

IDB NEWSLETTER

INTER-AMERICAN DEVELOPMENT BANK



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Board of Governors Approves \$3.5 Billion Increase in Bank Resources

The Board of Governors of the Inter-American Bank has proposed an increase of \$3.5 billion in the Bank's resources to enable it to meet increased responsibilities in fostering Latin American development in the Decade of the 1970s.

The proposal for the increase was contained in a resolution adopted by the Bank's Board of Governors at its Eleventh Annual Meeting held at Punta del Este, Uruguay, April 20-24, 1970.

Specifically, the Board of Governors, the Bank's highest governing body, called on the Bank's 23 member nations to adopt measures necessary to:

- Increase the ordinary capital resources—the Bank's hard loan window—by \$2 billion. Up to \$400 million of this total would be paid-in and \$1.6 billion would be callable.
- Increase the Fund for Special Operations—the Bank's concessional or soft loan window—by \$1.5 billion.

Under the Agreement establishing the Bank, callable capital is subject to call only when required to meet Bank obligations created by borrowings in the world's capital markets. Thus, it constitutes, in effect, a guarantee of the Bank's securities.

The proposed increase in the ordinary capital resources would become effective when a minimum of 16 member countries agree to subscribe at least \$1.5 billion of the increase. The "paid-in" portion would be due in from three to five years, depending on the size of the contribution, in equal annual installments beginning in 1971. Payments would be made half in gold and/or dollars and half in the national currency of the country involved.

The increase in the "callable" resources would be subscribed by the member states in two equal installments, one in the first half of 1971 and the other in the first half of 1973. The United States contribution would amount to \$823,520,000—\$150 million to the "paid-in" capital and \$673,520,000 to the callable resources. Latin American nations would provide \$1,115,440,000, of which \$236,410,000 would be paid in and \$879,030,000 would be callable. The remaining \$61,040,000 would be available for subscription by future members of the Bank.

The proposed increase in the Fund for Special Operations would be made in three annual installments—the first of \$150 million by June 30, 1971, and the remainder in two equal installments of \$675 million before June 30, 1972, and

June 30, 1973, respectively. These contributions would be made in the currencies of the member countries. The increase would become effective when a minimum of 16 nations whose total contributions amount to not less than \$1,350,000,000 approve it.

In a study prepared for the Board of Governors, the Bank's Executive Directors foresee the Decade of the 1970s as one in which Latin America will bring many additional responsibilities to the Bank.

"In order to meet these responsibilities," the report states, "the Inter-American Bank should have sufficient resources to increase its contributions to the social and economic development of its members and such arrangements should come from financial arrangements in as broad a range as possible of the industrialized countries, as well as from the members themselves."

The report also indicated that to meet these anticipated demands, the Bank would have to increase its lending rate to approximately \$900 million a year by 1973, a figure substantially larger than the record volume of \$630 million approved during 1969.

Bank Signs Agreement with Swiss Government

On February 5, 1970, the Inter-American Bank and the Swiss Government signed an agreement under which the Bank will receive preferential tax treatment on bonds it issues in Switzerland. The privileges are similar to those extended by Switzerland to the World Bank in 1951.

The agreement, subject to ratification by the Swiss Parliament, was signed in Berne, Switzerland, by Inter-American Bank representatives and by Ambassador Raymond Probst on behalf of the Swiss Government.

The arrangement entails the reduction of the Swiss stamp tax on the issuance of securities from 1.2 to 0.6 per cent, and the elimination of the anticipatory tax on income resulting from investments in Switzerland. This would significantly reduce the cost of future Bank bond issues in the Swiss market. The agreement also recognizes the Bank's juridical personality and grants immunity and privileges to the Bank and its property, assets and officials.

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Loans Approved up to March 31, 1970

(In millions of dollars)

Sectors	Ordinary Capital Resources		Fund for Special Operations		Social Progress Trust Fund		Other Resources		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Industry and Mining	87	\$451.4	29	\$138.6	—	\$ —	3	\$ 3.2	119	\$593.2
Agriculture	35	254.6	65	497.1	26	82.1	1	1.0	127	834.8
Electric Power	23	283.4	14	163.7	—	—	3	25.6	40	460.3
Transportation & Communications	14	191.5	23	310.2	2	5.6	4	14.6	43	521.9
Water Supply and Sewage	17	80.6	31	214.8	32	159.9	1	5.0	81	472.7
Urban Development	—	—	13	107.0	32	215.1	—	—	45	322.1
Education	—	—	26	101.3	19	31.5	1	4.0	46	136.8
Preinvestment	2	1.1	45	58.3	5	1.2	7	5.4	59	66.0
Export Financing	12	43.4	—	—	—	—	—	—	12	43.4
TOTAL	190	1,306.0	246	1,591.0	116	495.4	20	58.8	572	3,451.2

Bank Lends \$59.9 Million During the First Quarter of 1970

During the first quarter of 1970, the Inter-American Bank authorized 12 loans equivalent to \$59,951,852. By sources of funds they were:

Ordinary Capital Resources: Three loans for \$11,700,000:

- \$5,000,000 to *Nacional Financiera, S.A.*, to provide credit to small- and medium-scale industry, primarily outside major industrial centers of Mexico.
- \$4,500,000 to the *Banco de la República Oriental del Uruguay* to provide credits for small- and medium-scale industries and help build or improve tourist hotels in Uruguay.
- \$2,200,000 to the *Banco de Costa Rica* to foster industrial development through credit programs in the private sector.

Fund for Special Operations: Seven loans totaling \$45,400,000:

- \$5,000,000 to *Nacional Financiera, S.A.* of

Mexico, along with \$5,000,000 from the ordinary capital resources, to foster the growth of small and medium enterprises in Mexico, particularly outside the nation's major industrial centers.

- \$3,000,000 to the *Municipalities of Valparaíso and Viña del Mar, Chile*, to improve and expand water supply and sewage facilities.
- \$29,000,000 to the *State of Minas Gerais* for the development of the vast, sparsely-settled Northwestern part of that Brazilian State.
- \$2,900,000 to the *Government of Trinidad and Tobago* to promote agricultural development and crop diversification.
- \$700,000 to the *Government of Trinidad and Tobago*, together with the \$2,900,000 mentioned above, to expand crop and livestock production.

• \$3,300,000 to the *Banco de Costa Rica*, along with \$2,200,000 from the ordinary capital resources, for credits to foster industrial development in Costa Rica.

• \$1,500,000 to the *Banco de la República Oriental del Uruguay*, together with \$4,500,000 from the ordinary capital resources, to provide credits for small- and medium-sized industrial enterprises and hotels in Uruguay.

Other Resources: Two loans for the equivalent of \$2,851,852:

• CAN\$2,000,000 (equivalent to \$1,851,852) from the Canadian resources administered by the Bank to the *Comisión Ejecutiva Portuaria Autónoma* of El Salvador to improve the port of Acajutla, the nation's main port.

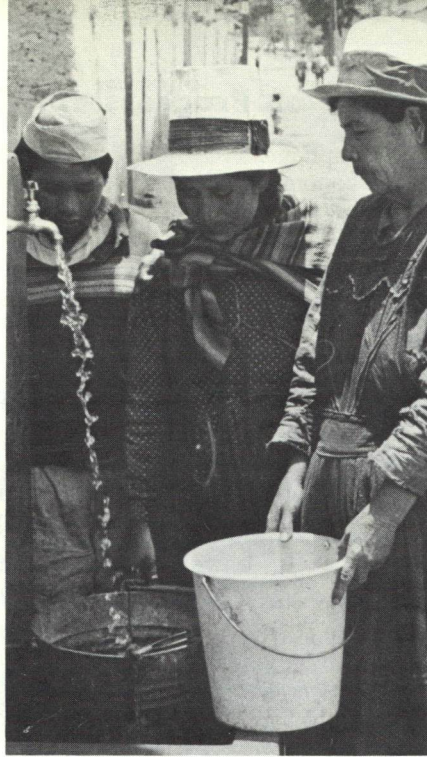
• \$1,000,000 from the *Populorum Progressio* Fund, which the Bank administers for the Holy See, to the *Instituto Colombiano de la Reforma Agraria* for a pilot agrarian reform project benefiting some 700 low-income farm families in Colombia.

Disbursements

As of March 31, 1970, disbursements on the 572 loans authorized by the Bank amounted to \$1,806.3 million. This sum represents 52.3 per cent of the total of \$3,451.2 million in loans authorized to that date. The following table shows the rise in disbursements during the past five quarters.

Quarter Ending	Cumulative Disbursements (In millions of dollars)	Quarterly Increase	Disbursements as per cent of Authorizations
Mar. 31, 1969	1,398.2	64.7	48.0
June 30, 1969	1,484.3	86.1	49.3
Sept. 30, 1969	1,583.1	98.8	50.3
Dec. 31, 1969	1,725.7	142.7	50.3
Mar. 31, 1970	1,806.3	80.6	52.3

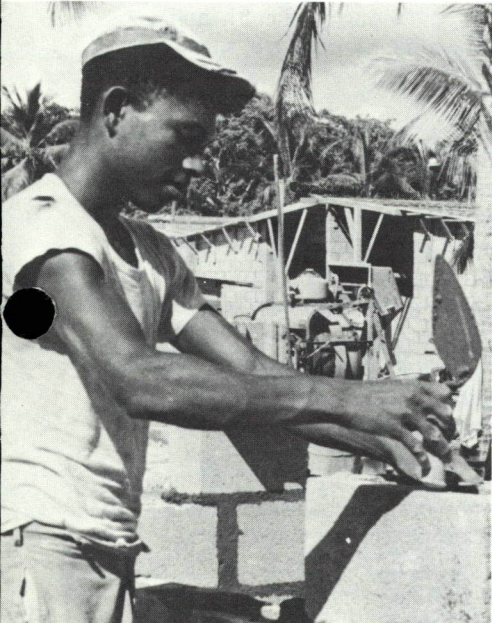
One in Four Latin Americans Benefit from IDB Loans



Remote villages and urban areas with a population of nearly 50 million benefit from Bank-financed pure water projects.



Centers of education serving more than 600,000 students throughout Latin America receive Bank aid.



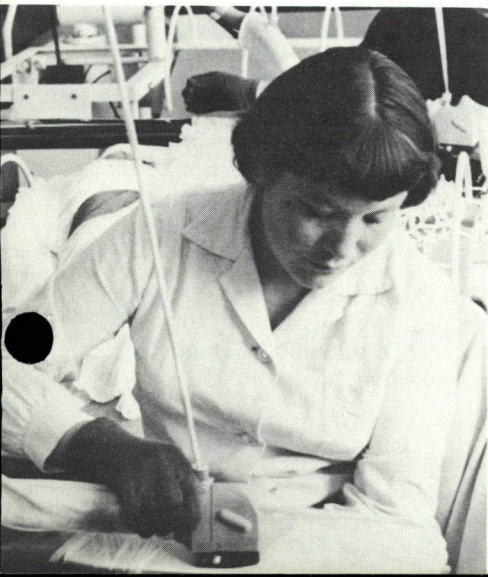
Urban development programs financed by IDB loans provide homes for 2 million Latin Americans.



Irrigation projects assisted by Inter-American Bank loans help bring the "green revolution" to Latin America's farmers.



Small-scale farmers receive agricultural credits from 39 Latin American development agencies administering more than \$428 million in IDB loans.



Industrial credit loans have been channeled to more than 4,000 small- and medium-scale manufacturing projects through development banks.

1960-1970: A Decade of Progress for Latin America

Latin America ended the First Development Decade on a rising tide of "remarkable economic recovery," according to Inter-American Bank President Felipe Herrera, and prospects for the 70s, especially in industry, are promising.

Mr. Herrera made the comment in conjunction with the release of the 1969 edition of the Bank's annual survey of social and economic conditions in Latin America, entitled *Socio-Economic Progress in Latin America*. The report notes that Latin America's gross domestic product grew by 5.7 per cent in 1968 and by 5.8 per cent in 1969, a figure substantially higher than the average yearly growth rate of 4.7 per cent recorded during the 1960-67 period.

The 1960s were christened the First Development Decade by the United Nations. The 60s also were the first decade of the Alliance for Progress.

The report notes that during the past two years seven Latin American countries have had overall economic growth rates higher than the average for the 1961-67 period. Argentina, for example, grew by 5.8 per cent in 1968 and rose to 6.8 in 1969, while Brazil's grew at an average rate of 6.9 per cent both years. Among the other nations whose economic growth rates rose markedly in the last two years of the decade were Colombia, Venezuela, Costa Rica, Ecuador and Trinidad and Tobago.

Throughout the decade, Mexico led Latin America in the rate of its annual economic growth, approximating 6.8 per cent a year. Guatemala's growth rate about 5 per cent, was also satisfactory.

In many nations, however, the picture was not so promising. Chile, Panama, Paraguay, Bolivia, the Dominican Republic, El Salvador, Nicaragua and Peru experienced some economic problems. Their gross per capita product, the report states, grew at an average rate of 1.9 per cent a year during 1961-69, dropping below the 2.5 per cent goal set by the Charter of Punta del Este.

The report states that the agricultural sector is especially vital to the development of Latin America's economy, since it employs nearly 44 per cent of the region's work force. In addition, 16 of the 20 Latin American countries earn over one-half of their foreign exchange from the exports of food and other agricultural commodities.

Despite its importance, total agricultural production has barely managed to keep up with the rate of population expansion, 3 per cent. Comparing this to the gross domestic product growth of 4.9 per cent over the period indicates that agriculture is Latin America's lagging economic sector. Food output grew at a rate of only 1 per cent greater than that of the population.

Hopeful signs in the agricultural picture include increased use of fertilizers and improved land yields. Possibly the most helpful sign for Latin America and world agriculture, the report states, is the green revolution. Mexico is the country in Latin America which has taken most advantage of new varieties of wheat and corn.

During the past decade, the industrial sector was one of the most rapidly growing sectors in the Latin American region. In the 1961-68 period, manufacturing grew 5.4 per cent a year for the region as a whole.

"It appears that Latin America at present possesses the potential and minimum base of the ingredients for becoming one of the areas with the most rapidly growing industrial sectors in the world during the decade of the 1970s," the report asserts.

Latin America's net capital flows from abroad allowed the region to maintain a favorable balance of payments stance in the past decade. International monetary reserves held by central banks increased by 48 per cent during the period, or 5.7 per cent yearly. Gross capital inflows, however, must reach about \$5 billion a year during the early 1970s, if positive resources transfers to Latin America are to be maintained.

The 1969 report also contains a detailed analysis of social conditions in Latin America particularly urban development and housing, health and environmental sanitation, education and agrarian reform.

New Publications

During the first quarter of 1970, the Inter-American Bank published the following reports:

- *Tenth Annual Report of the Inter-American Bank*, a thorough analysis of the Bank's activities in 1969 and during its first decade of existence.
- *Socio-Economic Progress in Latin America*, the Ninth Annual Report of the Social Progress Trust Fund. The report analyzes the current economic and social situation in Latin America on a regional and country-by-country basis and contains a brief review of the Decade of the Alliance for Progress.
- *The Process of Industrialization in Latin America*, a record of statements presented at the Bank's Round Table discussion held in April 1969 at Guatemala City during the Bank's annual Board of Governors Meeting.
- *Ten Years of Work in Latin America*, a brief illustrated account of the Bank's operations in its first decade of service to the people of Latin America.
- *This is the Inter-American Bank*, a new edition of the brochure which provides basic data on the Bank's objectives, policies and resources.
- *The River Plate Basin: A Summary Report*, a general study of economic and social conditions in the five Basin-area nations with emphasis on development potentials in the water, power, and transportation sectors.

These, as well as other publications of the Bank, may be secured from the Division of Information, Inter-American Development Bank, 808 17th Street, N.W., Washington, D.C. 20577.