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IDB news

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IDB LOANS FOR LATIN AMERICA'S DEVELOPMENT SURPASS $10 BILLION MARK

The Inter-American Bank's lending support for the development of its member countries in Latin America has surpassed the $10 billion mark. That amount was reached with the approval December 16, 1976, by the Bank's Board of Executive Directors of a $59.5 million loan for a pulp and paper development project in Honduras. The $10 billion which the Bank has lent out is helping to finance economic and social development projects whose total value exceeds $41 billion.

finance a project for the exploitation of forestry reserves in Olancho, located in the northeastern part of the country. The project includes the construction of a manufacturing complex for the production of pulp and paper with a processing capacity of almost 2 million cubic meters of wood a year, port installations and road works. The total cost of the project is more than $439 million.

The Bank's Alternate Executive Director for Central America, Mario

The IDB's Board of Executive Directors in session. The Bank's loans have contributed to the implementation of works and projects costing more than $41 billion.

Commenting on this milestone, Antonio Ortiz Mena, President of the Bank, told the Bank's Board of Executive Directors "that the IDB has been a catalyst for raising funds in Latin America, since for each dollar the Bank has lent to borrowing countries they have supplied an additional three dollars. This response by Latin American countries has been both extraordinary and exemplary."

The Bank's loans have helped improve the quality of life in Latin America, through the provision of electricity, roads, sanitation works, communications, housing and the development of higher education, as well as through the creation of thousands of jobs in rural and urban areas.

The loan to Honduras will help

Rietti of Honduras, said that "the rational exploitation of this forestry reserve will permit the creation of an industrial complex which will substantially augment the country's production. Similarly, it will incorporate into the national economy adjacent zones which have a great agro-industrial potential, thereby providing employment opportunities for hundreds of Hondurans and improving the population's living standards."

The Bank's $10 billion lending volume was extended through 961 individual loans, the first of which was for potable water in Arequipa, Peru, approved February 3, 1961. In the ensuing 16 years of the Bank's activities, it has expanded its operations and increased the number of its members from 20 to 34. Similarly, it has augmented its authorized capital from $1 billion to $20 billion, and has become the most important regional source of external public financing for Latin America's development.

The Bank's lending has risen dramatically over the past 16 years. In its first five years of operations (1961-66), the Bank authorized loans totaling about $1.5 billion. Upon completing its first decade of activities, its lending volume reached slightly more than $4 billion and from 1971 to the present it granted another $6 billion in loans. Thus, from 1971 to 1975 the Bank's lending volume surpassed the amount provided during the previous decade.

The Bank's lending by sectors can be analyzed in the table on Page 5. Accordingly, 35 per cent of the Bank's loans (totaling $3.8 billion) where allocated to projects and programs designed to spur production of agriculture, which received 23.5 per cent, and of industry and mining which obtained 15 per cent.

The economic infrastructure projects of electric energy, transportation and communications received nearly the same percentage—39 per cent or $3.8 billion—as the productive sectors, with power accounting for 20 per cent and transportation and communications for 18 per cent.

Social infrastructure received $1.8 billion, or 18 per cent of the funds, of which 9.5 per cent was allocated to sanitation, 4.9 per cent to urban development and 3.9 per cent to education.

(Continued on Page 4)

IN THIS ISSUE:

TRADE AND INVESTMENT IN MEXICO

Addressing an Inter-American Development Bank Workshop in New Orleans, Louisiana, in December, Alfredo Gutiérrez, Executive Assistant to the President, evaluated the economic position of Mexico—one of the Bank's member countries which recently underwent a financial crisis.

Mr. Gutiérrez, a former Mexican Government official who will soon return to his native country to become Director General of the Regional Fiscal Administration in the Secretariat of Finance and Public Credit, said that the devaluation of the Mexican peso has been a temporary setback but that the basic economic structure of the country remains strong.

The workshop—which focused on trends in the region and special projects funded by the Bank—was presented by the IDB, the International Trade Mart, Tulane University's Center for Latin American Studies, and the United States Department of Commerce-Latin American District Export Council.

In his speech entitled "Trade and Investment in Mexico under the New Administration of José López Portillo," Mr. Gutiérrez reviewed the new president's inaugural address and pointed out that he has made a strong commitment to the maintenance of free convertibility of the peso.

Mr. Gutiérrez added that while the new president did not state when and if a fixed parity would be set for the Mexican peso vis-à-vis the United States dollar, he did say that Mexico's destiny does not depend on monetary fluctuations or "on some magic figure" that will establish the parity of the peso with other foreign currencies.

Mr. Gutiérrez said that President López Portillo pledged to combat inflation and that to regain full control of the economy it will be necessary to proceed with austerity in order to enable Mexico to attain a stable and lasting equilibrium.

Finally, Mr. Gutiérrez observed that the new president promised support for private and public enterprises who were obliged in good faith to incur debts in dollars before the recent devaluation and who find the repayment of these obligations burdensome because of the increased costs in current pesos.

NEW APPOINTMENTS

Alfredo Gutiérrez, Executive Assistant to the President of the Bank, presented his resignation for the position he held since March 1, 1971, to assume the position of Director General of the Regional Fiscal Administration in the Secretariat of Finance and Public Credit.

The Secretariat was created June 1973 to execute the decentralization of federal fiscal activities; establish communications, coordination and reciprocal consultation with state treasuries, municipalities and federal districts, and undertake work studies and programs with these entities. Similarly, the regional Fiscal Administration will direct the activities of 11 regional fiscal administrations.

As Director General, one of Mr. Gutiérrez's first assignments will be to create an Institute on Taxation Studies, which will act as an investigative and educational instrument for fiscal reform. Similarly, the institute will form a human framework for implementing fiscal decentralization programs for more than 15,000 officials and employees throughout the country.

REPRESENTATIVE IN EL SALVADOR

Antonio Ortiz Mena, President of the Bank, appointed Francis Bregha as the IDB's Representative in El Salvador effective November 29, 1976.

Mr. Bregha, a Canadian citizen, obtained a Doctorate in Law at the University of Prague, Czechoslovakia, and a degree in economics at the University of Laval, Quebec, Canada.

Mr. Bregha has wide experience in higher education, having been a professor at the Universities of Laval and Toronto. His areas of expertise are international development, community development and social planning.

In Latin America, he served as an economic development consultant, and an administrator for various community development programs in Uruguay and Peru. Mr. Bregha is the author of various articles and books on development subjects and has lectured widely in universities in Canada and the United States.

REPRESENTATIVE IN TRINIDAD AND TOBAGO

The President of the Bank named V. Amado Gavidia as the Bank's Representative in Trinidad and Tobago effective December 1, 1976.

Mr. Gavidia, a Salvadoran citizen, obtained a Master of Arts degree in public finance from the University of Kansas, and a doctorate in economics at the University of El Salvador.

Mr. Gavidia held various positions in his country's public administration and in higher education, having been a professor of economic theory and public finance at the University of El Salvador and a Vice Minister and Minister of Finance. In addition, he was Alternate Governor of the International Monetary Fund, Governor of the World Bank, and until his recent appointment Executive Director of the World Bank for Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru and Venezuela.

The 10th Annual Meeting of the Latin American Federation of Banks (FELABAN) was held in Santiago de Chile November 15-19. Mario Rietti, the IDB's Executive Director, attended the meeting, which was inaugurated by the President of Chile, General Augusto Pinochet. The Bank's Treasurer, Pedro Irañeta, expounded on the IDB's policy toward financing Latin America's external trade.

Technical Cooperation's Administrative-Control Problems

A large part of the help industrialized countries provide developing nations is technical cooperation. In fact, it accounts for about 25 per cent of official development assistance, or $2 billion annually, is spread over 100 countries and absorbs the energies of more than 100,000 people. Among the institutions which place a high priority on technical cooperation are international development banks, such as the Inter-American Development Bank. Thus far, the Bank has granted about $238 million for investment projects and technical cooperation, of which $96 million was either on a nonreimbursable or contingent recovery basis.* Clearly, this reflects the importance placed by international development institutions on technical cooperation.

Still, technical cooperation is fraught with intricate aspects, not only in the technical areas it covers but in the objectives it strives to obtain. In achieving these objectives, the control of the funds provided by international agencies include administrative peculiarities which are shown in accounting books, the determination of costs and the evaluation of financial results. As such, the execution of technical cooperation has inherent administrative control problems.

The financial control difficulties involved in the administration of technical cooperation has been demonstrated by the experience of the specialized institutions in the public and private sector which finance these programs, particularly in the international area where the transfer of funds procedure is more complex. This difficulty stems from differences which exist in the accounting systems used by the donor institution and the beneficiary. What's more, differences are evident in the application of accounting principles, in the use of cost accounting in the methodology of costs and in the elements of internal control and evaluation of results used.

While it is true that the basic principles of accounting are generally accepted by the majority of countries and organizations, their application varies due principally to the different legal and tax laws of each country.

Differences in the application of accounting and cost methodology systems can result from the nature of the participating entities. For example, the donor institutions, due to their financial structure, maintain financial accounting systems, that is, the results of their operations are reflected in capital accounts and capitalized reserves, and as a consequence they must record their operations with a double entry methodology. On the other hand, the beneficiary institutions—especially those from the public sector—maintain fund accounting systems based on the origin and application of funds, and in many cases record their operations with a single entry methodology.

Similarly, the institutions that finance technical cooperation programs usually use the accrual accounting methodology; that is, the method of accounting whereby revenues and expenses are identified with specific periods of time, and are recorded as incurred, along with acquired assets, without regard to the date of payment. Conversely, the beneficiary institutions use the cash accounting system; that is, in contrast to the accrual basis, revenue and expense are recorded on the books of account when received and paid, respectively, without regard to the period to which they apply. As a result of these two different accounting systems, at the moment the donor institution and beneficiary compare their books there often exists substantial differences regarding the results of the projects.

In executing technical cooperation programs, frequently the nomenclature of costs differs. This is due to the fact that the account systems of both the beneficiary and the donor institution are based on different budgetary lists which have been formulated according to the criteria adopted in the classification of expenses and to the special needs of each institution. This problem is accentuated by the different meanings given to accounting and financial terms in each country.

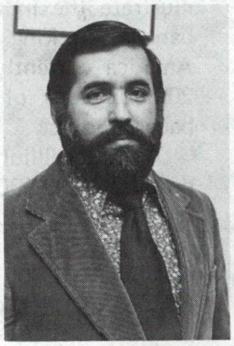
For these reasons, beneficiary institutions try to adapt their account systems to the specifications of the proposed programs of the donor institutions or to open new accounts for the control and execution of the programs. In both cases this invariably causes budgetary control and cost identification problems not only in the account books but also in the evaluation of financial results. In addition, the donor institutions tend to exagerate the control of the cooperation's expenses through very detailed budgets, which results in restricting the elasticity of the financial execution of the program.

Finally, differences also exist in internal control systems. For example, some beneficiary institutions maintain simple budget and cash control systems, discarding the more complex systems, such as internal auditor services. On the other hand, the donor institutions, due to their financial structure, require highly complex control systems. For this reason, they insist on asking beneficiaries for greater control over the given funds. The fulfillment of these requirements by the beneficiary institutions not only creates legal problems but also requires additional costs.

As I mentioned earlier, elaborate control mechanisms do not totally eliminate the risk of a poor application of funds, although they tend to minimize it if the following administrative control rules are adhered to:

- Recognize that the financial process of a technical cooperation program includes basic communication problems. Therefore, it is the responsibility of those executing the programs to create an inter-institutional communications plan which leaves room for change vis-à-vis the project's administrative norms. In this way, rapid decisions can be made to hurdle any administrative problems which might arise among the institutions during the execution of the projects.
- Create common accounting systems, with simple accounting nomenclature which can be applied flexibly by the donor and the beneficiary institutions.
- Harmonize criteria for recording and evaluating financial results so that they are in accord with the beneficiary's administrative capacity.

Finally, I would like to stress that these rules are of a general nature, which serve to orient administrators of the programs of technical cooperation in preparing plans of operations. They do not pretend to be guidelines for the solution of the various individual problems that may crop up in a particular project. The latter should be analyzed on a case by case basis. Because each cooperation tends to create different problems a careful analysis must be undertaken by both the donor institution and the beneficiary to find the proper solution.



Alfredo Figueroa, the author of this article, is a senior officer of the Budget and Management Accounting Division of the Bank, responsible for the financial control of technical cooperation grants. Mr. Figueroa is an economist and public accountant who graduated from the University of San Marcos in Lima, Peru. He also holds a Master of Business Administration degree from George Washington University.

*Contingent repayment cooperation is subject to repayment only if, as a result of the cooperation, a loan is extended subsequently by the Bank or another external financial institution for the execution of a project or program.

Loans Finance Projects Worth $42 Billion

(From Page 1)

The remaining sectors (export financing, preinvestment and tourism development) received $429 million, or 4.3 per cent of the Bank's lending volume. The Bank channeled $300 million into the following regional projects: $108 million to the Central American Bank for Economic Integration, and $212 million for regional projects involving two or more countries, such as the Salto Grande hydroelectric dam or the Fray Bentos-Puerto Unzué bridge—both projects undertaken by Argentina and Uruguay.

Some 52 per cent of the Bank's loans were extended from its "soft" or concessional funds: that is, from funds given at favorable rates of interest and at longer amortization periods than those extended from the ordinary capital resources. Loans made from the latter fund reflect interest rates which prevail on international capital markets, since they include money raised on such markets.

On average, the soft loans, those made from the Fund for Special Operations, the Social Progress Trust Fund (which was established by the United States in 1961 and administered by the Bank) and other funds contributed by various countries and granted at a 1 to 4 per cent annual interest rate and are amortized at from 20 to 40 years. These loans are usually allocated for social development projects or in countries

WHAT OLANCHO LOAN MEANS FOR HONDURAS

The Inter-American Development Bank (IDB) is backing a $439 million investment project in Honduras which promises to unlock the richest pine forest reserves in Latin America.

For the first stage of a major industrial complex for the production of pulp and paper, the IDB will grant a $59.5 million loan to Honduras to help finance the construction of roads into the forest area, located in the northeastern part of the country.

The bank expects to lend $66 million for subsequent stages, which will include construction of a pulp and paper plant, three sawmills and the improvement of a port.

The bank's $59.5 million loan has double significance. For Honduras, it will help transform its economy, moving it closer toward becoming a developed nation. For the IDB, it pushes its total lending to its member countries beyond the $10 billion mark, as well as being the first time the bank provided a loan for a regional multinational industrial project.

Once the project is completed in 1983, it will help Honduras not only to lessen its reliance on one export commodity (bananas) but will have a considerable impact on its underdeveloped economy.

In a country with the second lowest annual per capita income in Latin America (after Haiti) and whose economy is basically agricultural, a modern integrated forest industry would help reduce unemployment, improve living conditions throughout the country (especially in rural areas), bring about a more equitable distribution of income, secure needed foreign exchange income and insure the survival of Honduran forests.

Honduras, with 3 million inhabitants, needs to expand its industry—67 per cent of its labor force is involved in agriculture, forestry and fisheries; 90 per cent of the children under five years of age suffer from malnutrition; 40 per cent of the population earns an annual per capita income of $40 or less; and 50 per cent of the population over 10 years of age is illiterate.

The project has long been an ambition of the Honduran Government. It achieved reality when the Honduran Government requested the IDB to act as its financing coordinator and advisor on how to organize a multinational company that will include private investors from Central America, Ecuador, Mexico and Venezuela and a technical partner from outside the region. Additional loans will come from the Canadian International Development Agency (CIDA) and the World Bank. The Honduran Government will own 51 per cent of the company.

The project, slated for the vast pine forests in Olancho, calls for a $250 million pulp and paper plant that will produce 203,000 tons of fiberboard and 28,000 tons of corrugated paper a year for the manufacture of banana cartons. To illustrate the industry's potential, 18 banana packing plants in Central America currently import more than 200,000 tons of board annually for banana boxes.

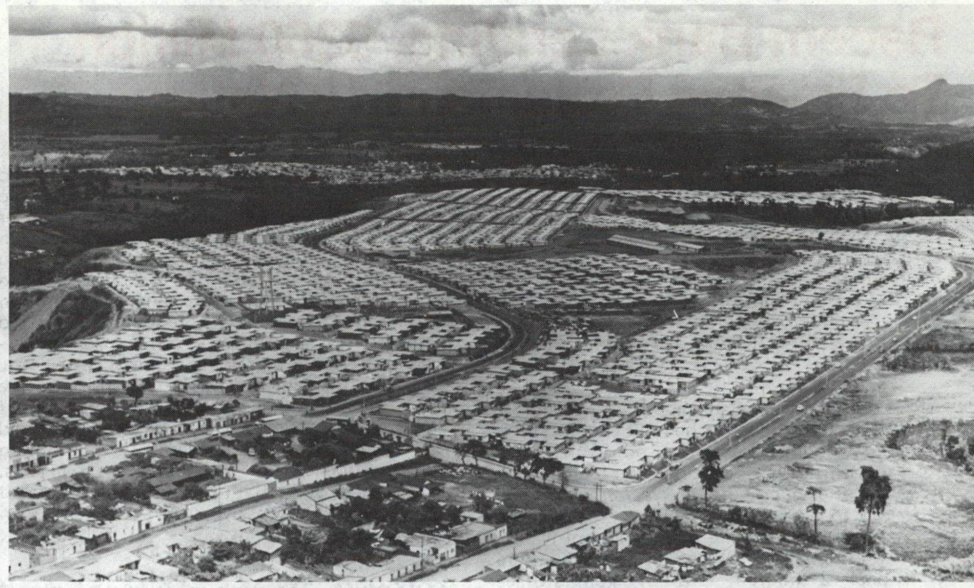
A $22 million main sawmill will produce 213,000 cubic meters of sawed wood and two smaller mills (costing $40 million) will each produce 127,000 cubic meters. The balance of the projected $439 million cost will go to forestry maintenance, road construction and improvement at the north coast port of Puerto Castilla.

The Olancho forest reserve is spread over 5,790 square miles (larger than Connecticut), and is the largest pine forest in Latin America. Until now, Honduras has not capitalized on its vast natural resources. And its forestry treasure has largely remained untapped.

Olancho's long range economic and forestry preservation possibilities have been evident to Honduras for many years. However, as a 1952 United Nations report said, "there was no effective control of exploitation methods . . . no consistent effort of management, no fire protection or regeneration possibilities because there existed no government services."

During recent decades, Honduran forests were exploited much in the same way the Western forests of North America were exploited at the turn of the century. They were accompanied by gigantic wood losses due to the careless exploitation by uncontrolled, small-scale sawmilling operations, forest fires, and insect infestation. A bark beetle infestation of the Olancho forests during 1963 to 1965 killed 20 per cent of the Honduran pine trees.

The situation changed only after the creation of the semi-autonomous Honduras Corporation for the Forestry Development (COHDEFOR) in 1974. Since its formation, COHDEFOR has established a forest policy and legislation, trained technicians to run a national forest service, surveyed its forestry resources and succeeded in controlling fires and natural plagues. The Olancho project was made feasible by those developments.



Left: The IDB finances higher-education program at the College of Agronomy and Veterinary Medicine in Port-Au-Prince, Haiti. Right: This urban-housing development was backed by the Bank and is a part of a project executed by Guatemala's Housing Institute. It benefited 33,000 persons.

which because of their less developed stage or smaller international market need special attention vis-à-vis the Bank's lending activity.

Of the remaining loans, 44 per cent came from the Bank's ordinary capital resources and inter-regional capital, while 4 per cent was derived from funds the Bank administers for various member and non-member countries, such as the $500 million Venezuelan Trust Fund.

A measurement of the effectiveness with which the Latin American nations are carrying out projects with the Bank's loan is indicated by the volume of disbursements made to date. As of November 30, 1976, disbursements totaled almost $5.7 billion, a figure which appears more significant when it is considered that of the $10 billion almost $4 billion represents loans approved during the current or the previous year—that is, loans for projects whose execution just began.

LOANS OF THE BANK BY SECTORS

Productive Sectors	Million dollars	Percentage
Agriculture	$ 2,362.2	23.5
Industry and Mining	1,505.5	15.0
Economic Infrastructure		
Electric Power	2,062.4	20.6
Transportation and Communications	1,832.3	18.3
Social Infrastructure		
Sanitation Works	954.2	9.5
Urban Development	494.7	4.9
Education	394.3	3.9
Other Sectors		
Tourism Development	92.7	0.9
Export Financing	169.0	1.7
Preinvestment Studies	168.8	1.7

BONDS: THE IDB RAISES ANOTHER $56.8 MILLION

The Inter-American Development Bank placed two bond issues in Germany and Austria during December 1976, thus raising an additional $56.8 million in resources for Latin America's development.

The German issue was a public offering made December 8 for 100 million Deutsche marks, equivalent to about $39.2 million. The 7 per cent 10-year bonds were priced at 99½ per cent.

The issue was the ninth bond issue placed by the Bank in Germany, one of the nine non-regional countries which became a member of the Bank July 9, 1976.

The issue is being placed by a banking syndicate headed by the Deutsche Bank, and including the Dresdner Bank, Bayerische Vereinsbank, Commerzbank and Westdeutsche Landesbank. The placement will be known as the "7 Per Cent Deutsche Mark Bonds of 1977," due January 1, 1987. The bonds will have a maturity of 10 years and will be repayable in five equal installments beginning January 1, 1983.

The Bank is entitled to redeem at par all outstanding bonds on January 1, 1985, or at any subsequent interest payment date. The proceeds of the bond issue will be used in the Bank's ordinary capital lending operations. The issue increased to $384 million the Bank's total borrowings in Germany.

300 MILLION AUSTRIAN SCHILLINGS

The Austrian issue was a public offering made December 9 for 300 million schillings, equivalent to about $17.6 million. The 8 per cent 10-year bonds were priced at 97¼ per cent.

The placement is the fourth long-term bond issue that the Bank has sold in Austria and represents a further step in the Bank's efforts to mobilize resources in the world's capital markets for the social and economic development of Latin America. The offering is being underwritten by a consortium of Austrian banks headed by Creditanstalt-Bankverein AG of Vienna.

The issue, which will be known as the "8 Per Cent Austrian Schilling Bonds of 1976," were dated December 16, 1976, and will mature in 1986. The bonds will be redeemable at par in six equal installments, beginning in December 1981.

The issue increased to $41 million the Bank's total borrowing in Austria, which is currently taking the necessary steps to join the Bank as a contributing member country.

Recent Bank Lending: $360 Million To Finance Projects in 10 Nations

The Inter-American Bank authorized as of December 2, 1976, nearly $360 million in loans to Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Honduras, Nicaragua, Paraguay, Uruguay and the Central American Bank for Economic Integration. The Bank also approved $1.6 million in technical cooperation to El Salvador, Honduras, Jamaica, Nicaragua, Paraguay and Uruguay. The details are as follows:

ARGENTINA: The Bank approved November 4 a $60 million loan to help finance a credit program to build, expand and modernize grain storage facilities in Argentina. The loan will be used by the *Banco de la Nación Argentina (BNA)* to extend credits to farmers, cooperatives and private companies cultivating or marketing grains so that they may build an additional 2 million tons of grain storage space throughout the country.

The total cost of the project is estimated at $124.4 million, of which the Bank loan will cover 48.2 per cent and the BNA the remaining 51.8 per cent. Under the program, the BNA is expected to approve some 1,400 credits to farmers, farm cooperatives and other associations of farm producers. Of these some 800 will be used for new storage facilities and 600 for existing ones.

BOLIVIA: The Bank approved November 4 a $5 million loan to help carry out a preinvestment program in Bolivia. The loan will be used by the *Instituto Nacional de Preinversión (INALPRE),* an agency attached to the Ministry of Planning and Coordination of the Presidency of the Republic, to extend short- and medium-term credits to central government agencies and public and private enterprises to finance specific and general studies of a regional or sectoral nature. The studies will be carried out by consultants of the Bank's regional member countries.

- The Bank also approved November 24 a $6.5 million loan to help finance the construction of the first stage of the Santa Cruz Industrial Park in Bolivia. The loan will be used by the Santa Cruz Public Works Committee to build the infrastructure facilities required to urbanize an area of some 578 acres, and approximately 15,000 square meters of structures and an administration headquarters. In addition, the loan includes $365,000 in technical cooperation to strengthen management and environmental control procedures of the Park and to organize an entity to operate and manage the gas network of both the Park and the city of Santa Cruz. The total cost of the project is estimated at $9.4 million, of which the Bank loan will cover 69.1 per cent.

BRAZIL: The Bank approved November 18 two loans totaling $66.4 million to support research and spread agricultural technology in Brazil. The two loans—$34.4 million from the Bank's ordinary capital resources and $32 million from the Fund for Special Operations—were extended to the Federal Republic of Brazil and will be used by the *Empresa Brasileira de Pesquisa Agropecuária (EMBRAPA),* an agency of the Ministry of Agriculture, to carry out six subprojects in south-central Brazil, in the fields of agricultural research, genetic resources, soil survey and conservation, production of basic seeds, production systems, and manpower training. The total cost of the project is estimated at $198 million, of which the Bank loans will cover 33.5 per cent.

- The Inter-American Bank also approved December 2 a $97,670,000 loan to help finance a further expansion of electric power generation and transmission facilities in Brazil's underdeveloped Northeast. The loan will help the *Companhia Hidro Elétrica do São Francisco (CHESF),* a government corporation developing the power potential of the São Francisco River, to carry out a program designed to satisfy a growing demand for electric power in the Northeast. The expansion is the sixth carried out by CHESF with the help of the Inter-American Bank. The Bank had approved eight loans totaling $221.5 million to help finance the five previous expansions. The total cost of the new project is estimated at $1,126,880,000, of which the Bank loan will cover 8.7 per cent.

COLOMBIA: The Bank approved December 2 a $16 million loan to help finance an erosion control and sewage program in four cities of Colombia. The loan will be used by the *Corporación Nacional Autónoma para la Defensa de las Ciudades de Manizales, Salamina y Aranzazu (CRAMSA)* and the *Corporación de Defensa de la Meseta de Bucaramanga (CDMB),* under the coordination of the National Planning Department, to construct hydraulic and related works designed to control the erosion caused by the runoff of rainwater and sewage wastes in the four cities. An additional purpose of the program is to provide the executing agencies with the means to maintain the works adequately, through the acquisition of maintenance and scientific equipment, and to conduct research and studies that will make it possible to extend program benefits to neighboring areas in the future.

COSTA RICA: The Bank approved December 2 a $4 million loan to help finance the second stage of a preinvestment program in Costa Rica. The loan will be used by the Office of National Planning and Economic Policy (OFIPLAN) to finance studies in the public and private sectors designed to foster the economic and social development of the country within the objectives of the National Development Plan. Under the program, OFIPLAN will grant medium- and long-term credits to public and private entities for the execution of preinvestment projects. Simultaneously, the Bank approved $600,000 in grant technical cooperation from its Fund for Special Operations to help finance preinvestment studies in the public sector, with emphasis on general agricultural studies.

ECUADOR: The Bank approved November 18 an $11 million loan to expand and strengthen the activities of the *Instituto Nacional de Investigaciones Agropecuarias (INIAP),* Ecuador's national agricultural research institute. The loan will be used to finance the second stage of an agricultural research development project whose first stage was partially financed by a $2.2 million Bank loan approved in 1969. The second stage will consist of the expansion of INIAP activities, the hiring of production specialists, the presentation of courses, the dissemination of research results, and the adoption of a plan for the transfer of technology. The total cost of the project is estimated at $16.9 million, of which the Bank loan will cover 65.1 per cent. In addition to the loan, the Bank approved $80,000 in grant technical cooperation to finance a study of the institutional structure of INIAP, as well as ways to improve its accounting and administrative systems.

HONDURAS: The Bank approved November 4 a $40 million loan to help finance the second stage of an integrated farm development project in the Lower Aguán River region in Honduras. The loan will be used by the *Instituto Nacional Agrario (INA),* the country's agrarian institute, to expand and consolidate the development of the Lower Aguán to benefit low-income farmers joined in cooperatives and to stimulate the migration of farmers into the Valley of the Aguán on the northern coast of Honduras.

The project will foster the development of agriculture and agroindustry by helping to consolidate the position of some 3,200 families settled on the land during the first stage of the project and will result in the settlement of another 3,200 families banded together in cooperatives during the second stage. In addition, it will help the 70 cooperatives involved in the region to improve their efficiency in providing services for their members. The project consists of five subprojects: Production and credit, production-support services, highway infrastructure, land improvement and social infrastructure.

- The Bank also approved December 2 a $3 million loan to help Honduras establish a loan program for the training of university—and postgraduate—level students in economic development skills. The loan will be used by the *Instituto de Crédito Educativo (EDUCREDITO),* a government agency charged with the administration of student loans, to provide approximately 515 loans to students for study at home and abroad. The program will prepare students in disciplines and technical areas considered essential for the social and economic development of Honduras and will chiefly favor students from families of modest or low-income levels. The loan includes $42,000 in technical cooperation to finance the hiring of consultants to advise EDUCREDITO on administrative procedures and periodic review of the type of human resources needed in Honduras.

Monsignor Agripino Nuñez (right), Rector of the *Universidad Católica Madre y Maestra* of the Dominican Republic, and Reuben Sternfeld, Executive Vice President of the Bank, sign the documents which formalize a $3.9 million loan granted to this institution to expand its activities.

IGAD/LA

For the IDB's member nations of the English-speaking Caribbean, the development and rationalization of their agricultural sector has top priority. The reason: Traditional dependence on overseas sources for basic food needs coupled with recent international scarcities and skyrocketing food prices have produced serious barriers which hinder the region's development.

Today, national governments, in conjunction with the Caribbean Economic Community (CARICOM), are initiating ambitious agricultural programs to overcome these barriers and attain self-sufficiency by developing the area's livestock, dairy and fishing industries. There are also projects to increase yields of corn, soybeans, vegetables and fruit. In addition, the International Group for Agricultural Development in Latin America (IGAD/LA), as a mechanism for coordinating external agricultural financing and technical cooperation, has requested the governments of the region to determine their external assistance requirements. It is also discussing with them the possibilities for a subregional meeting of consultation early next year aimed at programming such assistance and promoting a coordinated approach toward the region's agriculture by the international and regional institutions.

CARIBBEAN AGRICULTURE

The CARICOM area, covering 100,000 square miles with a population of 1.6 million, includes the six sovereign nations of the Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad and Tobago as well as the ten states associated with the United Kingdom, which have varying degrees of self-government. Historically, these islands have depended on the export earnings of such cash crops as sugar, banana and citrus fruits to finance their import needs. Cash crops for export, in fact, account for 95 per cent of the value of the region's agricultural production.

But export earnings in recent years have declined, while domestic demand for food has risen, especially regarding grains, meat and dairy products. Thus, an ever-increasing food import bill must be paid for with resources required for the development of the region's domestic agriculture. Worse yet, between 1973 and 1974, the food import bill for the region as a whole doubled.

In overcoming their food-dependency problem, CARICOM members have forged a common policy that allows imported agricultural equipment to enter the area duty free. Regional marketing boards have also been established to set minimum price levels for agricultural produce in order to stimulate output.

The first area to have received regional attention is animal feeds. Here, two projects to increase corn and soybean yields are being implemented. One project is being sponsored by Guyana, Trinidad and Tobago and St. Kitts-Nevis-Anguilla, while the other is being carried out by Belize and Jamaica.

Work has also begun in developing the region's livestock industry. In 1973 alone, the import bill for the region's livestock products was $86.5 million. CARICOM, whose goal is to eliminate this deficit by 1985, is aiming at increasing dairy and cattle herds to 275,000 head and expanding pastures to 500,000 acres.

Finally, feasibility studies for a regional food plan are being completed and a food agency to implement the plan is being established. The plan gives special emphasis to animal feeds, meat and dairy products, agroindustrial development, fertilizer requirements, and the establishment of a commercial corporation to implement agricultural projects.

IGAD/LA'S ROLE

The agricultural problems of the Caribbean nations, due to their impact on the region's development prospects, are of top priority to IGAD/LA. A technical mission already visited the area in August, and the general Coordinator has recently returned from discussions in Jamaica. In order to assure the success of the regional effort described above, external financial and technical cooperation is necessary to reinforce the national and regional initiatives.

As a result of these preliminary contacts, specific IGAD/LA proposals for coordinated programs are being hammered out for 1977. Also under IGAD/LA consideration is a subregional meeting of consultation in the area early next year. The meeting would serve to bring to the attention of international donor agencies the external agricultural assistance needs of the Caribbean nations.

NICARAGUA: The Bank approved November 18 two loans totaling $15 million to help finance the second stage of a credit program for agroindustry and other industries in Nicaragua. The loans—$3 million from the Bank's ordinary capital resources and $12 million from the Fund for Special Operations—will be used by the *Fondo especial de Desarrollo (FED)*, a government development fund administered by the Central Bank of Nicaragua, to grant medium- and long-term credits through intermediary banks for the establishment and/or expansion of existing companies, cooperatives and other associations in the agroindustry, general manufacturing, construction and construction materials fields. The Bank has channeled two previous industrial credit loans totaling $9.2 million through the FED.

PARAGUAY: The Bank approved November 24 an $11.6 million loan to help build the second stage of the storm sewer system in Asunción, the capital of Paraguay. The loan will be used by the *Corporación de Obras Sanitarias (CORPOSANA)*, Paraguay's water and sewage agency, to construct the second stage which will provide service for approximately 1,210 acres in the central part of the city. The total cost of the project is estimated at $14.8 million, of which the Bank will cover 78.4 per cent.

URUGUAY: The Bank approved November 24 a $15 million loan to help finance the second stage of a credit program for the private meat-packing industry in Uruguay. The loan will be used by the *Banco Central del Uruguay (BCU)*, through its Investment Financing Fund, to grant credits to the private meat-packing industry to increase the profitability of its firms, improve existing processing facilities, increase the added value of the product to be exported, and to increase the capacity for processing and storing meat intended for export.

The Bank has approved two previous loans totaling $10,348,300 to help finance the first stage of this program which placed emphasis on modernization of the meat-packing industry and increased the slaughtering capacity of the participating entities by 44.4 per cent. The total cost of the second stage of the program is estimated at $21.4 million, of which the Bank loan will cover 70.1 per cent.

REGIONAL: The Bank approved November 11 an $8 million loan to help finance preinvestment studies in Central America. The loan will be used by the *Central American Bank for Economic Integration (CABEI)* to grant medium- and short-term credits to public and private enterprises, government agencies or individuals for the execution of studies for high priority development projects. The projects would promote economic integration and balanced development of the Central American countries. The total cost of the program is estimated at $11 million of which the Bank loan will cover 72.7 per cent.

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Education: Problems and Goals

Sector Requires More Resources And Planning, Experts Indicate

Post-secondary education in Latin America should be organized in such a fashion as to permit equal opportunity of access to all able and dedicated young people, regardless of their family financial position.

This opinion—voiced by Antonio Ortiz Mena, President of the Bank—was one of the conclusions adopted at a seminar on education and public finance held in November at the Bank's headquarters.

The aim of the conference was to bring together a group of experts in the fields of finance and education in Latin America to examine problems associated with the generation of resources to meet the growing demand for education and analyze the extent to which the raising of funds for the education sector and the structure of education outlays are responsive to distributive and efficiency objectives. The seminar also examined the potential offered by the traditional forms of financing and the possibilities of additional funds, taking into account the social and economic implications.

The seminar was attended by 80 education and public finance experts, who considered documents presented by Claude Tibi, Manuel Zymelman, José M. Dagnino Pastore, Jean-Pierre Jallade, Carlos Muñoz Izquierdo, Augusto Franco, José Dominguez Urosa, Vito Tanzi, Philip Musgrove, Claudio de Moura Castro, Francisco Swett, Joanne Leslie and Dean Jamison who made a joint presentation. The sessions were presided by the Rector of the College of Mexico, Victor Urquidi, who was also responsible for providing a final summary of what transpired at the seminar.

In his inaugural presentation, Mr. Ortiz Mena noted that "the enormous effort being made by the countries to finance the education process often fails to produce results justifying their sacrifices." Among the limitations and defects which affect the development of post-secondary education in Latin America, he said, are the limitation on the opportunities for low-income sectors of the population, poor utilization of public funds for education, an inadequate allocation of these resources which produces a saturation of trained personnel in certain professional fields and a lack of interest in others, and the rapid growth of student enrollment in the large cities which has lowered the quality of education and produced inevitable political and social problems.

To overcome these limitations, and to lay the bases for sound financing of education services, Mr. Ortiz Mena urged that students be charged the real cost of higher education. To assure that each student pay a part of the real cost of his education in accordance with his family's income level, he said, two programs should be established—one for nonreimbursable family allowances and one for student loans. Under these programs, students from high-income families would pay the real cost of their education and those from families requiring financial aid would have recourse to loans to pay the real cost of their education, as well as allowances to cover their living costs and family support.

The system of educational credit and family allowances, Mr. Ortiz Mena explained, would be employed as an instrument for resolving some of the shortcomings and distortions of the higher education system. For example, its implementation would be contingent upon the revision of academic programs to achieve an adequate combination of academic and practical knowledge. For its part, the competent government agency would determine each year the number of technical and professional students expected to be needed to meet the demand for economic and social development of the country.

In reviewing the conclusions which the experts arrived at, Mr. Urquidi—the seminar's chairman—observed "that over the last 15 years there has been a substantial percentage increase in the gross product of Latin American countries devoted to education, and that 9 per cent of the region's population who are of university age attend higher education schools. In other words, we can truly speak of a 'university explosion.' "

"Nevertheless," Urquidi noted, "educational expenditures do not follow consistent patterns. There does not exist an adequate plan for the allocation of financial and human resources, nor are these resources used so that they can obtain maximum output for each country."

Projections of educational demand for the next decade indicate that Latin American nations will have to make more intense efforts, especially regarding secondary and university levels. Although education costs can always be reduced, they will nonetheless be even greater in the future. One of the seminar's participants, Mr. Manuel Zymelman of Argentina, estimated that if Latin America wants to reach the education levels of the countries of the Organization of Economic Cooperation and Development (OECD), they will have to increase public expenditures in the education sector by 80 per cent.

At a Bank-sponsored seminar, from left to right, Mario Brodersohn, Víctor Urquidi, Antonio Ortiz Mena, President of the Bank, Cecilio Morales, Economic and Social Development Manager, Alfredo Gutiérrez, Executive Assistant to the President of the Bank, and José M. Dagnino Pastore, author of one of the meetings's papers.