



## Ortiz Mena Outlines New Approaches For Cooperation in Investment Field

International agencies such as the IDB can make a valuable and mutually beneficial contribution in helping to bring about new forms of cooperation between government markets and local and private capital in the developing countries, according to Antonio Ortiz Mena, President of the Inter-American Development Bank.

Mr. Ortiz Mena spoke at a luncheon held October 7 in New York commemorating the tenth anniversary of the establishment of ADELA. The luncheon was part of a seminar on the role of private investment in Latin America sponsored by the Center for Inter-American Relations.

ADELA, a private investment company established by United States, European and Japanese firms, makes loans and

provides equity capital as well as technical and managerial assistance to private enterprises in Latin America. It seeks to promote active participation of local and foreign private capital in the development of the region.

ADELA has received financial support from the IDB; ADELATEC, an ADELA affiliate which provides technical and managerial services, works in close cooperation with the Bank.

The world crisis caused by problems related to the supply of oil, food, fertilizers and other raw materials basic to sustained industrial development, gives new urgency to the need for closer cooperation between governments and local and foreign capital, Mr. Ortiz Mena said.

A way to accomplish this, Mr. Ortiz Mena continued, is through the implementation of large-scale projects, particularly the exploitation and processing of natural resources in high demand.

Mr. Ortiz Mena pointed out why closer cooperation would be highly advantageous to all three groups. Participation of the public sector can satisfy national aspirations, lend the presence of national authority to important economic decisions and ensure that projects are compatible with national policies and priorities. He described the presence of the private sectors as "an essential factor in ensuring that the enterprise will have a dynamic administration receptive to innovation and creativity."

(continued on page 2)

## Job Market Poses Challenge to Development

The increasing need to balance "economic growth" and "social development" is posing a major challenge to Latin America. Regional advances in physical production and social development, although substantial, have not yet made a deep and permanent impact on all sectors of the population. Increasingly, concern is being voiced in many quarters not only about the *rate*, but also the *quality* of economic growth.

Both concerns point up the need to develop policies incorporating three different objectives—the expansion of production, more equitable distribution of income and creation of new employment opportunities.

### Unemployment rates

It is difficult to measure unemployment in Latin America, not only because of the conceptual and methodological problems involved, but also because statistics on employment, income distribution and production are either incomplete or outdated.

However, research shows that there is

serious unemployment in Latin America. The Economic Commission for Latin America (ECLA), in a 1968 economic study, estimated that one fourth of the region's active population was either un-



Quitting time at a Bolivian mine: automation in this industry has not increased unemployment

employed or underemployed. Other estimates are lower, but all are well above the levels prevailing in industrialized countries. There is also widespread agreement that global unemployment rates have been on the rise in many countries of the region. This is due in great part to the high population growth rates in recent decades.

Unemployment problems vary according to the country, the region, the economic sector and the population group involved. For example, in rural areas, where the unemployed and underemployed are mainly people of low productivity, there are no marked differences

(continued on page 6)

### In this issue:

- Science and technology as development factors. Page 3
- Varied IDB activities alongside IMF and IBRD meetings. Page 4
- IDB approves \$120 million in loans to five countries. Page 8
- Bolivia, Ecuador, and Guatemala spotlight handicraft production. Page 8

## IDB at International Meetings

The Inter-American Development Bank participates regularly, through representatives attending either as guests or observers, in international meetings on economic and social development.

Among the recent meetings in which Bank officials participated—and some of the topics discussed and conclusions or resolutions adopted—were: **Inter-agency Meeting on Regional Paramedical Training**, Port of Spain, Trinidad and Tobago, September 16 and 17.

Abraham Drobny, Advisor on Public Health, represented the IDB.

The Pan American Health Organization (PAHO) and the United Nations Development Programme (UNDP) are considering a paramedical training program for hospital and community work in the English-speaking countries of the Caribbean.

The five-year program would be undertaken in four centers to be built in Barbados, Guyana, Jamaica and Trinidad and Tobago with the participation of international consultants.

Equipment for the centers would be financed with funds assigned to the program.

Possible sources of financing for the project were discussed at the meeting. The project would require an investment of \$30 million, \$20 million of which would be provided by the governments of the countries involved.

Dr. Drobny expressed the Bank's interest in this type of program, but stated that he was not in a position to say what decision its administration and Board of Executive Directors might take in this specific case.

It was decided to await definite information on UNDP's contribution and to consult the World Bank on the possibility of its participating in the program.

The Government of Canada, through CIDA and other agencies, will provide scholarships and part of the financing for the training program and PAHO will grant scholarships and provide consultants.

The Caribbean Community and the Caribbean Development Bank will study the possibility of requesting IDB technical assistance for the project.

**IUBSSA Meeting: The XIIIth World Congress of the International Union of Building Societies and Savings and Loan Associations**, Rio de Janeiro, August 19-24.

Eneas Maza, of the Section on Financial Institutions of the Project Analysis Division, represented the Bank.

The meeting considered inflation and its effect on financial institutions and analyzed

studies on monetary corrections and indexing systems.

A special committee from the Inter-American Savings and Loan Union met in a special session to draft the statutes of the Inter-American Loan and Savings Bank, whose initial capital was established at \$100 million. The Board of Directors was authorized to establish standards and regulations on the issuance of stocks.

**Meeting of the Council on Financial and Monetary Policy of the Latin American Free Trade Association (LAFTA)**, Mexico City, September 22-25.

Pedro Irañeta, Deputy Financial Manager-Treasurer, represented the Bank.

The Meeting, which considered the final reports of the XIVth and XVth meetings of the LAFTA Advisory Commission on Monetary Matters, was presided over by Miguel Mancara, Deputy Director-General of the Bank of Mexico. The central banks of the member countries of the Latin American Free Trade Association (LAFTA) participated in the Meeting.

In respect to the recommendations on the global increase in resources provided for in the Santo Domingo Agreement, for balance of payment support, as well as the broadening and adjustment of the terms of consecutive use of resources, the Council agreed to: increase the global amount of the Agreement to \$128 million; extend the period for consecutive use of resources to 24 months; amend the provisions on the use, clearing and payments of balances outstanding on the lines of credit extended by the participating Central Banks. The text of amendments to the Agreement's Regulations was approved.

The offer of an extra contribution of 25 per cent of the global amount of the Agreement funds, made by the Central Bank of Venezuela, was accepted. It was agreed that central banks will be entitled to financing under the new lines of credit when lines of credit do not cover increases in the deficits or reductions in the surpluses anticipated in the Agreement.

The meeting also approved a number of resolutions and made certain recommendations related to the system of payments, the Agreement of Santo Domingo and the Latin American-LAFTA bankers' acceptances market.

The Council discussed arrangements for placing bankers' acceptances from LAFTA countries in the New York capital markets. Besides approving the work done and the measures adopted to date, it also accepted proposals for future action.

The IDB has provided LAFTA with technical cooperation in this field.

## Investment Cooperation

(from page 1)

Besides its role in forming risk capital, the contribution of foreign capital "can be particularly important in activities related to the management of the company, the utilization of modern technology and the organization of sales, particularly in foreign markets."

To assure access to foreign technology, Mr. Ortiz Mena recommended that local partners in a project be prepared to pay foreign companies "a share of company profits over and above the return due from participation in the corporate capital."

The IDB President said the cooperation of international agencies could include:

- Financing studies of natural resources such as oil and minerals and forestry and fisheries.
- Establishment by international agencies of a center on foreign investment to provide information on national legislation and internal regulations, models of contracts and specific contractual arrangements.
- Providing advisory services to the developing countries for preliminary evaluation of major prospects which are also of interest to foreign capital.
- More active participation by international agencies in project financing.

Fulfilling these requirements through the participation of international agencies, Mr. Ortiz Mena said, undoubtedly would help open the door for other financial sources to extend loans on favorable terms directly to the enterprise in which foreign capital is just one of the partners.

The systematic action of international agencies would permit the accumulation of knowledge and experience gained from the operation of actual contracts. This, in turn, would result in the standardization and improvement of the agreements, including service contracts. The end product could well be a code of conduct which would establish guidelines to govern the relations among the government, local private enterprise and foreign capital.

ADELA, Mr. Ortiz Mena added, could play an important role in implementing the ideas he had outlined. "In fact," he said, "as important as the participation of the international public community is the active presence of its counterpart in the private sector, of which ADELA is an outstanding example."

# Science and Technology As Development Factors

Economic and industrial development are directly related to certain specific factors such as energy resources, available raw materials—whether domestic or imported—and capacity to produce traditional goods and services, as well as technological innovation.

Success in these fields is based on the use a country may make of science and technology in solving problems effectively. A country can be industrially creative and independent when it is able to apply to practical matters abstract concepts and ideas that might at first sight seem remote and difficult.

Latin America, as a whole, uses science and technology to some extent; the degree of use varies among countries depending on a number of factors in each industrial area. Generally, science and technology are implicit factors in the region's industrial trade; only occasionally do they become explicit.

It is not unusual for the governments of the region to find it difficult to establish clearly and consistently their proper role in guiding and controlling the use of that factor effectively for the country's benefit. This is a complex problem involving many aspects of a modern society. To find appropriate answers to the many questions involved, in-depth analysis and full understanding of the matter are required.

Providing higher education that serves national needs and interests and creating conditions that foster full domestic integration of national creativity are among the many functions of the governments of the area. This is a long-term task requiring systematic, sustained effort and a clear definition of goals from the very beginning.

These goals may vary according to the economic and political framework each country may adopt; but in every case, an initial overall idea of the path to be followed is a valuable guideline for all future action.

To this end, governments need to establish adequate agencies endowed with creative capacity in multiple disciplines—not only in specific aspects of science and technology, but in economics, statistics, and planning, and in organizational and legal matters.

Such institutions have emerged in some countries in the last 20 years, but so far there is still no sufficiently developed

institution of this type to serve as an appropriate general model.

In practice, they are assigned functions which to some extent overlap and conflict with those of other executive branches of government, usually creating obstacles that are sometimes difficult to avoid.

Some difficulties should first be solved conceptually so that governments can be provided with agencies capable of implementing their programs along clearly and carefully designed lines.

On the other hand, proper conditions must be established for wider use of technology not only in conventional manufacturing industries, but in agriculture, education, automation, and large-scale

---

Santos Mayo, author of this article, is a Visiting Researcher at the National Bureau of Standards. He is on leave from the *Instituto Nacional de Tecnología Industrial* in Buenos Aires.



---

production according to national needs.

The most adequate type of technology for each industrial area and country must be determined on the basis of the multiple socio-economic interests involved, enhancing opportunities for the use of local productive forces to achieve the desired goals.

Most small- and medium-scale Latin American enterprises generally operate within an elementary technological framework. For the most part, they rely on foreign technology acquired through transfer contracts, overlooking the possibilities for local technological development which, though perhaps modest, would be their own.

In daily practice they face many economic and financial problems, in addition to a lack of, or the inadequacy of, systematic and consistent government action to encourage local technological development.

Appropriate stimuli are required to help a country's scientific and technological infrastructure to develop and become mature, creative and innovative enough to

interact with industry. Many difficulties and problems are involved in this task, not only in terms of available human and material resources, but also in terms of the control of administrative functions, relations with the productive sectors of society, management of projects of technological scope and significance, etc.

To achieve such goals there are no fixed and strict rules one can apply; the best approach has to be determined in each case. It is a process that may have a beginning, but has no end. And it is a process which requires the active participation of the scientific and technical community, as well as of the productive elements. Such participation is unusual in the region, where industries having innovative technological capacity are either government or foreign-owned.

Few Latin American firms include research and development in their industrial activities; most of them have only quality control facilities to help serve their production line—a task which is certainly necessary, but not sufficient for the purposes discussed here.

Government enterprises, like other locally-owned independent private firms, rely on agreements, licenses, contracts, etc., with outside sources as mechanisms for technological innovation. Acceptable or not, these are the most widely used mechanisms. Meaningful improvements can be introduced only through a broad, serious global approach, including the overall activities for which science and technology could be a significant factor.

---

## Nicaragua Shows Signs of Recovery from Effects of Drought and Earthquake

Nicaragua's economy showed surprising resilience in 1973 despite the drought which ruined the food grain crops and the earthquake that devastated Managua, the capital, in 1972.

In 1973 the real gross domestic product grew by 2.4 per cent to \$772 million.

Based on the excellent agricultural output of the 1973-74 crop year and on a substantial increase in construction, the Central Bank projects an increase of 8 to 10 per cent in the GDP for 1974.

Foreign trade grew at a healthy rate in 1973, with exports increasing by 10 per cent to \$275.7 million.



More than 3,000 delegates, observers, guests and newsmen gathered in Washington, D.C. to attend the Twenty-ninth Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group. During the meetings, leading financiers from member nations discussed ways of promoting the transfer of resources to the developing countries.

## Varied IDB Activity Takes Place Alongside IMF and IBRD Meetings

IDB President Antonio Ortiz Mena met recently with representatives of 13 non-regional nations concerning their possible entry as members of the Bank—they were in Washington to attend the 29th Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group September 30 to October 4—and with the Presidents of the African and the Asian Development Banks.

Mr. Ortiz Mena, who presided over the Bank's delegation, engaged in a busy round of activities in connection with the Bank's participation in the week-long

conference.

Previously, Mr. Ortiz Mena had attended the Eighteenth Meeting of the Governors of Latin American Central Banks in Mexico City and the Eleventh Meeting of the Latin American and Philippine Governors of the IMF and the World Bank.

### The international scene

Concern over the serious worldwide situation, including inflation, the threat of recession and the tough problems confronting the developing countries, was the

leitmotif of the discussion of the Governors of the IMF and the World Bank Group.

United States President Gerald Ford welcomed delegates to the Meetings, pledging his Government's cooperation in the efforts to solve economic problems.

World Bank President Robert S. McNamara and the Managing Director of the IMF, H. Johannes Witteveen, stressed the serious difficulties the international markets are experiencing, the sharp slowdown in world economic growth and the current imbalance in the low income countries where, Mr. McNamara said, a billion people have become the principal victims of events for which they were not responsible.

The poorest nations, Mr. McNamara said, face "an appalling prospect" of reduced growth rates and actual declines in their already low per capita incomes because of high cost oil, food and fertilizer, among other factors.

## Henry J. Costanzo Named to New Post

Henry J. Costanzo, Executive Vice President of the Inter-American Development Bank, has been elected Executive Secretary of the Joint Ministerial Committee of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries.

His election took place following the creation of the Committee by the Boards of Governors of the World Bank and the International Monetary Fund during their recent Annual Meetings.

The Committee, known as the "Development Committee," was established on the recommendation of the Committee of Twenty to advise and report to the Boards of Governors of the two institutions and make appropriate recommendations and suggestions on all aspects of the broad

question of the transfer of resources to the developing countries.

It will invite the heads of other international financing or economic organizations, as well as other persons, to participate in meetings relating to their areas of responsibility.

Mr. Costanzo had served as Executive Vice-President of the Inter-American Development Bank since January 1, 1972. Until then, he had represented the United States on the Bank's Board of Executive Directors, a post to which he was appointed in 1969. Before that, he had been a special assistant to the United States Secretary of the Treasury.

Previously, Mr. Costanzo had served in various posts as a foreign aid administrator

in the United States Treasury in Italy, South Korea and Washington, D.C.

In 1949 he joined the staff of the Marshall Plan mission in Rome, where he served until 1952, when he was named Assistant Representative of the United States Treasury in Rome, a post he held until his transfer in 1954 to Seoul, Korea, in the same capacity.

In 1955 Mr. Costanzo was appointed Financial Advisor and Chief of Program Planning for the International Cooperation Administration. From 1957 to 1961 he was Advisor in the Middle East Department of the International Monetary Fund.

Born in Birmingham, Alabama, in 1925, he graduated from St. Mary's University in 1946 and received an M.A. degree from Columbia University in 1949.



President Ortiz Mena confers with his colleagues from the African and Asian Development Banks. Many developing countries throughout the world are feeling the effects of the economic crisis.

The views of the Latin American countries, as a whole, were presented by Roberto Incer Barquero, President of the Central Bank of Nicaragua, and Jaime Moncayo García, Ecuador's Minister of Finance.

Speaking on behalf of their Governments were Hernán Aldabe, Vice President in Charge of the Presidency of the Central Bank of Argentina; José López Portillo, Mexico's Secretary of Finance and Public Credit; and César Romeo Acosta, President of the Central Bank of Paraguay. E. W. Barrow, Prime Minister and Minister of Finance and Planning of Barbados, spoke for his Government and on behalf of the Governments of Guyana, Jamaica and Trinidad and Tobago.

#### Development banks

Before the Meetings began, the Presidents of the African Development Bank, the Asian Development Bank and the Inter-American Development Bank held their regular annual meeting at IDB headquarters.

The three—Abdelwahab Labidi of the African Development Bank, Shiro Inoue of the Asian Development Bank and Mr. Ortiz Mena—met on September 27 and again on September 29, when they were joined by representatives of the IMF and

the World Bank.

At the end of their discussions, they issued a joint declaration stating that they had exchanged views on matters of mutual interest. Of particular concern to the heads of the regional banks were the existing difficulties in meeting the growing requirements of the developing countries for long-term financing on reasonable terms and conditions.

Stating that there was a general discussion on issues common to the respective institutions and on their continuing efforts to achieve a high degree of coordination in activities affecting the development process of their respective regions, the declaration added:

"The Presidents of the regional banks agreed on the importance of coordinating efforts with other funds and institutions.

"They jointly conveyed to the Secretary General of the United Nations an offer to assist in the work of the United Nations Special Emergency Fund created by the General Assembly to mitigate the difficulties of the developing countries most seriously affected by the current economic crisis.

"The heads of these regional institutions also indicated their readiness to

participate in the work of the Development Committee on the transfer of real resources to developing countries," whose establishment was agreed to at the IMF and World Bank Boards of Governors meetings.

#### Nonmember countries

During the course of the Meetings, IDB officials met with representatives of a group of nonregional industrialized countries interested in joining the Bank.

Subsequently, Mr. Ortiz Mena reported to the Committee of the Board of Governors that 13 nonregional countries—Austria, Belgium, Denmark, Germany, Italy, Israel, Japan, the Netherlands, Portugal, Spain, Switzerland, the United Kingdom and Yugoslavia—were prepared to provide up to \$440 million in cash contributions to the Bank.

The original target amount the IDB had set for admission of nonregional members was \$500 million in cash. In the latest round of discussions, several countries increased their previous pledges.

The Committee, after hearing Mr. Ortiz Mena's report, authorized him to continue negotiations at a meeting with the nonmember countries scheduled to be held in early November in Bonn and agreed to meet again in Washington in late November.

"The Committee of the Board of Governors has given strong support to continuing the discussion with the nonregional countries with a view to reaching a final conclusion as soon as possible," Mr. Ortiz Mena said. "I feel optimistic about the final outcome."

The Committee was established by the Board of Governors at its Eleventh Annual Meeting in 1970 to explore ways of attracting additional substantial financial resources for Latin America's development from the industrialized countries by bringing them into active membership.

Representatives of nonregional countries present their proposals. Horst Moltrecht (far left), of the Ministry for Economic Cooperation of the Federal German Republic, was their spokesman. The IDB's Board of Governors (right) authorized Mr. Ortiz Mena to continue the negotiations.



# Development And Employment

(from page 1)

between one age group and another. In urban areas there are more young people among the unemployed, including youths with relatively high levels of secondary education. Some of the migrants from country to city have had to take low productivity jobs in the "services" sector, which include much of the area's hidden unemployment and underemployment.

## Employment and economic growth

If it is difficult to define or measure unemployment, devising policies to end it is even more so. The need to grapple with the problems of unemployment may be seen from two main perspectives: an awareness that more sustained and dynamic economic development could be achieved through better use of available human resources—that is, through increases in productivity—and that national income must be more widely distributed through new job opportunities.

Although the two views are not necessarily mutually exclusive, conflicts can arise, especially if unemployment is high and if there is strong population pressure on scarce natural resources. Among the causes of these possible conflicts are the following:

- Usually, the unemployed are unskilled, and bringing them into the work force can mean lower growth rates of per capita and even of total production.
- Using capital resources and skilled manpower to fight unemployment may involve rejecting more effective ways of using them to increase production.
- Higher employment levels and broader income distribution could mean, at least in the short and medium run, higher consumption and, therefore, lower savings and investment.

Little is known about the ultimate results of the impact of socio-political and cultural changes on economic relations and parameters and on the short and long-term inter-relations of such changes. Thus, how would integrating human resources into the productive process affect the increase in productivity? How would savings and entrepreneurial initiative be affected once higher income groups adjusted to relatively less favorable conditions? What would be the long-range effect of the economies of scale resulting from broader consumer markets? And how much would reduced social and political tensions and greater political stability affect growth rates?

Aside from purely economic considerations, a country, for socio-political reasons, can assign greater priority to current consumption than to higher consumption levels in the future and be prepared to reduce the rate of economic expansion for the sake of achieving the highest possible employment levels and the broadest possible distribution of income. Even then, it would be well to base that decision on an accurate knowledge of the opportunity cost involved and to choose methods for promoting broader income distribution which have the



Population growth and fewer jobs in the countryside create a demand for jobs in towns and cities which urban services and industry are not always in a position to supply.

least negative impact on growth.

The following observations touch on some of the possible ways of reducing unemployment without necessarily sacrificing maintenance of a healthy rate of growth.

## Possible action

In theory, there are three ways of maximizing employment:

- Raising the expansion rate of the gross national product.
- Changing the product's composition.
- Changing production methods.

These three approaches are closely inter-related, and changes in any one usually affect the other two.

As far as the first approach is concerned, it is always conceptually and statistically possible to determine *some* rate of growth at which there would be full employment, but such models have often proved unrealistic in practice, be it because they overestimate the availability of basic resources, or because they underestimate the difficulty of making the measures required to mobilize those resources politically viable. Besides, these projections often fail to consider sufficiently the structural changes involved.

The courses of action which stress "the product's composition" (more foodstuffs? fewer luxury items?) are connected with solutions involving the need to change "production meth-

ods" (more tools and muscles? less heavy machinery?).

Both seek a more intensive use of labor. The difference is that the first approach emphasizes a change in demand—and of income distribution—with the idea of assigning greater participation in production to the farm sector, as well as other labor intensive sectors. The second stresses changes in the relative prices of the factors of production to promote productive combinations using more intensive labor in every economic sector.

While both approaches offer ample scope for action, each by itself has its limitations, either in terms of their effect on growth and even on the goal of increased employment.

For example, in a market economy, what changes in relative prices and in income distribution would be required to bring about significant changes in the "product composition" that would make it possible to cope with the problem of unemployment? If an attempt were made to do this through public sector transfers, what additional fiscal resources would be needed? And how sharp would the drop be in tax revenues if an attempt were made to modify income distribution and/or production incentives through subsidies or tax exemptions?

It may also be true that prevailing conditions among certain urban labor groups have produced distortions and that wages, including the cost of social security, sometimes dis-

## New IDB Operations Manager Appointed

President Antonio Ortiz Mena recently announced the appointment of Ewaldo Correia Lima, of Brazil, as Operations Manager of the Inter-American Development Bank effective October 21. Mr. Correia Lima succeeded João Oliveira Santos, also of Brazil, who is returning to his country.

Mr. Correia Lima has had broad experience in the field of Latin American development in general, and of Brazilian development in particular. He is thoroughly acquainted with the Bank's work, having served as its Operations Manager from 1961 to 1968.

Born in Brazil in 1915, Mr. Correia Lima joined the Bank in 1960, after seven years

with the National Development Bank of Brazil, where he served first as Deputy Director and later as Director.

Previously, he had headed the Economic Department of the National Federation of Industries of Brazil, directed the Department of Economic and Social Studies of the *Fundação Casa Popular*, a national housing institute, and taught at the University of Brazil. He began his public service career in 1942 as an economist with the Brazilian Ministry of Labor, Industry and Commerce.

At the time of his new appointment, Mr. Correia Lima was the Bank's Representative in Brazil, a post he had held since 1968.

courage the use of more labor intensive production practices. The difficulties involved in a policy designed to reduce relative wage scales, even if only in some sectors, are obvious.

This does not mean there are no possibilities for action or that, in many cases, there is no need to promote changes in demand, income distribution, prices of production factors, the use of technology, of production combinations and, in sum, a more rational allocation of resources. However, a viable and rational attack on unemployment would require a judicious combination of all three approaches mentioned. And moreover, in pursuing this combination, maximum compatibility between growth and employment should be sought.

#### Economic policies and employment

A steady development rate is a requisite for higher employment levels. Experience shows that certain basic obstacles and distortions which in recent decades have characterized the development of Latin America must be corrected if greater employment, as well as a higher rate of growth, is to be attained.

In the first place, the weak growth rate of the agricultural sector must be accelerated. Any serious attempt to reduce unemployment must devote special attention to more effective use of the resources and the potential of the sector.

All indications point to the fact that the rate of rural migration in the region is higher than its level and rate of development can maintain and that rural unemployment and underemployment are high. Development policies have often tended to penalize the agricultural sector, either because urban political pressures are stronger or because of incentives provided in the drive toward industrialization.

Strong incentives resulting from better balance between prices of products and of inputs, surmounting the obstacles inherent in certain systems of land tenure, better marketing, credit, irrigation and training facilities, are all basic requirements for modernizing agriculture.

A second key factor is the need to modify certain trends in the development of industry in Latin America with the idea of promoting an industrialization that places greater emphasis on the effort to attain productive efficiency, competition, and broader markets at home and abroad. A highly protected industry—often semi-monopolistic, with high costs—can mean not only inefficient use of resources, but also for lack of incentives to seek new markets and economies of scale, it is unable to play an expanded role, to be a dynamic source of employment or to contribute to the distribution process—through supply—and provide greater numbers of consumers with inexpensive industrial products adapted to their demand. This would require adjustments in relative and exchange prices, import tariffs and tax incentives in the light of the objectives mentioned.

The third basic aspect is making maximum use of foreign trade opportunities. If exports are to be increased, they must be diversified in terms of production lines as well as of markets. Many of the opportunities for Latin America in this field come from the comparative advantages derived from effective use of available

manpower. Expansion and diversification of exports, of course, require appropriate incentives; overvalued exchange rates and high protection levels are not conducive to greater opportunity in foreign markets or to a rational choice of production lines. In addition to the adjustments which might be necessary in these policies, effective promotion programs, credit, technical cooperation and other factors are required.

The fourth basic element is the training of human resources, for much of the unemployment in the region is due to the limited skills and productive capacity of the labor pool. Latin America has made great strides both in the level and scope of education provided, but much remains to be done in the qualitative aspects of education and in adapting it to development needs, as well as in devising broader training programs in production techniques.

In the fifth place, it is necessary to correct distortions in the labor-capital mix in the production process which not only adversely affect employment but also hamper the efficient use of scarce capital resources and the choice of production lines.

Low interest rates which do not reflect the opportunity cost of capital, excessively high exchange rates—which reduce import costs—tariff and tax concessions for capital investment and depreciation are all factors which often mean a greater use of capital to the detriment of other choices in which more intensive use of labor is involved.

Considerations of a technological nature and of efficiency limit the range for substituting manpower for capital. Nevertheless, there is scope for action, particularly if one considers that an adjustment in the relative cost of production factors affects their use in various ways:

- It not only fosters changes in *production methods for the same product*, but also in the selection of production lines.
- It affects not only primary production methods, but also factors such as maintenance, marketing and administration.
- Higher cost of capital also affects decisions on *the timeliness of investment*, discouraging excessive idle production capacity.
- A relatively higher cost of capital spurs adaptation of foreign technology to local conditions.

A policy designed to accelerate economic development and increase employment would obviously require a great investment effort. Nevertheless, many of the lines of action suggested are also those needed to achieve the following: economical use of scarce capital resources; offering greater savings incentives; increasing per capita production with a relatively lower investment cost and, finally, using available resources more effectively and rationally.

*This article is an extract from a study prepared by Pedro Irañeta, with the assistance of Luciano Tomassini and Emilio Fernández Camus, of the IDB staff.*

## Gerson A. da Silva

The late Gerson A. da Silva was a Brazilian doctor who suddenly gave up his practice for what perhaps had been his real interest all along—public finance.

Eventually, in the course of his new career, Dr. da Silva became an advisor at the Ministry of Finance, drafted Brazil's tax and fiscal reforms and was one of the architects of Latin American integration, helping to establish the Latin American Free Trade Association (LAFTA), where he represented his country for four years. From 1969 until his death in 1973, he served as Director of Finance at the Organization of American States (OAS).

A commemorative ceremony was held on October 10 at the Inter-American Development Bank's Andrés Bello Auditorium under the auspices of the OAS and the IDB.

IDB President Antonio Ortiz Mena and Cecilio Morales, Manager of the Bank's Department of Economic and Social Development and Ambassador Paulo Padilha Vidal, representative for Brazil at the OAS, Stuart Portner, OAS Assistant Secretary for Management, and Adolfo Atchabahia, OAS Acting Director of Public Finance, paid tribute to Dr. da Silva.

Recalling some of Dr. da Silva's ideas on economic policy, Mr. Ortiz Mena said many of them had turned out to be prophetic. "We should all think," he added, "about the effective use of fiscal mechanisms to reduce the effects of inflation on the great majorities—one of the goals Dr. da Silva worked for."

In this connection, Mr. Ortiz Mena said the effect of higher prices could be reduced in the degree that governments were able to support food production, guarantee abundant supplies of essential consumer articles and develop marketing mechanisms for them. This, together with adequate housing policies and social services—including education, preventive medicine and transport—would make it possible to meet the basic needs of the people.



# IDB Approves \$120 Million In Loans to Five Countries

In recent weeks the Inter-American Development Bank approved \$120.6 million in loans to five countries—Brazil, Bolivia, Dominican Republic, Ecuador and Guatemala. The loans were extended for preinvestment studies, water supply, electric power and irrigation facilities, electrification and milk production projects. Details are as follows:

**BRAZIL:** An \$18 million loan announced September 19 will be used by the *Financiadora do Estudos e Projetos (FINEP)* to help finance the third stage of a program of preinvestment studies for development studies and programs.

According to official estimates, Brazil will need to spend some \$184 million in preinvestment activities in the next three years if it is to fulfill its development goals. An estimated 45 per cent of that amount could be financed through the FINEP program and the remaining 55 per

cent through private and public sources. **BOLIVIA:** On September 27 the Bank announced approval of a \$10 million loan for the second stage of a program to expand the water supply system of Cochabamba, the country's second largest city.

The project will include construction of a storage dam in the Escalerani watershed and a regulating dam at La Cumbre; drilling four wells and equipping six others; installing a 180-mile distribution network; installation of 18,800 household connections and 12,000 meters.

**DOMINICAN REPUBLIC:** Approval of a \$36.7 million loan was announced on September 12 for electric power development, irrigation facilities and other works on the Bao River in the northwestern part of the country.

The project is the third stage of a wide-ranging development program begun

in 1968 in the Yaque del Norte River basin.

**ECUADOR:** Three loans totaling \$51.5 million were announced on September 27 for the second stage of the country's National Electrification Plan under which 66 per cent of the population will have electricity by 1980.

The loans will be used by the *Instituto Ecuatoriano de Electrificación (INECEL)*, the country's electric power agency, to put up a hydroelectric generating station on the Paute River in the southern part of the country and prepare prefeasibility and feasibility studies of the hydroelectric development of the Coca River 100 miles northeast of Quito, the capital.

**GUATEMALA:** The Bank on September 26 announced approval of a \$4.4 million loan to help promote milk production in the southeastern part of the country.

The project will include technical planning of the overall development of 200 small and medium-scale dairy farms and credits and technical cooperation to these small and medium-scale producers.

## Bolivia, Ecuador and Guatemala Spotlight Handicraft Production

Latin America's handicrafts, with their color and originality, have long attracted tourists and connoisseurs alike, and several countries of the region are interested in increasing their production and sales of these articles.

Bolivia, Ecuador and Guatemala, for example, are preparing a program—with the help of IDB resources—to promote the work of local craftsmen and artists producing tapestries, ceramics, wood-carvings, embroideries, toys, clothing and other useful and decorative articles.

One of the purposes of the program is

to help develop enterprises featuring handicrafts.

The program has a sound basis. Handicrafts are an important source of employment and income in Latin America, particularly in the less-developed countries or regions within countries. At the end of 1960, at least 4.5 million Latin Americans were employed in handicraft production. In 1971—the most recent year for which statistics on this kind of work are available—Peru exported \$2.5 million in handicrafts, Colombia chalked up an almost equal amount in sales, and

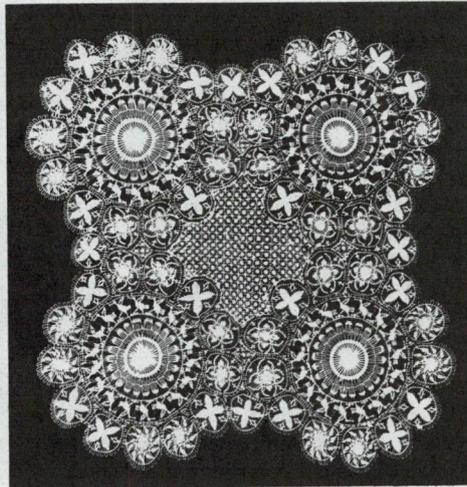
Bolivia, Ecuador and Guatemala together registered about \$2 million.

The demand for handicrafts seems to have no limit. In 1971, the United States imported \$1,100 million in handicrafts and its purchases are increasing at a rate of 13 per cent a year. But Latin America's share of that amount was only \$53.5 million, \$45 million of which went to Mexican imports.

The IDB recently extended \$300,000 in nonreimbursable technical cooperation to help finance the program to develop craft enterprises in Bolivia, Ecuador and Guatemala. Bolivia will contribute \$48,000, Ecuador \$70,000, and Guatemala \$47,000 to the cost of the first stage of the program, which is estimated at \$465,000.

The agencies executing the program will use the funds for technical and consulting services to improve the organization of artisan industry, setting up firms with appropriate technical, managerial and marketing facilities and developing modern quality and packaging standards and marketing methods.

Lacquer trays painted with complicated traditional floral designs are typical of the Pátzcuaro region in Mexico. Right: This doily is a good example of Paraguay's famous *ñandutí* lace work.



*IDB News* is a monthly publication of the Inter-American Development Bank and appears in English and Spanish editions. Chief of Information: Carlos D. Conde. Editor: Carlos M. Hirsch. Distribution is free of charge. All published material may be reproduced if credit is given to the IDB. Signed articles express the views of the author and do not necessarily represent those of the Bank. Address: 808 17th Street, N.W., Washington, D.C. 20577, USA.