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NEW FINANCIAL MECHANISM FOR THE REGION

Inter-American Bank President Antonio Ortiz Mena says that the participation of the private, international banking community constitutes a key element in Latin America's development, not only because the volume of potential resources required in the region is substantial but because of the need for ensuring highly flexible financing sources.

Ortiz Mena spoke before a group of representatives of Latin American central and commercial banks as well as American bankers, brokers and financial agents at a conference at New York's Federal Reserve Bank September 22 to inaugurate the introduction of Latin American Bankers' Acceptances (LBAs) into the New York market. The LBAs will be generated by a system of payments from the Latin American Free Trade Association (LAFTA) and will be negotiated on the New York market to obtain short-term financial resources.

Ortiz Mena noted that the introduction of LBAs into the New York market brings to a successful conclusion an initiative launched by the central banks of the member countries of LAFTA and the Dominican Republic in conjunction with the IDB.

Focusing on the region, he said that "significant progress has been made over the past 15 years in industrializing the Latin American economies. Modernization has made industry the most dynamic sector in the economic development of the region, particularly in the expansion and diversification of exports. Latin American industrial output virtually tripled between 1960 and 1975, from $22 billion to $59 billion. This trend has also been evident in the composition of Latin American exports, with the share of manufactures increasing from 12 per cent in 1960 to 24 per cent in 1975."

"The rapid development of nontraditional exports", he added, "has been sparked primarily by new trade flows among the Latin American countries, particularly within the framework of the integration groups. In this connection, the CIF value of imports in the LAFTA area rose from $670 million in 1960 to almost $4 billion in 1975 and the outlook is that this upward trend will continue over the coming years.

"It is thus logical for our countries to have focused on establishing mechanisms to promote nontraditional exports. It is a difficult task requiring steady and intensive effort. We are well aware of the fact that access to external markets requires more than the production of low-cost, high-quality manufactures. It is also necessary to provide financial mechanisms to defer payments by granting credits at terms and costs similar to those of the competition."

Ortiz Mena observed that "the Inter-American Bank has long recognized this problem. In 1963 the Bank launched a

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IDB President Ortiz Mena and Mexico's President-Elect José López Portillo discuss future relations between the Bank and Mexico.

MEXICO AND THE IDB: A NEW RELATIONSHIP

José López Portillo, President-elect of Mexico, and Antonio Ortiz Mena, President of the Inter-American Development Bank, met recently in Washington to discuss the future participation of the Bank in Mexico's development programs.

The meeting, designed as a departure point for new relations between the Bank and Mexico, marked the beginning of a heavy schedule the Mexican leader had during his visit in the United States.

Similarly, Mr. López Portillo was received by President Gerald Ford and by the local leaders of the international finance and American community. Still, his reunion with Mr. Ortiz Mena was of a special nature because of the close friendship which exists between the two leaders and because of their reciprocal interests.

The IDB, which has thus far granted Mexico 84 loans totaling $1,380 million, was requested by Mr. López Portillo to provide its support to the development programs Mexico will implement under his six-year term, beginning December 1, 1976. In this respect, his interview with Mr. Ortiz Mena was of prime importance vis-à-vis the implementation of the Bank's technical and financial cooperation in Mexico.

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program to finance intraregional exports of capital goods. To date, about $130 million has been provided to finance exports valued at $200 million under the program. Last year it was expanded with resources of the Venezuelan Trust Fund, which is administered by the IDB, to include financing of exports of non-capital goods as well as exports to countries outside the region. More recently, in response to a suggestion of the Government of Panama, the Latin American central banks agreed to sponsor a study on the feasibility of a mechanism to refinance exports using funds channeled through the financial market in Panama City. Our institution is also cooperating in this study."

"This initiative, which links national export financing systems in Latin America with international private banking, also recognizes the growing importance of private foreign financing in the development of our countries," Ortiz Mena continued. "The trend began in the middle of the last decade and has become increasingly significant in recent years, to a point where the net inflow of private funds to Latin America has currently more than doubled the external public financing. As to LBAs, participation by international private banks will be a key factor, not only because the volume of potential resources required may be very large but also because of the need for ensuring highly flexible financing sources."

"LBAs," he concluded, "are going to market under very auspicious circumstances, for Latin America now has acquired experience which I am certain will be most useful for this new initiative. The export financing system established by the IDB has acquainted Latin America with the operation of the mechanisms of the industrial nations and at the same time has improved and strengthened the systems operating in our own countries. Furthermore, the very sharp rise in intraregional trade flows has encouraged closer relations between importers and exporters, and has brought about new modes of cooperation among the central and commercial banks of the region. We might recall that the payments mechanism established by the LAFTA central banks has been operating for over ten years through the Peruvian Reserve Bank, a period in which every participating country has met its obligations on schedule. Obviously, these experiences provide a high degree of security for potential investors in LBAs."

IDB ESTABLISHES NEW INTEREST RATE LEVEL

The Bank's Board of Executive Directors announced September 16 that interest rates on loans from ordinary capital resources would be raised from 8 to 8.6 per cent. Similarly, it fixed the interest rate at 8.6 per cent on loans from the inter-regional capital, a financial source recently created when seven European countries along with Japan and Israel joined the IDB as members.

The new rate was set based on the cost of loans obtained by the Bank in international capital markets over the last 12 months, plus a slight additional charge which covers the Bank's administrative costs. The interest rate for ordinary capital resources and inter-regional capital will be adjusted each July 1 on the basis of the above formula. Additionally, if, at the end of each December, normalized borrowing costs show an increase or decrease over the costs determined each June 30, the Bank will make the necessary adjustment of the average effective lending rate, to take effect immediately.

This formula for establishing lending rates will be reviewed as experience is gained. Such reviews will include the method for determining normalized borrowing costs, the spread for other costs, as well as the frequency of adjustments.

Despite world inflation and the interest-rate variations registered over the last five years, the Bank's interest rate on ordinary capital resources did not vary since 1969. On the other hand, interest rates on World Bank loans from 1969 to the present increased from 6.50 to 8.90 per cent. Other regional financial institutions, such as the Asian Development Bank, progressively moved lending rates from 6.875 to 9.10 per cent.

According to IDB President Antonio Ortiz Mena, the interest-rate adjustment which was retroactive to July 1, 1976, will still qualify the Bank as the region's cheapest source of external financial resources—a fact which makes it possible for Latin American member countries to obtain the most advantageous conditions for their development programs.

Also, loans from the Bank's Fund for Special Operations—designed to finance programs and projects of great social significance, especially in the agricultural, education and sanitation sectors—will continue to be granted as before, at rates which vary between 1 and 2 per cent annually and which provide ample grace periods and repayment terms of up to 40 years.

LBAS: WHAT THEY ARE, HOW THEY OPERATE

Latin American Bankers' Acceptances are a product of extensive efforts by the central banks of Latin American countries, together with the Latin American Free Trade Association (LAFTA), to create a new mechanism for financing the growing volume of regional trade.

The LBAs arise out of letters of credit financing the shipment of goods between participating countries for which payment is channeled through a payment mechanism established by the central banks of the LAFTA nations and the Dominican Republic. Each LBA is denominated in U.S. dollars, has an original maturity of 180 days or less and is payable in New York.

As early as 1966 the commercial banks of several Latin American countries recognized that the growth of regional trade created a need to obtain additional financing from private sources outside Latin America. The bankers' acceptances were recognized as the vehicle best suited for securing additional financing in the New York market and in other major financial centers.

On September 20, 1973, the central banks of the LAFTA member countries signed an agreement which created the LBA and endowed it with its special characteristics. These include guarantees by the central banks that accepting banks would be able to purchase the dollars necessary to pay their LBAs as they matured and to transfer such dollars to the place of payment, regardless of any exchange controls that might exist in some of the countries. In addition, the payment mechanism provides that the accepting banks are reimbursed through the multilateral settlement of payments among the participating countries.

Since then, the central banks of the participating countries have held frequent consultations among themselves and with representatives of the Federal Reserve Bank of New York, the Inter-American Bank and financial organizations in New York with a view to facilitate the sale of LBAs in the United States market by individual Latin American commercial banks.

The creation of the LBA is only the latest in a series of initiatives undertaken by the central banks of the participating countries to promote the expansion of regional trade since LAFTA was founded in 1960. The eleven LAFTA members are Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Science of Management is the Key for Development

"To govern is an art, to manage is a science,"
Eduardo J. Couture, Uruguay.

The struggle for social and economic progress is continuous in every country of the world. Yet this struggle is more acute in "developing nations", which are so called because they have not achieved an acceptable, social-welfare level or because they have not reached a level comparable to the industrialized nations. The reasons for the gaps between the developed and developing worlds are many, but it is not my purpose to delve into them in this article. Rather, I will focus on a few factors which hamper the development process in less developed countries and, as a consequence, widen the gulf between these nations and the industrialized world. These factors are, management and administrative control and how they bear on development efforts.

The science of management (including accounting, economics and finance) is a field which shows major imbalances among the developing and developed worlds. Scientific management techniques, including Critical Path Method (CPM), Project Evaluation Review Technique (PERT) and the use of sophisticated computers, are frequently not within the reach of developing countries. As a result, both a nation's private and public sectors are handicapped because their decision-making process is delayed or because decisions are not based on reliable information and thus may be incorrect or may not achieve certain objectives.

The task and responsibility for achieving a greater developmental stage lies with a nation's people, government and private enterprise. But a major burden rests on governments, which are presumedly the watchdog of a nation's general interest and which must try to obtain a balanced socioeconomic development.

Those charged with leading a nation, particularly with guiding its economy, are obliged to formulate policies or apply existing ones to achieve various predetermined goals which harmonize with national realities and prevailing circumstances (both internal and external).

A nation's developmental efforts, particularly those carried out with other nations (say, in the form of bilateral agreements or multinational action) are generally aimed at achieving certain short, medium or long-term objectives. And the skill—or "art"—of applying wise policies to bring about greater national development is clearly the responsibility of governments.

The best developmental objectives which harmonize with beneficial government policies, which are based on technical, economic and financial feasibility studies and which are later converted into investment projects—frequently do not materialize as envisaged. Or, on the other hand, the realization of a project is excessively delayed, which consequently holds up the benefit to be derived by the project's beneficiaries.

The reasons for a development project's delay are many, but generally they entail administrative deficiencies, lack of financial planning, insufficient technical know-how, lack of operational wherewithal (human and financial resources), institutional instability, etc.

The above developmental barriers are not, of course, the exclusive heritage of developing countries, but their end result is critical because their needs are urgent and resources limited. The loss of time and poor allocation of resources, prompted by a lack of planning and good management, are negative factors which have a more negative impact on poorer countries.

For some developing countries which have become victims of these factors, the Bank—in addition to providing finance—offers a wide range of technical assistance and training programs. For this reason, the institutional, management, accounting, financial and economic problems of its borrowers and/or executing agencies are given as much consideration and importance as the actual financing of the projects. The Bank, by blending its own evolutionary growth with the growing pains and development problems of its Latin American member nations, has continually made adjustments to its organizational structure, control procedures, and the management of both projects and loans. Since it is not the objective of this article to give a detailed history of the IDB's evolutionary process, suffice it to say that the Bank is constantly adapting to change and tailoring its services to meet the needs of its member countries.

In this perspective, let's look at the Bank's scope. It has representative offices in every member country of Latin America. Approximately 80 per cent of these offices' executive, professional and administrative staff is geared to the administration of loan projects. Each project has assigned to it a sectorial specialist whose professional capacity is attuned to the project's needs. The international professionals, who come from the Bank's member countries, fulfill supervisory functions and collaborate closely with the executing agencies so that projects are correctly implemented and conform to the conditions of each loan contract.

The IDB has the following number of sectorial specialists in its representative offices: agriculture and fishing, 24; transport, 20; industry and mining, 12; irrigation, 7; electric energy, 11; sanitation and health, 17; urban development and housing, 11; education, 6; accounting and finance, 20; telecommunications, 2; and tourism, 1. As of January 31, 1975, these specialists were attached to 341 projects totaling $5,599 million in Bank loans.

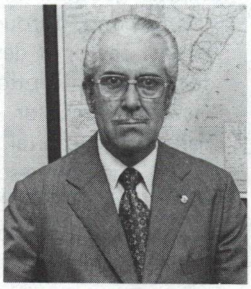
The representative offices, which form part of the Bank's Department of Operations, are given supervision from its headquarters in Washington, D.C. The Department of Operations, with the support of other departments (such as Project Analysis, Social and Economic Development, Legal and Finance) fulfill the double function of producing new loan operations and controlling (administering) those in execution.

Similarly, a high percentage (about 50 per cent) of the Bank's personnel is geared to the administration and supervision of loan projects, a task which lasts throughout a project's execution period (generally from four to six years) and until the total amortization of the respective loan.

The Bank's staff not only produces loan operations and controls the implementation of projects but they also provide technical cooperation and training programs. For example, as of December 31, 1975, the Bank has granted more than $50 million for "institutional strengthening", covering organizational structure, management, accounting, economics and finance.

The Bank's training programs are implemented through courses, scholarships, seminars, etc. From 1961 to the end of 1975, the Bank—either by itself or in conjunction with other institutions—carried out courses and seminars benefiting 14,266 participants. In effect, the Bank serves as an educational center for its member countries because Latin Americans who work for it can later return to their countries and apply the expertise they have learned.

In short, the IDB "is more than a bank" because—in spurring socioeconomic development in Latin America—it not only lends money but provides technical assistance and training programs to its member countries in the region.



The author of this article, Alfredo M. Amy, is a Senior Officer in the IDB's Department of Operations. Before joining the Bank in 1967, Amy, an Uruguayan citizen, was Sectorial Manager in the Finance Division of *Usinas Eléctricas y Teléfonos del Estado*. He received his bachelor's degree in public accounting in 1948 from the University of Uruguay.

Tourism Offers Development Vehicle For Some Nations in Latin America

The growing importance of tourism as a tool for spurring socioeconomic development in Latin America's developing nations is attracting increasing attention by both governments and regional and local authorities, says Juan Claudio Divencenti, a specialist in IDB's tourism section.

Divencenti notes that "tourism offers an alternative or complementary vehicle for many Latin American countries. For example, it is not only a source of foreign exchange but it readily lends itself to the basic transformation of the country's economy from traditional agricultural to a more modern society."

Divencenti points out that there are several reasons why Latin America's developing nations should consider tourism: First, tourism is labor-intensive and compares favorably with other economic activities as a generator of employment; second, tourism can generate economic growth in countries or regions that do not have natural resources such as minerals; third, tourism can speed up the development process because the gestation period of most tourism investment projects is relatively short; fourth, for some countries the demand prospects for international tourism are better than for traditional exports.

He adds that the following are indirect economic advantages: Infrastructure development benefits not only foreign tourists but domestic tourists and local residents as well; jobs are created for unskilled workers; tourism can be the main component of a regional policy aimed at achieving an equitable balance between major industrial areas and other non-industrial areas of the country; tourism may contribute to the development of other industries, i.e. leather goods, handicrafts, jewelry, textile, glassware, food and beverage, specialty confectionary, equipment and supplies, etc.; development of the tourist industry may promote a better image of the country in the eyes of the world and thereby enable it to achieve other objectives.

In formulating its tourism policy, Devincenti notes that a government has a number of possible options before it. It will have to decide, for example, the rate of growth it wishes to see in the tourism sector, whether to encourage mass tourism or to cultivate a slower and more selective growth. It will have to determine the respective roles of the public and private sectors in developing the tourist industry, and, similarly, of domestic and foreign capital. It must also establish the importance to be given to the needs of the tourism sector in plans for national and regional development.

Moreover, he says it is important that governments clarify their thinking as to the objectives of tourism development. It is also important that they recognize that tourism can represent one of the most hopeful economic resources of the country. Tourism as a sphere of government concern is a new phenomenon, and many development experts feel that it has not yet fully "arrived" in government recognition. In particular, they feel it is one of the tasks of tourism planners to convince governments of the economic importance and "seriousness" of the tourism sector, in order to ensure that it receives the proper consideration in government planning priorities.

GROWTH MODEL

When using tourism to help convert an economy from traditional to modern, it is convenient to look at the three-sector growth model. In this model, the fundamental growth relations are between the traditional and modern sectors, with the third or foreign sector performing a facilitating role. Growth occurs as a result of capital formation in the modern sector resulting from the reinvestment of the "capital surplus" made possible by the transfer of redundant labor from the traditional sector. As labor is shifted, its productivity to the modern sector rises, thus creating a marketable surplus that is available for consumption and/or direct or indirect investment.

According to Devincenti, the foreign sector facilitates the transformation process for two reasons: First, through exports it provides a source of foreign exchange that can be used to acquire capital goods and necessary raw materials; second, through production in the export sector it develops an opportunity for labor absorption and profits which, through direct or indirect reinvestment, can lead to capital formation.

In the three-sector model, tourism would be part of the foreign sector since it is producing goods and services for consumption by foreigners. In view of the limitations of raw materials and manufactured exports faced by less-developed countries, there are compelling arguments for some Latin American countries to consider fostering tourism as a development strategy.

For one thing, many developing countries in Latin America have a comparative advantage in tourism. The ingredients for a "tourism package" are variable but include an appropriate climate and sufficient service outlets. Many Latin American nations are located in appealing climates, a factor that, combined with such characteristics as a unique culture, history and unusual natural scenery, gives them a competitive edge in tourism. Mexico's tourism development is illustrative of the point.

For another, the prospects of tourism demand appears favorable. It is estimated that over the last decade total tourism receipts have grown at 11 per cent a year. World trade in manufactures and primary products, on the other hand, have increased 9.2 per cent and 4.8 per cent, respectively during the period.

The largest tourist-generating countries are the United States, Canada and Western European nations. In these countries the major factors accounting for the increase in foreign-travel demand are higher incomes and more favorable income distribution, changes in tastes and preferences, longer-paid vacations and declined travel costs. These factors lead to the conclusion that the tourism market should continue to be strong in the future.

Faced with the need to import capital goods and raw materials as well as to service foreign debt, Divencenti indicated that Latin American nations can use the tourism industry to help close foreign-exchange gaps. As such, tourism can complement the modernization of nation's economy by generating substantial foreign-exchange earnings.

MEXICAN EXPERIENCE

Mexico's experience provides evidence that a growing industry can sometimes offset an unfavorable balance of trade. For instance, in 1960, 1964, 1965 and 1966 Mexico's excess of imports over exports was about the same. During these same years tourism receipts were increasing to account for 33.9, 5[illegible], 61.7 and 74.2 per cent respectively, of the trade deficit. In fact, this had a favorable effect on Mexico's balance of payments and gave it more flexibility

St. Lawrence Apartments Hotel, **in Barbados. Built with financing from the IDB, this hotel caters to the growing number of tourists who visit this sun-drenched Caribbean island.**

vis-à-vis the use of its foreign exchange.

Tourism also creates external economies. First, the requirements for infrastructure, such as an adequate transportation system, water supplies and sanitation facilities, are essential. The creation of a transportation system, which connects markets and reduces transport costs, constitutes an external economy. Most other infrastructure projects serve the tourism industry and indirectly benefit other socioeconomic activities as well. Second, acquired skills resulting from tourism production readily spill over into the rest of the economy. Since workers are drawn out of the traditional sector for employment in the tourism industry, their mobility is increased and their skills are transferred to other occupations.

Because tourism is service-oriented, it has the advantage of being labor-intensive and capital-saving, a desirable situation in a country where capital is scarce and labor abundant. Figures from a recent input-output study in Mexico showed that for $80,000 invested in tourism, 41 jobs were created. The same investment would create 16 jobs in petroleum, 16 jobs in metal products or eight in electricity.

Because of the low capital-labor ratio and the ease of absorbing traditional workers into tourism, the conditions of the three-sector industry model for labor absorption and capital formation are readily filled. The transfer of labor to the tourism industry will create conditions for a capital surplus in tourism as well as a marketable surplus in the traditional sector, thus leading to a dual potential for capital formation. If the tourism industry is expanding, there should be incentives for direct investment of this surplus into other productive activities.

Still, there are a number of tourism limitations. First, the composition of a tourism package within a country will set a limit to the size of the industry. If the industry is small, there will be a strong tendency toward developing an enclave. Enclaves limit opportunities for employment and income generation and create few externalities; as a result, the contribution of tourism to development is circumscribed. Nevertheless, tourism confined to an enclave could still have positive advantages not only as a source of foreign exchange but also as a source of development in the particular region.

Second, even if a country has a sizable tourism package, it must compete on the world market. This means that the package should be a quality product and should be marketed effectively. Services, facilities and accommodations must meet the standards of the tourists. This will require adequate infrastructure and in most cases the establishment of a government tourism office to regulate and control the quality of service at all levels.

Third, there is the likelihood that tourism receipts will vary with economic conditions in other countries. With the high elasticity of demand for tourism, the industry will be susceptible to foreign cyclical fluctuations.

A fourth disadvantage, which may be the most economically disastrous, is the hazard of excess capacity. Given a large number of small autonomous producers there may be a tendency to overbuild. This, coupled with the regular seasonal fluctuations in the tourism market, may lead to excess capacity. This problem may be overcome in part by off-season promotion and control of tourism development through national institutions.

Fifth, the tourism industry requires a substantial outlay for infrastructure (transportation, water and sanitation) if this does not already exist. It is estimated that half the investment in tourism in Mexico is in infrastructure. Clearly, this creates a need for an extensive government outlay that must, in large part, precede the development of private tourism facilities.

All in all, for a developing country endowed with an appealing tourism package—culture, climate, history and geography—the tourism industry can be a leading sector (facilitator) in the development process. World demand for tourism has grown, and is expected to continue to grow with higher incomes and more leisure time. The product, when compared with traditional exports of primary products, has the advantages of being a source of foreign exchange with growth potential; a source of domestic savings and capital formation; a means of implementing labor absorption and improving income distribution; and as a viable instrument for changing traditional values.

As to the IDB's role in encouraging tourism, it has thus far extended six loans amounting to $71 million to help finance tourism projects whose total cost is $185 million. One of these loan projects—the development of the resort of Cancun and related archeological sites in Mexico's Yucatan—is already virtually complete. In addition, about 212 credits for small-scale tourist projects have been extended by the Bank through loans given the development banks in Latin America.

THE IDB AT INTERNATIONAL MEETINGS

Among recent international meetings on economic and social development in which Bank officials have participated—and some of the topics discussed and conclusions or resolutions adopted—were:

SIXTH ANNUAL MEETING OF THE BOARD OF GOVERNORS OF THE CARIBBEAN DEVELOPMENT BANK. St. Kitts, St. Kitts-Nevis-Anguilla, May 12-13. The Meeting—under the Chairmanship of Honorable C. A. Paul Southwell, Deputy Premier and Minister of Trade, Industry, Development and Tourism, St. Kitts-Nevis-Anguilla—was attended by Governors representing all the Member Countries of the Caribbean Development Bank as well as by observers from various national, regional and international organizations. The Bank was represented by Julio C. Gutiérrez, Executive Director; Pedro Abelardo Delgado, Deputy Manager, Region II; and Alberto Pereira Da Silva,, representative of Barbados.

At the Meeting, the Board noted the Annual Report for 1975 and the Administrative Budget for 1976 submitted by the Board of Directors. It approved the Audited Financial Statements of the Bank for the year ended December 31, 1975, in respect of its Ordinary Operations, the Special Development Fund, the Agricultural Fund, the Housing Funds, the Counterpart Contribution Fund, the Commercial Livestock Production Fund and the Venezuelan Trust Fund.

The Report of the Committee appointed in May 1975 by the Board of Governors during its Fifth Annual Meeting to consider the implications of expanding membership of the Bank was submitted for consideration. The Board decided that consideration of the Report should be deferred for further study of the implications of expanding membership of the Bank, with special reference to the "catchment area" for new membership of the Bank and to the definition of the Caribbean "region" in time for consideration at the Seventh Annual Meeting of the Board of Governors.

The Bank's President, William G. Demas, observed in his annual statement to the Board that "there are three crucial requirements for development of our countries. First is the commitment of making the necessary efforts and sacrifices for obtaining permanent development. Second is the need for managerial and technological capacity at all levels, including the capability of negotiating with subsidiaries of transnational corporations and other foreign investors. Third is the need for administrative organization, both at the civil-service and private-company level.

"We, as a Bank, provide capital and, to some extent, free technical assistance; but our capital cannot be used either quickly enough or effectively enough unless these three requirements are present in the borrowing countries."

SEVENTH CONFERENCE ON UNITED NATIONS PROCEDURES. Muscatine, Iowa, May 21-24. The Conference, sponsored by the Stanley Foundation, was attended by 46 participants largely from the U.N. Secretariat, specialized international agencies and various missions to the U.N. George D. Landau, Senior Advisor of the Office of the President, represented the Bank.

The Conference discussed four topics: Restructuring of the U.N. Economic and Social System; Operational Activities of the U.N. System; Regional and Other Inter-governmental Organizations; and Budget and Finances. One of the Meeting's aims was to make an analysis of developmental aid given under the auspices of the U.N. system with a view to suggesting possibilities for reform.

In this respect, the Meeting's participants opted to identify the main features of the U.N. development system and its range of activities followed by possibilities for reform in terms of: the relationship between national priorities and global concerns; the role of governments of developing countries; the role of specialized agencies; physical structure of the system; coordination at the field level; cost effectiveness of aid; and the methods of performance evaluation.

As to the role of governments in developing countries, the Meeting's participants recognized that one of the main objectives of multilateral aid to promote the self-reliance of developing countries, and that one of the ways in which this aim can be achieved is through encouraging the execution of projects by governments and national institutions. It was felt that this was a major objective of the decision to decentralize the activities of the system.

It was further agreed that to promote such activity, the governments concerned should be assisted in overcoming the difficulties they might experience in undertaking the execution of projects. On the other hand, to maintain and improve proper quality, the need for careful project design, joint evaluation and supervision during implementation and after completion of the project is essential.

SEVENTH WORLD CONGRESS OF INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES (IAFEI). Rio de Janeiro, Brazil, July 18-21. Joaquín González, Deputy Manager of Integration, represented the Bank.

The aim of IAFEI's annual meetings are to study and discuss aspects relating to the financial and administrative management of companies, including banking, commercial, industrial and service enterprises in the private and public sectors. The organization is composed of 21 institutes from both the developed and developing worlds. In Latin America, Argentina, Colombia, Costa Rica, Mexico, Peru and Venezuela are members.

The meeting examined accounting and financial management aspects, focusing on the experience of various nations and how they attract foreign capital and form "joint ventures". Louis Gerstner, of McKinsey and Company, and P. H. Warner, of the Bank of America, spoke on "The Capital Crisis: Its Implications for Financial Management Worldwide." According to them, the Western World will be faced with an acute shortage of long-term capital in the future, which will adversely affect the financing situation of private firms and oblige them to manage their finances carefully over the coming years. Factors which will prompt this financial squeeze will be a reduction of company profits, an increase in governmental-deficit spending and a greater demand for governments to raise resources on international capital markets, and an increase of interest rates.

DIALOGUE ON AGRICULTURE AND DEVELOPMENT

A group of agricultural experts meeting in Ecuador agreed that unless social injustice is eliminated in Latin America's rural sector the recent achievements in increasing food production and agricultural efficiency could be eroded.

The meeting, attended by 30 agricultural specialists and experts on Latin American development, was sponsored by the Institute for Latin American Integration (INTAL), the Overseas Development Council and the Latin American Forum. It was held August 2-7 in Chorlaví, Ecuador.

The conference, whose theme was "Dialog on Food and Development," focused on food-production and rural-development problems, particularly those of small farmers. It also examined the application of research and technology to agricultural development and food production, as well as international cooperation in agriculture and the need to establish a global, food-reserve system.

The participants concluded that many of Latin America's agricultural policies have not contributed to improving food production and marketing nor have those industrialized nations' policies which have been copied by developing countries contributed to stimulating food production.

The conference touched upon the import restrictions imposed by the European Economic Community on beef and other temperent-zone products and how they have affected Argentina, along with how the measures adopted by the United States have discouraged the production and exportation of soybeans by countries such as Brazil.

Finally, the participants agreed that programs aimed at improving the world's food production and distribution, and which will concomitantly assist developing countries, are an integral part of the recent initiative to establish a new international economic order.

Participants of the conference included Galo Plaza, ex-General Secretary of the Organization of American States; Juan Portalís, President of Latinoconsult; Gabriel Rosas, Executive Secretary of the Inter-American Council of Trade and Production; Armando Samper, ex-Director of the Food and Agriculture Organization for Latin America; Carlos Gutiérrez Lima, Director of the Central American Agricultural Development Project of the Agency for International Development and the Permanent Secretariat of the General Agreement of Central American Integration, and Germánico Salgado, of the *Junta del Acuerdo de Cartagena.*

Arnaldo Musich, Argentina's Ambassador in Washington, and IDB President Antonio Ortiz Mena, sign the documents for a $30 million loan from the Bank to develop Argentina's forestry resources.

IGAD/LA

With this issue, the International Group for Agricultural Development in Latin America (*GIDA/AL*) launches a regular column in the IDB News. Over the coming months, the Group, which includes the IDB and several other international organizations and private foundations, will present reports on GIDA/AL's activities and describe new agricultural developments of interest to the region.

Since GIDA/AL's First Meeting of Consultation in Cancún, Mexico last May, the Group met to determine procedures for implementing the Group's action plan. To facilitate this, eight countries have assigned a liaison office to GIDA/AL.

Because of the high level of representation at the Cancún Meeting and its importance as a regional agricultural forum, the Group's General Coordinator will publish shortly a summary of the conference's conclusions, which will form the *"Carta Agrícola de Cancún"*.

A working group representing the IDB, the World Bank, the Consultative Group on Food Production and Investment, the Inter-American Institute of Agricultural Sciences and the United States Agency for International Development met in July with the Coordination Office to discuss the implementation of GIDA/AL's work plan in accordance with the Cancún Meeting. As a result, activities in these four fields are underway:

- Representatives from the Coordination Office, the Pan American Health Organization and the Organization of American States have initiated negotiations with the government of Argentina vis-à-vis a proposal they presented in Cancún to establish a regional center for the control of foot-and-mouth disease.
- Discussions have been held to initiate a coordinated-investment and technical assistance program to reduce post-harvest food losses in the Central American region. The Group, as a mechanism for coordinating agricultural financing and defining objectives, will play a catalytic role in promoting this program and presenting project possibilities to the Group's member agencies.
- The lack of agricultural information at both the farm and policy level was cited at the Cancún Meeting. To close this information gap, the Coordination Office met with the Inter-American Institute of Agricultural Sciences and the North American Smithsonian Science Information Exchange. As a result, a proposal to create a mechanism for the sharing of agricultural information in the Latin American region is being prepared.
- A two-man GIDA/AL Mission to the English-speaking countries of the Caribbean was undertaken to explore with the national agricultural leadership and field representatives of international member organizations possible roles for GIDA/AL in the developent of sub-region's agricultural sector. These discussions and the observations made by the Caribbean's representatives in Cancún, will be the basis for proposals for a coordinated action.

Besides its role to promote the coordination of agricultural financing and technical assistance, the Group also plans in future issues of IDB News to share information concerning new scientific and technical developments in agriculture.

Through its association with public and private scientific organizations, the Group frequently discovers new developments in technology and/or the application of available technology before these breakthroughs have been publicly announced. Future columns will elaborate on some of the more promising agricultural developments and their relevance to Latin America.

Bank Announces Approval of Credit To Better Savings and Loan System

The Inter-American Bank in recent weeks authorized loans for development projects in Argentina, Chile and for a regional project. The details are as follows:

ARGENTINA: The Bank announced August 12 approval of an $87 million loan to help Argentina build a 125-mile gas pipeline from producing fields in Tierra del Fuego to the main line going to Buenos Aires.

The loan will be used by *Gas del Estado*, the Argentine Government agency in charge of supplying and selling gas fuels, to build the pipeline which will convey natural gas from the San Sebastián treatment plant in Tierra del Fuego to the southern terminal on the mainland at Cerro Redondo in the Province of Santa Cruz.

The total cost of the project is estimated at $191,732,000, of which the Bank loan will cover 45.6 per cent. The project will consist of the following works:

- The laying of pipe between the San Sebastián treatment plant in Tierra del Fuego and Santo on the northern tip of the island at the Straits of Magellan, a distance of approximately 69 miles; the laying of an underwater section approximately 31 miles long between Espíritu Santo and Cabo Vírgenes; and the laying of a section between Cabo Vírgenes and the existing terminal of the southern gas pipeline at Cerro Redondo on the mainland, a distance of some 25 miles.
- The construction of complementary installation, including facilities required by the operating and maintenance staffs, and the provision of maintenance equipment.
- The installation of turbocompressors to provide the southern gas pipeline with an additional transportation capacity of 3 million cubic meters a day.
- The installation of a telecommunications network, including a microwave connector from Cerro Redondo to the town of Río Grande in Tierra del Fuego, and two telephone plants at the base of operations in San Julián and at the main plant in San Sebastián.

The proven natural gas reserves of Tierra del Fuego are estimated at approximately 35 billion cubic meters, or some 18 per cent of Argentina's total proven reserves, which were estimated at 201 billion cubic meters in 1974. The 3 million cubic meters of gas per day to be carried from the San Sebastián treatment plant on completion of the project will be increased to 5.5 million cubic meters when the present expansion projects at the San Sebastián plant is completed. Later, after connection to the Cañadas, Piedras and Cañada Alta fields, located north of the island, the gas flow will be raised to 8.5 million cubic meters per day with a peak potential of 10 million cubic meters per day.

To offset a decline in petroleum production, Argentina is seeking to increase the supply of natural gas for use as a substitute for fuel-oil consumption, particularly in industrial and electrical power plants. The daily consumption of natural gas in Argentina, which is estimated at 22.1 million cubic meters in 1976, will rise to some 33.3 million cubic meters in 1980 and to 40 million cubic meters by 1984, of which 27 million cubic meters will be consumed by industrial plants.

CHILE: The Bank announced September 2 a $21 million loan to help Chile finance an industrial credit program in the private sector. The borrower is the *Banco Central de Chile*. The resources of the Bank loan will be used by the *Banco Central*, a group of existing development banks and others that may join the program in the future, and the *Instituto de Financiamiento Cooperativo (IFICOOP)*, a development bank for the cooperative movement, to help install, expand, renew and/or improve private establishments engaged in manufacturing industry through the granting of credits to eligible beneficiaries. The total cost of the program is estimated at $35 million, of which the Bank loan will cover 60 per cent.

Execution of the program will provide the short and medium-term financing required to help stimulate recovery of Chile's manufacturing industry which is oriented toward the output of such goods as foodstuffs, chemicals and fabricated metal products which posses high export potential.

REGIONAL: The Bank announced August 12 the approval of a $15 million loan to help

(Continued on next page)

Aoki, Schulz: New Member Nations Will Bring More Capital to the Bank

Torao Aoki of Japan, and Günther G. Schulz of Germany, were recently appointed Executive Directors for the non-regional members which joined the Bank. Below are their comments on the role these new member nations are likely to play in the future.

IMPACT ON THE REGION

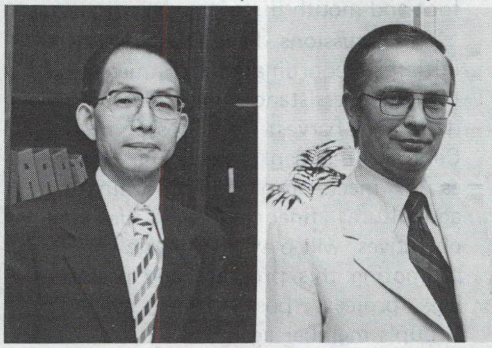
One of the principal contributions that Japan can make to the Inter-American Development Bank is to inject more capital and finance into it, says Torao Aoki, the Bank's newly Executive Director for Japan, Israel, Spain, Switzerland and Yugoslavia.

"Now that Japan is a full-fledged member," Mr. Aoki said, "it is in a better position to help the Bank raise additional finance on Japanese capital markets. Up to now, the IDB has obtained loans through the Export-Import Bank of Japan, but it has yet to float a public bond in our country. We hope that in the future it will be able to do so, thus providing increased funds for Latin America's development."

Despite being at the other end of the Pacific Ocean, Mr. Aoki noted that Japan is interested in developing greater economic, trade and cultural ties with Latin America. "This is one reason," he said, "why my country has become a member of the Bank. The Japanese people are very much interested in Latin America, and it is my responsibility to create closer bonds between Japan and Latin America."

Because he represents Israel, Spain, Switzerland and Yugoslavia as well, Mr. Aoki said he also wants to bring about a closer relationship between these countries and the Bank. To do this, he is building communication bridges between himself and each one of these non-regional member countries.

Asked what impressed him most about the Bank, Mr. Aoki replied:



Directors Torao Aoki and Gunther Schulz

"'Latin Americans.' They are friendly and they have made me feel like a member of the family."

Mr. Aoki began his new assignment as Executive Director July 9. Earlier, he had served in the Minister's Secretariat of the Ministry of Finance where he helped formulate Japan's fiscal and monetary policies. Previously, he was a member of the United Nation's group of experts on tax treaties between developed and developing countries.

NEW POINT OF VIEW

The Inter-American Development Bank's non-regional members can make a contribution to it through an infusion of finance, new ideas and a different viewpoint, according to Günther G. Schulz, the Bank's newly elected Executive Director for Belgium, Denmark, Germany, and the United Kingdom.

"I think our major contribution will be financial—that is, adding more money to the Bank," Mr. Schulz said. "I also think the IDB will benefit by becoming more multinational, thus drawing upon resources from all the free world's developed countries to help promote Latin America's socio-economic development."

Mr. Schulz feels that one of the Bank's more important roles is to assist Latin American nations to raise money from private commercial banks and capital markets throughout the world. "For many Latin American countries," he said, "a lack of financial resources stymies their economic growth and development. Consequently, if the Bank can assist them to obtain funds from commercial banks and capital markets in the U.S., Europe and Japan, it will have made a significant contribution."

Asked how he was adjusting to his new position, he replied: "It is a challenge—like jumping onto a moving train. The reason is that I am pioneering a newly created position rather than replacing another Executive Director. However, I have gathered considerable knowledge about the Bank through my earlier negotiations with it as a representative of the German Government. And I have always held a positive view of the IDB, of its aims and of its projects."

Schulz added that his new position will also be a challenge in that he will not only be a spokesman for Germany, his native country, but he will equally serve as a broker between the four countries he represents and the Bank.

Mr. Schulz said that one of his strongest impressions concerning the Bank "is its friendly, cordial atmosphere, and this has made a newcomer like myself feel at home."

Before entering the Bank, Mr. Schulz served as Chief for Multilateral Finance Institutions in Germany's Ministry of Economic Cooperation. He was in charge of his country's relations with the World Bank, Asian Development Bank and African Development Bank, as well as the negotiations for admission of Germany to the IDB.

(from the preceding page)
finance a program for institutional and financial strengthening of the inter-American savings and loan system. The loan was extended to the *Banco Interamericano de Ahorro y Préstamo* (*BIAPE*), an institution composed of private and public savings and loan associations in the region. It will be used by BIAPE, located in Caracas, Venezuela, to establish a credit program for central savings and loan agencies in Bolivia, Chile, Costa Rica, El Salvador, Honduras, Nicaragua, Paraguay and Peru. The program is designed to help meet the housing needs of lower-income members of savings and loan associations in these countries.

The Bank also approved $500,000 in nonreimbursable technical cooperation to BIAPE to strengthen its institutional capability and improve the national savings and loan system in the beneficiary countries. The technical cooperation, extended from the Social Progress Trust Fund, will be used to contract a consulting firm to improve the technical, financial and administrative capacity of BIAPE, and to carry out studies on Latin America's housing-market features and housing technology. Since the early 1960s, Latin America's savings and loan movement has achieved important progress. According to the Inter-American Savings and Loan Union, as of December 31, 1974, there were 11 million members with total savings estimated at $6.5 billion. The system financed 900,000 homes in 15 countries of the region. Nevertheless, the savings and loan associations have tended to orient their operations to middle and upper-income classes. Conversely, the Bank's loan will benefit low-income groups, plus is designed to consolidate and improve the inter-American savings and loan systems.

NEW APPOINTMENTS

The President of the Bank announced September 17 the appointment of Mr. Jorge Camarena as Chief of the Bank's Personnel Division effective October 1. Mr. Camarena replaces Mr. José B. Villegas, who resigned in order to assume the post of Administrative Manager of the Venezuelan Investment Fund.

Mr. Camarena was previously in the Bank's Personnel Division in several capacities from May 1972 until November 1974, when he occupied the position of Chief of the Office of Management Services. He left the Bank to return to his country.

Mr. Camarena received his Bachelor's Degree in Industrial Relations from the Latin American University in Mexico City. He later undertook post-graduate studies in Management by Objectives at St. Louis University, Missouri. Similarly, he served as a consultant for various international companies, as well as was Personnel Director for several commercial and industrial enterprises in Mexico.

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