

IDB NEWSLETTER

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Inter-American Bank Establishes Preinvestment Fund To Spur Latin America's Economic Integration

On July 21, 1966, the Inter-American Development Bank established a "Preinvestment Fund for Latin American Integration," which will be devoted to the preparation of feasibility studies of multinational projects designed to accelerate Latin America's economic unity.

The new Fund was created with initial resources of \$15 million from the Bank's Fund for Special Operations.

The Preinvestment Fund was set up by the Board of Executive Directors pursuant to a resolution adopted by the Bank's Board of Governors at its Sixth Annual Meeting in Mexico City in April 1966. That resolution called on the Executive Directors to take the necessary steps to establish such a Fund prior to July 31, 1966.

U. S. Allots \$1.5 Million

On September 7, 1966, the United States Government agreed to the assignment of the equivalent of \$1.5 million to the new Fund from the resources of the Social Progress Trust Fund, the \$525 million Fund which the Bank administers for the United States Government under the Alliance for Progress.

The United States' allocation was the first contribution by a government to the new Fund. Under the resolution setting up the Fund, the Bank may augment its resources by seeking contributions from its own members as well as non-member countries and from national and international institutions and agencies.

The resources of the new Fund will be used to finance studies in the following fields:

—Multinational infrastructure works, including highways, air, marine and river transportation, communications systems and related regional services.

—The integrated development of geoeconomic zones covering areas in two or more countries, as in the joint development of international river basins, including power resources, river navigation, irrigation, land settlement and forest resources.

—Basic industries of a regional scale which would operate in consumer markets embracing various countries.

—Other integration activities, such as studies and programs for the joint exploitation of natural resources, the establishment of multinational agencies and enterprises, research and exchange of scientific and technical knowledge, study of the legal and institutional infrastructure of integration, the training of personnel and, in general, the mobilization of manpower.

The Bank will utilize the resources of the Fund to extend loans, grant reimbursable and non-reimbursable technical assistance, or carry out studies at its own expense. The operations which the Bank will carry out with the resources of the Fund may be effected with governments, governmental agencies, development agencies, multinational entities, the organizations in charge of integration activities and with private enterprises.

The existence of the new Fund does not prevent the Bank from making either national or multinational preinvestment loans either with its own resources or acting in cooperation with other multilateral or governmental sources of financing. In this connection it might be pointed out that up to September 30, 1966, the Bank had authorized loans totaling \$42.4 million to finance preinvestment studies at the national and regional levels.

Preinvestment Recommendations

Even before the new Preinvestment Fund had been established, the Bank took steps as early as December 1965 to secure the services of a consulting firm to make a study regarding preinvestment projects and programs to speed up Latin America's regional economic integration.

(Continued on Page 4)

U. S. Executive Director Named

On Sept. 23, 1966, True Davis, Assistant Secretary of the Treasury, was appointed for a three-year term as United States member to the Board of Executive Directors of the Inter-American Development Bank. Mr. Davis succeeds Tom Killefer, who resigned this year to return to private industry in Detroit.

The Board is composed of seven members—six elected by Latin American member countries and one appointed by the United States. The six Latin American members were elected to their posts at the Bank's Seventh Annual Meeting as noted in the July Newsletter.

Shortly after Mr. Davis' appointment the United States also named Reuben Sternfeld, formerly Associate United States Coordinator for the Alliance for Progress, to the post of Alternate Executive Director for the United States.

LOAN AUTHORIZATIONS UP TO SEPTEMBER 30, 1966

(In millions of dollars)

Resources	Industry and Mining	Agriculture	Electric Power	Transportation	Water Supply and Sewage	Housing	Education	Pre-investment	Export Financing	Total	
										No.	Amount
Ordinary Capital	315.8	155.0	121.4	50.1	42.5			2.4	15.8	132	703.0
Fund for Special Operations	66.5	138.6	32.5	98.0	97.9	43.8	22.8	36.2		113	536.3
Social Progress Trust Fund		89.3			161.0	218.1	32.1	0.7		117	501.2
Other Resources				3.0				3.1		5	6.1
TOTAL	382.3	382.9	153.9	151.1	301.4	261.9	54.9	42.4	15.8	367	1,746.6

Bank's Loans Total \$101,700,000 During Third Quarter of 1966

During the third quarter of 1966, the Bank authorized 19 loans totaling \$101,700,000. By sources of funds, the loans were:

Ordinary Capital Resources—Three loans totaling \$25,100,000:

- \$3,200,000 to the *Banco de Guatemala* for credits for medium-scale industrial and agricultural enterprises.

- \$20,400,000 to the *Companhia Hidro Elétrica do São Francisco* to help increase the hydroelectric capacity of Brazil's Northeast by 300,000 kilowatts and extend transmission facilities there by 800 miles.

- \$1,500,000 to the *Banco Nacional* of Panama for credits to increase the nation's production of beef, pork and poultry.

Fund for Special Operations—Fourteen loans totaling \$75,400,000:

- \$12,000,000 to the *City of Quito*, Ecuador, to help improve and expand its potable water supply service.

- \$5,300,000 to the *University of Antioquia* to help build and equip a new university campus in Medellín, Colombia.

- \$20,000,000 to the *Banco Nacional da Habitação* of Brazil to help finance the construction of 18,700 homes in urban centers throughout the nation.

- \$2,000,000 to the *Banco de Guatemala* to finance a program of credit for small-scale agricultural and industrial enterprises in Guatemala.

- \$800,000 to the *Banco de Guatemala* to finance a program of credit for medium-scale industrial and agricultural enterprises.

- \$400,000 to the *Banco Nacional de Costa Rica* for a credit program designed to help develop Costa Rica's livestock industry.

- \$9,100,000 to the *Companhia Hidro Elétrica do São Francisco* to increase electric power output in Northeast Brazil.

- \$2,100,000 to the *Republic of Bolivia* to help finance preinvestment studies designed to speed up that nation's economic and social development.

- \$1,500,000 to the *Banco de la República Oriental del Uruguay* to help finance economic and social preinvestment studies in Uruguay.

- \$11,000,000 to the *Instituto de Desarrollo Agropecuario* of Chile to finance an agricultural credit program in that country.

- \$4,300,000 to the *Republic of Argentina* to help finance economic and social preinvestment studies.

- \$2,000,000 to the *Banco Nacional* of Panama for credits to increase Panama's production of beef, pork and poultry.

- \$1,300,000 to the *Republic of Guatemala* to help finance the construction of potable water systems for rural communities whose total population is 90,000.

- \$3,600,000 to the *Republic of Peru* to help finance a program of economic and social preinvestment studies.

Other Resources—Two loans totaling the equivalent of \$1,200,000 from the resources which the Bank administers for the Canadian Government:

Disbursements

As of September 30, 1966, disbursements on the 367 loans authorized by the Bank amounted to \$720.6 million. This sum represents 41.2 per cent of the total of \$1,746.5 million in loans authorized up to that date. The following table shows disbursements during the past five quarters.

Quarter Ending	Cumulative Disbursements (In millions of dollars)	Quarterly Increase	Disbursements as per cent of Authorizations
Sept. 30, 1965	531.3	46.9	39.7
Dec. 31, 1965	586.5	55.2	38.3
Mar. 31, 1966	612.5	26.0	39.3
June 30, 1966	667.6	55.1	40.5
Sept. 30, 1966	720.8	53.2	41.2

(Continued on Page 4)

Bank Mobilizes \$20.9 Million More For Latin America's Development

During the Third Quarter of 1966, the Inter-American Bank helped to mobilize an additional \$20.9 million in the world's capital markets for Latin America's development. The \$20.9 million included:

- \$11.6 million (50 million Swiss francs) raised through the sale of a bond issue in Switzerland.
- \$9.3 million (10 million Canadian dollars) which represented an increase in the funds which the Canadian Government has placed under the Bank's administration.

Bond Sale in Switzerland

The 50-million Swiss franc bond issue was the first ever sold by the Bank in Switzerland. It was underwritten by a group of Swiss banks headed by the Swiss Bank Corporation, the Swiss Credit Bank and the Union Bank of Switzerland. Public offering of the bonds took place August 25, 1966. The issue, which was offered at par, is known as "5¾ Per Cent Swiss Franc Bonds of 1966." Dated September 15, 1966, the bond will mature September 15, 1981.

The Inter-American Bank will redeem the issue at par in 10 annual installments of 5 million Swiss francs each on September 15 of each of the years 1972 through 1981. The Bank has the right to redeem all or part of the bonds at par on September 15, 1976, or on any subsequent interest payment date.

New Publications

During the third quarter of 1966 the Bank issued the report on "Multinational Investment Programs and Latin American Integration," which was drafted by Development and Resources Corporation.

The report was prepared at the request of the Bank to provide it with an appraisal of activities now being carried out or which should be carried out in the preinvestment field at the regional level to facilitate the preparation of a work program for the Preinvestment Fund for Latin American Integration.

Other publications published by the Bank during the third quarter of the year include "Economic and Political Bases for a Latin American Common Market," a speech delivered by Bank President Felipe Herrera at Georgetown University; "Proceedings of the Seventh Meeting of the Board of Governors, April 1966," and a mimeographed publication on "European Financing of Latin America's Economic Development."

These publications may be secured from:

Division of Information
Inter-American Development Bank
808 17th Street, NW.
Washington, D.C. 20577

New Canadian Contribution

The 10-million Canadian dollars placed under the Bank's administration by Canada increases the funds which the Bank administers for that nation to 30 million Canadian dollars. These funds are devoted by the Bank to making loans for economic, technical and educational projects in Latin America.

The agreement for the additional 10-million-Canadian-dollar contribution was made effective through an exchange of letters which took place at the Bank's headquarters July 22, 1966, between Paul Martin, Canada's Secretary of State for External Affairs, and Felipe Herrera, President of the Inter-American Bank.

The original agreement under which the Bank began to act on Canada's behalf was signed December 4, 1965. It provided for an initial Canadian contribution of CDN\$10 million. A second contribution of CDN\$10 million was made available to the Bank through an exchange of letters on September 30, 1965.

Loans from the Canadian resources are extended, according to circumstances, for terms ranging up to 50 years, and are made free of interest or under such other concessional terms as are agreed to between Canada and the Bank. Repayments are made in Canadian dollars. Proceeds of the loans are used to purchase goods and services in Canada.

Herrera Hails Contributions

At a dinner given in Washington, September 25, 1966, in honor of some 250 participants to the Annual Meetings of the World Bank and International Monetary Fund, Mr. Herrera paid tribute to the cooperation which the Bank has received from non-member countries in Europe, North America, Asia and the Near East. He termed the financial cooperation of Italy, Canada, the United Kingdom, Spain, Germany, the Netherlands, Japan, Israel and Switzerland as "an expression of faith in the future" of Latin America—a "region of vast potential, now undergoing deep and constructive changes." Under various arrangements, those countries are channeling nearly \$200 million towards Latin America's development in cooperation with the Bank.

In addition to the above cooperation, Mr. Herrera disclosed that the Bank is currently in the "final stages of negotiation" with the Government of Sweden for the establishment of a \$5-million "Swedish Development Fund for Latin America," which the Bank will administer, and that the Government of France is prepared to permit the Bank to sell a bond issue amounting to the equivalent of \$10 million in francs in the French capital market in 1967.

Bank Signs Agreement With Agricultural Institute

The Inter-American Development Bank and the Inter-American Institute of Agricultural Science signed an agreement August 6, 1966, to coordinate their training activities in the field of agricultural credit and agrarian reform.

The agreement was signed in Bogotá, Colombia, by Felipe Herrera, President of the Bank, and Armando Samper, then Director General of the Institute.

Under the terms of the agreement, the Bank may request the cooperation of the Institute in carrying out joint activities designed to:

- Make the best possible use of the resources available for training in agricultural credit and agrarian reform.

- Improve and modernize, through training programs, the structure and operating methods of institutions that receive loans from the Bank for use in agricultural credit and agrarian reform fields.

- Foster the organization of permanent services, at the national level for training in agricultural credit and agrarian reform, channeling such activities preferably through universities.

The institute may present suggestions to the Bank on ways of encouraging the coordination of agricultural credit and agrarian reform training programs with related regional and national development programs.

Bank Meeting Analyzes Export Financing Program

From September 21 to 23, 1966, representatives of national agencies in 10 Latin America countries met with representatives of the Bank at the Bank's headquarters to review the program adopted by the Bank in 1964 to finance exports of capital goods among its Latin American member countries.

The agencies, which are responsible for promoting exports of capital goods from their countries, included the Central Bank of Argentina, the Central Bank of Brazil, the Bank of the Republic of Colombia, the Central Bank of Costa Rica, the Central Bank of Chile, the Bank of Mexico, Nacional Financiera, S.A., of Mexico, the National Bank of Nicaragua, the Central Bank of Paraguay, the Industrial Bank of Peru and the Venezuelan Development Corporation.

Participants and Bank officials reviewed the progress already made in the financing program, which was adopted by the Bank to stimulate the development of basic industry in Latin America and foster the area's integration by increasing intraregional trade.

Various suggestions were also made regarding the program, which the Bank is now studying. These were related to widening the list of capital goods eligible for financing, terms and other conditions of credits eligible for refinancing, increasing the proportion of the refinancing granted

in each case, pre-shipment financing of goods involving long production periods, increasing credit lines for large exports on an ad hoc basis, the extension of the system of Latin American exports to third countries, a reduction of the percentage of financial responsibility borne by the exporter, and suggestions that the Bank study the possibility of establishing a system of export credit insurance.

Up to September 30, 1966, the Bank had extended lines of credit totaling \$15 million to national agencies in Argentina, Brazil, Chile, Mexico, Nicaragua and Peru to finance exports of capital goods to other Latin American countries. Of that sum more than \$6 million had been spent as of that date in financing capital goods exports whose total value amounted to \$10 million.

Preinvestment Fund - - -

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The results of the study, carried out by Development and Resources Corporation, were submitted to the Bank in September.

The report suggests that the Bank keep in mind, in its overall investment strategy, the fact that economic integration is going to go forward in Latin America, with the only imponderable being just how speedily. The report adds:

"The Latin American nations must themselves decide how rapidly they can proceed with economic integration. But they can speed the process by drawing upon the technical and financial capacity and experience of one another, of other nations and of international organizations.

"Among the international organizations which contribute to the progress of economic integration, the Inter-American Development Bank is of particular significance because it is an agency of the American nations, because it offers both financial and technical assistance, and because of its early and continued recognition of the importance of economic integration."

The report said that the rate of progress in integration can be influenced substantially by the Bank's efforts to encourage investments of regional significance.

Loans - - -

(Continued from Page 2)

- \$500,000 (equivalent of 540,000 Canadian dollars) to the *Republic of Peru* to help finance a program of economic and social preinvestment studies.

- \$700,000 (equivalent of 756,000 Canadian dollars) to the *Republic of Argentina* to help finance a program of preinvestment studies.