planning and formulation of projects in this field;

There has been created within the framework of the Bank's resources the Preinvestment Fund for Latin American Integration, through which considerable funds have been channeled for the identification and preparation of projects to further the physical integration of Latin America, and the Bank has worked together with the Inter-American Committee on the Alliance for Progress (*CIAP*) in establishing the priorities in the use of that Fund, and

The Bank has been assigned the primary responsibility for implementing, within its sphere of competence, the measures agreed upon

* A work group composed of the Governors for Argentina, Bolivia, Brazil, the Dominican Republic, El Salvador, Mexico, Paraguay, Peru and the United States was formed to study the proposal of the United States Government regarding the desirability of supporting the Bank's efforts in behalf of the physical integration of Latin America, together with the request by the Governor for Bolivia for formulation of a program ensuring preferential treatment for countries of relatively less economic development and the financing of transportation infrastructure with an integrationist content in countries lacking direct access to the sea.

The work group considered is advisable to study as well the proposal of the Governor for Argentina concerning continuity of the operations of the Institute for Latin American Integration (*INTAL*) upon conclusion of its initial period of activities.

As a result of its studies, the work group submitted to the Board of Governors the proposals which were adopted as Resolutions AG-6/68, AG-7/68 and AG-8/68.

by the Presidents of America, including physical integration and the Preinvestment Fund for Latin American Integration,

The Board of Governors

RESOLVES:

1. That the Bank undertake promptly, in conjunction with *CIAP* to initiate the establishment of a task force to develop a five-year plan and action program for physical integration projects in Latin America. The task force shall be composed of senior officials of organizations concerned with the economic integration and development of Latin America and shall be aided by a full-time staff of experts headed by a distinguished citizen of that region.

2. That in developing the plan and action program, the task force shall take into consideration, among other factors:

- (i) The urgency of the establishment, interconnection, and expansion of systems of land, sea, river, and air transportation in the hemisphere, and of telecommunications and electric power systems and pipelines,
- (ii) means of facilitating the participation in the physical integration process of countries at a relatively lower stage of economic development and those not having direct access to the sea,
- (iii) the resources estimated to be needed for the preparation of studies for projects which can be initiated within a five-year period and for the execution of such projects.

3. That the Board of Executive Directors present to the Board of Governors, not later than December 31, 1968, a progress report on the work of the task force.

(Approved April 26, 1968)

Resolution AG-7/68

Preferential Treatment for Countries of Relatively Less Economic Development and those of Insufficient Market*

WHEREAS:

The Declaration of the Presidents of America, signed at Punta del Este, Uruguay, on April 14, 1967, states in Chapter I of the Action Program that the different levels of development and economic and market conditions of the various Latin American countries must be borne in mind, on order that the integration process may promote their harmonious and balanced growth. In this respect, the countries of relatively less economic development, and, to the extent required, those of insufficient market, will have preferential treatment in matters of trade and of technical and financial cooperation;

The Agreement Establishing the Inter-American Development Bank created the Fund for Special Operations for the making of loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects, and

To the extent of its possibilities, the Bank in its credit and technical assistance policies, has followed the orientation of extending preferential treatment to the countries of relatively less economic development and those of insufficient market,

The Board of Governors

RESOLVES:

1. To instruct the Board of Executive Directors to place greater emphasis when formulating the operating plans of the Bank on the principle of extending preferential treatment to the countries of relatively less economic development and, to the required extent, to those of insufficient market, in keeping with the principles, objectives and goals set forth in Chapter I of the Action Program of the Declaration of the Presidents of America.

2. To also instruct the Board of Executive Directors to study the most effective means, including, as appropriate, modifications of an operational character, for assisting the countries indicated in the preceding paragraph in the formulation of development projects.

(Approved April 26, 1968)

* See the footnote to Resolution AG-6/68.

Resolution AG-8/68

Continuity of *INTAL* Operations in connection with Latin American Integration*

WHEREAS:

During its initial period of operations the Institute for Latin American Integration (*INTAL*) has achieved its objectives;

The plan of operations establishing *INTAL* expires in the near future and the Board of Executive Directors has agreed to maintain the same financing sources for the second period of operations retaining the same percentages, criteria and procedures currently governing the contributions for its support;

It is advisable to expand the services of *INTAL* to the member countries, to which end the host country has announced its decision to increase its annual contribution during the next three years to a sum equivalent to US \$270,000,

The Board of Governors

RESOLVES:

1. To express its satisfaction with the work accomplished by *INTAL* during its initial period of operations and to support its continuation and the expansion of its operations.

2. To recommend that the member countries adopt the measures necessary to ensure their continued prompt payment of the quotas for the maintenance of *INTAL* as approved by the Board of Executive Directors.

(Approved April 26, 1968)

* See the footnote to Resolution AG-6/68.

Resolution AG-9/68

**Place and Date of the Tenth Meeting
of the Board of Governors**

The Board of Governors

RESOLVES:

That the tenth regular meeting of the Board of Governors, which the President shall convene at the appropriate time, shall be held in Guatemala City, during the month of April 1969.

(Approved April 26, 1968)

Round Table

During the Ninth Meeting of the Board of Governors, two Round Table sessions were held on the subject *Multinational Investments, Public and Private, in the Development and Integration of Latin America*. These were held in the Salón Rojo of the Tequendama Hotel on the afternoons of Tuesday, March 23, and Wednesday, March 24.

At the request of the Bank, distinguished specialists prepared documents on various aspects of this subject. The Round Table, for which Mr. Eduardo Figueros, Consultant to the Bank, served as Moderator, provided these specialists with an opportunity for presenting their views on the specific topics listed below.

I. Economic Integration and Multinational Investments

<i>Multinational Investment in the Framework of Latin American Integration</i>	P. N. Rosenstein-Rodan Center for International Studies Massachusetts Institute of Technology Cambridge, Massachusetts
<i>Multinational Investment and the Analysis of Development and Integration Poles</i>	François Perroux Director Institute of Applied Economics College of France Paris
<i>The Evaluation of Economic Integration Projects (Problems and Suggestions)</i>	Cristóbal Lara Deputy Director General Latin American Institute for Economic and Social Planning Santiago, Chile
<i>Socio-economic, Legal and Institutional Aspects of Investments of a Multinational Scope</i>	Gustavo Lagos Director Institute for Latin American Integration Inter-American Development Bank Buenos Aires

II. Experience in multinational investments

<i>The European Experience. Investment Experience of the European Coal and Steel Community</i>	Albert Coppé Member of the Commission of the European Communities Brussels
<i>Foreign Investments The European Experience</i>	Pierre Uri Deputy Advisor Studies Service The Atlantic Institute Coulgogne-sur-Seine, France
<i>The African Experience. Iron and Steel in West Africa</i>	Bax D. Nomvete Center for International Affairs University Harvard Cambridge, Massachusetts
<i>Possible Lessons of the Tennessee Valley Authority for Latin American Integration</i>	David E. Lilienthal Development and Resources Corporation New York (Presented by Walton Seymour)
<i>Latin American Experience in the Multinational Investment Field</i>	José C. Cárdenas Integration Advisor Inter-American Development Bank Washington, D. C.

The Round Table documents are available in a separate publication.

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Public Credit

Nicaragua

Governor

Arnoldo Ramírez Eva,
Minister of Economy

Advisor

Alberto Salinas Muñoz,
Ambassador to Colombia

Panama

Governor

Alfredo Alemán Jr.,
Minister of Finance

* Temporary

Alternate Governor

Bernardo Q. Gallol,
Ministry of Finance

Advisor

Hernán Porras,
Director General of
Planning and Administration

Paraguay

Governor

César Barrientos,
Minister of Finance

*Alternate Governor**

Manuel Gill Morlis, Director,
Banco Central del Paraguay

Advisor

Carlos Chávez Bareiro,
Banco Central del Paraguay

Peru

Alternate Governors

Ramón Remolina,
General Manager,
Banco de Fomento Agropecuario
del Perú

José Morales Urresti,*
President,
Banco Central de Reserva del Perú

Julio Andrea Marcazzolo,*
Executive President,
Banco Industrial del Perú

* Temporary

Advisor

Pablo Kuczynski,
Assistant Manager,
Banco Central de Reserva del Perú

Trinidad and Tobago

Governor

Francis C. Prevatt,
Minister of State for Finance,
Planning and Development

Advisors

Solomon S. Lutchman,
Minister Counsellor,
Embassy of Trinidad and
Tobago in Washington

Eugenio Moore,
Acting Director of Planning,
Ministry of Planning and Development

United States of America

Governor

Henry H. Fowler,
Secretary of the Treasury

Alternate Governors

Covey T. Oliver,*
Assistant Secretary of State for
Inter-American Affairs and U.S.
Coordinator, Alliance for Progress

John R. Petty,*
Acting Assistant Secretary of the
Treasury for International Affairs

Advisors

Robert G. Stephens, Jr.,
Congressman,
Banking and Currency Committee,
House of Representatives

Reynold E. Carlson,
Ambassador to Colombia

E. Jay Finkel,
Director, Office of Latin America,
Treasury Department

Ralph Hirschtitt,
Deputy to the Assistant
Secretary for International
Financial and Economic Affairs,
Treasury Department

Samuel Jones,
Deputy Assistant to the
Secretary (Congressional Relations),
Treasury Department

John F. Kane,
Deputy Assistant to the
Secretary (Public Affairs),
Treasury Department

Ann M. Keiswetter,
Chief, Lending Coordination Division,
Office of Regional Policies and
Programs,
Department of State

Harold F. Linder, President,
Export-Import Bank

Fred B. Smith,
General Counsel,
Treasury Department

Reuben Sternfeld,
Alternate Executive Director,
Inter-American Development Bank

Uruguay

Governor

Oscar Víctor Rachetti,
Vice President and Acting President,
Banco de la República Oriental
del Uruguay

Alternate Governor

Gervasio Posadas Belgrano,
Professor of Economics,
School of Law and Social Science

Advisors

Carlos Ricci,
Deputy General Manager,
Banco de la República Oriental
del Uruguay

Víctor M. Sardo, Manager,
Promotion Division,
Banco de la República Oriental
del Uruguay

Egon J. Einoder Egl,
Cámara de Industrias

Bernardo Supervielle Saavedra,
President,
Cámara Nacional de Comercio

Venezuela

Alternate Governors

Héctor Hurtado, Director,
Oficina de Coordinación y
Planificación

Oscar Niemtschik,*
President,
C. A. de Administración y
Fomento Eléctrico

Advisors

José R. Deluca V., Advisor,
Ministry of Finance

* Temporary

César A. Manduca, Director,
Financial Department,
Oficina de Coordinación y Planificación

Hugo Romero Quintero,
Assistant Director,
Department of Economic Research,
Oficina de Coordinación y Planificación

Ramón Hernández Paz, Director,
Industrial Department,
Oficina de Coordinación y Planificación

OBSERVERS

African Development Bank

Ade John
Director

Asian Development Bank

C. S. Krishna Moorthi
Vice President

Bank for International Settlements

Antonio d'Aroma
Secretary General

Barbados

N. S. Osborne, Financial Secretary Ministry of Finance	Valerie T. McComie, Acting Representative to the Organization of American States
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Center for Latin American Monetary Studies

Javier Márquez
Director

Central American Bank for Economic Integration

Enrique Ortiz Colindres Vice President	Hugo Ordóñez Fernández Director for Guatemala
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Economic Commission for Latin America

Alejandro Power
Director, Bogota Office

European Economic Community

Giampetro Morelli
Division Chief

Food and Agriculture Organization of the United Nations

Alfredo M. Saco, Director,
Liaison Office for Inter-American Organization

Inter-American Committee on the Alliance for Progress

Carlos Sanz de Santamaría	Santiago Salazar Santos
Chairman	Special Advisor

Inter-American Council of Commerce and Production

John P. Phelps, Jr.
First Vice President

Inter-American Institute of Agricultural Sciences

José María Franco Ortega
Official Representative in Colombia

Inter-American Regional Organization of Workers

Tulio Cuevas, President, Colombian Workers Union	Arturo Jáuregui H. Secretary General
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José Mercado
President, Colombian Workers'
Federation

Inter-American Statistical Institute

Francisco de Abrisqueta
Representative

Intergovernmental Committee for European Migration

Guillermo Cruz Duque
Acting Chief, Liaison Mission in Colombia

International Bank for Reconstruction and Development

Roger Chaufournier*
Assistant Director,
Western Hemisphere

Jorge Mejía Palacio*
Executive Director

Luis Machado*
Executive Director

Neil Paterson, Director,*
Department of Research for
Latin America, Europe and Australasia

International Labor Office

G. Eboli, Director
Liaison Office for Latin American Activities

International Monetary Fund

Jorge del Canto, Director,
Western Hemisphere Department

Edison Zayas, Division Chief,
Western Hemisphere Department

Latin American Free Trade Association

Maz de la Fuente Locker
Chairman, Executive Committee

Latin American Institute for Economic and Social Planning

Cristóbal Lara Beutell
Deputy Director General

Benjamín Hopenhayn
Director, Projects Division

Organization of American States

Theodore Mesmer
Assistant Deputy Director
Department of Economic Affairs

Organization for Economic Cooperation and Development

Louis Mark, Jr.
Assistant Director

* Also represented the International Finance Corporation and the International Development Association.

Pan American Health Organization

Norberto Espinosa
Representative in Colombia

Permanent Secretariat of the General Treaty for Central American Economic Integration

Carlos Manuel Castillo
Secretary General

Raúl Sierra Franco
Deputy Secretary General

United Nations

Anthony Balinski
Development Program
Representative in Lima

George Makovsky
Development Program Representative
in Colombia

United National Educational, Scientific and Cultural Organization

Luz Vieira Méndez
Director, Regional Education Office

SPECIAL GUESTS

A total of 459 special guests from 34 countries also attended the Ninth Meeting of the Board of Governors.