

IDB NEWSLETTER

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Bank to Finance Exports of Capital Goods Among Latin American Members

A new program to finance exports of capital goods on medium term among the Bank's Latin American member countries was adopted by the Board of Executive Directors September 30, 1963. The Bank authorized an initial allocation of \$30 million from its ordinary resources to put the program, scheduled to get underway by January 1, 1964, into effect.

Its fundamental objective is to stimulate the development of basic industry in Latin America and foster the area's economic integration through the increase of regional trade. The program is limited to the financing of exports of capital goods originating in the Latin American member countries of the bank. Such goods may incorporate no more than 50 per cent of imported components from outside these countries. The capital goods include machinery and equipment for the power generating, electrical, industrial, agricultural, mining, construction and transportation sectors.

Under the regulations adopted by the Board, the importer must make a cash payment of at least 20 per cent of the invoice value of the export. The Bank may finance up to 70 per cent of this value.

Role of National Agencies

The execution of the program will depend substantially upon the participation and operation in the exporting countries of national agencies designated for that purpose. The national agencies will be entrusted with the task of enforcing the Regulations at the national level, particularly with regard to the nature of the goods exported, their origin, the terms of the transactions, the legality and validity of the export credit documents, and so forth.

The operation of the program also will require from the national agencies a high degree of financial responsibility. In the first place, they will have to obtain the financing of the portion of the transaction not paid in cash by the importer or financed by the Bank. More important, they will have to extend their unconditional guarantee to all the documents which they will present to the Bank for rediscounting.

Techniques of operation

The techniques that are to be used in the operation of the program have been selected taking into account the need for simplified operational

procedures and the possibility of mobilizing external resources. In essence, three different techniques are contemplated for this purpose: 1) the granting of global loans to the national agencies of the exporting countries; 2) the purchase of documents issued by the national agencies, and 3) the rediscounting of importers' credit documents guaranteed by the national agency of the exporting country. The last two possibilities would be utilized, in general, under lines of credit previously arranged with the national agencies of the exporting countries.

The main features of each of these techniques would be the following:

The implementation of the global loan technique would involve the granting by the Bank of loans to the national agencies of the exporting countries. The latter would use the proceeds of such loans to discount the notes issued by the importers to the order of the exporters. The Bank's loans would be similar to the global loans made to national development institutions for lending to a number of sub-borrowers in the member countries. The sale of participations in these global loans would be made in a form similar to the one now utilized by the Bank.

In the case of the purchase of documents issued by the national agencies of the exporting countries, the exporters would, as in the first case, directly discount the importers' credit documents in the national agencies of their countries. To obtain refinancing, the national agencies would then issue promissory notes to the order of the Inter-American Bank, under previously arranged lines of credit. On issuing and remitting to the Bank such promissory notes, the national agencies would give all necessary information regarding the importers' notes which they have discounted and which would serve as collateral to the documents they issue. The Bank would buy these notes from the national agencies and endeavor to sell them in the capital markets.

In the implementation of the rediscounting technique, the national agencies would, under previously arranged lines of credit, directly transfer to the Bank the credit documents issued by the importer, extending to them their unconditional guarantee. The Bank would then endeavor to sell these documents in the capital markets.

LOAN AUTHORIZATIONS

Cumulative Total up to September 30, 1963

(Expressed in millions of dollars)

BANK'S OWN RESOURCES						SOCIAL PROGRESS TRUST FUND								TOTAL			
Private Enterprise (Direct Loans)		Private Enterprise (Indirect Loans)		Governmental Agencies		Improved Land Use		Housing for Low-Income Groups		Water Supply and Sanitation		Higher Education		No.	Amount Approved	Amount Disbursed	
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount				
Ordinary Capital	28	\$60.6	15	\$ 91.2	25	\$148.6								68	\$300.4	\$ 66.2	
Fund for Special Operations	1	0.6	10	50.8	22	65.5								33	116.9	22.4	
							19	\$66.6	20	\$166.7	20	\$111.5	6	\$13.1	65	357.9	69.8
Total	29	\$61.2	25	\$142.0	47	\$214.1	19	\$66.6	20	\$166.7	20	\$111.5	6	\$13.1	166	\$775.2	\$158.4

Loans Approved During the Quarter

During the third quarter of 1963 the Bank approved two loans totaling \$16 million. They were:

- \$6 million from the ordinary resources to the *Banco Agrícola* in the Dominican Republic to finance a livestock and agricultural development program.

- \$10 million from the Social Progress Trust Fund to *Nacional Financiera, S.A.*, of Mexico, to finance a two-year program for the construction of 23,000 houses for low-income families. The loan funds will be transferred to the recently established *Fondo de Operación y Descuento Bancario a la Vivienda* which is in charge of the program.

Contracts Signed

Contracts for the following loans previously authorized by the Board of Executive Directors were signed during the quarter:

- \$2,500,000 to *CARBOCLOR, Industrias Químicas, SAIC*, of Argentina, to finance a petrochemical plant.

- \$232,000 to *COMINCO, Sociedad Anónima Comercial, Industrial, Inmobiliaria y Financiera* of Argentina for a chipboard factory.

- \$6,000,000 to *Banco Agrícola* of the Dominican Republic for a livestock and agricultural development program.

- \$12,000,000 to the *Republic of Colombia* to finance a caustic soda plant in Cartagena.

- \$25,500,000 to *Nacional Financiera, S.A.*, of México, for a land settlement project in the State of Tabasco.

- \$3,800,000 to *Nacional Financiera, S.A.*, of México, to finance pre-investment studies of a project to develop the agricultural potential of the Lerma-Chapala-Santiago basin.

- \$5,000,000 to *Nacional Financiera, S.A.*, of México, for a colonization and improved land use project in the State of Tabasco.

- \$185,000 to the *Republic of Nicaragua*, to finance studies of the Managua sewage system.

Bank Issues Three New Publications

Three Bank publications regarding the Fourth Meeting of the Board of Governors were issued in August. The "Proceedings" of the Meeting contain the texts of the speeches delivered at the Meeting, as well as the approved resolutions, the agenda and schedule of sessions, and the list of participants. "Economic Integration: Financial Aspects" is a compilation of papers read at the Caracas Round Table discussions on the financing of Latin America's economic integration. "Tres Años de Labor" (Three Years of Activities) contains the principal address and closing remarks of the President of the Bank, Felipe Herrera, at the Meeting.

Disbursements	Quarter Ending	Cumulative Disbursements (In millions of dollars)	Quarterly Increase	Disbursements as Per Cent of Authorizations
As of September 30, disbursements on Bank loans reached a total of \$158.4 million which is about 20 per cent of the \$775.2 million authorized in the 166 loans approved by the Board of Executive Directors. The disbursement figure also represented 26 per cent of the \$618.3 million in the 136 loans now eligible for disbursement.	Dec. 31, 1962	65.3		10.6
	March 31, 1963	89.5	24.2	13.8
	June 30, 1963	121.9	32.4	16.0
	Sept. 30, 1963	158.4	36.5	20.4

Bank President Visits Canada

Mr. Felipe Herrera, President of the Bank, visited Canada during the week of September 8 to 14 at the head of a Bank mission seeking to inform Canadian governmental authorities and financial and banking circles about the objectives, structure and activities of the Bank. The Bank's chief executive also explored means for promoting closer cooperation between them and the Bank. The visit was a follow-up to the efforts previously initiated in Europe to attract more foreign capital toward the financing of Latin America's development.

In Ottawa Mr. Herrera conferred with Prime Minister Lester B. Pearson, Secretary of State for External Affairs Paul Martin, Minister of Finance Walter A. Gordon, and the Governor of the Bank of Canada, Louis Rasminsky. Mr. Herrera also gave a detailed explanation of the Bank's activities at a meeting of other government officials. Subsequently the mission held conferences with private banking and financial circles in Toronto and Montreal.

In an address before the Canadian Institute of International Affairs in Toronto, Mr. Herrera noted that the Bank had received the cooperation of Canadian experts in a technical assistance operation, that some of the Bank's bonds had been acquired by Canadian investors and that the Bank had participated in parallel financing with Canadian suppliers. He added:

"The economic development of Canada and the prosperity of its trade and financial markets assure beyond question increasing possibilities for the expansion of its economic relations with our countries. In turn, the development of Latin America and its economic integration will offer increasingly broader prospects for trade and investment. We hope that Canadian capital and experts can join with our own and with the capital and experts of the United States, Europe and other areas to explore and develop this potential."

Bank President Discusses Latin America's Development

On the eve of the annual meetings of the International Bank for Reconstruction and Development and the International Monetary Fund held in Washington from September 30 to October 4, in which the Bank participated as an observer, Mr. Herrera on September 29 met with Latin American, European, Canadian and Japanese delegates and observers to the meeting, with whom he discussed problems connected with the economic and social development of Latin America.

Mr. Herrera outlined the problems facing Latin America in the light of the deterioration of its terms of trade and of its external financial requirements.

"We think that the experience during the last 15 years in the international field," he said, "tends to emphasize three general aspirations of Latin America's economic policy: first, the need for more adequate treatment for Latin America's export trade; second, the need to speed up Latin America's own internal industrialization effort on the basis of an accelerated integration; and third, the need to base the development effort more and more on the internal mobilization of Latin America's own productive resources."

The President added that in the light of existing conditions in Latin America the Bank's position is assuming an increasingly greater importance. He cited two measures adopted this year which are of special significance to the development of Latin America: the establishment of a system of export financing of capital goods among the Latin American countries and the proposed increase of the Bank's callable capital by \$1 billion, which will enable it to increase its capacity to obtain funds in the world's capital markets.

Visits and Missions

Presidential Inauguration in Peru

At the invitation of President-Elect Fernando Belaúnde Terry, Mr. Herrera attended the presidential inauguration on July 29. He was accompanied by Francisco Norberto Castro, Executive Director for Argentina and Peru, Tom Killefer, Executive Director for the United States, and several officers of the Bank.

Mr. Herrera met with President Belaúnde Terry on two occasions and discussed development problems of Peru. Special emphasis was placed on two projects: the fringe highway along the interior frontier of the jungle and on the question of urban and rural territorial credit in the inter-American sphere. The mission also conferred with a great many other governmental officials and private organizations.

Establishment of the African Development Bank

On August 3 and 4 Mr. Herrera attended the meeting of African Finance Ministers, in Khartoum, at which the agreement establishing the African Development Bank was signed by the delegates of 33 countries. President Herrera was accompanied by the Executive Director for Brazil, Ecuador and Haiti, Mr. Cleantho de Paiva Leite. The Bank lent its cooperation to the committee that drew up the charter of the new Bank.

Executive Vice President Discusses Role of Private Enterprise

Mr. T. Graydon Upton, Executive Vice-President of the Bank, analyzed problems connected with the financing of Latin America's economic development in an address delivered at the meeting of the Fourth Special Committee (Industrial Development and Financing of the Private Sector) of the Inter-American Economic and Social Council at San Jose, Costa Rica, on July 29, 1963. Mr. Upton said that certain facts indicate that some of the assumptions advanced at Punta del Este needed to be re-examined in the light of the experience acquired since the launching of the Alliance for Progress. He said these could be summarized as follows:

- The needs of the Latin American nations for foreign financing during the coming decade, if they are to attain the per capita income growth rate set in the Charter of Punta del Este, seem to have been underestimated.

- The over-all inflow of foreign capital into the region in 1961 and 1962 has not attained the expected levels despite the efforts made.

- In some capital-exporting countries there are already indications of possible changes in the not too distant future in the composition of foreign funds available for the financing of Latin American development.

"In the face of this situation," he added, "only a decisive mobilization of private capital from the United States, Europe, Canada and Japan can provide the additional external financial requirements of Latin America in order to enable it to meet its development goals."

Increase in Resources

As of September 30 five of the member countries—Argentina, Colombia, Ecuador, Honduras and Peru—had taken the necessary legislative action to make the proposed increases in the resources of the Bank effective. Eight other member countries—Bolivia, Chile, Costa Rica, Mexico, Paraguay, The United States, Uruguay and Venezuela—reported that their legislative process is well advanced. Action is also under way in the remaining countries.

The Board of Governors of the Bank on April 8 approved recommendations calling for: (1) An increase of \$1 billion in the callable capital of the Bank; (2) a 50 per cent increase—\$73,158,000—in the contributions to the Fund for Special Operations, and (3) an additional increase of \$300 million in the ordinary capital to allow for the admission of new members.

To enter into effect the resolution must be approved by a 75 per cent of the total voting power of all member countries. The first five countries mentioned represent 19.25 per cent of this voting power; the second group, 64.07 per cent, including the United States with 41.82 per cent.

Training Course

A second internal training course for public and private development officers is being conducted at the Bank's headquarters in Washington, October 1-November 14, 1963. The first course was held July 1-August 14, 1963. The primary aim of the courses is that of giving the officers practical training in the organization, functions and policies of the Inter-American Bank. Trainees are also given a detailed view of other financial institutions in Washington and are taken to New York for a visit to the various financial institutions and centers in that city.

Participating in the course are 19 officials of development banks and agencies from 16 Latin American member countries. They include:

José Aromando, *Banco de la Nación Argentina*, and Italo Pedro Luis Ballerini, *Banco Industrial de la República Argentina*, both of Argentina; Ernesto Oblitas Bravo, *Banco Central de Bolivia*, Bolivia; Joaquín Cavalcante Bandeira, *Banco de Fomento da Bahia* and Aloysio Motta, *Superintendencia da Moeda e Crédito*, both of Brazil, and José Eustacio Tobar, *Banco Cafetero*, Colombia.

Also, Guido Bonilla, *Instituto Nacional de Vivienda y Urbanismo*, Costa Rica; Alberto Brunell Fabres, *Corporación de Fomento de la Producción*, Chile; Otto Emilio Andrade, *Banco Nacional de Fomento*, and Bolívar Miranda, *Junta Nacional de Planificación*, Ecuador; Benjamín Pleites, *Consejo Nacional de Planificación y Coordinación Económica*, El Salvador; Manuel Juan de Dios Velásquez Herrera, *Banco de Guatemala*, and Guillermo Hernández Fiallos, *Banco Nacional de Fomento*, Honduras.

Also, Marcelo Javelly Girard, *Secretaría de Hacienda y Crédito Público*, México; Ricardo Ampié Rosales, *Banco Nacional de Nicaragua*, Nicaragua; Abelardo Brugada Saldivar, *Secretaría Técnica de Planificación*, Paraguay; Alberto Pescetto Labbé, *Instituto Nacional de Planificación*, Perú; Osvaldo Carlos Pittaluga, *Ministerio de Hacienda*, Uruguay; Antonio Blavia Esquirol, *Banco Industrial de Venezuela* and Edgard Sayago Murillo, *Banco Agrícola y Pecuário*, both of Venezuela.

