

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

**Folder Title:** George D Woods - Eighteenth Annual Meeting Briefing Papers, 1963 - Latin America - Volume 1

**Folder ID:** 1076795

**Series:** Briefing papers

**Dates:** 02/07/1962 - 10/01/1963

**Subfonds:** Records of President George D. Woods

**Fonds:** Records of the Office of the President

**ISAD Reference Code:** WB IBRD/IDA EXC-03-4528S

**Digitized:** 05/16/2023

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

President G.D. Woods Briefs - 18<sup>th</sup> Annual Meeting  
Latin America

1963  
Vol 1

**DECLASSIFIED**  
WBG Archives



1076795

A1992-044 Other #: 1

209329B

George D Woods - Eighteenth Annual Meeting Briefing Papers, 1963 - Latin America -  
Volume 1



ARGENTINA

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

ARGENTINA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 3:00-3:20 p.m.

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Luis Maria Otero Monsegur\* (B/F) President  
Banco Central de la Republica  
Argentina

Pedro E. Real\* (B) Vice President  
Banco Central de la Republica  
Argentina

Guillermo Walter Klein (F) Adviser ED

Carlos S. Brignone (B) Adviser Alt. ED

Alejandro Frers Adviser  
Vice President,  
Banco de la Nacion Argentina

Roberto Ancarola Adviser

\* Likely to be at interview (Diog - next page)



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans or Credits made since July 1, 1962:

None.

## (ii) Technical Assistance:

In February 1962 Mr. Black wrote to President Frondizi (see letter of February 1962 attached) that the Bank could consider further loans to Argentina only within the framework of a sound overall investment plan. We have since been asked to give technical assistance to the National Development Council to help formulate such an investment plan. Two members of the Bank staff were in Buenos Aires in May and June of 1963 to provide such assistance, but found that insufficient work had been done in laying foundations for such a plan.

## (iii) Major Problems in Executing Existing Loans:

Loan No. 288-AR (Roads): Construction has been slowed down, owing to a shortage of local funds; this is in process of being remedied through AID financing of local currency costs.

Loan No. 308-AR (Power): SEGBA encountered earlier this year a serious shortage of cash to meet investment expenditures; this was remedied in May by our also including in the Loan the civil works for the distribution system and thus accelerating disbursements.

## (iv) Loans presently under Consideration:

We are not planning to resume lending in Argentina until political stability has been re-established and until the new Government, which is to take over in October, has at least started to come to grips with the country's economic and financial problems. If that were the case, we have several projects that were put to us previously and which could be taken up again, if the new Government so wishes.

September 25, 1963

Purpose	Amount (\$ million)	Status
Acindar - expansion of steel making facilities	About 70	First detailed appraisal completed. Revision of this appraisal necessary
SEGBA - 150 mw expansion of generating capacity	About 5	First request received
Rehabilitation of railways	To be determined after Government has formulated an investment program for the railways	Awaiting Government decision
Expansion and modernization of grain storage handling facilities at ports	About 20	Formal request from Argentine Government received
International roads between Argentina and Chile	Not determined	Awaiting basic information

(b) Topics likely to be raised by the Delegation:

The Delegation, whether or not it includes representatives of the next Government (see V), is likely to inquire about the prospects of the Bank financing the project mentioned above. Our position should be that, before agreeing to go ahead with anything specific, we must have some indication of the new Government's general economic policies and performance, with particular reference to debt management and public sector programming (see c below).

(c) Topics to be raised by Management:

We should make clear to the delegation that we need a firm decision from the Argentinian Government on how it intends to handle the large problem of existing debt--whether by intensive effort to eliminate the debt service problem by containing imports over the next five or six years so that loans with five or six year grace periods would be negotiable now, or whether by a gradual stretching out of the service of existing debt.



We also should emphasize the urgent need for Argentina to develop and present a realistic program of public investment and accompanying financial plan, and a clear indication of relative priorities.

Finally, we should make clear to the Argentinian delegation (for the benefit of the future government) that our decisions with respect to the future eligibility of Argentina for Bank assistance depends upon the character and quality of Argentine economic policies (particularly with respect to Argentina's relationship to the IMF) and Argentina's economic performance (with particular reference to reduction of the public deficit and promotion of traditional and non-traditional exports).

IV. BACKGROUND INFORMATION(a) Bank loans as of August 31, 1963

Date of Loan	Borrower	Purpose	Amount (equivalent in million \$)
June 30, 1961	Republic of Argentina	Road Construction and Development	48.5
Jan. 19, 1962	Servicios Eléctricos del Gran Buenos Aires	Buenos Aires power project	<u>95.0</u>
Total (net of cancellations and refundings)			143.5 <u>1/</u>
of which has been repaid			<u>-</u>
Total now outstanding			143.5 <u>1/</u>
Amount sold		0.6	
of which has been repaid		<u>-</u>	<u>0.6</u>
Net amount now held by Bank			142.9 <u>1/</u>

1/ Includes \$83.5 million not yet disbursed

(b) IDA credits as of August 31, 1963

None

(c) 18% Capital Subscription

\$33.6 million, of which \$6.7 million released but only \$1 million converted into dollars and used: conversion is subject to prior consultation with Central Bank. Use or release of remainder suspended in January 1962 because of drop in foreign exchange reserves. We wrote Central Bank we did not plan to use or convert remaining \$32.6 million until we had consulted further with it. No further action has been taken because of Argentine precarious financial condition.



(d) Holdings of World Bank Bonds

No holdings

(e) I.F.C.

IFC has three active investments in Argentina, steel (Acindar \$3,660,000), automotive transmissions (\$1,500,000), and petrochemicals (\$3,050,000). Several new projects have been held in abeyance during the present economic crisis and may be reactivated if the investment climate develops favorably. IFC plans a mission towards end of year.

Acindar, in which IFC already has an investment has applied to IBRD for a loan for a substantial expansion, and has asked IFC to consider helping underwrite an increase in equity. IFC has expressed willingness to consider this possibility as the project and the Bank's role become defined.

(f) I.D.A.

Member

V. POLITICAL SITUATION

Elections were held in July 1963. The successful candidate for President was Arturo Illia, representing the Union Civica Radical del Pueblo party. He will assume office October 12, 1963, for a term of six years. Hence, at the time of the annual meeting, Argentina will be under the control of the outgoing Government headed by President Guido, who had been Chairman of the Senate.

The new Government appears to be conservative and moderate; but its successful candidates campaigned on certain anti-foreign and anti-international planks, the ultimate significance of which cannot yet be assessed.

Recent confidential discussions between a Bank Officer and President-Elect Illia indicate: (a) That the new Government senses acutely the need for Bank assistance and therefore the need for a cooperative attitude toward the Bank; (b) that no major policy decisions will be announced (or even made) before the new Government assumes office on October 12; and (c) that therefore the new Argentine Government will not be represented in any meaningful way in the Argentine delegation at the annual meetings. It follows from the above that the Argentine delegation will not be in a position to discuss any of the points to be made by the management; all they can do is to convey these points to the new Government.

VI. ECONOMIC SITUATION

Population: 21 million  
GNP per capita: about US\$400

The GNP actually dropped in 1962 and first half of 1963. Population grew at the rate of 1.8% per year. The economy has been stagnant for at least twelve years and its major sector (agriculture and livestock) has been stagnant or declining for 50 years. The drop in GNP in the last 18 months was due to the continued severe economic depression and to balance of payments problems.

The external public debt outstanding at the end of 1962 was estimated to be at least \$2.4 billion, compared with \$1.7 billion at the end of 1961. Debt service payments are about 25% of export earnings even after significant rollover of debts owed to European and American creditors. Unless exports can be substantially increased, debt service will rise to almost 30% in 1965-66 and will not decline below 20% until nearly 1970.

The Argentine deficit on current account was \$585 million in 1961 and \$205 million in 1962. In the first half of 1963, because of a recovery of exports and a sharp reduction in imports, it



had a surplus of \$200 million. The exchange rate was allowed to go free early in 1962, whereupon it declined from 83 pesos to a level ranging up to 150 pesos to the dollar. It has been stable in the past four months at about 135 pesos to the dollar.

In 1962 prices rose 32% and wages 14% despite general economic recession. This trend continued in 1963, but at a somewhat less striking rate.

The principal economic problems are: (a) an excessively large deficit in the public finances; (b) stagnation of agricultural and livestock production; (c) high cost industries; (d) stagnation of traditional, and slow rate of growth of non-traditional, exports; and (e) the large amount of external public debt, requiring more than 20% of export earnings for amortization for at least five years.

Argentina - Biographical Information

September 27, 1963

Luis Maria Otero Monsegur

Born: Buenos Aires 9-2-1914; studied at University of Buenos Aires.

As a lawyer he specialized in corporation tax law.

He took part in the National Convention held in Santa Fe in 1957 as representative of the Federal Capital.

He was appointed President of the Central Bank in December, 1962.

Pedro E. Real

Lawyer

Entered Central Bank in 1937 as Banking Inspector

Left Central Bank in 1950 to practice law

Returned to Central Bank in 1956 as General Manager

Was appointed Vice President in 1952

February 7, 1962

His Excellency  
Arturo Frondizi  
Presidente de la Republica Argentina  
Buenos Aires, Argentina

Dear Mr. President:

I am very pleased that we were able on January 18 of this year to make a loan of \$95 million to SEGBA to assist in financing the prompt completion of the Gran Buenos Aires thermal power plant and related facilities. I have no doubt that this project is desperately needed to restore adequate electric service to the Buenos Aires area after so many years of severe shortage. The steps taken by your Government to make this loan possible will provide a sound basis not only for the efficient execution of this project, but also for financing and constructing the additional facilities which will be needed to serve the growing demand for power in this vital section of the country.

This loan for power followed by some six months our loan of \$48.5 million to the Argentine Government to assist in financing the first stage of a program of highway construction. Both loans are helping to finance projects of the highest priority undertaken as part of your Government's program to provide the basic facilities needed to restore Argentina's economic strength and to establish a basis for sound future growth. Neither of these loans could have been brought to fruition, however, if it had not been for the resolute and effective manner in which your Government has been dealing with many of the very serious problems with which Argentina was confronted when your Government came into power.

As you know, Mr. President, it is our custom periodically to appraise the economic position and prospects of member countries. I am pleased to send you a copy of our most recent report on Argentina, which was distributed to our Executive Directors for their consideration along with the documents of the SEGBA loan. The report points to the fact that under the new economic policy which your Government initiated 3 years ago, much progress has been made. In the much-improved financial and political environment which has been developed in this period, large sectors of the



February 7, 1962

economy have been restored to more effective working order and output levels have been raised. The report also calls attention to the very difficult and fundamental economic problems which still remain and analyzes their effect upon the Government's ability to achieve the economic strength and growth which are the objectives of its program. Since the manner in which these problems are attacked must also have a direct bearing upon our ability to continue lending in Argentina, I feel it would be helpful for me briefly to draw your attention to some of them and to comment upon them.

The analysis starts with the basic observation, with which I am sure you will agree, that to make up for the capital consumption and misguided economic policies of years past, Argentina must make a major investment effort. Grossly deficient power and transportation facilities must be improved and works already under way to enlarge the industrial base must be completed. To achieve the very high level of new investment needed for this purpose, Argentina will have to borrow large amounts abroad. But existing external debt is already a heavy burden, requiring payments during the next 3 years amounting to some 25-30% of total current foreign exchange earnings. The present prospects for increasing export earnings seem very limited. Agriculture, the source of virtually all of Argentina's exports, has not been expanding and industry continues to operate on a high-cost, highly protected basis. The difficulty of financing a high level of new investment under these circumstances is accentuated by the very heavy drain on the Government's budget to finance the substantial losses of some of the state entities. In 1961, for example, Treasury transfers to state enterprises totalled 43 billion pesos. Transfers to the state railroads alone accounted for almost 20 billion, most of which was to cover operating deficits.

It is apparent that continued progress toward economic recovery will require that:

- (a) vigorous measures be taken to strengthen and expand Argentina's farm economy and to increase agricultural output and exports;
- (b) the drain on the economy from losses by state enterprises, particularly the railroads, must be stopped, and in the process steps be taken to ensure that they are operated efficiently; and
- (c) new investments must be limited to projects which will have the greatest favorable impact upon Argentina's economic recovery and growth -- i.e., those with highest economic priority.



His Excellency  
Arturo Frondizi

- 3 -

February 7, 1962

To a certain extent these points are interrelated. New investments which will contribute to (a) and (b) will have a high priority but other important measures must be taken to enable the new investment to be effective.

I know, Mr. President, that you are very much aware of the importance of action on these fronts and that your Government has already taken some steps to attack these problems. What I want to stress, however, is my conviction that even more vigorous action is required if progress made to date is not to be lost, and if a sound basis is to be laid for obtaining the large amounts of new loans required to finance the necessary investment program. Because of their extreme importance, I want to comment more fully upon items (b) and (c).

As you know, we have followed very closely the steps that your Government initiated to rehabilitate the railroads. The importance of prompt corrective action is evident from the magnitude of the losses they are incurring and the basic importance of efficient transportation for all branches of the economy. The need to proceed on the basis of a sound plan is underlined by the very large amounts of new investment required for their rehabilitation. The comprehensive report of the Transportation Planning Group which, at the request of your Government, we organized under the sponsorship of the United Nations Special Fund, is now nearing completion. We hope that the recommendations made by the Planning Group will provide a basis for placing the railroads on a sound technical, financial and organizational basis. I suggest, as the appropriate next step, that key officials of your Government concerned with transportation policy and operations study the recommendations of the report and formulate a Government program of action. Several members of the Bank's staff are now in Argentina for meetings with the Transportation Planning Group and they will be discussing these matters with officials of your Government. When your Government has studied the recommendations and is ready to formulate a plan for carrying out an effective program, we would be prepared to consider how far further assistance on our part would be justified.

In addition to the large investments required for railroad rehabilitation, we know of the large capital requirements of other sectors. For example, we have been requested by Acindar to assist in financing a steel mill project and your Government has indicated its readiness to guarantee a loan for this project. Given the very high level of external debt service in relation to Argentina's prospective foreign exchange earnings and the substantial needs for external financing in a number of fields, I believe it essential that future external borrowing be undertaken only within the framework of an overall financial plan. In other words, I would urge that your Government now undertake a thorough review

His Excellency  
Arturo Frondizi

- 4 -

February 7, 1962

of future investment requirements in all fields, and establish priorities among them in the light of the financial resources which are likely to be available for their execution. The recent establishment by your Government of the National Development Council is a step in the right direction. I hope that this Council -- or such agency as you consider best qualified -- can proceed at once to prepare a program of investment, indicating the projects to be undertaken over at least the next few years, and formulate a plan for obtaining the funds required to finance them. I believe that surveys and studies already completed or under way provide a basis for preparing a program fairly soon for the major investments to be undertaken in the next few years.

The projects which the Bank is being asked to finance in Argentina call for substantial additional commitments. Because of this fact and the considerations which I have mentioned, we can decide on these projects only within the framework of a sound overall investment plan. We would want to see and to be in general agreement with such a plan before concluding additional loans for projects in Argentina.

I realize, Mr. President, that the problems with which I have dealt are not simple and cannot be easily or quickly resolved. They are, however, of critical importance and the splendid record which your Government has made in solving many of the difficult problems which it inherited leads me to expect that these, too, will be effectively disposed of. The record shows that your Government has made effective use of such assistance as it has received from the Bank to date, and if we can further assist in solving the problems with which I have dealt in this letter, we would be pleased to do so. We shall continue to follow with interest the actions taken by your Government and consider how best we can contribute to Argentina's economic recovery and development. In line with the close and effective relation we have had to date, I intend to have some senior officials of this Bank visit Argentina in April to review with appropriate officials your Government's plans and to consider how we can most effectively collaborate in carrying them out.

Sincerely yours,

/s/

Eugene R. Black  
President







CONFIDENTIAL

September 27, 1963

BOLIVIA

BRIEFING PAPER

**DECLASSIFIED**

**JUL 06 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: October 1, 1963

Time: 3:40-4:00 p.m. Rm.B323

Attended by:

Management: Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Augusto Cuadros Sanchez	(F)	Minister of Finance and Statistics
Raul Lema Pelaez	(B)	President, Banco Central de Bolivia
Adolfo Linares	(B)	President, Corporacion Boliviana de Fomento
Wenceslao Alba Q.	(F)	Deputy Manager, Monetary Dept., Banco Central de Bolivia

### III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS

#### (a) State of Relations, since July 1, 1962, including lending prospects:

##### (i) Loans and Credits made since July 1, 1962:

No Bank or IDA loans have been made in Bolivia to date.

IDA has under consideration a credit for power development in Bolivia. SLC has not as yet approved the project.

##### (ii) Technical Assistance:

No technical assistance has been given to Bolivia in the past fiscal year.

Purpose	Amount (in \$ million)	Status
Power facilities of ENDE in various parts of Bolivia other than La Paz	15 - 16	see below
Power facilities of the Bolivian Power Company in La Paz	4 - 5	see below

#### (b) Topics likely to be raised by the Delegation:

The most important question in the minds of the Delegation will undoubtedly be when the Bank will proceed with the proposed IDA credits for electrical power (i.e. the proposed credit to the new government enterprise ENDE serving all of Bolivia other than La Paz, and the proposed credit to the Bolivian Power Company serving La Paz and its immediate surroundings).

Our reply should be that we are still hoping to proceed with both credits simultaneously as soon as we have received the remaining technical information and as soon as progress in the talks between the Government and the Bolivian Power Company regarding the Company's future financial position, (and especially regarding rates) provides a basis for us to act. The delegation may well be instructed to ask at this point that we separate the two credit operations and that we proceed with the credit to the Government enterprise first,

in case there should be any delay in resolving the problems between the Government and the Bolivian Power Company. This request may be made for two reasons: (i) the Government and the Bolivian Power Company are still quite far apart in their discussions about the future financial status of the company, and the Government wants to move forward with the program to be executed by the Government enterprise, and (ii) the chief negotiator for the Bolivian Power Company, Mr. Taylor, who visited La Paz earlier this year, apparently told the Government that he knew Bolivia would not get the proposed IDA credit for the Government enterprise if it did not first come to terms with the Bolivian Power Company; this threat prompted Mr. Gumucio (the Minister of Finance) and Mr. Linares (the head of the Bolivian Development Corporation) to protest to us vigorously a few months later, saying that this meant giving the Bolivian Power Company such power to "veto" IDA lending to Bolivia.

If the delegation were to make such a request for separating the two operations, our reply should be as follows: i) We have always considered this to be one operation, designed not just to meet an existing power shortage, but currently to provide a sound basis for financing the continued expansion of facilities that will be needed to meet the growing demand for power; ii) To achieve this objective, the Government and the Bolivian Power Company must reach agreement and we see no reason for changing our approach at this time; iii) we would certainly hope that the Government and the Bolivian Power Company would continue their discussions in that spirit and would make a serious effort towards arriving at a solution, with each party keeping us informed of the position it is taking; and iv) if after a further serious effort on the part of both parties there seems to be no prospect of an early agreement, we would then have to consider whether there are steps we could take to help work out a mutually satisfactory agreement.

In addition the Delegation might reiterate an earlier request from the Minister of Economy for technical assistance to the Bolivian railways. We have informed the Government that before making a decision on this point we would like to receive: (1) a statement from the Government on the prospects of implementing the SOFRERAIL report (a consultants' report on the reorganization of the Bolivian Railroads undertaken by the Bank some two years ago); and (2) a specific outline of the assistance required. If the delegation should bring this information with them, we would be prepared to give this request our immediate attention.

(c) Topics to be raised by Management:

We should enquire about the prospects of the Government resolving its present dispute with the labor unions of Comibol,



the Government's mining corporation, which in turn will determine the outcome of the efforts of the Operacion Triangular (so called because it is a joint effort of the Bolivian, U.S. and German Governments) to put Comibol on a self-supporting basis. We should point out that this is of great importance to us; not only because of its effect on the economy as a whole, but also since Comibol is a consumer of electric power of both prospective electric power borrowers.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963:

None.

(b) IDA Credits as of August 31, 1963:

None.

(c) 18% Capital Subscription: (\$1.9 million)

None released. No release likely under present circumstances.

(d) Holdings of World Bank Bonds:

None.

(e) I.F.C.

Member.

(f) I.D.A.

Member.

V. POLITICAL SITUATION

President Victor Paz Estenssoro of the Movimiento Nacionalista Revolucionario (M.N.R.) Party assumed office in 1952 for a four-year term. He was re-elected for a second term in 1960. New elections are scheduled for June 1964. President Paz can be re-elected and is the most important candidate, with a good chance at re-election. His main opponent will probably be the present Vice President, Juan Lechin, representing Bolivia's left and extreme left. The country is presently going through some political turmoil caused by the labor unions of Comibol, the Government mining corporation (see III(c) above). The most recent indications are that the Government is winning the battle; it has successfully broken several recent wildcat strikes. The main strength of President Paz comes from the success of his agrarian reform program and especially from the resettlement of Indians from the plateau to the Amazon lowlands.

VI. ECONOMIC SITUATION

Population:	3.8 million, increasing by 2.4% per year.
GNP per capita:	about US\$100, increasing about 3% per year.

Total GNP appears to have been increasing in 1961 and 1962 at a somewhat higher rate than in immediately preceding years. The most active sectors have been agriculture and manufacturing which have been slowly recovering from the disastrous decline in 1957. Output of the mining sector has grown slowly, as increases in the production of the private mines have offset the decline in the output of Comibol.

Bolivia's external public debt outstanding at the end of 1962 amounted to about \$198 million, representing only a slight increase over 1961. Total debt service amounted to about \$14 million in 1963, rising to about \$17 million in 1966, or about 21-22 per cent of prospective net foreign exchange earnings.

The deficit on current account increased from US\$35.0 million in 1961 to US\$45.0 million in 1962. This deficit is largely due to a sharp increase of imports of manufactured wheat and wheat flour and an increased demand for consumer goods stemming from the drawdown of counterpart fund balances. The deficit on current account of 1962 was, as in previous years, largely financed by U.S. AID in the forms of grants and loans. There was some capital flight caused by fear of inflation resulting from prospective wage adjustments. Consumer prices, as measured by the cost of living index



VI. ECONOMIC SITUATION (cont'd)

for La Paz rose about 8% both in 1961 and 1962. Some wage adjustments took place in 1961 and 1962, particularly in the public sector, but the Government has recently displayed a tougher attitude against demands for wage increases.

The major problem in the public sector is the performance of the Government mining enterprise, Comibol. The prospects for its rehabilitation at present are uncertain and it continues to rely on foreign aid funds to finance its deficits. The Government therefore continues to depend on foreign aid to cover part of the current expenditures of the public sector. The relatively high level of debt service on external public debt reduces Bolivia's margin for borrowing abroad and forces it to rely on grants or on soft credits.

BRAZIL

CONFIDENTIAL

September 27, 1963

BRAZIL

BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 3:20 p.m.

Attended by:

Management: Mr. Woods  
Mr. Knapp  
Mr. Wilson

Staff: Mr. Schmidt  
Mr. Matter  
(others to be  
designated by  
Mr. Schmidt)

II. MEMBERS OF DELEGATION

C. A. Carvalho Pinto (B-F) Minister of Finance

Octavio Dias Carneiro (B-F) Executive Director,  
Superintendency of Money  
and Credit



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

(i) No Bank Loans or IDA Credits since 1958.

(ii) Technical Assistance since July, 1962:

The Bank is Executing Agency for the U.N. Special Fund Survey of electric power in the State of Minas Gerais and in South Central Brazil.

(iii) Major Problems in Executing Existing Loans:

Loans 11, 95 and 229-BR to Brazilian Traction (see Appendix I).

Loan 211-BR to Central Electrica de Furnas, S.A., a hydroelectric power project.

Construction delayed by about a year because of unexpectedly poor rock conditions. A recent tunnel accident may also interfere with generation, and costly remedies may be required.

(iv) Loans presently under Consideration:

No loans are now under consideration.

(b) Topics likely to be raised by the Delegation:

Prospects for resumption of lending operations.

(c) Topics to be raised by Management:

(i) Need for overall improvement in economic and financial performance before resuming lending operations can be considered.

(ii) Need to obtain more adequate rates in power, railroad and other public agencies in particular to permit these agencies to service their loans (see III(a) (iii) above) and to become suitable borrowers.

(iii) Inquire about status of Government's plans for taking over the utility companies and payment of their foreign debts, as well as the Government's utility policy in general.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	267.1	<u>1/</u>
of which has been repaid	64.6	
Total now outstanding	202.5	
Amount sold	5.4	
of which has been repaid	5.4	<u>-</u>
Net Amount now held by Bank	202.5	

(b) IDA Credits as of August 31, 1963

None

(c) 18% Capital Subscription

\$33.6 million of which none is released. No action to be taken in present circumstances.

(d) Holdings of World Bank Bonds

None

(e) I.F.C.

Member

IFC (with other participants \$3,175,000) has made six investments in Brazil, three of which have been fully sold. The three remaining investments are automotive parts (\$450,000), motor vehicles (\$2,450,000), and pulp (\$4,000,000). IFC and participants are presently considering a request for an investment of \$4,500,000 in a \$24,700,000 kraft pulp and paper project.

In view of continued inflation and foreign exchange shortages, IFC will consider new proposals only under very exceptional circumstances.

(f) I.D.A.

Member (since March 15, 1963)

---

1/ Includes \$11.5 million not yet disbursed.



V. POLITICAL SITUATION

President Joao Goulart, of the Brazilian Labor Party, succeeded to the presidency, but with severely curtailed powers, after the resignation of President Quadros in August 1961. His term of office expires in 1965. Until the full powers of the presidency were restored in January 1963, a weak Cabinet governed the country. In 1963 Finance Minister San Tiago Dantas tried to come to grips with some of the basic economic and financial problems, but failed to receive the necessary support and resigned. His successor, Carvalho Pinto, has earned a reputation for sound economic policies, but it remains to be seen whether he will assert effective leadership and whether he can muster support within the Cabinet and in Congress for his policies.

VI. ECONOMIC SITUATION

Population: 68 million  
GNP per capita: US\$200

The rate of economic growth in 1962 (2-3%) has been less than half that of the preceding year and considerably below the officially reported average annual growth rate of almost 6% for the period 1949-61. The sharp decline in growth last year is only partly attributable to poor agricultural conditions. The prevailing political uncertainties, the drastic decline in foreign investment, the critical balance of payments position and the rampant inflation arrested the growth of industry, commerce, and of the rest of the economy.

The external public debt of Brazil outstanding at the end of 1962 has been estimated at the equivalent of about US\$2.5 billion. This represented an increase of approximately US\$300 million since the end of 1961. Debt service payments in 1962 due on this debt are estimated at US\$245 million, or roughly 20% of foreign exchange earnings. Debt service payments will rise to US\$325 million in 1963 and US\$337 million in 1964; thereafter they decline gradually but still continue to constitute more than 20% of foreign exchange earnings.

The balance of payments situation was critical in 1962. With total exports of about US\$1.2 billion, the deficit on current and capital accounts is estimated to have been US\$388 million. It was financed by gold sales, increased commercial arrears, and swap transactions. This deficit compared with a surplus of US\$63 million in 1961. The external position was further weakened during 1963, with an estimated balance of payments deficit during the first six months in the magnitude of about US\$200 million. This was financed by some inflow of U.S. aid, a small amount of other external debt relief, commercial arrears, and swaps. Practically all gold holdings have



been either sold or pledged. Gross short-term assets are believed to be not much above US\$50 million. Last June the official rate of the cruzeiro was changed from 475 to US\$1 to 600 to US\$1, while in the open market the rate is about 1.000. Import controls have been tightened and imports have been running below the level of 1962. At the same time, coffee exports have been moving better than last year. In spite of these developments, the galloping inflation is maintaining pressure on the balance of payments and no foreseeable relief for 1963 is in sight.

The principal cause of Brazil's inflation has been its very large budget deficit. The deficit of the Federal Government has been close to 4% of Gross Domestic Product. In the first three quarters of 1963, about two-thirds of Central Bank credit expansion served to finance the deficit of the Treasury. The cost of living index registered in 1962 its largest annual rise in years--some 60%--as compared with about 45% in 1961. These already extraordinarily high increases are expected to be exceeded this year. During January-July prices rose by some 40%, and the financing of the Government and State economic enterprises by money creation and excessive credit expansion to the private sector have been and are continuing to exert severe pressure on prices.

Brazil-IMF-US consideration of Brazil's financial position is suspended. The Brazilians have indicated to the IMF that, after preparing a financial plan, they would like to begin further talks but the timing is still uncertain. In the meantime, negotiations have been completed for postponing a repurchase from IMF which had been scheduled under an earlier IMF advance. A 90-day US Treasury advance is due in October and the U.S. will be considering a further extension.

STATUS OF OUR TALKS WITH BRAZILIAN TRACTION

During the year there were two major developments. The first was that the proposed sale of the Brazilian Traction telephone subsidiary to the Brazilian Government, after all details had been apparently worked out, was suddenly abandoned when the Government refused to go ahead. We do not know why the Government changed its mind about the sale. (The proposed purchase by the Brazilian Government of the American and Foreign Power subsidiary was also abandoned by the Government around the same time.)

The other principal development was the intentional default by Brazilian Traction of the payment due on September 1 of principal and interest on two loans, such default being in the total amount of about \$1,400,000. The default arose because the Government had been reluctant to give Brazilian Traction enough foreign exchange to satisfy its obligations over the next twelve-months period and Henry Borden had wanted the Bank to react bitterly against the default so that Brazilian Traction in turn could tell the Brazilian Government how upset the Bank was about the default. The matter never reached that stage because upon examination of the documents we found that Brazilian Traction was wrong in thinking that we could not premature the loan immediately upon the default (they had thought that we could only premature the loan after a waiting period of sixty days). When we told the company that we could immediately premature the loan on September 2, they then paid up the amount due.

At the recent meeting of the Board of Brazilian Traction, Mr. Glassco was appointed President of Brazilian Traction in place of Mr. Borden, who became Chairman of the Board.

CA 1000



## OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: September 28, 1963

FROM: Orvis A. Schmidt

SUBJECT: Briefing for Meeting with Central American Countries  
(Scheduled for Thursday, October 3, 1963 -- 4:00 PM)

Attached for your meeting with the Central American group is some background material on our operations in that area. You will note that in addition to the delegates of the five Central American countries we have invited the representatives of the two regional agencies having observers at the Board of Governors meeting. Since there will be very little time in the twenty minute meeting for a formal statement I have not prepared one. Among the points which might be included in your remarks are the following:

- (a) That the Bank and IDA have made loans and credits totalling almost \$200 million in the five countries of Central America (of which \$79 million for power and \$79 million for highways). The Bank is financing highways in all five countries and power in four of them.
- (b) That we are very interested in the progress the Central American countries are making towards economic integration and willing to assist in any way we can in the achievement of that objective.
- (c) That although our loans have been for projects of national importance, designed to favor the economic development of the individual countries, most of them have also contributed to the economic integration of the region. The principal highways financed by us in each country have connected with those in other countries; the power projects will soon provide the basis for a regional power network.
- (d) That we are grateful for the fine cooperation we have received from all of them in carrying out the telecommunications survey and extremely interested in the negotiations underway for the establishment of a Central American telecommunications authority; we are pleased that we were recently able to finance telecommunications projects in two countries (Costa Rica and El Salvador); we are interested in following through by helping finance telecommunications projects in other countries, as well as the regional network.

attachment

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

October 1, 1963

CENTRAL AMERICA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 4:00 - 4:20 P.M.

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
Mr. Sirken  
Mr. Vignes

II. MEMBERS OF DELEGATION

Delegations of Costa Rica  
El Salvador  
Guatemala  
Honduras  
Nicaragua

Pedro Delgado

Permanent Secretary for the  
General Treaty of Economic  
Integration in Central America  
(SIECA)

Enrique Delgado

President of the Central American  
Bank for Economic Integration  
(CABEI)

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS:(a) State of Relations since July 1, 1962, including lending prospects:(i) Loans and Credits made in Central America:

	Power	Transportation Highways Ports	Tele- communi- cations	Agricultural Industrial Development	Water Supply	Total	Of Which Disbursed
Costa Rica	21.3	11.0	9.5	11.5		53.3	17.9
El Salva- dor	25.4	24.1	9.5			59.0	33.7
Guatemala		18.2				18.2	18.2
Honduras	10.5	18.7				29.2	17.7
Nicaragua	22.0	7.0	3.2	5.9	3	39.1	27.8
TOTAL	79.2	79.0	19.0	17.4	3	198.8	115.3

These loans have been made to individual countries, but a large part of them are of regional interest. This is true for the roads more than 700 miles (or 20% of the total) of them are included in the regional network as defined by the Ministers of Economy and Public Works at their recent meeting in Guatemala. It is also true for power projects since any significant industrial development, at the regional level, requires adequate power supply.

At the moment the Bank is actively considering projects on a genuine regional basis (see \$ loans under consideration below).

(ii) Technical Assistance:

At the regional level the Bank has been acting as Executing Agency for the U.N. Special Fund Regional Telecommunications Study. The Study is expected to be completed by the end of the year.

In Honduras and Guatemala the Bank has assigned resident economic advisers to assist the Government in economic planning.



October 1, 1963

## (iii) Loans under consideration:

At the regional level preliminary discussions on the regional telecommunications network connecting the five countries are taking place. The loan would be made to a regional company now under study.

We also expect to exchange views with SIECA and CABEL on the financing of a regional road program adopted by the Ministers of Economy and Public Works at their recent meeting at the end of August in Guatemala. [This regional road program is of special interest for Honduras.]

The Bank is also prepared to consider financing interconnection of the Honduran and Salvadorean power systems for which the feasibility study is expected by April 1964.

(b) Topics likely to be raised by the Delegation:

Mr. Enrique Delgado, President of CABEL, might raise the question of technical assistance to his bank in relation with its increasing activity in the field of economic infrastructure, specially transportation and electrification. Our answer might be that this question will be considered in connection with our financing of specific projects and programs.

The delegations are also likely to raise questions about the terms of Bank assistance. In the ministerial meeting held in Guatemala, strong emphasis was put on the financing of the regional road program on special terms (period of amortization, interest rate, period of grace). The answer might be to remind them of the new policy contemplated by the Management.

(c) Topics to be raised by Management:

Long standing interest in regional development in the area. The fact is that a large part of Bank/IDA operations in the five countries helped to promote economic integration although they were made to individual countries.

The importance attached to the creation of a regional company owning, building and operating the regional telecommunications network should be stressed.

Joint financing with other lending agencies of comprehensive programs will be explored. This has been already done in several countries, but not yet in Central America. Regional projects seem to be a good case for such operations.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

No Bank loans have been made yet to Central America as a region.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

See country's briefing papers concerning El Salvador, Guatemala and Nicaragua.

(d) Holdings of World Bank Bonds

Only El Salvador: \$100,000

(e) IFC

Assistance to a private investment Bank for Central America and Panama under consideration. Discussion scheduled during the Annual Meeting.

V. POLITICAL SITUATION

See country's briefing papers.

VI. ECONOMIC SITUATION

(a) See country's briefing papers.

(b)

	Annual Rate of Population Increase	Population (thousands)	Area Square Miles	Persons Per Square Mile	1962 Estimates of GNP \$ Million	1962 Per Capita GNP	External Trade \$ Million
Costa Rica	3.0	1,275	23,421	54	437	333	85.7
El Salvador	2.8	2,810	8,257	340	530	185	136.4
Guatemala	3.0	4,017	42,042	95	678	180	111.6
Honduras	2.5	1,950	44,482	44	335 *	200 *	78.0
Nicaragua	2.9	<u>1,600</u>	<u>57,145</u>	28	<u>402</u>	250	<u>82.5</u>
		11,652	175,347	66	2,290		494.2

\* 1960.

(c) Central American Economic Integration

(i) Economic integration in Central America has been promoted with the active support of the UN Economic Commission for Latin America (ECLA) since 1951. Today, the main instrument is the General Treaty for Central American Economic Integration, which is the product of 10 years effort. It provides for:

- (1) an immediate free trade area between the signatories for goods produced in Central America, accounting for about half the value of total intra-regional trade. Trade in other goods will be freed according to a predetermined schedule, within 5 years.
- (2) A customs union to be established within 5 years. Import duties have already been agreed to for 50% of the goods listed in the common tariff nomenclature.
- (3) Creation of the Central American Bank for Economic Integration (CABEI) for financing or assisting in the financing of projects - public or private - that promote economic integration.
- (4) A system of so-called "integration industries," intended to encourage industrialization in Central America. The idea is that industrialization has been limited by the small size of the national markets. Integration industries will receive certain privileges and protection, but will also assume



assume obligations with regard to the quantity, quality and price of their production. The designation of integration industries is still controversial and under fairly continuous discussion. Thus far, a tire plant in Guatemala and a plant producing caustic soda and insecticides in Nicaragua have been designated as integrated industries.

- (5) Various provisions concerning commercial practices, transportation and transit, participation in public bids, incentives to private investment.
- (ii) The institutions responsible for the implementation of the Treaty are:
  - (1) the Economic Council composed of the Ministers of Economy of the signatories;
  - (2) the Executive Council composed of one representative of each signatory; and
  - (3) the Permanent Secretariat (whose headquarters are in Guatemala City).
- (iii) During the recent years economic integration in Central America has made definite progress.
  - (1) Trade among the five countries has increased significantly from \$12.7 million, or 3.2% of total imports in 1955, to \$47 million, or 11% of total imports in 1962.
  - (2) A clearing house has been established for payments among the member countries and the eventual formation of a monetary union is under study. A clearing arrangement between Central American countries and Mexico is now under consideration.
  - (3) There has been tentative agreement on five integrated industries; they include production of tires in Guatemala, copper wire in El Salvador, detergents in Honduras, insecticides in Nicaragua, fertilizer in Costa Rica.
- (iv) The Central American Bank for Economic Integration (CABEI) was inaugurated in Tegucigalpa, Honduras, on May 30, 1961, with a capital of \$16 million. Since then it made loans in participating countries in a total amount of \$4.5 million. Up to date borrowers have been private enterprises.

- (v) With the implementation of the Common Market being well underway, emphasis is now being placed on the development of a program to strengthen regional integration.
- (1) Some funds from the Inter-American Development Bank are now being channelled through CABEI and the U.S. Government is expected to adopt a similar policy for the financing of regional projects.
- (2) The Joint Planning Mission (headquarters in Guatemala), created in 1962, is giving technical assistance to the five countries with a view to strengthening their national planning organization and help prepare national economic development programs for 1965-1969 that are consistent with regional integration.

CHILE



DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

CHILE

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 1, 1963

Time: 3:00-3:20 p.m.

Attended by:

Management: Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter

Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Felix Ruiz*	(B-F)	Vice President Banco Central de Chile
Alvaro Orrego*	(B-F)	Vice President Banco del Estado de Chile
Fernando Maira		Adviser Representative of the Board of Directors Banco Central de Chile
Luis Aguirre Edwards		Adviser Vice President Grace National Bank of New York

\* Likely to be at interview

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and credits made since July 1, 1962

(ii) None

## (ii) Technical assistance:

(A) Permanent residence mission (Havlik and Reitter) has been stationed in Santiago for about 18 months.

(B) Special study mission on capital markets (Thomas, Ewbank, Den Dunnen) has been in Santiago for a little over a year and is expected to complete its work in another six months.

(C) A special technical representative (Parmeggiani) to assist on the Bank-IDA Highway Project has been in Santiago for about five months.

## (iii) Major problems in executing existing loans:

Loan No. 287 CH and Credit No. 4 CH (Highways): Considerable delay has been encountered in the execution of the Bank-IDA Highway Project owing to inadequate administration. Since the assignment of the special representative mentioned in (ii) (C) above, this shortcoming is in process of being corrected.

Loans Nos. 17 and 172CH (Coal Industry): There are serious difficulties about the Lota and Schwager coal industry loans. The main problems are a dwindling market, mounting production costs, and inadequate prices (controlled by the Government). The Government has asked for the Bank's agreement to a merger of Lota and Schwager and to a renegotiation of the amortization schedule on the loans after the merger. The Bank's position is that in principle it has no objection to the merger, but is not willing to agree at this time to any renegotiation of the amortization schedule unless the Government takes various actions to help extricate the coal companies from their price and market difficulties. This position has been communicated to the Chilean Government and we are awaiting this reply.

## (iv) Loans presently under consideration:

The following projects are part of Chile's 10-Year Development Program, which the Bank has reviewed:

<u>Purpose</u>	<u>Amount</u>	<u>Status</u>	<u>Tentative date for negotiations</u>
Livestock development	\$19 million	Appraisal completed and SLC has approved negotiations	Initiated August 19;
Meat and Milk processing plants	\$5 million	Appraisal completed and SLC has approved negotiations	Initiated August 19; virtually completed
ENDESA expansion of power generating capacity	About \$6 million	Appraisal report being drafted; loan approval by SLC so far as creditworthiness is concerned.	Uncertain*

\* There is some question whether ENDESA and the Government are presently living up to the tariff covenants of our last loan to ENDESA.

(b) Topics likely to be raised by Delegation:

Since there was a complete review of all outstanding issues in Santiago in June and in Washington in July (see the attached letter of July 19, 1963, which has not yet been answered), it is unlikely that the Delegation will raise any issues except possibly to make another appeal for relief of repayment obligations on the Lota and Schwager loans.

(c) Topics to be raised by Management:

None



September 18, 1963

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	112.2 <sup>1/</sup>
of which has been repaid	<u>20.3</u>
Total now outstanding	91.9
Amount sold	4.5
of which has been repaid	<u>3.9</u>
Net Amount now held by Bank	91.3

1/ Includes \$32 million not yet disbursed.(b) I.D.A. Credits as of August 31, 1963

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
June 28, 1961	Republic of Chile	Road construction	19.0 <sup>2/</sup>

2/ Includes \$16.5 million not yet disbursed.(c) 18% Capital Subscription

No release. 18% equals \$8.4 million. Because of Chile's difficult balance of payments position, we should not press for release at this time.

(d) Holding of World Bank Bonds

None

(e) I.F.C.

IFC (with participants \$575,000) has made four investments in Chile, copper mining and smelting (\$3,100,000), food products (\$1,500,000), cement (\$1,200,000) and pulp and paper (\$3,000,000). IFC is presently awaiting details of a request for an investment in a logging, sawmilling and lumber manufacturing project.

CHILE

- 5 -

September 18, 1963

IFC has offered comments on a draft law authorizing the creation of development banks in Chile, now before the Chilean Congress. Proposals may develop when the new law is enacted.

(f) I.D.A.

Member

## V. POLITICAL SITUATION

President Jorge Alessandri assumed office in November 1958 for a six-year term. The next elections will take place in October 1964. Alessandri is not directly affiliated with any political party but governs by virtue of a center coalition. At the present time the leading candidates to succeed him are Duran, who represents more or less the same grouping that supports Alessandri; and Frei, who represents the Christian Democrat Party but may attract many of Alessandri's supporters. There is also a Left Wing candidate, Allende, representing the Socialists and Communists. At the present time Duran seems to be most likely to succeed Alessandri, but it is too early to predict with confidence the outcome of the elections.

(In the last few days a Government crisis has developed because of a difference between Congress and the Executive on wage policies.- All Ministers have resigned and the Radical Party - representing almost 50 per cent of the Government total electoral strength - has withdrawn from the Government coalition. The outcome of this crisis is not yet known.)

## VI. ECONOMIC SITUATION

Population: 8 million  
Per capita income: US\$300-350

In recent years, including 1962, GNP grew at rates between 4.5% and 5%. Annual population growth about 2.5%.

The external debt is very high; outstanding long-term public debt was \$742 million on December 31, 1962, compared with \$582 million on January 1, 1961. Debt service payments have been around 20% of foreign exchange earnings. They are expected to decline from 21% in 1963 to 15% in 1965 and continue to decrease thereafter.

The balance of payments continues to be very difficult; in spite of growing export earnings, which are now at the level of \$450 million and are expected to increase to \$520 million in 1964, the current account has a substantial deficit (\$119 million in 1962). Equilibrium in the balance of payments, however, is expected as a result of the inflow of external public and private capital. In October, 1962, the rate of exchange was unpegged and was allowed to fluctuate above its previous parity of E° 1.05/\$1. At present there are two official rates; one covers all trade and official transactions (currently E° 1.8/\$1) and the other is reserved for invisibles and private capital transfers (currently E° 3/\$1).

The cost of living has risen at the rate of about 15% a year since 1958, and it rose about 22% in the first half of 1963. Wages are generally linked to the cost of living, which limits the effectiveness of the Government's stabilization efforts.



The principal economic problems are: (a) Stagnation of public savings; and (b) Dearth of investment projects for external and internal financing. Both (a) and (b) above were stressed heavily in a recent letter from Mr. Woods to President Alessandri; and concrete actions by the Government to bring about improvement in these two respects was made a precondition for the Bank to convene a Consultative Group to organize external assistance to Chile. We have not yet had any indication from the Chilean Government of what they intend to do about these two matters.

July 19, 1963

His Excellency  
Jorge Alessandri  
Presidente de la Republica de Chile  
Santiago, Chile

Dear Mr. President:

I know you are aware of the visit of our mission to Chile last month because they have reported to me about the constructive meetings they had with you, with Sergio Molina, and with other key members of your Government. We have now had an opportunity to consider the findings of the mission and, although a few points are still to be resolved - relating chiefly to our loans to Lota and Schwager, about which we will write separately - I felt I should convey to you as soon as possible the conclusions we have reached on points about which I know you are keenly interested. I am transmitting herewith for your personal attention a copy of the report on the Current Economic Position and Prospects of Chile which has now been distributed to our Executive Directors and which provides the background against which our decisions were taken.

The first point to which we gave our attention was whether Chile's external position and prospects permit the Bank to proceed at this time with additional loans totaling about \$30 million for the Chilean projects which are before us. In reaching a decision on this point, we carefully considered the measures your Government has taken to increase the rate of economic growth, to bring about financial stability, and to strengthen Chile's external position. We took into account the fact that annual service payments on present external debt are still high, corresponding to about 20% of projected net foreign exchange earnings in 1963 and 1964, but that your Government has refrained from incurring sizeable new obligations on short-term as a consequence of which the level of debt service payments declines to more moderate levels within a few years. I am pleased to be able to report that your Government's performance to date, and its apparent intention to proceed with tax and other constructive measures now before Congress, provides a basis for the Bank to proceed at this time with some additional loans to Chile.

We have completed our appraisal of the projects for livestock development and for the construction and modernization of meat and milk processing facilities and have concluded that they provide a satisfactory basis for loans of about \$19 million and \$5 million respectively. We plan soon to be in touch with Corporacion de Fomento about precise arrangements for loan negotiations. We expect soon to complete an



appraisal of an ENDESA project for expanding generating capacity in the southern parts of Chile by the installation of several small power plants. I know that members of our recent mission expressed to you, and to appropriate officials of the Government, our serious concern that steps have not yet been taken to enable ENDESA to earn the rate of return to which it is entitled by Decree No. 4 of July 24, 1959 as had been agreed between Chile and the Bank in the documents for our recent loan for the Rapel and Huasco projects. It is our hope that corrective measures will have been taken by the time our appraisal is completed so that failure to comply with this undertaking will not be an obstacle to prompt negotiations of a loan for this project.

We have considered whether the Bank could now call a meeting of interested Governments and institutions to review the external requirements of Chile's development program and to co-ordinate arrangements for providing external assistance. While substantial progress has been made in formulating and executing a public investment program along the lines envisaged in Chile's 10-year plan, there are two points which seriously concern us: (a) the recent stagnation in the level of Chile's public savings; and (b) the paucity of projects to be presented for consideration by members of a consultative group. Unless corrective action is taken these shortcomings would seriously impair our ability to have a successful meeting.

A basic premise of the program, as prepared by Chile, was that the level of public savings would steadily rise, enabling Chile to finance from its own resources a steadily increasing proportion of total public investment. The attached economic report indicates that although the level of public savings in terms of constant prices increased substantially from 1960 to 1961, it has since then stagnated. Unless measures are taken to bring about the type of upward trend that was contemplated in the program, external resources required by Chile for investment needed to carry out the program will represent an ever-increasing proportion of public investment. These results are in prospect even assuming the tax measures contemplated for this year are enacted soon. Unless measures are taken to raise the level of public savings, we seriously doubt that members of a consultative group would be prepared to provide the external assistance needed to finance the required levels of future investment.

We know that your Government has also been concerned about this problem and is currently considering remedial steps. In evaluating the size of the increase that would make a satisfactory impression on prospective members of a consultative group we have taken as a premise that in the early years of the program Chile should provide from public savings, after external debt amortisation, at least 50% of total public investment. This goal would be achieved were Chile now to take measures which would increase the level of public savings by about 100 million escudos (1963 values) above the levels now in prospect.



His Excellency  
Jorge Alessandri

- 3 -

Our examination of the projects which might be placed before a consultative group indicates that much of the investment being made by Chile in 1963 and likely to be a basis for disbursement in 1964 is already under way, and those projects to be started anew for which adequate feasibility studies have been prepared do not involve substantial investment relative to the total. There is accordingly little prospect that a substantial part of the external assistance needed in 1964 could be made available by agencies financing the external costs of projects on a conventional basis. In order to provide a more adequate basis for interesting Governments and financial institutions in providing external assistance, Chile should now select a number of high-priority projects on which work would be started in 1965 and 1966, for which studies are already under way or can be initiated promptly, and prepare information on them which could be presented to a consultative group. This would enable members of the group to begin to consider what projects they might be prepared to assist in financing and also to consider whether they might be interested in providing technical assistance in the preparation of some of the projects.

Fulfillment of these two conditions, coupled with continued implementation of Chile's stabilization program, would provide a satisfactory basis for a consultative group meeting. I know your Government is now engaged in the process of preparing its budget for 1964 and it is our hope that measures incorporated in the budget, and other related decisions being taken, will constitute a program for increasing public savings to levels to which I have referred. Our resident mission will be pleased to work with appropriate representatives of your Government in preparing the type of project information which would be needed for the consultative group.

During his recent visit to Washington we were pleased to have a number of discussions with Minister Pinto about the highway project being financed jointly by the Bank and IDA. During the course of these discussions various problems were resolved and a better basis provided for accelerating progress in the execution of this important project.

In bringing this letter to a close, Mr. President, I want to report that our recent mission to Chile noted with gratification the actions which your Government has already taken, or is about to take, to promote financial stability and social progress. I note with particular interest your Government's agreement with the International Monetary Fund; the tax and tax administration reforms which have been enacted or are about to be enacted; and steps to promote land reform and wage stabilization. These actions, particularly when viewed in relation to the severe monetary and financial difficulties which Chile has been facing, augur well for Chile's economic prospects and future financial stability.

Sincerely yours,

Cleared w/Mr. Nurick (Legal)  
cc: Mr. Loftus

George D. Woods

JALoftus/OASchmidt/jim  
July 18, 1963

COLOMBIA

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

COLOMBIA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: September 25, 1963

Time: 4:00 p.m.

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt.

II. MEMBERS OF DELEGATION

Carlos Sanz de Santamaria	(B)	Finance Minister
Eduardo Arias-Robledo	(F)	General Manager - Banco de la Republica
Jorge Mejia Salazar	(B)	General Manager - Banco de Bogota
Eduardo Soto	(F)	General Manager - Banco de Colombia



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u>			
June 3/63	CVC and CHIDRAL	Power	8.8 *
June 21/63	Ferrocarriles Nacionales	Rehabili- tation	30.0
June 28/63	Acerias Paz del Rio	Steel Plant Expansion	30.0 *
July 16/63	Electrifi- cadora de Bolívar	Power	<u>5.0 *</u>
			<u>73.8</u>

I.D.A. Credits

None

\* Not yet effective.

## (ii) Technical Assistance:

Executing Agent for the UN Special Fund Cauca Valley Coal Survey.

DAS members Conger and Laurenti stationed in Cali for two years to assist Cauca Valley Corporation (CVC) in regional planning.

Resident mission (Kerr and Frost) stationed in Bogota. Consultative Group organized (one meeting in January 1963).

## (iii) Major Problems in Executing Existing Loans:

Loan 295 CO and Credit 5 CO (Highways): Substantial delays in construction, primarily due to insufficient appropriations, poor organization of Ministry of Public Works, and lack of cooperation between Ministry and consultants. In last few months there has been some improvement.

Loan 217 CO (CHEC, Caldas Electric Power Co.): Delays in completion and disbursements (we had to grant three 6-month extensions of the closing date) due to poor management and delay in rate increase. The project is now to be completed in October, after which date rate increase is expected.

## (iv) Loans Presently under Consideration:

Purpose	Amount (\$ million)	Status	Tentative date for Negotiations
Medellin power expansion (Nare)	42	Appraisal report being prepared	Late 1963
Private Investment Fund (Financieras)	10	Awaiting further discussion with Govt and Financieras	Late 1963
CVC Power expansion (Calima II)	22.5	Report being prepared by Borrower	Early 1964
Telecommunication expansion	27.5	Appraisal mission scheduled for Fall '63	Early 1964

In addition, for possible later consideration by the Bank, the following projects are in early stages of discussion: interconnection between the three main power companies (Bogota, Cali and Medellin), further expansion of Bogota Power (Collegio II), further expansion of CVC's facilities (Salvajina power and agricultural project), Barranquilla (waterworks), University del Valle (expansion program), University de Los Andes (expansion program), and secondary education (Ministry of Education).

✓ SLC decided in January 1963 that Colombia, for the time being, should not be considered for IDA credits.



## (v) Consultative Group:

In January 1963 a Consultative Group meeting was held to review Colombia's development program and exchange information on external lending plans for the program. Since then the participating Washington agencies (IBRD, IDB and USAID) have lent \$182 million in total. European participants, Japan and Canada are willing to make substantial contributions, mostly in the form of suppliers' credits. The Government, in collaboration with our resident mission, is attempting to restrict the use of these credits for projects within the program and to lengthen amortization terms. Last June the Bank started to issue a quarterly Status of Projects list. An updated 2-year project list and a more tentative 5-year project list are being prepared. (see also (c) (iv) below)

(b) Topics likely to be raised by Delegation:

The Finance Minister is primarily concerned with the difficult budget situation. Despite the several measures adopted to increase tax revenue, the Government had to restrain expenditures severely in order to keep the budget deficit within manageable proportions (about 300 million pesos in 1963). The Government hopes to obtain assistance from the U.S. Government on a non-project basis in order to be able to increase investment expenditures and bring them closer to the levels envisaged in the development program. The Minister may wish to inform us of his discussions with the U.S. Government on a program loan. In this connection, we might raise the questions on financial policy listed below.

(c) Topics to be raised by Management:

## (i) Government Financial Policies:

A recent law authorizes the adjustment of wages every six months in relation to the increase in the cost of living index, which is likely to prove very harmful to the Government's efforts at stabilization in general and balancing of the budget in particular. We should ask the Finance Minister whether and how he intends to put this law into effect, and what the prospects are of its repeal.

Congress has recently approved increases in various taxes. We should congratulate the Finance Minister on this very important step and say that we hope Congress would also approve promptly the one remaining tax increase, namely, on petroleum products, which has run into serious opposition. (The gasoline price is very low--12¢ per gallon-- and should be increased to meet at least part of the relatively large expenditures on highways).



## (ii) Railway Loan:

In connection with the last loan to the Railways, the Government has agreed to propose legislation that would give the Board of Directors of the Railways the authority to adjust its tariffs without further approval. We should enquire what action the Government has taken in this regard.

## (iii) Loan to the Financieras:

Since the return of the recent Bank and IFC missions we have given further thought to the various aspects of the proposed loan to the Private Investment Fund, and will soon be prepared to discuss the proposed loan further with the Government, the Central Bank and the Financieras.

## (iv) Consultative Group:

We are planning to send an economic mission in late October to help prepare the new 2-year project list and to review the progress made up to date in the execution of the development program. We are considering to call a Consultative Group meeting after completion of the new list and the mission's report. We should ask the Finance Minister whether he has any particular views as to the approach to, and the results of, the Consultative Group so far, and whether he has any suggestions as to the approach that we propose to take.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	343.9	<sup>1/</sup>
of which has been repaid	58.5	
Total now outstanding	285.4	
Amount sold	13.6	<sup>2/</sup>
of which has been repaid	8.3	
	5.3	<sup>2/</sup>
Net amount now held by Bank	280.1	

<sup>1/</sup> Includes \$103.1 million not yet disbursed.

Includes \$43.8 million not yet effective.

<sup>2/</sup> Includes \$8 million agreed to be sold -  
portions of loans not yet effective.

Date of Loan	Borrower	Purpose	Amount (equivalent in \$ millions)
1961	Colombia	Highway construction	19.5
1962	Emp. de Energia Electrica de Bogota	Power	50.0
1963	CVC and CHIDRAL	Power	8.8
1963	Ferrocarriles Nacionales	Rehabilitation	30.0
1963	Acerias Paz del Rio	Steel Plant Expansion	30.0
1963	Electrificadora de Bolivar	Power	5.0

(b) IDA Credits as of August 31, 1963

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ millions)
August 28/61	Colombia	Highway construction	19.5 <sup>3/</sup>

<sup>3/</sup> Includes \$14.1 million not yet disbursed.

(c) 18% Capital Subscription

US\$1.7 million released in dollars. The Government has agreed to release balance of subscription (\$6.7 million) in semi-annual installments to be completed by December 1966. On November 23, 1962, the Bank agreed to reschedule until December 1, 1966, the installment which was due on July 1, 1962.

(d) Holdings of World Bank Bonds

None

(e) I.F.C.

Member

IFC Management plans meetings at the Annual Meeting with the Presidents of the two Colombian financieras.

IFC (with other participants \$1,725,000) has made six industrial investments, two of which have been sold or agreed to be sold. The four remaining investments include fibre-board (\$500,000), food products (\$1,000,000), home furniture (\$170,000), and cotton textiles (\$2,000,000). IFC is presently considering an investment in a forge plant in which the two financieras have already invested. A further investment of \$500,000 is being considered in the food products company.

IFC has made investments in two financieras (Bogota \$2,023,730 and Medellin \$2,042,000) and is considering further investments in the remaining three financieras (Caldas, Valle and del Norte).

(f) I.D.A.

Member



## V. POLITICAL SITUATION

President Guillermo Leon Valencia, Conservative, assumed office in August 1962 for a 4-year term as head of the Coalition Government. President Valencia has been focussing the Government's efforts primarily on overcoming the problem of violence and on economic stabilization and development. The effectiveness of the Government has been strengthened by unification of the Conservative Party and by a reorganization of the Cabinet in June.

## VI. ECONOMIC SITUATION

Population: 15 million  
GNP per capita: US\$250

Gross National Product increased 5.3% in 1962, compared with 4.7% in 1961, and with annual population growth of about 2.8%. The accelerated growth of the GNP in 1962 was mainly due to a construction boom and to increases in the service categories greater than in 1961.

The outstanding long-term external public debt at the end of 1962 was \$639 million, compared with about \$485 million at the end of 1961. Service payments on outstanding external public debt were about 12% of export earnings during 1962; they will rise to 16% in 1963 and fall to 11% in 1965 and 4% in 1970.

The deficit on current account was \$120 million in 1962, compared with \$148 million in 1961. Current prospects are that the deficit will rise to about \$170 million in 1963 because of rising imports under the development program, but most of the increase will be financed by external credits. The peso was devalued in November 1962. The effect of the devaluation (34%) was substantially offset by price and wage increases (20-25% through April 1963).

The cost of living increased about 4% in 1962, compared with 8% in 1961, and the increase in wholesale prices was also less than in 1961; both prices and wages increased very rapidly between December 1962 and April 1963. The price advance has now slowed down and a further round of wage increases has been postponed. The minimum wage legislation which became effective in January provides for upward revision of wages each six months with advances in the cost of living. The Government's interpretation of the law was that the initial revision need not be made in July but could be postponed until January 1964.

Government revenue has increased substantially in 1963: roughly 600 million pesos of additional revenue are being obtained from the exchange differential, and under recent authorization several taxes are being introduced or increased, including a 20% income tax surcharge, a 3-10% sales tax, inheritance tax, a gasoline tax (increasing the price of gasoline by about 15%), etc. However, tax revenue and external assistance have been insufficient to enable the Government to increase investment to

September 18, 1963

the level envisaged in the program. This year, in order to keep the budget deficit within a manageable amount the Government had to restrain severely current and investment expenditures, e.g. investment expenditures are 20% below 1962 in real terms. An important factor underlying the deficit is the larger than expected current expenditures associated with the development program, as well as several internal security measures. The indications are that it will not be possible to provide sufficient external assistance for the program entirely on a project basis, and that there is some scope for general program support such as is under discussion with the U.S.



COLOMBIA

Briefing Paper Supplement

for Meeting with Colombian Minister of Finance on September 25, 1963

1. This memorandum reports briefly on a meeting held by Mr. Schmidt and members of the staff with the Colombian Minister of Finance, Carlos Sanz de Santamaria, and the Head of the Planning Office, Diego Calle, on Monday, September 23, and supplements the material on Colombia in the briefing book.

2. The Minister expressed the view that economically Colombia is surging forward and he believes that policies being followed are conducive to reasonable stability and a high rate of growth. He handed us a comprehensive report which he, as Minister, had recently presented to Congress concerning policies and proposed measures. We are studying the report in preparation for another meeting to be held later (see Paragraph 3 below). Some of the steps reported by the Minister are:

- (a) With the authority recently granted, he has already increased the surtax on incomes and is arranging for the sale of bonds to private Colombian banks. A sales tax will be imposed as soon as arrangements are worked out for its administration. The Minister has authority for a 10% tax (12 1/2 centavos) on gasoline which he will impose if the Minister of Public Works fails to obtain legislation for an even higher new tax on gasoline. (The Minister of Public Works proposes a 50% (60 centavos) gas tax to be put into effect in three successive steps. Most of the proceeds of this tax are to be used for a new road program carried out over and above the Bank-financed project.)
- (b) The Government has under way an intensive program to improve tax enforcement and close tax loopholes.
- (c) To ensure a coordinated and austere monetary policy (free of pressure by the private banks for credit expansion) a new monetary board has just been created. Members are the Ministers of Finance, Development, and Agriculture; the Head of the Central Bank, and the Head of the Planning Office.
- (d) Price inflation is at least temporarily halted, the indices not having risen during June, July and August.
- (e) A new board has been established to review all budget expenditures to determine whether they cannot be cut by at least 10%.

Because most measures will have little effect in 1963, his fiscal situation is still difficult, but he expects it to be much better in 1964. He expressed satisfaction with the policy of permitting utilities to earn satisfactory rates and said that no utilities in Colombia are today receiving an operating subsidy (though some get budgetary funds for capital investment).



3. The Minister expressed great satisfaction with the Bank's operations in Colombia during the last year. He asked that we make a list of all the major problems we had in Colombia and have another working-level meeting to go over them in detail. The list of subjects we prepared for discussion at a future meeting includes the following:

(a) Preparations for next meeting of the Consultative Group:

To prepare for this meeting we need to send a mission to re-appraise Colombia's economic position and review the projects to be undertaken during the two years ending June 30, 1966.

(b) Bank-Financed Road Program:

(i) The Minister and Calle are aware of our concern about the slow progress with the execution of the Bank/IDA highway program and want to discuss in greater detail how corrective action can most likely be obtained. A Bank mission is presently in Colombia and we will consider how we can use its findings most effectively.

(ii) We have been concerned about reports that the Minister of Public Works is proposing that Colombia embark upon a large highway program over and above the Bank-financed program and financed at least in part by contractors' credits. The Minister and Calle share our concern and we plan to consider in some detail possible tactics for forestalling such financing.

(c) Private Investment Fund:

Since the return of recent Bank and IFC missions, we have prepared a draft statement of the terms and conditions under which a Bank loan might be made to the Private Investment Fund to be relent to the Financieras. We plan to have a meeting in which IFC would participate to discuss with the Minister the principal terms and conditions.

(d) Cost of Resident Mission:

Our present agreement with the Government concerning its contribution to the cost of the mission expires on September 30 of this year. We plan to discuss arrangements for the Government contribution to these costs for the coming 12 months.

4. An important objective of the Minister's visit to Washington is to hold discussions with the U.S. Government concerning the prospects for further U.S. aid to Colombia. When we met with Santamaria, he had not yet been in contact with the U.S. Government. During the pending meeting, the Minister may report on his talks.

From our contacts with the U.S. Government, we were given to understand that the U.S. is favorably inclined to extend further aid but is likely to insist that the Colombians take steps to reduce the capital flight which has been substantial this year. These steps may include changes in the exchange rate

structure which the U.S. has been discussing with the IMF. The U.S. may also tie future assistance to the achievement of a surplus of budget revenues over operating expenses of a specific amount (to be mutually determined) for use in financing investment. We have as yet no indication what further U.S. aid would be forthcoming if the Colombians accepted these two conditions. One U.S. commitment, however, is likely going to be the release of the second half of the \$60 million general budget loan they extended to Colombia last year.

5. In view of the foregoing and of the fact that we will be meeting again with the Minister (at staff level) for detailed discussions of the type indicated in Paragraph 3, the subject most appropriate for the meeting on Wednesday afternoon would appear to be the Government economic and fiscal policies.

We should congratulate the Minister on his success in obtaining from Congress special fiscal powers, including power to levy new taxes, and express our confidence that he will continue to do all within his power to strengthen the fiscal position of the Government.

In response to the report he will probably make about his talks with the U.S. Government and the IMF, we should support the general position of the U.S. and the IMF.

We should also:

Stress the importance of encouraging exports and of keeping a tight control on external borrowing to ensure it is used only for high priority projects and is on long term.

Make such general comments as seem appropriate about the items listed in Paragraph 3.

September 24, 1963

GKWiese/OASchmidt:mr

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

BRIEFING PAPERS - COLOMBIA

Section VI: Economic Situation

Will be modified as soon as  
possible to harmonize with the  
memorandum for the Minister of  
Finance now being prepared by  
Messrs. de Vries and Nelson.



COSTA RICA

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

COSTA RICA

BRIEFING PAPER

I. MEETINGS WITH DELEGATION

Date: October 3, 1963

Time: 4:00-4:20 p.m.

(Jointly with delegations from El Salvador, Guatemala, Honduras and Nicaragua).

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

Date: September 30, 1963

Time: 5:00-5:40 p.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

Alvaro Castro \* (B-F)

Manager, Central Bank.

Augusto Carballo \* temp. (B-F)

Member of Board of Directors,  
Central Bank.

Rufino Gil \*

Economic Minister Counselor.

\* Likely to be at interviews.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u>			
July 10/63	ICE	Electric power and telecom- munications development	22.0

I.D.A. Credits

None

## (ii) Technical Assistance:

The Bank has agreed to act as Executing Agency for a general port and railway study in relation to a port expansion project at Puntarenas on the Pacific Coast. The study is expected to commence in October 1963 and be completed by April 1964.

Studies on long-term telecommunications development are being carried out by French experts as part of the U.N. Special Fund Central American Telecommunications Study, for which the Bank is Executing Agency. This study is expected to be completed by the end of 1963.

## (iii) Major Problems in Executing Existing Loans:

The Bank/IDA financed highway project has been delayed by about one year principally due to the lack of local funds. This problem is now being resolved.

## (iv) Loans presently under Consideration:

None.

(b) Topics likely to be raised by the Delegation:

During a recent visit by Bank staff to Costa Rica, the Central Bank asked what the prospects were of the Bank's making another loan for relending to new or expanding industries in Costa Rica for financing imports of capital goods, and the delegation might take this question up again. Our reply should



be that in principle we are interested in pursuing this possibility, but that before doing so we would like to make an end-use inspection of the past industrial loans, which is now scheduled for later this year.

Documents in fulfillment of conditions of effectiveness for the Power and Telecommunication Project Loan were received on September 23 and are presently under study by the Bank. The delegation might inquire as to when the Loan would become effective. We should reply that certain defects have been encountered in the documents and that the Bank would be writing shortly to ICE about them.

(c) Topics to be raised by Management

We might inquire about the Government's attitude toward creating a regional telecommunications organization, and express our great interest in this scheme and willingness to finance it if a suitable organization and financing plan could be worked out.

The outstanding French debt was only partly settled in connection with the signing of our last power and telecommunications loan. We may wish to inquire how the Government plans to settle the rest of the debt. (Our latest information is that they are still undecided between an outright cash payment and the issue of new bonds).

Finally we might wish to reiterate some of the points made in our letter to President Orlich transmitting the economic report (see copy attached) and inquire what steps the Government is taking in regard to the major concerns expressed in that letter.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	47.8 <sup>1/</sup>
of which has been repaid	<u>4.6</u>
Total now outstanding	43.2
Amount sold	2.7
of which has been repaid	1.9
	<u>0.8</u>
Net amount now held by Bank	42.4 <sup>1/</sup>

<sup>1/</sup> Includes \$7.9 million not yet disbursed.  
Includes \$22 million not yet effective.

Date of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
Sept. 6/61	Banco Central de Costa Rica	Industrial equipment	3.0
Oct. 13/61	Republic of Costa Rica	Road construction and maintenance	5.5
Jul. 10/63	I.C.E.	Electric power and telecommunications development	22.0

(b) IDA Credits as of August 31, 1963

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
Oct. 13/61	Republic of Costa Rica	Road construction and maintenance	5.5 <sup>2/</sup>

<sup>2/</sup> Includes \$5 million not yet disbursed.

(c) 18% Capital Subscription (\$720,000)

Only the original (\$360,000) has been released (all paid and lent in dollars.) In view of Costa Rica's present difficulties, it is not recommended to press for an additional release.

(d) Holdings of World Bank Bonds

None

(e) I.F.C.

Member

IFC (with other participants \$89,848) has invested in a concrete products plant (\$269,529)

(f) I.D.A.

Member



## V. POLITICAL SITUATION

President Francisco J. Orlich, of the National Liberation Party, assumed office on May 8, 1962 for a term of four years. Reversing the position of the preceding government, it has recently completed the steps for Costa Rican participation in the Central American Common Market.

## VI. ECONOMIC SITUATION

Population: 1.35 million  
GNP per capita: US\$285

Costa Rica has one of the highest rates of population growth in the world (4.3%); with the stagnation of export prices after 1955, per capita income has slowly declined. However, the trend appears to have been reversed in 1962; continued acceleration of industrial growth, and increased agricultural output, the result of successful government policies in previous years, were responsible for this. An informed guess might be that GNP grew by 5% in 1962.

Costa Rica has a high rate of investment (20% of GNP), but the high rate has increasingly been maintained by foreign capital inflows. Costa Rica's external public debt doubled in three years to reach \$84 million in December 1962. Service on this debt will absorb about 11% of gross foreign exchange earnings in 1963.

In 1962 foreign capital inflow, particularly long-term loans, has been bridging the small deficit on trade account. Prospects for exports are now better than in previous years and the prospects are for a small surplus on current account. In 1961, the colón was devalued from 5.60 to 6.62 to the dollar and has been maintained at this level with relative ease. There are few exchange restrictions.

Prices have remained basically stable in Costa Rica in the last decade.

Due to the slow growth of government revenues, largely dependent on import duties and indirect taxes, and rapid increases in expenditures (particularly for education), Costa Rica has suffered increasing budgetary deficits. Although the deficits have been financed by non-inflationary borrowing and have only very recently begun to create some pressure on prices, the fiscal position gives cause for serious concern because of its implications for external financing. The deficit in 1961 was 91 million colones (almost 25% of expenditures); in 1962, it was reduced by temporary expedients, but in 1963 a deficit of 70 - 80 million colones can be expected. The government has taken sporadic action but does not appear to have a program to face the situation. For 1963, the situation will be eased by some budgetary assistance from the U.S.. The fiscal situation of Costa Rica remains the main problem of the economy, which, unless tackled with vigor by the authorities, might imperil the country's improved prospects for growth.

APPENDIX

September 27, 1963

Biographical Notes for Members of the Costa Rican

Delegation

Mr. Alvaro Castro J. (Manager, Banco Central de Costa Rica)

A career official of the Banco Central, Mr. Castro was appointed Manager (for a four year term) in 1958 and is now serving his second term. Graduate of University of Costa Rica, C.P.A. Attended several Annual Meetings and is well known to the Bank.

Mr. Augusto Carballo (Member of Board of Directors, Banco Central de Costa Rica)

Formerly President of Banco Nacional de Costa Rica (one of the commercial banks). Graduate in Business Administration, American International College, Springfield, Mass. Influential businessman in Costa Rica.

Mr. Rufino Gil Pacheco (Economic Minister Counselor, Embassy of Costa Rica)

Formerly President of Board of Directors, Banco de Costa Rica (one of the commercial banks). Appointed Economic Counselor of Embassy early this year.



July 11, 1963

His Excellency  
President Francisco Orlich  
President of the Republic  
San José  
Costa Rica

Dear Mr. President:

I was pleased to be able on July 10 to participate in the signing of loan documents for a \$22 million loan to assist in financing power and telecommunication projects to be carried out by the Instituto Costarricense de Electricidad. This loan, which is our second loan to ICE, brings the total of Bank loans to Costa Rica to \$47.8 million. You will recall that the International Development Association, an affiliate of the Bank, has also made a credit of \$5.5 million to the Costa Rican Government to assist in financing its highway program.

On this occasion I should like to call your attention to the attached copy of the report on the "Current Economic Position and Prospects of Costa Rica", which was distributed to our Board of Directors as part of the documentation for the power and telecommunication loan. It is our general practice to prepare reports of this type periodically on all countries in which we are engaging in lending operations. This report was prepared by a mission which visited Costa Rica during November and December last year.

The economic report notes that as prospects for major exports worsened after 1955, the Costa Rican authorities adopted and carried out, with some success, policies for diversifying the economy and increasing production for the local market. Production of staple foodstuffs has risen to the level of self-sufficiency, meat and dairy output has grown rapidly, and there has been a rapid expansion of manufacturing output. After a slow decline of per capita real income levels since 1955, the prospects for a resumption of per capita economic growth are now encouraging; the outlook for Costa Rica's exports is also improving, and a moderate growth of export earnings can be expected in the years ahead.

The report also discusses, in some detail, the fiscal difficulties encountered by the Government in recent years, principally because of its inability to raise sufficient revenues to meet mounting expenditures. Because the public sector has been unable to



increase savings to the levels needed to finance development projects, there has been increasing recourse to external borrowing. The external public debt doubled in three years to reach \$84 million in December 1962. The service on this debt for 1962 represented more than 10 per cent of gross foreign exchange earnings for the year, a fairly high percentage.

The demand for capital for investment by the public sector is likely to increase substantially in the coming years. The various agencies within the public sector at present have investment plans for the years 1963 to 1965 totalling over \$100 million. As the report points out, preparations for starting most of the projects within this public investment program are relatively well-advanced.

Your Government has already taken measures to raise public revenues, and the deficit in 1962 was noticeably reduced below its peak of 1961. The report indicates, however, that further measures to increase revenues and to control current expenditures will be required if the public investment program is to be implemented without undue strain, or excessive reliance on foreign borrowing. The report stresses that if adequate domestic resources cannot be obtained, the start of lower-priority projects should be deferred until the necessary resources are available. Costa Rica should also endeavour to limit its external borrowing on conventional terms in coming years, so as to keep debt service from rising above present levels. In this connection, the Planning Office recently established by your Government to plan and coordinate public investment should make a very useful contribution to the orderly development of the public sector of the Costa Rican economy.

The economy of Costa Rica is a vigorous one, and enjoys a dynamic private sector. This, together with the various measures taken by the public authorities should enable the country to overcome the present difficulties and to lay firm bases for future economic growth. I am proud that the Bank and its affiliates have been able to assist by financing projects of key importance to the development of Costa Rica, and I sincerely hope that our close and effective working relationship will continue.

I am taking the liberty of sending copies of this letter, for their information, to the Minister of the Presidency, the Minister of Economy and Finance, the Director of the Planning Office, and the President of the Central Bank of Costa Rica.

With my best wishes,

Sincerely yours,

George D. Woods

DOMINICAN REP.

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

DOMINICAN REPUBLIC

BRIEFING PAPER

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: October 1, 1963

Time: 9:20-10:00 a.m.

Staff: Mr. Schmidt  
Mr. Matter  
(others to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

Diogenes H. Fernandez *	(F) Governor, Banco Central de la Republica Dominicana
Luis M. Guerrero Gomez	(F) Manager, Banco Central de la Republica Dominicana
Jacobo Majluta *	(B) Minister of Finance
Julio Estrella *	(B) Economic Counselor, Dominican Embassy in Washington

\* Likely to be at interview.



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of relations since July 1, 1962, including lending prospects:(i) Loans and Credits made since July 1, 1962:

None

(ii) Technical Assistance:

In April, at the Government's request, an engineer from the Bank reviewed conditions in the Port of Santo Domingo. His conclusion was that the port was in need of administrative reorganization and operational improvement rather than of large scale investment, and we have given the Government draft terms of reference for a further study of the problem.

(iii) Loans presently under Consideration:

None

(b) Topics likely to be raised by the Delegation:

The President requested in March that the Bank send a Resident Mission to the Dominican Republic to advise the Government in matters of development planning. We have offered to send Mr. Bochenski for an initial period of 3-4 months and said that based on this initial experience we would then decide as to whether the mission should be established and what its position should be (see attached letter dated August 9, 1963). We have not yet had a reply to this letter, but the mission might have instructions to discuss it.

The Delegation may enquire about the prospects of the Bank financing the Yaque del Sur Project. Its planning and engineering are far from ready for an appraisal and we have offered to help them in preparing terms of reference and guiding the study which was to be paid for by AID. Most recently AID has, however, brought TVA into the picture and they are now the most likely to carry out the study. This does not exclude our ultimately considering financing the project.

The Delegation might also enquire about the prospects of IDA assistance. We recently had an inquiry from the Embassy about the possibility of IDA financing projects in the fields of housing, water supply and feeder roads. We have informed the Embassy that considering the level of GNP per capita and the relatively low debt burden it might be difficult for IDA to start financing projects in the Dominican Republic, but that we might well consider projects in the field of feeder roads and water supply (not housing) for financing by the Bank and we encouraged them to have these projects prepared and submitted.

September 18, 1963

(c) Topics to be raised by Management:

We might enquire about the Government's reaction to our recent letter transmitting the economic report (see attached letter of September 13, 1963).

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

None

(b) IDA Credits as of August 31, 1963:

None

(c) 18 per cent Capital Subscription (amounting to \$720,000):

No release as yet. It would be appropriate to raise this issue at the time when the foreign exchange position improved further or, perhaps, when we shall be considering the first loan to the country.

(d) Holdings of World Bank Bonds:

None

(e) I.F.C.

Member

IFC Management plans discussions at the Annual Meeting with the Finance Minister of the Dominican Republic on a proposed development bank in which Chase International Investment Company and Kuehn-Loeb, as well as groups of Dominican businessmen, are interested.

(f) I.D.A.

Member



V. POLITICAL SITUATION

President Juan Bosch of the Partido Republicano Dominicano assumed office on February 27, 1963 for a four-year term. The new Government was elected on a platform emphasizing economic and social reforms. In its first months, the new Administration has taken a variety of measures in that direction.

VI. On September 25, 1963 President Bosch and his Government were overthrown by a military coup led by Generals Antonio Imbert and Luis Amiana, who were, apparently, supported by the commanders of the Armed Forces. The coup was preceded by increasing criticism from the right of President Bosch's policies and, in particular, his alleged weakness in face of communist infiltration. On September 26, a three men civilian junta was sworn in by the Army command. It is headed by Dr. Emilio de Los Santos, the former president of the Electoral College who, early this year, had pronounced Bosch to have been elected. Other members are Manuel Enrique Tavares Espaillat, an American educated industrialist, former head of the Development Corporation, and Ramon Tapia Espinal, a former member of the Council of State which ruled the country before the Bosch Administration. All three have, probably, strong leanings towards the Union Civica Nacional, the conservative party which played a leading role under the Council of State but was only second best in the last elections.

VI. ECONOMIC SITUATION

Population:	3.2 million
GNP per capita:	US\$240

In 1962, GNP grew by about 9 per cent, a significant recovery from the depressed years 1959-1961, the last years of the Trujillo Administration. Previously, from 1950 to 1958, the economy had grown at an average 8 per cent annually. The population growth is about 3.5 per cent.

As of December 31, 1962, total external public indebtedness amounted to \$36.6 million, almost all contracted in 1962. Debt service in 1963 will amount to less than 2 per cent of export earnings. In March 1963, the Dominican Government entered into a \$150 million line of credit agreement for multi-purpose water resources projects with European suppliers (some as yet unspecified). The extent to which this line of credit will be utilized is not clear.

With high sugar prices, exports reached a record \$173 million in 1962 and are likely to exceed \$200 million in 1963. There was a surplus on current account in the balance of payments in 1962. The expected level of exports of the Dominican Republic in the next years will be sufficient to cover imports at least as high as the record level of 1962 and leave a modest balance of payments surplus.

Following the fall of Trujillo, very substantial wage increases were granted - up to 150 per cent. These increases led to a sharp rise in imports in 1962, and were only to a small extent reflected in higher domestic prices.

Although the economy is not beset with any major immediate problem, there is the danger in the future of a possible fall in sugar prices. In particular, the state-owned sugar complex, which accounts for 60 per cent of production, has become a high-cost producer: if no preventive measures are taken, it is likely to become a drain on the budget if sugar prices fall.

September 18, 1963

Biographical Notes for Members of the Dominican

Delegation

Diogenez H. Fernandez (B-F) (Governor, Banco Central)

Has been for some time with the Economic Studies Department of the Banco Central; helped to set up import controls in 1959; Vice-Minister of Finance under Consejo de Estado (1962); nominated to present position by President Bosch. Seems to enjoy confidence of business community. Limited English.

Jacobo Majluta (B) (Minister of Finance)

Has been manager of chocolate factory under Trujillo. Does not seem to have much previous experience in the field of government finance. Limited English.

Julio Estrella (B) (Economic Counselor of Embassy in Washington)

Previously author of good economic articles published in "El Caribe", Santo Domingo's leading daily. Good English.



C  
O  
P  
Y

C

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON 25, D. C.

August 9, 1963

Dear Mr. President:

In the absence of Mr. Woods who, as you may know, is recuperating from an operation, I write to report to you on steps we have taken and convey our suggestions as to how we may best work together along the lines requested by you during the visit of our Mission to Santo Domingo last March and April.

During the visit of the Mission you requested the Bank's help on three matters: (a) in examining whether additional facilities would be needed in the port of Santo Domingo; (b) in financing a regional development of the Yaque del Sur river basin; (c) in providing a resident Mission to advise and assist the Government and its planning organizations in matters of economic development.

In April, shortly after the Mission returned to Washington, an engineer from our Transportation Division reviewed conditions in the Port of Santo Domingo. His conclusion that the port was in need of administrative reorganization and operational improvement rather than large scale investments, was given to the Minister of Finance along with terms of reference for the type of study required to provide a basis for bringing about the needed changes. We have not heard from your Government since, but are ready to assist further in this matter, if so requested.

While our Mission was in the Dominican Republic, little information was available about the Yaque del Sur project. Since the return of the Mission to Washington, a study by the French group, SCET, became available to us. Our technical staff has reviewed this study and found that although it represents a good compilation of the data available on the region, it was not intended to provide a basis for the Government to decide on the size and nature of the investment which would be required to develop the region or to determine the stages into which a program of development might be divided. The data provided by SCET, however, look sufficiently promising to justify a comprehensive study of this large river basin.

If you agree, we are prepared to send a technical mission to make an on-the-spot review of the region and help prepare terms of reference for the additional work needed to determine costs, benefits, order of priority and more detailed plans for the execution of a regional development project. Knowing of your interest in proceeding with the least possible delay with projects which would have a favorable impact on the growth of

August 9, 1963

national output, the Mission would assess the possibilities of phasing the investment so that work on certain justified parts of the program can be started even before the master plan for the entire area is completed.

We were pleased to learn from AID that your Government has concluded arrangements with the U.S. AID Mission to provide for joint financing of studies our Technical Mission is likely to recommend. Should your Government so desire, our Mission would work closely with the U.S. AID Mission in preparing the terms of reference for the studies.

With regard to your request for an advisory mission, the Bank is prepared to station Mr. Feliks Bochenski, whom you know, in Santo Domingo for a period of three to four months to assist your Government in work on its economic development program and in the preparation of high priority investment projects. At the end of this period, we would be in a better position to form an opinion as to the need for and the role and composition of a more long term advisory mission.

We would expect that in carrying out his functions, Mr. Bochenski would have direct access to you, Mr. President, and to appropriate members of your Cabinet and that he would cooperate closely with the organizations engaged in planning. It seems to us that he might be usefully attached to the Ministry of the Presidency but this, of course, is something for you to decide. The assignment of our staff member on this advisory mission of three to four months would not require any direct financial contribution from your Government. We would expect, however, that the Government would make available to him a suitable office, a qualified, bilingual secretary and a car with driver.

We are looking forward, Mr. President, to having your reactions to the above suggestions.

With highest personal regards,

Yours sincerely,

Orvis A. Schmidt  
Director of Operations  
Western Hemisphere

His Excellency  
Professor Juan Bosch  
President of the Republic  
Santo Domingo  
Republica Dominicana



September 13, 1963

His Excellency  
Professor Juan Bosch  
President of the Republic  
Santo Domingo  
Republica Dominicana

Dear Mr. President:

I take pleasure in submitting to you herewith a copy of the report of the Bank mission to the Dominican Republic dated August 13, 1963, and entitled "The Economy of the Dominican Republic".

This being the Bank's first full report on the economy of your country, it dwells at some length on past history in order to provide a basis for a better understanding of the present situation. The mission's visit took place during the first month of your administration, when the objectives and policies to be pursued were still being formulated, and for this reason the comments in the report relating to these matters are of necessity only tentative and subject to revision. The report does, however, contain a certain number of basic comments which it might be useful to summarize in this letter.

On the whole, the report takes a favorable view of the prospects of the Dominican Republic for economic growth in the coming years. It contemplates that the main impetus for this growth will come from an increase in agricultural and industrial production for the internal market.

As regards the agricultural sector, the report suggests that production is being limited by a severe shortage of technical manpower, which the Government should make an immediate effort to overcome. As to further investments in agriculture, the report suggests prompt planning of several irrigation projects and considerable emphasis also on land settlement and road maintenance.

In reviewing the industrial sector, the report points to the great importance of efficient management of the enterprises controlled by the Corporacion de Fomento Industrial. It suggests that in order to ensure efficiency in the managements as well as further development of these enterprises, the Government or the Corporacion might be well advised to have independent studies made to determine the most effective ways of managing and financing the enterprises.



His Excellency  
Professor Juan Bosch

- 2 -

September 13, 1963

Respecting wage and fiscal policies, the report calls attention to the need for exercising restraint, particularly in view of the probable future decline of sugar prices below the 1963 levels. In this connection the report comments favorably on the new tax on sugar exports and on the efforts to reduce the Government's administrative expenditures; it also stresses the importance of reducing Rio Haina's high production costs.

Finally, in commenting on the country's external debt, the report makes the point that the service on this debt is still rather low in relation to expected foreign exchange earnings, and that there is, therefore, room for further borrowing, provided that the economic situation of the country is well maintained and that additional borrowing is on favorable terms.

Based on the findings of this report, I am glad to be able to say that the Bank would be willing to consider loans for well prepared projects of high priority in your country with the understanding that the burden of external debt does not increase rapidly through excessive borrowing at unfavorable terms while such projects are being prepared and are under consideration by the Bank. I would also hope that your Government will favorably consider the numerous suggestions made in the enclosed report designed to further strengthen the economy of the country.

I am taking the liberty of sending a copy of this letter together with additional copies of the report to the President of the Central Bank.

With highest regards,

Sincerely,

George D. Woods

ECUADOR

**DECLASSIFIED**

**JUL 06 2016**

**WBG ARCHIVES**

CONFIDENTIAL

September 27, 1963

ECUADOR

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: September 30, 1963

Time: 4.00 p.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
(others to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

Enrique AMADOR MARQUEZ (B)

Minister of Commerce and Banking

Guillermo PEREZ CHIRIBOGA (F)

General Manager, Banco Central del  
Ecuador

Jose C. CARDENAS (B)

Minister of Development



### III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS

#### (a) State of Relations since July 1962, including lending prospects:

##### (i) Loans and Credits made since July 1, 1962:

None

##### (ii) Technical Assistance:

Transportation Survey: Report expected to be completed in November.

Advisers to National Electrification Institute: Stationed through 1963. Bank studying INICEL's request for extension of technical assistance by 6 months.

##### (iii) Major Problems in Executing Existing Loans:

Debt service payments are often made with delay.

Failure of past governments to authorize substantial tariff increase has left Company in critical financial position and unable to pay its debts. New government has informed us of its decision to shortly increase tariffs by 30% and has meanwhile taken drastic steps to reduce personnel and operating costs and for this purpose appointed a new General Manager.

##### (iv) Loans and credit presently under consideration:

Purpose	Amount (\$ million)	Status	Tentative date for Negotiations
National Highway Program <u>1/</u>	9 (Bank) 8 (IDA)	Project ready for negotiations provided Government adopts measures to finance its share	Nov. - Jan.
Empresa Electrica de Quito	6.8 (Bank)	Awaiting study revised financial position and effectiveness 30% tariff increase	-

1/ Further funds for this program would be provided by AID (\$18 million) and the Inter-American Development Bank (\$8 million).

(b) Topics likely to be raised by the delegation:

Highway Project

The question of greatest concern to the delegation will be when the Bank will be prepared to enter into negotiations for the highway loan; they will be pointing out to us that AID and IDB are apparently prepared to proceed. We should indicate that we are likewise willing to proceed, but that we would first like to review (a) the report of the September 1963 Bank mission which reviewed the measures the Government is planning to adopt to finance its share of that program (i.e. an increase in the gasoline tax and the establishment of a separate highway Fund), and (b) the steps the Government is planning to take in regard to the difficulties with the loans to Quito Electric and Guayaquil Port (see below).

Quito Power Project

Request for re-appraisal of financial position in light new rates to be put in force and economy measures put into effect. Possible request for re-appraisal of Cumbaya II project (20,000 kw) for which they claim there is only water enough for 5,000 kw more during the dry season.

New Projects

As national development plan has now been delivered to Committee of Nine, delegation may ask Bank to review and assist in financing certain sectors of plan.

(c) Topics to be raised by Management:

Necessity for prompt payment debt service on Bank loans (because of past delays).

Necessity for Government to respect contractual obligations to Bank (case of appointment of new Manager to Port Authority without Bank approval).

Bank willingness to review Quito Power project and changed financial situation to determine if we can proceed with new loan.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)		45.0 <sup>1/</sup>
of which has been repaid		<u>9.3</u>
Total now outstanding		35.7
Amount sold	0.4	
of which has been repaid	0.4	<u>-</u>
Net amount now held by Bank		35.7

---

<sup>1/</sup> Includes \$0.2 million not yet disbursed.

(b) I.D.A. Credit as of August 31, 1963

None

(c) 18% Capital Subscription

\$1.2 million of which all released and paid in dollars.

(d) Holdings of World Bank bonds

None

(e) I.F.C.

Member

IFC has made no investments but would consider investing. Preliminary inquiries have recently been received concerning possible investments in caustic soda and salt plants.

(f) I.D.A.

Member



V. POLITICAL SITUATION

A military junta assumed office in mid-July and quickly rallied support from the people for its avowed program of national planning, structural reforms and suppression of communist and leftist elements. In the few months in which it has been in office, the Junta has accelerated completion of the national development plan, reduced administrative bureaucracy, and has taken the first steps in eliminating, consolidating and controlling the 700-odd autonomous agencies. The new government faces an immediate problem because of a staggering 1963 deficit of some S/400 million and considerable unemployment.

VI. ECONOMIC SITUATION

Population: 4.7 million  
GNP per capita: US\$163

The gross national product increased 3.6% in 1962, compared with 3.0% in 1961 and with an annual growth of population of about 3.1%. The more rapid growth of the GNP in 1962 over 1961 resulted mainly from a revival of exports after a slump in 1961.

Ecuador's external public debt outstanding at the end of 1962 was roughly \$125 million compared with \$111 million at the end of 1961. Service payments on outstanding long-term external public debt were about 11% of export earnings during 1962 and decline to about 5% by 1967.

The deficit on current account was \$21 million in 1961, \$14 million in 1962 and is expected to rise to about \$19 million in 1963. The sucre was devalued in mid-1961 and as a result there has been a substantial inflow of short-term capital.

The cost of living increased 1.9% in 1962 compared with 4.9% in 1961, and a small further increase is in prospect for 1963. Wages were practically stable in 1962, after increasing about 2% in 1961. Continued stability is in prospect for 1963.

A budget deficit of roughly 400 million sucres was in prospect for 1963, prior to the change in government. Autonomous agencies receive a disproportionately large share of public revenue and often incur expenditures for low-priority projects. The new government has stated it intends to improve the situation by strengthening its control over the decentralized agencies.

EL SALVADOR

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 30, 1963

EL SALVADOR

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 4:00-4:20 p.m.

(Jointly with delegations from Costa Rica, Guatemala, Honduras and Nicaragua).

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

Date: October 1, 1963

Time: 4:20-5:00 p.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

Francisco Aquino \*

(B-F) President, Banco Central de Reserva de El Salvador

Luis Poma

(F) Member of the Board, Banco Capitalizador

Luis Escalante Arce \*

(B) President, Banco Agrícola Comercial de El Salvador

Francisco R. Lima \*

(B-F) Ambassador to the United States

\* Likely to be at interviews



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
----------------------------	-----------------	----------------	------------------------------------------------

Bank Loans

June 19/63	Comisión del Río Lempa	Electric power development	6.0
------------	------------------------	----------------------------	-----

I.D.A. Credits

Nov. 2/62	El Salvador	Highway improvement, construction and maintenance	8.0
-----------	-------------	---------------------------------------------------	-----

## (ii) Technical Assistance:

Studies on long-term telecommunication development are being carried out by French experts under the U.N. Special Fund Central American Telecommunications Study, for which the Bank is Executing Agency. This study is expected to be completed by the end of 1963.

## (iii) Loans presently under consideration:

The following loan is to be signed on October 1:

<u>Purpose</u>	<u>Amount</u> (\$ million)
Expansion and improvement of telecommunication services	9.5

(b) Topics likely to be raised by the Delegation:

The Government has previously inquired about the possibility of obtaining IDA assistance (\$2 - \$3 million) for an Irrigation Project in the Zapotitán Valley. Our reply should be that it would probably be difficult to justify IDA assistance to El Salvador, but that we would be willing to consider this project for possible financing by the Bank.

(c) Topics to be raised by Management:

We might inquire about the Government's attitude towards the proposed Regional Telecommunications scheme and indicate our strong support for such a scheme and our willingness to finance it in case a suitable framework and financing plan can be worked out.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)		41.2 <sup>1/</sup>
of which has been repaid		<u>9.9</u>
Total now outstanding		31.3
Amount sold	1.6	
of which has been repaid	1.4	<u>0.2</u>
Net amount now held by Bank		31.1

<sup>1/</sup> Includes \$1.5 million not yet disbursed.  
Includes \$6.0 million not yet effective.

Date of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
June 19/63	Comisión del Río Lempa	Electric Power Development	6.0

(b) IDA Credits as of August 31, 1963:

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
Nov. 2/62	El Salvador	Highway improvement, construction and maintenance	8.0 <sup>2/</sup>

<sup>2/</sup> Includes \$7.9 million not yet disbursed.

(c) 18% Capital Subscription:

The subscription is now \$540,000. Only the original (\$180,000) has been paid and lent in dollars. In view of the fairly favorable exchange position of the country, an attempt could be made to raise the question of an additional release.

(d) Holdings of World Bank Bonds:

\$100,000



(e) I.F.C.

Member

IFC made an investment in a textile plant (\$140,000), which has been sold. Preliminary information is presently being studied on a shrimp fishing and processing project.

(f) I.D.A.

Member

## V. POLITICAL SITUATION

Lt. Col. Julio Rivera, President, assumed office on July 1, 1962 for a term of five years. He is of the National Conciliation Party and was the only presidential candidate for the relatively quiet elections held in April 1962. The President holds middle-of-the-road views and advocates moderate social and economic reforms.

## VI. ECONOMIC SITUATION

Population: 2.8 million  
GNP per capita: US\$220

GNP grew by an estimated 8% in 1962 as compared with 4% in 1961. Population increased by about 3.5%. The favorable growth in 1962 was due in part to increased exports which, at \$136 million, was just short of the record high of 1957. It also reflected the restoration of political stability and the success of the Government's stabilization program.

El Salvador's external public debt totalled \$51.3 million at the end of 1962 which compares with \$49.4 million at the end of 1961. Peak service payments on this debt plus the recent Bank loan to CEL are \$6.6 million in 1964, which is about 5% of 1962 export receipts.

El Salvador's foreign exchange reserves rose by \$10 million to \$23 million at the end of 1962. This improvement was largely due to an improvement in the capital account since the afore-mentioned notable rise in exports was matched by a substantial rise in imports. Prospects for 1963 are reasonably good.

The cost of living indexes for the years 1961 and 1962 were virtually the same, at a level lower than that for 1960. A slight rise in the index has been seen in the early months of 1963.

In view of the large population and scarcity of available land resources, greater efforts to industrialize are essential. Projects for both private and public investments towards this end will require substantial capital both for internal and external costs. Although prospects of the economy in 1963 are generally favorable, serious Government efforts will be required to mobilize the domestic funds required for these investments.

APPENDIX

September 30, 1963

Biographical Notes for Members of the Salvadorean

Delegation

Mr. Francisco Aquino (President, Banco Central de Reserva de El Salvador)

Prior to his present office, Mr. Aquino was Minister of Agriculture. A graduate of the School of Agriculture and Engineering of the University of El Salvador, he has also a degree in economics from Yale University. He attended the Bank Annual Meetings in 1961 and 1962.

Mr. Luis Escalante Arce (President, Banco Agrícola Comercial de El Salvador)

Mr. Escalante is a professional banker, well known to the Bank. He regularly attended the Bank's Annual Meetings.

Mr. Francisco R. Lima (Ambassador of El Salvador)

Mr. Lima is concurrently Vice-President of the Republic and has been in office since May 1962. Graduate and former Dean of School of Economics of the University of El Salvador; lawyer.





DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

GUATEMALA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 4:00-4:20 p.m.

(Jointly with delegations from Costa Rica, El Salvador, Honduras and Nicaragua)

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

Date: October 3, 1963

Time: 9:20-10:00 a.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

Carlos E. Peralta Mendez *	(B)	Minister of Economy
Arturo Perez Galliano *	(F)	President, Banco de Guatemala
Jorge Lucas Caballeros Maza- riegos *	(B)	Minister of Finance and Public Credit
J. Francisco Fernandez Rivas *	(F)	Manager, Banco de Guatemala
Antonio Palacios *	(B)	Adviser, Secretary General, National Economic Planning Board
Manuel Rubio Sanchez		Adviser, Chief of Public Relations, Banco de Guatemala
Antonio Perez Calderon	(B)	Adviser, President of INFO

\* Likely to be at interviews

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations, since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

No loans or credits were made.

## (ii) Technical Assistance:

The Power and Irrigation Survey financed by the UN Special Fund, and for which the Bank is the Executing Agency, was started in 1961 and is now approaching completion.

In March 1963, the Bank assigned two planning advisers (Deriaud and Parker) to the Planning Council for a period of two years.

## (iii) Major problems in executing existing loans:

The only Bank Loan to date has been the \$18.2 million Loan for Highway construction and maintenance made in 1955. Maintenance of the roads financed by this loan as well as of other roads in the country has been unsatisfactory and the Bank has urged the Government for years to remedy this situation. Some improvements are now being made and some funds have been allocated, but the situation is not satisfactory.

## (iv) Loans presently under consideration:

The Bank informed Guatemala some time ago that it is not prepared to consider any further loans until (1) the Sterling debt has been satisfactorily settled and (2) some further progress has been made in the implementation of the above-mentioned highway loan.

In case these two points could be satisfactorily settled, the first project to be considered for a new loan would be the investment program of INDE (the Government-owned electric power corporation), with a total foreign exchange cost of about US\$13 million. This program is based on a study of the UN Special Fund for which the Bank was Executing Agency, and we are thoroughly familiar with it. A final appraisal of the project could be made on short notice.

Another project that has been mentioned to us on various occasions is a project by INCO (the International Nickel Company of Canada). The initial investment in the proposed nickel mining and processing facilities would be on the order



of magnitude of US\$50 million. Several aspects of the project are, however, still quite vague, in particular the mining concession and the willingness of the Government to guarantee what would be a rather large loan.

(b) Topics likely to be raised by the Delegation

The Delegation will most likely again ask that the Bank proceed with lending to Guatemala without awaiting settlement of the sterling debt, but this is no reason for the Bank to change its position.

The new Government has by now been fully informed of the Bank's position in this matter, most recently through a personal visit of Dr. Machado. As far as the claim of the bondholders is concerned, it is still in the court and is now scheduled to come up on October 1, 1963, with a decision expected later that month. The Government might appeal. It, however, confirmed to Dr. Machado that it would comply with the final decision of the court. He did not question the existing understanding between the Guatemalan and the Belgian Governments that claims of the other bondholders shall be settled on the same basis. There is thus for the first time some prospect of the whole matter being resolved.

(c) Topics to be raised by Management

The sterling debt mentioned above is the most important point affecting the Bank's relations with Guatemala, and it is suggested that we raise it if the Delegation does not do so on its own.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)		18.2
of which has been repaid		<u>6.4</u>
Total now outstanding		11.8
Amount sold	0.6	
of which has been repaid	0.6	<u>0.0</u>
Net Amount now held by Bank		11.8

(b) IDA Credits as of August 31, 1963:

None

(c) 18% Capital Subscription:

\$720,000, of which only the original 18% (\$360,000) paid and lent in dollars. In view of the fairly favorable exchange position of the country an attempt could be made to raise the question of the additional release - but because of the status of Bank's operations in Guatemala - held up by the Sterling Debt question - a favorable reaction from the delegation is rather doubtful.

(d) Holdings of World Bank Bonds

None

(e) I.F.C.

Member

IFC has an investment of \$200,000 in a flour milling project in Guatemala.

(f) I.D.A.

Member

## V. POLITICAL SITUATION

On March 31, 1963 the Army overthrew President Ydigoras, called off elections and established a new administration headed by Col. Peralta. A new Basic Charter was issued by Peralta's Government on April 10, 1963. In the opinion of the Bank's lawyers, any new loan and guarantee agreements with the Bank could legally be entered into by the head of the Government after their approval by the Council of Ministers. The new Government is generally accepted by the country and considered an improvement over the previous administration. It intends to increase the efficiency of the public administration, to develop the country's productive capacity and to achieve social progress. Apparently little has been done, until now, to implement these intentions.

## VI. ECONOMIC SITUATION

Population: 4.0 million  
GNP per capita: US\$176

GNP in real terms rose very slightly if at all in 1962. In 1961, GNP increased by 1% and 4% in 1960. Except for cotton and coffee, agricultural production was sluggish in 1962 and industrial output declined. Population is growing at a rate of 3% per year.

External public debt totalled \$68.8 million at the end of 1961. Scheduled service payments in 1962 were \$11.6 million or nearly 10% of export earnings; they are scheduled to decline steadily to \$5.8 million in 1966. (No debt information has been received for 1962.)

Exports in 1962 remained at the 1961 level of \$114 million: increases in cotton and meat exports were offset by declines in bananas and "other" exports. The rise in imports together with a sharp reduction in U.S. grant aid produced a decline of \$11 million in foreign exchange reserves in 1962. A marked improvement in Guatemala's balance of payments position is expected in 1963 as a consequence of higher cotton and coffee exports. At the end of July, foreign exchange reserves totalled \$60 million, or \$15 million above the same date in 1962.

The stagnation of the industrial sector and the fiscal position of the Central Government are the two main problems facing the Guatemalan economy. The sharp drop in receipts in fiscal 1962-1963 (largely due to a large cut in U.S. grant aid) produced a cash deficit of \$3.5 million and much lower investment outlays. According to the 1963-1964 budget, revenues are expected to rise from Q83 million to Q94 million through tax increases and new taxes, but the projected increase in expenditures is somewhat higher, so that the budget deficit will be greater than in 1962-1963. It is very doubtful that revenues will rise by the amount estimated in the budget.



APPENDIX

September 27, 1963

Biographical Notes for Members of the Guatemalan

Delegation

Arturo Pérez Galliano (F) (President, Banco de Guatemala)

Has been in this position for about 3 years. Knows the Bank and has always been very helpful to Bank Mission. Intelligent and competent. Excellent English.

Jorge Lucas Caballeros Mazariegos (B) (Minister of Finance and Public Credit)

Career officer, also graduate of Polytechnical School. He is the only Ministerial hold-over from the Ydigoras Administration where he was, consecutively, Minister of Economy and of Finance. Regarded as fairly competent. Speaks some English.

Carlos E. Peralta Méndez (B) (Minister of Economy)

Cousin of Chief of the Government. By background, Guatemalan trained economist. Has served in 1957/58 as Minister of Labor and represented his country in meetings of the UN General Assembly and of ILO. In his present position regarded as being difficult. Has stopped some of the projects started under his predecessors but hardly started any new ones. Little English.

J. Francisco Fernández Rivas (F) (Manager, Banco de Guatemala)

No information available.

Manuel Rubio Sánchez, Advisor (Chief of Public Relations, Banco de Guatemala)

Has been very helpful to various Bank missions.

Antonio Palacios, Advisor (Secretary General, National Economic Planning Board)

Formerly Economic Counselor of Guatemalan Embassy in Washington. Well known in the Bank where he worked for some time on the Capital Market Study.



DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

HAITI

BRIEFING PAPER

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 30, 1963

Time: 9:20-10 a.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
Mr. Vignes  
Mr. Sirken  
Mr. Bochenski  
Mr. Steuber

II. MEMBERS OF DELEGATION

Vilfort Beauvoir \* (F)

Vice President, Banque Nationale  
de la Republique d'Haiti

Roger Aime \* (Temp.) (F)

Legal Representative and Chief  
of Personnel, Banque Nationale  
de la Republique d'Haiti

\*Likely to be at interview.



### III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

#### (a) State of relations since July 1, 1962, including lending prospects:

##### (i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
----------------------------	-----------------	----------------	------------------------------------------------

##### Bank Loans

None.

##### I.D.A. Credits

Nov. 2/62	Republic of Haiti	Interim Highway Credit	\$350,000
-----------	----------------------	---------------------------	-----------

##### (ii) Technical Assistance:

Following a technical assistance grant of \$130,000 made by the Bank in December 1961, two firms of consultants (Gibb and Partners of Toronto and Buckley of New York) were engaged to study the reconstruction and reorganization of the port of Port-au-Prince. The Gibb part of the report had been ready for some time but the Buckley contribution had unfortunately been delayed for more than six months. Both have now been cleared by the Bank and printed copies are to be available before the Annual Meeting.

##### (iii) Major Problems in Executing Existing Loans:

Both on the Bank Loan and the IDA Credit for highways, the performance of the Government and of the "Service" directly in charge have on the whole not been satisfactory, to the point where earlier this year we considered suspending the Credit (mainly because of the large scale diversion of equipment for other purposes). The Government recently asked for an extension of the Closing Date of the IDA Credit; we have decided that we would not extend but simply pay for the completion of the two bridges, construction of which is underway, and cancel the balance (the amount to be cancelled will probably be no more than about \$25,000).

##### (iv) Loans presently under Consideration:

None.

(b) Topics likely to be raised by the Delegation:

On the occasion of a recent visit of a Bank staff member to Haiti, the Government inquired whether the Bank would be willing to renegotiate the amortization schedule of Bank Loan 141-HA (the next semi-annual amortization payment in the amount of \$214,000 plus \$36,000 interest is due on January 1, 1964).

We have indicated to the Government the kind of data that the Bank would require regarding their existing debt and their capacity to service it, before considering this matter further. In case the delegation raises this question, our reply should be that we are still prepared to consider it, but that we would want to receive the above-mentioned data before discussing it any further.

The delegation may also raise the question of further assistance by IDA - the country not being creditworthy for Bank loans. Our reply should be that before considering any new projects, political stability would have to be established in Haiti and at least the first steps taken towards reviving the economy.

(c) Topics to be raised by Management:

None.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	2.6
of which has been repaid	<u>1.0</u>
Total now outstanding	1.6
Amount sold	0.4
of which has been repaid	<u>1.9</u>
Net Amount now held by Bank	<u>1.6</u>

Date of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
May 2/56	Republic of Haiti	Highway maintenance and rehabilitation	2.6

(b) IDA Credits as of August 31, 1963:

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
Nov. 2/62	Republic of Haiti	Interim highway credit	.35 <u>1/</u>

1/ Includes \$63,295 not yet disbursed.

(c) 18% Capital Subscription (\$1,350,000)

No release. Considering that the country is in a very difficult economic position and in default with practically all external creditors, except the Bank, it would not be realistic to press for a release now.

(d) Holdings of World Bank Bonds

None



(e) I.F.C.

Member

IFC has made no investments in Haiti and there are no applications.

(f) I.D.A.

Member

## V. POLITICAL SITUATION

On the basis of an "election" in 1962, the President of the Republic, Dr. Francois Duvalier began his second six-year term in May 1963.

## VI. ECONOMIC SITUATION

Population: 3.5 million  
GNP per capita: About \$70

Haiti's economy, one of the poorest in Latin America, has stagnated since the mid-fifties due to the fall in coffee prices, unsettled political conditions, and the levelling off of earnings from tourism. 1962 was a relatively good year, since there was a record coffee crop (good and bad coffee years alternate regularly). Population has been growing at an estimated 1.7% per annum.

The outstanding external public debt as of September 30, 1962 is estimated at \$44 million, compared to \$43.2 million one year before. Service payments actually made on this debt in 1962 amounted to \$2.1 million (or 5% of export receipts); for 1963, the authorities plan to make service payments of about \$1.4 million. Except for payments to the IBRD, the rest of the external debt is either being serviced partially or not at all.

Exports in 1962 (a good coffee year) reached \$42.5 million compared to \$32.5 in 1961 (a poor coffee year). For 1963, exports may reach \$35 million. Haiti has a chronic deficit on trading account, and at present balance of payments prospects are bleak: U.S. capital assistance has practically ceased (it averaged \$7 million per year from 1956 to 1961) and tourism earnings have dropped sharply. Nevertheless, with continued IMF assistance, the authorities have managed to maintain the free convertibility of the gourde.

Prices and wages have not altered materially in recent years and are likely to remain stable for the rest of 1963.

Haiti's chief problem is its difficult political situation. Should the political situation improve, the most immediately feasible task would be to restore tourism earnings at least to their level of two years ago. This would give the country some of the much-needed foreign exchange to start again on essential investment in agriculture and roads.

September 18, 1963

Biographical Notes for Members of the Haitian Delegation

Vilfort Beauvoir (F) (Vice President, Banque Nationale de la Republique d'Haiti and Professor of Faculty of law at University in Port-au-Prince)

Previously held various jobs under Duvalier, who seems to have confidence in him. Not known to have ever expressed any original views. Plays hardly any role in running the Bank. Speaks English.

Roger Aime (F) (Legal Advisor and Chief of Personnel of Banque Nationale de la Republique d'Haiti)

Hardly known to me or to any of my sources. Probably a political appointee.





DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

HONDURAS

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 4:00-4:20 p.m.

(Jointly with delegations from Costa Rica, El Salvador, Guatemala and Nicaragua)

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

Date: October 4, 1963

Time: 9:20-10:00 a.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

Celeo Davila*	(B)	Ambassador to the United States
Jorge Bueso Arias*	(F)	Minister of Economy and Finance
Ricardo Alduvin Abaunza*	(B)	Minister of Communications and Public Works
Felix J. Lloveras*		Adviser of the Delegation President, Banco Atlantida

\*Likely to be at interviews

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

None

## (ii) Technical Assistance:

In 1961 the Bank provided a technical assistance grant for a port expansion and reorganization study for the port of Puerto Cortés. The study was completed in March 1963.

On request of the Government, the Bank assigned Mr. C. J. Thomas as economic advisor in April 1963 for a period of two years.

Studies on long-term telecommunications development are being carried out by French experts as part of the U.N. Special Fund Central American Telecommunications Study, for which the Bank is Executing Agency. The study is expected to be completed by the end of 1963.

## (iii) Major problems in executing existing loans:

None

## (iv) Loans presently under consideration:

<u>Purpose</u>	<u>Amount</u> <u>(\$ million)</u>	<u>Status</u>
Expansion and re-organization of port of Puerto Cortés	4.1	Appraisal mission sent in April 1963. Further information from Government and resolution of problem of local costs financing awaited to complete appraisal report.

In addition, it now appears that the second stage of the Río Lindo hydroelectric development could be justified earlier than expected, due to the possibility of power sales to El Salvador. A loan request is likely to be made fairly soon.

(b) Topics likely to be raised by the Delegation:

The delegation may well ask whether the Bank would now be prepared to release the small balance left in Loan 195-HO (Highways), which has so far been withheld pending settlement of the



September 27, 1963

CICSA claim. A separate memorandum is being prepared concerning the present status of this claim and suggesting the kind of reply that we may want to give to the delegation.

(c) Topics to be raised by Management:

The Highway Planning Survey financed by our IDA Credit has recently been completed and recommends a ten year program which includes the construction of thirteen highways (about 1,300 km) and feeder roads as well as highway maintenance and improvement during the program period. Total cost is estimated at about \$134 million, of which about \$57 million would be in foreign exchange. We may want to raise the question as to what the Government plans to do in regard to carrying out this program. This may in turn prompt the delegation to ask whether the Bank would be willing to organize the financing of this program jointly with other agencies such as IDB and AID. Our reply to the latter question should be that we would be prepared to consider this possibility on condition that the Government would be willing to make a substantial contribution of its own.

In this connection we may also inquire what the Government is planning to do about the delays encountered in the construction of the Western Highway Extension Project, which is in part due to a lack of local funds.

The Bank is awaiting further information on (i) the steps contemplated for the establishment of a port authority in Puerto Cortés, and (ii) plans for the financing of local costs, to complete the appraisal of the Puerto Cortés project. We may wish to inquire about the progress made on these matters.

Finally we may wish to inquire of the Government about its attitude towards the proposed Regional Telecommunications Organization, emphasizing that we strongly favor the establishment of such an organization and would be prepared to finance it provided that a suitable organization and financing plan can be worked out.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)		19.9	1/
of which has been repaid		<u>3.8</u>	
Total now outstanding		16.1	
Amount sold	1.4		
of which has been repaid	1.2	<u>0.2</u>	
Net amount now held by Bank		15.9	

1/ Includes \$2.2 million not yet disbursed.

(b) IDA Credits as of August 31, 1963:

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
May 12/61	Honduras	Highway construction and maintenance and feeder roads	9.0 2/

2/ Includes \$6.3 million not yet disbursed.

(c) 18% Capital Subscription: (\$540,000)

Entire 18% paid and lent in dollars.

(d) Holdings of World Bank Bonds:

None

(e) I.F.C.

Member

IFC Management plans discussions at the Annual Meeting with the Honduran delegation on a pulp and paper project.

(f) I.D.A.

Member

## V. POLITICAL SITUATION

President José Ramón Villeda Morales, of the Liberal Party, assumed office on December 21, 1957. His term of six years expires in December 1963.

Presidential elections are to be held on October 13, 1963. The two principal candidates for the presidency are Mr. Modesto Rodas Alvarado, member of the Liberal Party and the present President of Congress, and Mr. Ramón Cruz, of the Nationalist Party.

It is generally accepted that Mr. Rodas will be elected president with a comfortable margin. Although of the same party, Mr. Rodas is reported to be at odds with the present President and wide-spread personnel changes are predicted.

## VI. ECONOMIC SITUATION

Population: 2 million  
GNP per capita: US\$210

In 1962, GNP grew by an estimated 5 percent. This represents an improvement - spurred by increased industrial activity and a substantial growth of agricultural production - in comparison with the relative stagnation of previous years, when GNP increased barely faster than the 3.5 percent rate of population growth.

At the end of 1962, outstanding public external indebtedness amounted to \$36.3 million, compared to \$30 million at the end of 1961. Service on the debt in 1962 amounted to less than 3 percent of export earnings; in 1963, service will be about 3 percent of export earnings.

Exports in 1962 reached a record \$82 million - despite the sluggishness of banana exports - compared with \$74 million in 1961. For 1963, exports may reach \$85 million. With a modest capital inflow for development projects, the balance of payments position should be fairly satisfactory. Prices and wages have remained stable in recent years.

The country's main economic problem is to raise enough domestic resources for high-priority development projects coming up in the near future. Government revenues have not kept up with the growth of the economy, and the Government is having to intensify its already heavy reliance on foreign borrowing. Although some new taxes are being introduced, a general restructuring of indirect taxes in particular (which provide 85 percent of revenue) may be needed.



September 27, 1963

Biographical Notes for Members of the Honduran

Delegation

Mr. Celeo Davila (Ambassador of Honduras to the United States)

Mr. Davila has been Ambassador to Washington for the last six years. He is well known to the Bank as he has taken part in loan negotiations and in general has followed closely the Bank's operations in Honduras. Formerly Minister of Finance and Minister of Public Instruction. Graduate of University of Tegucigalpa; lawyer.

Mr. Jorge Bueso Arias (Minister of Economy and Finance)

Mr. Bueso is thoroughly familiar with the Bank and has been very helpful in maintaining cordial relations between Honduras and the Bank. Has degree in business administration from U.S. university. Attended several Annual Meetings.

Mr. Ricardo Alduvin Abaunza (Minister of Communications and Public Works)

Mr. Alduvin has been Minister of Public Works for about one year. A graduate of the University of Mexico in civil engineering, he was formerly engaged with a private housing construction firm in Mexico. Attended the last Annual Meeting.

Mr. Felix J. Lloveras (Adviser of Delegation)

Mr. Lloveras has been President of the Banco Atlantida de Honduras, a commercial bank, for several years. Businessman, studied for several years in U.S.



DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

MEXICO

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 2, 1963

Time: 9:40-10:00 a.m. Rm.B320

Management: Mr. Woods  
Mr. Wilson

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Rodrigo Gomez	(F)	Director General, Banco de Mexico, S.A.
José Hernandez Delgado	(B)	Director General, Nacional Financiera, S.A.
Ernesto Fernandez Hurtado	(F)	Subdirector, Banco de Mexico, S.A.
Alfredo Navarrete,	(B)	Subdirector, Nacional Financiera, S.A.
José Saenz Arroyo	(F)	Director General, Secretariat of Finance and Public Credit
Mario Ramon Beteta	(F)	Manager, Banco de Mexico, S.A.
Gustavo Petricioli Iturbide	(F)	Counsellor to General Management, Banco de Mexico, S.A.
Javier Marquez	(B)	Director, Centro de Estudios Monetarios Latinoamericanos
Juan Gallardo Moreno	(B)	Coordinator, Alliance for Progress
Victor L. Urquidi	(B)	Consultant, Banco de Mexico, S.A.
Francisco Ruiz de la Pena	(B)	Chief, Department of Various Deposits, Nacional Financiera, S.A.



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:(i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u>			
April 29/63	Nacional Financiera	Second Irrigation Project	12.5
Sept. 20/63	Nacional Financiera	Third Highway Project	40.0

I.D.A. Credits

None

(ii) Technical Assistance:

In response to a request of the Mexican Government, a Bank mission visited Mexico for two months beginning January 20, 1963 to appraise Mexico's three-year development program. The mission consisted of 18 professionals, of which 14 were regular Bank staff. The mission's draft report was mailed to the Mexican Government in August, and will be discussed in Mexico City with the Government in October.

(iii) Major Problems in Executing Existing Loans:

The only loan with which we have had a major problem is the last loan to the Comision Federal de Electricidad in the amount of \$130 million, signed in May 1962, for financing its current expansion program. Work is proceeding satisfactorily but the Comision is running into financial difficulties, principally because of lower than expected sales but also because of slightly larger than expected operating expenses. To some extent this problem was aggravated for a time by slower than expected disbursements of the Bank loan, which

were in turn due to administrative problems within CFE, but this has now been corrected. The Comision's cash shortage will be particularly serious next year, and it is evident now that it can only be resolved either by an increase in tariffs or a drastic increase in the contributions from the Government budget. The tariff covenant of the Loan Agreement requires a first review of CFE's tariffs late in 1964. We have, however, suggested to the Government to initiate this review now, and to base it not only on CFE but on the financing plan for the electric power sector as a whole (of which the Comision represents by far the largest portion). We should continue to urge the Government to prepare this revised financing plan and on that basis to face the question of the amount and timing of a further tariff increase. Politically, to increase tariffs will be a very difficult decision in the light of next year's Presidential elections.

(iv) Loans Presently under Consideration:

At present there are only two informal requests before the Bank, one for financing the expansion of Mexlight's distribution system (involving a possible loan of US\$25 million), and the other to finance Telefonos de Mexico's program of expansion of the country's telephone facilities (involving a possible loan of US\$25 million). Telefonos de Mexico is privately owned and serves all of Mexico. For the reasons outlined below consideration of any new projects is being postponed until we have received the views of the Government on the report of the Bank mission appraising the current three-year investment program.

(b) Topics likely to be raised by the Delegation:

The Delegation will probably ask what the prospects are of further Bank lending for projects within the Government's current three-year investment program. Our reply should be that we would want first to review with the Government the conclusions of the Bank mission's report, now scheduled for October in Mexico City. (We had suggested that this review take place in September, but the Government, for internal political reasons, postponed it to October). As the outcome of this review we would expect an understanding as to the size of the investment program and as to

the plan for financing it, and further Bank lending would have to fit the financing plan. We might already indicate now that as the "quid pro quo" of further substantial Bank lending, we would expect the Government to take some of the specific measures recommended in the report, especially those regarding increases in certain taxes and increases in rates of Government-owned public utilities.

The Delegation might specifically ask whether the Bank would be prepared to organize a consortium or Consultative Group to finance the three-year investment program. Our reply should be that discussion of the mechanism of financing this program should be postponed until after the above-mentioned review of the Bank report, scheduled for October, but that as of now we see little justification for establishing such a mechanism.

(c) Topics to be raised by Management:

The points mentioned under (b) above are the most important ones presently affecting the relations between the Bank and Mexico, and should be raised by the Management in case the Delegation should not raise them in the first instance.



IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963

Total (net of cancellations and refundings)	399.3 <sup>1/</sup>
of which has been repaid	<u>45.9</u>
Total now outstanding	353.4
Amount sold	24.0
of which has been repaid	16.9
	<u>7.1</u>
Net amount now held by Bank	<u>346.3</u>

<sup>1/</sup> Includes \$139.2 million not yet disbursed.  
Includes \$12.5 million not yet effective.

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
--------------------	----------	---------	-----------------------------------------

Loans made since July 1, 1961

1962	Federal Toll Road Authority and Nacional Financiera	Toll transport facilities	30.5
1963	Nacional Financiera	Irrigation re- habilitation	12.5

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

Entire 18% (\$15.6 million) released and used in Bank loans.

(d) Holdings of World Bank Bonds

\$36.25 million.

(e) I.F.C.

IFC Management plans discussions at the Annual Meeting with the Mexican delegation.

IFC (with other participants \$1,826,300) has made six investments in Mexico, one of which has been sold. The other five include an automobile parts and industrial equipment plant (\$600,000), an aircraft engine overhaul plant (\$520,000), a steel mill (\$1,127,302 purchase of shares and an underwriting commitment of \$2,944,856 equivalent of shares issued), a sodium sulphate plant (\$750,000) and a steel pipe plant (\$250,000 purchase of debentures and standby commitment of \$750,000 of debentures issued). An application is under active consideration and is expected to be put to the Board in September. A proposed purchase of shares of Mex\$ 20 million (\$1.6 million) in Industria del Hierro, a Company to manufacture construction and industrial equipment is to be considered by the Board in September.

A proposed share purchase (\$250,000 equivalent) in a private financiera (Intercontinental S.A.) is under study.

(f) I.D.A.

Member.

V. POLITICAL SITUATION

President Lopez Mateos' six-year term of office expires at the end of 1964. Since the official party (P.R.I.) is practically the only effective political party, his successor will also be a member of that party and, according to tradition, very likely one of the present Cabinet Members. The Party's presidential candidate will be selected in October of this year, elections will take place in July 1964, and the new President will take office in December 1964. The leading candidates at the present time are said to be the Minister of Finance, Lic. Raul Ortiz Mena, and the Minister of Interior (Gobernacion), Lic. Diaz Ordaz. As the candidate must enjoy the support of widely divergent sectors within the official party, whoever is elected will probably again be a moderate who would continue to emphasize policies for economic progress and gradual social reform, as has been characteristic in Mexico for at least two decades.

VI. ECONOMIC SITUATION

Population: 37.2 million, growing by 3.1% annually.  
GNP per capita: about US\$350

Since 1957 Mexico's economy has been growing by an average 5% per year, and in 1961 and 1962 by 4.4%. These rates of growth are lower than those prevailing during the earlier period 1954-57 (8% per year), and also somewhat lower than the average growth rate for 1950-62. The main factor underlying this slight slowdown in growth was the decline in international primary commodity prices which began in 1957. Mexico's export earnings declined briefly as a result. They soon resumed their expansion, but much less rapidly than in earlier years.

In 1961 and 1962 foreign exchange earnings staged a remarkable recovery, expanding by about \$170 million or 12% in two years. But unfortunately, the effect of this recovery on the economy's growth was largely offset by a substantial outflow of capital, provoked mainly by the political uncertainty created by the Cuban situation. The capital flight now appears to have diminished greatly, if not ceased. In 1962, there was a current account surplus in the balance of payments and also some accumulation of exchange reserves.

Balance of payments prospects for the next few years are satisfactory, although it is unlikely that exchange earnings will in the future expand as fast as they did for many years until 1957. External investor confidence in Mexico's financial management and economic prospects is high. The \$40 million Government bond issue floated successfully in July 1963 was its first in many years.



Mexico's external public debt has been increasing. At the end of 1961 the external debt was \$1,076 million. At the end of 1962 it was \$1,354 million, and there were another \$144 million of reported additions during January-July 1963. About one-fourth of this debt is held by the Bank (\$354 million as of July 31, 1963). Due to the relatively short maturities of much recent borrowing, the service burden of this debt is fairly heavy - as of the end of July 1963 it amounted to \$295 million or 16.4% of prospective 1963 current account exchange earnings - but it declines rapidly to about 6.6% of expected exchange earnings by 1967.

Further economic growth at rates higher than those of the past few years is still possible in Mexico, provided the Government maintains appropriate development policies. In recent years, in spite of substantial fiscal deficits, the Government has been able to avoid undue monetary expansion and domestic prices have remained stable, increasing by less than 2% a year in 1961 and 1962. The Government also stepped up expenditures and increased public investment to compensate for some lag in private investment. The Bank is working closely with the Mexican authorities in the formulation of the new three-year (1963-65) public investment program, and of a financing plan that will prevent excessive external borrowing and help improve the average terms of new borrowing. The most important recommendation will be to raise taxes and utility prices to increase annual public savings by 1 to 2 billion pesos. Other recommendations of the mission are to reduce the use of official bank credit and to make available to the private sector more internal credit at lower cost. The Mexican Government has already taken steps to reduce interest rates.

Biographical Notes of Members of the Mexican

Delegation

Rodrigo Gomez:	Long-time Director General of Bank of Mexico; able and highly respected leader of financial community; very helpful to Bank Mission which appraised Mexico's development program.
José Hernandez Delgado:	Director General of the Bank's co-borrower on all loans to Government and official agencies.
Ernesto Fernandez Hurtado:	Able second man in Bank of Mexico; long known and friendly to Bank staff.
Alfredo Navarrete:	Assistant Director, Nacional Financiera; particularly responsible for its industrial investment policies; well-known and helpful to Bank staff.
José Saenz Arroyo:	Director of Public Credit, Ministry of Finance. Bank deals with him in all matters pertaining to external debt. Friendly and helpful to Bank Mission.
Mario Ramon Beteta:	Widely known as publisher of a leading newspaper and son of former Finance Minister.
Gustavo Petricioli Iturbide:	Senior staff economist of Bank of Mexico; very helpful to Bank Missions.
Javier Marquez:	Well-known to Bank staff as Director of regional "staff college" for Latin American Central Banks.
Juan Gallardo Moreno:	Ministry of Foreign Affairs, Ambassador's rank. Close to official party; was official "liaison officer" for Bank Mission appraising Mexico's development program.
Victor L. Urquidi:	Leading Mexican economist; Senior Adviser to Minister of Finance; former Bank staff (about 1948); very well-known and friendly to Bank staff; official "coordinator" for the preparation of Mexico's development program and Bank's channel for review of program.





DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

NICARAGUA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 4:00-4:20 p.m.

(Jointly with delegations from Costa Rica, El Salvador, Guatemala and Honduras)

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

Date: October 3, 1963

Time: 4:20-4:40 p.m.

Attended by:

Staff: Mr. Schmidt  
Mr. Matter  
(to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION (tentative)

Guillermo Sevilla Sacasa *	(B) Ambassador of Nicaragua to the United States
Rodolfo Bojorge	(F) Manager, Banco Central de Nicaragua
Andres Garcia *	(B) Minister of Economy
Alfredo Cole	(F) General Manager, Banco Nacional de Nicaragua
Jose Maria Castillo *	( ) Adviser, Minister Counselor for Economic Affairs, Embassy of Nicaragua

\* Likely to be at interview

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

<u>Date of Loans/Credits</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u>			
Mar. 1/63	Republic of Nicaragua	Rivas Irrigation Project	2.6
<u>I.D.A. Credits</u>			
Sept. 7/62	Republic of Nicaragua	Managua Water Supply	3.0

## (ii) Technical Assistance:

The Agricultural Division provided de facto technical assistance in the preparation and setting up of the Rivas Irrigation Project.

## (iii) Major Problems in Executing Existing Loans:

The Rivas Irrigation Project is not effective yet, pending the appointment of consultants and the issuance of by-laws, both to be satisfactory to the Bank.

## (iv) Loans presently under Consideration:

None.

(b) Topics likely to be raised by the Delegation:

None.

(c) Topics to be raised by Management:

The Rivas Irrigation Project is not yet effective and we might raise the question as to what steps the Government is taking in this regard.

Since we do not have any loans under consideration in Nicaragua, and none in prospect to be submitted to us -- while the country is obviously creditworthy for further Bank loans -- we might inquire from the Government about the reasons for this lack of interest. We may want to go further and express specific interest in financing telecommunications for the expansion of which there is a great need.

Another good way to explore the prospects of starting new operations in the country would be to enlarge the economic mission which is scheduled to visit Nicaragua soon, by adding a loan officer and an agricultural specialist. The terms of reference of such a mission, apart from up-dating the last economic report, might include: (a) reviewing briefly what progress has been made in the various sectors since the Bank's comprehensive report has been prepared and what impact Bank loans have had on that progress; (b) identify new projects which may be suitable for Bank financing and to make an intensive review of the agricultural sector where most of these projects are likely to be found.



IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	38.1
of which has been repaid	<u>12.6</u>
Total now outstanding	25.5 <sup>1/</sup>
Amount sold	1.9
of which has been repaid	1.8
	<u>.1</u>
Net Amount now held by Bank	<u>25.4</u> <sup>1/</sup>

---

<sup>1/</sup> Includes \$10.5 million not yet disbursed.

Date of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
Mar. 1/63	Republic of Nicaragua	Rivas Irrigation Project	2.6 <sup>2/</sup>

---

<sup>2/</sup> Not yet effective.

(b) IDA Credits as of August 31, 1963

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
Sept. 7/62	Republic of Nicaragua	Managua Water Supply	3.0 <sup>3/</sup>

---

<sup>3/</sup> Includes \$ 2.8 not yet disbursed.

(c) 18% Capital Subscription

No release of 18%(\$540,000). Considering the improvement in the economic situation, the question of a release of at least 5.0% of the subscription could be taken up with the Delegation.

(d) Holdings of World Bank Bonds

None

September 18, 1963

(e) I.F.C.

Member. IFC has made no investments in Nicaragua. It has been invited to participate in a proposed new private finance corporation and to assist in finalizing its charter and policies. In this connection an IFC mission visited Nicaragua in September.

(f) I.D.A.

Member

V. POLITICAL SITUATION

President R. Schick of the Liberal (Somoza) Party was elected in February 1963 for a four-year term. Former President Somoza, now in the Senate, undoubtedly continues to exercise influence on public affairs. "Tachito" Somoza, the former President's younger brother, remains as head of the armed forces and seems to have already started a campaign to be elected President in 1967. But there are indications that there is at least a beginning of a transition from the long rule of the Somoza family to more normal conditions.

VI.

VII. ECONOMIC SITUATION

Population: 1.6 million - annual growth of 3.3  
percent

GNP per capita: \$250

The GNP rose by 11.3 percent in 1962, compared with 8.5 percent in 1961 and 1.5 percent in 1960. Per capita GNP in 1962 exceeded the previous peak reached in 1955. The rapid growth of the past two years has been due largely to higher production and exports of cotton, coffee, and beef and to a lesser extent manufactures, mainly for domestic use. The other economic sectors have grown less rapidly than the GNP.

External public debt amounted to \$47.4 million at the end of 1962, and 1962 service payments were \$5.6 million or 6.1 percent of export receipts. Service payments will rise to \$6.0 million in 1963 and decline to \$3.4 million in 1968.

Exports rose by 31 percent in 1962 to an all-time peak of \$91.5 million. While imports increased by approximately the same amount, a substantial capital inflow helped to increase foreign exchange reserves by \$4 million. The heavy increase in exports was due mainly to larger shipments of cotton; higher exports of cottonseed, meat, and sugar also contributed significantly to the rise in total exports. The balance of payments outlook for 1963 is favorable as a consequence of higher exports of cotton and meat. The fiscal situation is expected to improve: tax increases and new taxes, and better collection should produce a 10 percent increase in revenues.

There are no particular economic problems.



September 27, 1963

Biographical Notes for Members of the Nicaraguan  
Delegation

Guillermo Sevilla-Sacasa (B) Ambassador of Nicaragua to the United States.

Dean of the diplomatic corps in Washington, D. C. Very well known in the Bank.

Rodolfo Bojorge (F) Manager, Banco Central de Nicaragua

Will be a participant in the first E.D.I. Project Evaluation course in Spanish.

Andres Garcia (B) Minister of Economy

Has been Minister of Economy once before under the administration of General Somoza, but resigned and moved to Mexico where he was Professor of Economics and Statistics and, apparently, also worked for the Mexican Government. Is one of the new cabinet members appointed by President Shick and not yet known to the Bank.

Alfredo Cole, General Manager, Banco Nacional de Nicaragua

Has been with the Banco Nacional for several years. No special information available.

Jose Maria Castillo, Advisor, Minister Counselor for Economic Affairs, Embassy of Nicaragua.

Previously Secretary of Economic Council in Nicaragua. Has now been for several years Minister Counselor for Economic Affairs at the Embassy of Nicaragua in Washington. Very well versed in Bank matters; our regular and efficient contact whenever it is necessary to clarify or expedite matters.

PANAMA

CONFIDENTIAL

September 27, 1963

PANAMA

BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: October 3, 1963

Time: 5:00-5:40 p.m.

Staff: Mr. Schmidt  
Mr. Matter  
(others to be designated  
by Mr. Schmidt)

II. MEMBERS OF DELEGATION

A. G. Arango \*

(B) Ambassador of Panama to the  
United States

Rene Arillac

(F) General Manager, Banco Nacional  
de Panama

Carlos F. Alfaro \*

(F) Director, Banco Nacional de  
Panama

Carlos A. Velarde \*

(B) Director of Internal Revenue

Carlos Sucre \*

Minister of Finance (as of September  
27 not listed by Joint Secretariat  
but will participate according to  
Ambassador Arango)

\* Likely to be at interview



III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
----------------------------	-----------------	----------------	------------------------------------------------

Bank Loans

Sept. 14/62	Electric Power Institute	Central Provinces electrification	4.0
-------------	--------------------------------	-----------------------------------------	-----

I.D.A. Credits

None

## (ii) Technical Assistance:

The Bank is presently providing two advisors to the Government, Habib on public investment and fiscal matters, and Buri to assist in land settlement and agricultural development. Both advisors are scheduled to be stationed in Panama until March 1964.

## (iii) Major problems in executing existing loans:

With regard to the 1960 Road Construction and Improvement Loan the performance of the highway organization (CAM), although recently improved, is still not satisfactory. Land settlement in the project area has started but should be speeded up.

The execution of the 1962 power project suffers from inefficiency of the power agency in charge (IRHE), whose General Manager is not well qualified for his position.

## (iv) Loans presently under consideration:

The relatively more advanced road project is part of Panama's tentative seven year development program, not yet discussed with the Bank; the Bank has agreed to consider the project under certain conditions. Very little is known about the Bayano project.

September 27, 1963

Purpose	Amount (\$ million)	Status	Tentative date for Negotiations
Supplementary road projects	5.0 - 7.0	Further consideration awaiting fulfillment of certain conditions	First half of 1964
Hydropower development of Bayano River	30.0	Feasibility study by consultants to be re- ceived by Bank	

(b) Topics likely to be raised by the Delegation:

The delegation is most likely to ask about the prospects of the Bank financing the two new projects mentioned above. As regards the proposed new highway loan, our reply should be that we would be prepared to consider such a loan, but that before going very much further there would have to be considerable improvement in the performance of CAM, the agency in charge of the road project, and further progress with the land settlement in the project area.

As regards the electric power project, our reply should be that we would like to see first a better performance of the agency in charge (IRHE).

(c) Topics to be raised by Management:

The performance of CAM and IRHE as mentioned above.

Re the road project, attention should be drawn in particular to the need for further progress with land settlement in the project areas. The areas Alanje-Divala and Tonosi are priorities one and two. It is particularly important to speed up cadastral surveys and intensify extension services in Alanje.

Re the power project, if Mr. Alfaro, who is a member of IRHE's Board, should be present, we may ask (a) whether the Board is satisfied with the performance of the Managing Director (Morales), and (b) whether a technical director has been appointed (to replace Mr. Arosemena).

Re new projects, we should inquire when we shall get the Consultants' feasibility report on the Bayano river hydro power project. This report was financed by an AID grant but it was agreed some time ago that the Bank, as a possible source of financing the Project, will examine the report at an early stage. We know that the report has been completed, at least in its English version, but we did not receive the report yet. (On September 27 a cable was received from Mr. Habib informing the Bank that he was forwarding IRHE's request to the Bank for financing the Bayano Project.)

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)		18.5 <sup>1/</sup>
of which has been repaid		<u>5.15</u>
Total now outstanding		12.90
Amount sold	2.27	
of which has been repaid	1.70	<u>0.57</u>
Net amount now held by Bank		12.33

<sup>1/</sup> Includes \$6.9 million not yet disbursed.

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1962	Electric Power Institute	Power generation and distribution	4.0

(b) IDA Credits as of August 31, 1963:

None

(c) 18% Capital Subscription:

Entire 18% (\$36,000) has been released and lent in dollars.

(d) Holdings of World Bank Bonds

None

(e) I.F.C.

Member

IFC has no investments in Panama and there are no active applications.

(f) I.D.A.

Member



#### V. POLITICAL SITUATION

President Chiari was inaugurated in October 1960 for a four-year term. Elections are scheduled to take place in May 1964 and there is a good chance for the Liberal Party, to which President Chiari belongs, to win the election provided that none of the coalition parties, now in support of the Government, go over to the opposition. Samudio, Ramirez, Robles and Quijano from the Liberal Party are being mentioned as candidates for the Presidency. The only serious opposition may be presented by Arnulfo Arias, although he has not indicated officially that he would run at this time.

#### IV. ECONOMIC SITUATION

Population: 1.1 million (1962)  
GNP per capital: US\$435 (1962)

During the decade ending in 1962, Panama achieved noticeable gains in national income with GNP growing at 5.5% annually. In 1962, economic growth was especially pronounced with GNP 8.1% larger than in 1961. This was well in excess of population growth, of about 2.6% per year, providing an increase of over 5% in average per capita income. This was achieved by sound fiscal and social policies which resulted in increased domestic investment; foreign capital inflows and sizeable income from the Zone also contributed to the noted sharp rise in income. The 1962 fiscal year ended in balance, with public savings on current account more than double the 1961 level.

As of December 31, 1962, Panama's outstanding long-term debt totalled \$64.4 million. Annual service of that debt will reach a peak of \$6.1 million in 1966-67, equivalent to 6-7% of prospective Government revenue, and less than 5% of prospective foreign exchange earnings.

The credit situation continues to remain tight. A Public Investment Program for 1963-70 has been prepared by the Department of Planning, and the Government has approached the lending agencies and the U.S. Government for financial assistance. However, further economy measures, fiscal discipline and improved public administration are crucial to the success of the Program.

APPENDIX

September 18, 1963

Biographical Notes for Members of the Panamanian

Delegation

A. G. Arango (B) (Ambassador in Washington)

One of the signatories at Bretton Woods (where he was also one of the few who dared put questions to Sir Maynard Keynes!). Has been, in the past, Contralor General of Panama. Has business experience in stock brokerage. Excellent English.

René Orillac (F) (General Manager, Banco Nacional de Panamá)

Has previously been Manager of the Banco Central for some time under Obarrio, whom he replaced when appointed by his brother-in-law, President Chiari.

Carlos F. Alfaro (F) (Member of the Board of the Banco Nacional de Panamá)

Experience in export import trade. Excellent English.

Carlos A. Velarde (B) (Director of Internal Revenue)

American trained economist. Teaches economics at Panama University. Enjoys reputation of valuable civil servant. Excellent English.

PARAGUAY



DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

PARAGUAY

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 1, 1963

Time: 3:20-3:40 p.m.

Attended by:

Management: Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

General Cesar Barrientos\*

(F) Minister of Finance

Cesar Romeo Acosta\*

(B) President, Banco Central del Paraguay

Edgar F. Taboada

(F) Undersecretary of Finance, Ministry  
of Finance

Oscar Stark Rivarola

(B) Manager, Banco Central del Paraguay

\* Likely to be at interview

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Loans and Credits made since July 1, 1962:

None

## (ii) Technical Assistance:

The Bank has agreed to act as Executing Agency for a U.N. Special Fund road survey expected to be completed in 1965.

## (iii) Loans or Credits presently under consideration:

SLC approved consideration of a series of projects on July 25, 1961, subject to certain actions being taken by the Government.

Purpose	Amount (\$ million)	Status	Tentative date for Negotiations
Livestock Improvement (Credit)	3.0-3.5	Appraisal report being studied.	Late October 1963
Port Expansion	3.0-5.0	Awaiting informa- tion from Govern- ment on conversa- tions with Argen- tina on renegotia- ting navigation treaty.	Uncertain

(b) Topics likely to be raised by the Delegation:

The Delegation will most likely enquire about the prospects of the Bank's proceeding with the Livestock and Port of Asuncion Projects. Our reply should be that regarding the Livestock Project the mission is just finishing its report and that we would have to review it further before giving a definite reply, but as of now we see no major obstacle. As regards the Port of Asuncion Project we would have to await the outcome of their discussions with Argentina, since it was our understanding that that Government's agreement was required even before they could proceed with the feasibility study.

October 1, 1963

~~XXXXXXXXXX~~  
~~September 18, 1963~~(c) Topics to be raised by Management:

We may wish to indicate our support of the rather strong position that the Monetary Fund has taken regarding the need to devalue the Guarani. The Fund has maintained for some time that Paraguay will not be able to increase its exports much further in the face of the substantial devaluation of her two large neighbors (Argentina and Brazil) without an adjustment of the Guarani rate which is now at G/126 = US\$1.

We may also wish to express our concern that after several years of sound fiscal management, the budgetary situation has seriously deteriorated in 1963, largely as a result of over-estimation of revenues. Since performance is an important factor under IDA criteria we urge that the fiscal situation be rectified as soon as possible.



IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

	<u>\$ million</u>
Total (net of cancellations and refundings)	<u>4.5</u>
of which has been repaid	<u>3.7</u>
Total now outstanding	0.8
Amount sold	.1
of which has been repaid	.1
	<u>0.0</u>
Net Amount now held by Bank	<u>0.8</u>

(b) IDA Credits as of August 31, 1963:

Date of Credit	Borrower	Purpose	Amount (equivalent in \$ million)
Oct. 26/61	Republic of Paraguay	Road improvement and maintenance	6.0 <sup>1/</sup>

1/ Includes \$5.8 million not yet disbursed.

(c) 18% Capital Subscription (\$540,000)

No release. Paraguay appears in no position to make a release for the time being.

(d) Holdings of World Bank Bonds:

None

(e) I.F.C.

Member

(f) I.D.A.

Member

V. POLITICAL SITUATION

President Stroessner of the Colorado Party began his second full five-year term August 15, 1963. He heads a strong central Government which is attempting to create conditions favorable to economic development and to encourage free enterprise.

VI. ECONOMIC SITUATION

Population: 1.9 million  
GNP per capita: US\$100

The rate of economic growth in 1962 is estimated to have been in the order of magnitude of 4%. This was high by Paraguayan standards and was largely due to a bountiful harvest. The growth rate in the years immediately preceding 1962 is estimated to have been only about 2.5% annually, or roughly equivalent to the estimated annual increase in population.

The outstanding external public debt of Paraguay repayable in foreign exchange at the end of 1962 was equivalent to about US\$30 million. Service payments on existing debt in foreign exchange amount to some 7% of foreign exchange earnings in the next few years and would drop to between 4% and 5% of estimated foreign exchange earnings in 1965-66.

Although production for export developed favorably in 1962, the value of exports amounted to only US\$40 million - a 10% decline from 1961. This may be explained by an overvalued exchange rate and by the deterioration of the economic situation in Argentina which is Paraguay's largest single market. Since the decline in exports was, however, accompanied by an even larger decline in imports, the balance of payments position on goods and services improved in 1962 in comparison with 1961. Continued maintenance of a rigid overvalued exchange rate in 1963 has caused the foreign exchange reserves of the country to be completely depleted and has led to accumulation of arrears in external payments. No prospects for improving the balance of payments situation in 1963 are now in sight.

Prices continued to rise in 1962. Because of the suspension of the publication of the official price index, no comparisons with 1961 are possible. According to informed sources, however, the increase in 1962 was somewhat less than the 15% increase realized in 1961. The minimum wage was increased by 15% and union salaries were raised by 10% in 1962; this compared with 21% in 1961. According to unofficial information, prices have continued their upward trend during 1963, but no adjustment in wages has so far been announced.

Paraguay's main problem is to raise its output and to increase exports. Investments in agriculture and in transport, combined with improved government economic policies toward business enterprise, have

already helped increase output somewhat and give promise of further growth. The livestock industry has a very great potential and if it is favored with both investment funds and with favorable government policies, it may be expected to make a major contribution to Paraguayan economic growth. As for increasing exports, Paraguay must face up to the fact that as a result of the very substantial devaluations carried out by her two larger neighbors - Argentina and Brazil - she cannot continue to maintain the Guarani rate at  $\text{¢ } 126 = \text{US\$1}$ .





DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

PERU

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 3, 1963

Time: 3:40-4:00 p.m.

Attended by:

Management: Mr. Woods

Mr. Knapp

Staff: Mr. Schmidt

Mr. Matter

Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Fernando Berckemeyer\*(B)

Ambassador of Peru to the  
United States

Emilio Barreto (F)

Director  
Banco Central de Reserva del Peru

Tulio De Andrea (B)

General Manager  
Banco Industrial del Peru

Carlos Gibson\*

Adviser Commercial Minister  
Embassy of Peru

Juan Ramirez Valdeavellano

Adviser Alternate Executive Director  
Inter-American Development Bank

Isidoro Korngold

Adviser  
Banco Central de Reserva del Peru

\*Likely to be at interview

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations since July 1, 1962, including lending prospects:

## (i) Bank Loans and IDA Credits since July 1, 1962.

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u> 1963	Peruvian Corporation	Railway Rehabilitation and Modernization	13.25

I.D.A. Credits

None

## (ii) Technical Assistance:

In July the new Government asked the Bank for assistance in preparing its capital budget for 1964. In response we sent Mr. Jonas Haralz, a former member of the Bank's staff, to Lima during the month of August. He was not able to be of much help in preparing a capital budget, because the National Planning Institute had not done enough preparatory work, but his mission proved very useful in informing us about the new Government and in particular about the problems facing the National Planning Institute.

The Bank has also had a staff member (Mr. Paul Craig-Martin) stationed in Peru for almost three years to assist the Government in carrying out land settlement and colonization in the area of the San Lorenzo irrigation project (financed by the Bank in 1955 with a loan of US\$18 million).

## (iii) Major Problems in Executing Existing Loans:

Loan No. 1114 for the San Lorenzo Irrigation Project

This Bank loan financed the major civil works - dam and main canals - which were completed in 1958. The progress in the related settlement and colonization of the land, which was to be the responsibility of the Peruvian Government, has been disappointingly slow. The real reason for this slowness was an unwillingness of the successive Governments (up to the



Coup d'Etat of the Military Junta in July 1962) to go through with the project in the face of resistance from the large land owners within the area (whose land was to be sold) and from those outside the area (who wanted the water to be diverted to their land). Despite strong representations from the Bank to the Military Junta which was in power from July 1962-July 1963 (including a letter from Mr. Woods, copy of which is attached), there was little further progress during that period, and as of today no more than 15% of the land has been settled. The new Government of Mr. Belaunde is, however, strongly in favor of land reform as a matter of policy, and we have received many indications from Mr. Paul Craig-Martin that it will vigorously tackle the remaining problems at San Lorenzo. This matter may, therefore, no longer need much more pushing on our part.

(iv) Loans presently under Consideration:

Purpose	Amount (\$ million)	Status	Tentative Date for Negotiations
Power Development	15.0	Technical Report ready for pres- entation to SLC	October 1963
Port Development	2.85	Technical Report under consideration	December 1963
Agricultural Development	5.00	Appraisal mission scheduled for October 1963	Early 1964

(b) Topics likely to be raised by the Delegation:

Mantaro Hydroelectric Project

The Delegation might reiterate the Government's request to the Bank to provide technical assistance in the further study of this project. The Bank has long criticized the launching and method of financing of this project. (Shortly before going out of office in 1962, the Prado Government entered into suppliers'

credits totalling some US\$65 million with a group headed by Siemens and English Electric without much of any studies of the technical, economic and financial aspects of the project). The Military Junta subsequently had a study made of the technical and financial aspects of the project. The Belaunde Government sent this report to the Bank for review, and our reply was that this study still did not include a systematic comparison of the Mantaro project with alternatives, both hydro and thermal, that might supply the same amount of electric power at lower costs. We have now been asked, and have agreed, to help Peru make this further comparison with alternatives by drawing up terms of reference for the consultants who will carry out the study and, if requested, by helping Peru obtain suitable consultants.

#### Santa Corporation

The delegation might also emphasize again the need for technical assistance to the Santa Corporation which the Government asked for early in August. The Santa Corporation is a Government corporation owning and operating a medium-size steel mill, a railway and an electric power plant at Chimbote (see the attachment for details). We have tentatively agreed that we should probably render this assistance, and a Bank mission will visit the Santa Corporation as soon as staff can be made available, to establish the outline of the type of studies required. After the return of this mission, we will be submitting the Government specific suggestions in this regard. In the course of their visit to Washington we will be discussing with the Peruvian delegation how to proceed in this matter.

#### Highway Expansion Program

During 1961-1962, the Bank undertook a comprehensive transport study of Peru, and the delegation might well raise the question as to what extent we would be willing to finance the program that the study recommends. We have made previous highway loans to Peru, and when this same question was raised by the Military Junta earlier this year, our reply was that we would be prepared to consider further highway financing provided that it would be within the framework of a comprehensive national program with a definite financing plan and clear-cut allocation of priority of different roads. The same reply would still seem appropriate now.

#### Technical Assistance to the National Planning Institute

The delegation might well ask the Bank again, as did the Military Junta, to provide technical assistance to the National Planning Institute. Mr. Haralz' report recommends.

(Rev. 9/24)



that we should provide such assistance, but rather than doing so through a Resident Representative it should be done through small groups of experts, preferably from the Bank's staff, assisting the Government through periodic visits, to work out specific investment programs in the most important public sectors, such as highways, electric power, telecommunications and agriculture. If the delegation should raise this question, our answer should be that we would be prepared to discuss this matter along these lines.

(c) Topics to be raised by Management:

The most important points affecting the relations between the Bank and Peru are those mentioned under (b) above. In the unlikely case that the delegation should not raise these points themselves, we should do so at least as regards the Mantaro Project and the Santa Corporation. The emphasis should be on the fact that these two enterprises play such a large role in the economy and in the budget that the Government should face the problems of both without delay.



IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	105.2 <sup>1/</sup>
of which has been repaid	<u>21.3</u>
Total now outstanding	83.9
Amount sold	9.1
of which has been repaid	6.4
	<u>2.7</u>
Net Amount now held by Bank	<u>81.2</u>

1/ Includes \$34.3 million not yet disbursed.

Date of Loan	Borrower	Purpose	Amount (\$ million)
Nov. 3/61	Republic of Peru	Highway Maintenance and Improvement	10.0
Mar. 13/63	Peruvian Corporation	Railways (Modernization and Rehabilitation)	13.25

(b) IDA Credits as of July 31, 1963

None

(c) 18% Capital Subscription

The entire subscription amounting to \$3,150,000 has been released and used on loans.

(d) Holdings of World Bank Bonds

None.

(e) I.F.C.

IFC Management plans discussions at the Annual Meeting with the Peruvian delegation.

IFC (with other participants \$2,264,000) has made five investments in Peru, metal products and household appliances (\$250,000), brick manufacture (\$280,000), building materials (\$300,000), ammonia and fertilizers (\$4,083,290), and cement (\$2,400,000). Two of these investments are in default. The brick producer has defaulted in payment of principal and interest and a financial reorganization plan is being discussed. The building materials company has been closed for approximately one year and is in default of interest payments to IFC. A study is being made of a proposal by the shareholders to build a lightweight aggregate plant using a part of the present facilities. Applications for IFC investment in a copper mining project and in an expansion of a cement plant are under active consideration. There are also possibilities of IFC's joining in an underwriting of an issue of common shares in Lima Light and Power in association with a proposed IBRD loan and also of IFC participation in a plan to rationalize and develop the fishmeal industry.

A new private finance corporation is to be organized from a merger of two holding companies. Foreign participation is planned and IFC has informed the sponsors of its interest in the project.

(f) I.D.A.

Member.

V. POLITICAL SITUATION

President Fernando Belaunde Terry, leader of the Accion Popular Party supported by the Democrato Cristiano Party, was inaugurated on July 28, 1963, for a six-year term. The Vice Presidents are Edgardo Seoane, of the Accion Popular Party, who is older than Belaunde and of more conservative inclinations, and Mario Polar of the Democrato Cristiano Party. President Belaunde has appointed Oscar Trelles as his Prime Minister, who in a speech to both the houses of Congress has stressed the Government's intention of carrying out an agrarian reform program.

The Accion Popular-Democrato Cristiano coalition supporting Belaunde does not command a majority in the Congress. This will make it difficult for Belaunde to implement his programs. Whether he can push these through would depend largely on his handling of Congress and on the programs themselves. It is too early to predict how the situation will develop.

VI. ECONOMIC SITUATION

Population: 11 million  
GNP per capita: US\$190

The Gross National Product is estimated to have increased during 1962 by 6.5%, about the same rate as in 1960 and 1961, following a recession in 1959. The main impetus came, as in previous years, from exports and the domestic manufacturing industry. An important contribution was made by agricultural export crops, especially cotton and sugar. The increase in public investments during 1962 and planned for 1963 should, together with continued favorable prospects for the export sector, and a generally favorable climate for private investment, provide the basis for a further fairly rapid growth.

Peru's external public debt amounted to about \$520 million at the end of 1962. This was almost double the total debt at the end of 1961, which amounted to \$287 million. The rapid increase is due among others to the large suppliers' credits entered into for the Mantaro Project and for the Santa Corporation. The debt service in 1963 is estimated at \$64 million, equivalent to about 10% of estimated gross foreign exchange earnings. The debt service burden on existing external debt will diminish to a level of about 7% of expected gross earnings in 1967 and 6% in 1970.



The surplus on current account of \$21 million achieved in 1960 was wiped out in 1961 when a deficit of \$13 million was recorded. This deficit increased to \$30 million in 1962. These deficits are largely due to a rapid increase in imports of capital goods covered by foreign private and official credits. Exports rose from \$500 million in 1961 to \$556 million in 1962, the major impetus coming from fishmeal and minerals. Imports rose from \$393 million in 1961 to \$463 million in 1962. During 1962 the gold and foreign exchange reserves increased to a level of \$103 million, equivalent to about two months' imports. A certain amount of capital fled the country in mid-1962, as a result of political events, but firm policies by the monetary authorities led to a reversal of this situation and the country's reserves position appeared to be stronger at the end of the year than at the beginning.

The financial situation has remained stable; price increases have been limited to 5-6% per year and the free market rate of exchange has been stable over the past three years.

Although Peru's economy has continued to expand, the large amounts of external credits contracted in 1962 give rise to some concern. The bulk of these credits were for projects that are considered in the Bank to be either of low priority or insufficiently prepared and on terms inappropriate to the project. The new Government is, however, reviewing these projects and appears willing to defer a final decision whether or not to utilize the financing offered until after a careful study of the feasibility of the projects.

PERU

Annex

September 27, 1963

BIOGRAPHICAL NOTES OF MEMBERS OF THE PERUVIAN

DELEGATION

Tulio de Andrea

General Manager of the Banco Industrial del Peru. An industrial engineer and economist, and has been with the Banco since 1946. He worked with CEPAL for a five-year period on a leave of absence from the Banco. Able and respected leader of financial community and has represented Peru at a number of international conferences and meetings on economic development.

January 29, 1963

His Excellency  
General Ricardo Perez Godoy  
President of the Junta  
Lima, Peru

Dear Mr. President:

I am writing you on a matter which I know has been of much concern to my predecessor, Mr. Black, and which according to the report of our recent mission to Peru continues to present a serious problem, namely, the lack of progress in bringing the San Lorenzo irrigation project into operation.

As you know, the Bank made a loan of US\$18 million to the Government of Peru for this project in April 1955. These funds, plus a comparable amount from the Government budget, were spent by 1958 and all the basic works completed.

Today, some five years later, only about 10% of the planned area of 45,000 hectares has been sold and settled, and has been brought under cultivation. Thus Peru is receiving only a small fraction of the benefit it should receive from this project.

The inadequate progress to date is not due to physical causes. The layout, design and project works are suitable; the supply of water is adequate, and the yields of the soil when irrigated are above expectation.

As shown in the Aide-Memoire presented to your Government by the recent Bank mission, the lack of progress to date is due to the Government's failure since 1958 to take a number of administrative measures and to allocate the funds needed to bring the project into full operation. The same Aide-Memoire also points out that with the work done to date, it takes only a relatively few Government decisions, the appointment of an efficient administration, and relatively modest further allocations of funds to bring up to 50% of the total area under effective cultivation within a year.



His Excellency  
General Ricardo Perez Godoy

- 2 -

January , 1963

I sincerely hope, therefore, that your Government will see its way to making these necessary decisions and allocations of funds promptly. To be of assistance to your Government in this matter, we are prepared to continue maintaining in Peru Mr. Paul Craig-Martin, from the Bank staff, as technical advisor.

As you know, the Bank has so far made 13 loans to Peru, totalling \$3392 million. All of the projects, other than San Lorenzo, have either already been brought to a satisfactory conclusion and are greatly benefiting the economy of Peru, or are well underway. We are deeply disturbed by the failure of Peru, over the course of years, to take the steps needed to bring this project into successful operation, and I strongly urge that you give this matter your immediate personal attention. The unsatisfactory status of the project will make it increasingly difficult for me to recommend that the Bank make additional loans to Peru.

Sincerely yours,

(Signed) George D. Woods

George D. Woods

Cleared with and cc: Mr. Schmidt  
Mr. Reid/Mr. Greyke  
Mr. Webb  
cc: Mr. Mirza



P E R U

THE CORPORACION PERUANA DEL SANTA

History and Background

(A) History

The Corporacion Peruana del Santa (Santa), created in 1943, is a government corporation. Its resources are budgetary revenues created by Law 10090, royalties from the Marcona Mining Company and foreign and local credits mostly of short term. It is not clear how much Santa has received from these sources. Its original purpose was to take over the construction of a hydro-power plant on the Santa River and to set up an industrial complex to use the power. This complex was to include, among other things, a steel plant.

The power plant with an initial capacity of 50,000 kw was completed in 1955, as was a rail link between Chimbote and Huallanca. A road was subsequently built from Huallanca to Huaylas to establish a link with the populated upper valleys.

At one time the Ministry of Public Works took over the administration of the Chimbote-Huallanca railroad. It would, however, appear that losses on this railroad prompted the Ministry to hand it back to Santa. The hydroelectric plant apparently has also changed hands, and is at present back with Santa. The steel plant is, however, not directly operated by the Santa.

The steel plant to be located at the port of Chimbote, was designed by Ramseyer and Miller, Inc., and in March 1951 a contract was signed with the Banque de Paris et des Pays Bas to finance the purchase of equipment. The equipment supplier was Delattre et Fronard Reunis.

In March 1955, after considering a number of bids, the same French group that in 1951 had provided the financing and equipment was retained by the Santa to assist in financing and completing the steel plant itself. The corresponding contracts required the setting up of a new company to operate both the hydroelectric and the steel plant. The operating company, called the Sociedad de Gestion (SCGESA) was to be owned about 75% by the Santa and about 25% by the French group; its present ownership is not known. The French group undertook to complete the steel plant (total production 53,000 tons) within 24 months and to administer these facilities for a period of 15 years.

To summarize:

- (a) The Santa owns and operates the Chimbote-Huallanca railroad;
- (b) The Santa owns (not clear how much) and operates the hydroelectric plant.
- (c) The Santa controls SOGESA which in turn owns and operates the steel plant at Chimbote.

(B) Financial Situation

No information is available in the Bank on the present financial condition of Santa. We have, however, had a chance to examine the balance sheet of SOGESA for 1962. For whatever it is worth, the information contained therein may be summarized as follows:

SOGESA's authorized capital is \$50 million. Its paid-in capital amounts to \$37 million, of which \$4 million represents common stock and \$33 million preferred stock. It had a "Capital Reserve" of about \$1.0 million. Its net fixed assets amounted to \$23.6 million, but the basis on which these assets are valued is not known. Its long-term debt is listed at \$158.9 million, but the details of this debt are not known. In December, 1960 it obtained from Ferrostaal A. G. Germany a letter of credit of \$130.5 million. The service payment on this credit was \$3.0 million in 1961 and \$3.2 million in 1962. In 1963 it will be \$4.4 million and will jump to a maximum of \$22.8 million in 1964. Thereafter the annual debt service charges would remain constant at \$22.8 million until the end of 1970.

In 1961 SOGESA appeared to have had a net operating loss of about \$2.1 million and in 1962 of about \$2.3 million. It also had losses in the previous years, but it is not clear for how long, and how much. Santa is supposed to make up SOGESA's losses, but apparently it has not done so. Most likely it does not have the necessary funds.

The Santa's financial position probably is no better than SOGESA's, because neither the hydroelectric plant nor the railway have been profitable. Most likely it is worse, because of the numerous liabilities it has acquired over the years. It is, however, not possible to determine, from the information available, the nature and amount of these liabilities. Some of Santa's considerable and continual requirements for cash to cover the completion of construction of the steel plant were met by special advances from the Banco Industrial del Peru which were discounted by the Central Bank.



(C) Bank's Past Association With the Santa Corporation

When late in 1958 Santa could not meet the payments due to the French suppliers, the Banco Industrial and the Central Bank, while agreeing to provide the necessary funds, asked the Bank to study Santa's problems. As a result Messrs. Austin and Demuth made a preliminary investigation which confirmed the earlier belief that Santa's affairs were in a state of utter confusion, and that the accounting was so sketchy and far behind that it was not possible to get at the facts with any certainty. The Bank Mission prepared a memorandum on what should be done to improve Santa's situation and gave it to the president of Santa, the representative of the Bank of Paris, the Central Bank, and the Minister of Finance. The salient points of this memorandum follow:

- (a) A complete audit of all Santa's and SOGESA's property should be made "to fully report and propose a simple, practical method of keeping costs and other accounts in the future." It was pointed out that reliable figures were not available to make a judgment on the financial situation of Santa and SOGESA and that "no person was available within the Corporation or SOGESA capable by experience of producing them." It was suggested that Price Waterhouse be retained to conduct the audit and to review Santa's accounts as a whole.
- (b) A capable firm of steel consultants should be retained to make a feasibility study of the steel plant. It was specifically recommended that neither Ramseyer and Miller, Inc., nor the French group be asked to make this study. The chosen firm should not be an equipment supplier or related to an equipment supplier. Further investments should be deferred until such a study is made.
- (c) All possible action should immediately be taken by both the Santa and SOGESA managements to reduce current costs of the steel plant and to increase efficiency of operation and management.
- (d) A new corporation should be formed to which only the assets of the steel plant should be transferred (thus divorcing the steel plant operations from the hydro plant).

It does not appear that any action was taken on the Bank Mission's recommendations. On the contrary, a large European credit was obtained in 1960 for further expansion of the steel plant. A commitment has also been obtained from the Eximbank to expand the hydroelectric plant.

(D) Project of Expanding the Steel Plant

Santa has presently a project of expansion to make the steel plant a viable and economic unit by increasing the production capacity from about 50,000 tons per year to 350,000 tons per year and by diversifying its production. Apparently no market study has been made to determine whether there is a market for its products.

The project is divided into two parts, one to expand production with an investment of about \$72.7 million, and the other to add a rolling mill at a cost of about \$57.8 million. This project would be financed by the Ferrostaal credit of \$130.5 million obtained in December 1960. The interest rate on this credit is 8% and the term 10 years. An arrangement has been worked out for the period 1961 to 1963, in effect delaying the bulk of the debt service until 1964.

The expansion program is at present underway under the supervision of Ramseyer and Miller, Inc., but no decision appears to have as yet been taken on the rolling mill. It is not clear who prepared the expansion project.

(E) Project of Expanding the Hydroelectric Plant

Santa is also presently planning to add two more 25,000 kw units to increase the generating capacity of this plant to 100,000 kw. The total cost of the expansion project is estimated at \$11.95 million. The Eximbank has approved a credit of \$4.7 million to cover the foreign exchange cost and U.S. AID has been asked to finance a part of the local currency cost amounting to about \$2.75 million. It would appear that the balance of about \$4.5 million has already been provided by Santa.

URUGUAY



DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

URUGUAY

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 1, 1963

Time: 4:00-4:20 p.m.

Attended by:

Management: Mr. Knapp

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Raul Ybarra San Martin\*

(B) Accountant General, Ministry  
of Finance

Romeo Maeso

(F) Senator of the Republic

\* Likely to be at interview.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations since July 1, 1962, including lending prospects:(i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u>			
Oct. 26/62	Republic of Uruguay	Highway	18.5

I.D.A. Credits

None

(ii) Loans presently under Consideration:

On August 3, 1962 SLC agreed Uruguay creditworthy for additional \$40 million of loans over next two years, including power project.

<u>Purpose</u>	<u>Amount</u> (\$ million)	<u>Status</u>	<u>Tentative date for</u> <u>Negotiations</u>
Power	15-20	Awaiting Parliamentary approval of UTE's power expansion program.	Uncertain
Livestock Improvement	About 10	Awaiting answers to questionnaire	Uncertain

(b) Topics likely to be raised by the Delegation:

The Delegation may ask the Bank to review the economic development program being prepared by the Planning Office (CIDE) with the assistance of OAS, IDB, ECLA. We might reply that we expect to have a mission visit Uruguay before the end of 1963 to review the economic position as well as end-use inspections of the Highway and Livestock Projects. The members of the mission would be instructed to investigate what assistance we might be able to give.

If the Delegation includes Minister of Public Works Vejo, it may ask about the possibility of the Bank financing other transport projects including the proposed bridge to Argentina. We might reply that their consideration should await the highway survey being financed under our Highway Loan.

## (c) Topics to be raised by Management:

Release of 18%: In September 1962, the Uruguayan Government agreed to release its 18% over five years beginning March 31, 1963. It then requested postponement of the first payment until May because of financial stringencies. The payment of \$189,000, however, has not yet been received. We might express our concern at the Government's failure to live up to its undertaking.

Increase in capital subscription and membership in I.D.A. and I.F.C.: We might inquire about prospects of passage of a bill authorizing increasing of Uruguay's capital subscription (100% increase of \$10.5 million and "small quota" increase of \$7 million) and membership in I.D.A. and I.F.C. We might point out that President Fernandez Crespo and leading members of the Government had told our mission in April they were ready to support the bill.

Power project: We might inquire about the status of the proposed UTE power expansion program.

The Management should express concern over the very large recent increase in the volume of short-term external debt.



IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)

\$ million  
89.5 <sup>1</sup>/<sub>2</sub>

of which has been repaid

17.6

Total now outstanding

71.9 <sup>1</sup>/<sub>2</sub>

Amount sold 2.8

of which has been repaid 2.8

0.0

Net amount now held by Bank

71.9 <sup>1</sup>/<sub>2</sub>1/ Includes \$ 4.1 million not yet disbursed.  
Includes \$18.5 million not yet effective.(b) IDA Credits as of August 31, 1963:

None

(c) 18% Capital Subscription (\$1,890,000)

The Government agreed to release over five years beginning March 31, 1963. However no payments yet received. We should press the Delegation on this matter.

(d) Holdings of World Bank Bonds:

None

(e) I.F.C.

Not yet a member. Legislation now before Parliament.

(f) I.D.A.

Not yet a member. Legislation now before Parliament.

## V. POLITICAL SITUATION

President Fernandez Crespo, of the Union Blanca Democratica began his one-year term as President of the newly elected National Council of Government on March 1, 1963. The Council, the presidency of which revolves among the four leading members of the majority coalition, will be in power until 1967.

In August 1963, the Senate passed a resolution criticizing the Ministers of Finance and Agriculture. About half the Blanco Senators supported the resolution. The Ministers tendered their resignations, as did the Ministers of Commerce and Defense, but the National Council refused to accept those of the latter three Ministers and has not yet acted on that of the Minister of Finance (Ferrer Serra). The support given the resolution by Government Senators appears to be due to bitterness at Ferrer Serra's harsh criticisms of his predecessor (Azzini). The Council's delay in acting on his resignation indicates that efforts are being made to patch up the rift in the Government coalition.

## VI. ECONOMIC SITUATION

Population        2.9 million  
GNP per capita: US\$500

It is estimated that since 1955 GNP has grown by less than 0.5% per year. Population is increasing about 1.8% per year.

At the end of 1962 long-term external public debt stood at \$150 million, an increase of \$15 million over 1961. However, short-term stabilization credit estimated at \$200-\$250 million was incurred in an effort to maintain the exchange rate. Export earnings in 1962 were \$153 million compared with annual debt service of about \$12 million.

Import surplus rose to \$76 million from \$33 million in 1961 due to devaluation in neighboring countries. In May 1963 Uruguay was forced to devalue by more than 60%. Since the devaluation exports have returned to more normal levels. Long-term export growth prospects are still modest and depend largely on Uruguay's ability to increase agricultural production.

The cost of living rose about 11% in 1962 compared with 22% in 1961 and 31% in 1960.

Uruguay's major economic problem is to create and maintain adequate incentives for the expansion of agricultural production. Also, Uruguay should mount an intensified program to improve agricultural production and at the same time to promote expansion of manufacturing. To cope with the problem an Economic Planning Commission has been set up. An agricultural development program designed to introduce, with the help of an IBRD loan, modern production techniques is under way.

VENEZUELA



DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

September 27, 1963

VENEZUELA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: October 2, 1963

Time: 9:20-9:40 a.m. Rm.B320

Attended by:

Management: Mr. Woods  
Mr. Wilson

Staff: Mr. Schmidt  
Mr. Matter  
Others to be designated  
by Mr. Schmidt

II. MEMBERS OF DELEGATION

Alfredo Machado Gomez*	(F)	President Banco Central de Venezuela
Col. Rafael Alfonzo Ravard*	(B)	President Corporacion Venezolana de Guayana
Benito Raul Losada	(F)	Director General Ministry of Finance
Luis Vallenilla*	(B)	President Corporacion Venezolana de Fomento
Ernesto Peltzer*		Adviser Counsellor Banco Central de Venezuela
Gustavo Escobar*		Adviser, Economic Ministry of Petroleum and Mines
Guillermo Pimentel		Adviser, Superintendent of Banks
Aquiles J. Rivas M.		Secretary of the Delegation Chief, Int'l Organizations Division Banco Central de Venezuela

\*Likely to be at interview

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations since July 1, 1962, including lending prospects:(i) Loans and Credits made since July 1, 1962:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
Bank Loans Sept. 17, 1963	EDELCA	Electric Power Development	85.0

I.D.A. Credits

None

(ii) Technical Assistance:

None

(iii) Major Problems in Executing Existing Loans:

None

(iv) Loans presently under Consideration:

The following projects are part of Venezuela's 4-year development program, which the Bank has reviewed:

<u>Purpose</u>	<u>Amount</u> (\$ million)	<u>Status</u>	<u>Tentative Date for</u> <u>Negotiations</u>
CADAFE Transmission Line	14.0		Negotiations completed
Telecommuni- cations	30.0-40.0	Appraisal mission in Caracas	December 1963
Second High- way Loan	18.0	Appraisal in early October	January 1964
INOS, Caracas Water Supply	25.0-30.0	Appraisal in December 1963	March 1964
Zulia Flood Control and Drainage	Preliminary investigation indicates that further studies on the feasibility, size and phasing of the project will require at least a year.		

(b) Topics likely to be raised by the Delegation:

A question likely to be raised by the Delegation will be when would the Bank proceed with the proposed CADAFE loan. Our reply should be (i) we were quite disappointed that at the last moment the Government should decide to replace the board and management of CADAFE, which over a period of two years of working together we had come to know and which had come to know us, and (ii) before proceeding with the loan we would want to know of the Government's own plans in regard to this matter and, if a new management were to be appointed, we would want to get acquainted with it first.

In addition, the Delegation will undoubtedly also ask how soon would the Bank be able to proceed with the other loans mentioned above. Our reply should be that we are working on all of them as fast as we can, but that each will require some further study either on the part of the prospective borrower or on our part. Frankly, none of them are likely to be negotiated before the elections (see V).

The Delegation might also ask whether the Bank would be willing to consider other projects in addition to those listed above. Our reply should be that we would prefer to await the new Government taking office in February 1964 before going into any new projects. Our plan is to meet with the new government shortly after it takes office and lay the ground-work for a new program of Bank lending in Venezuela. This new lending program would have to be based on an updating and review of the present long-range investment program. At that time, we would also want to review with the Government our whole approach to further lending in Venezuela.

(c) Topics to be raised by Management:

It is suggested that the Bank raise two main questions, namely Venezuela's membership in IDA, and release of the 18% of the special increase of 1961 in the Bank's capital. In the past, the Government always refused to participate in IDA on the grounds that it would not qualify for IDA lending. But with the recent signing of the \$85 million Bank loan for Guri, and with the prospect of another \$100 million worth of Bank loans in the next 6 - 12 months, the Government might be more receptive now to becoming a member of IDA (its total contribution to IDA would be \$7.06 million of which 10% is in gold and foreign exchange).

As regards the additional release of the 18%, it is worthwhile recalling that Venezuela was the first country in Latin America to release the original 18% (amounting to \$1.9 million), which has been fully drawn. In the case of this original release,



September 18, 1963

the Venezuelans asked that the funds be used only for loans to Latin America. Of a special increase for Venezuela of \$119 million, (bringing Venezuela's total to \$140 million) \$10.7 million is eligible for release. It is suggested that we press them rather hard on this, possibly again accepting the limitation that the funds be loaned to Latin America.

IV. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1963:

Total (net of cancellations and refundings)	45.0 <sup>1/</sup>
of which has been repaid	-
Total now outstanding	45.0
Amount sold	\$943,000
of which has been repaid	-
	.943
Net Amount now held by Bank	44.057

1/ Includes \$38,300,777 not yet disbursed.

Date of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
Dec. 4/61	Republic of Venezuela	Express highways	45.0

(b) I.D.A. Credits

None

(c) 18% Capital Subscription:

Original 18% subscription of \$1,890,000 fully released; 18% portion (\$10.7 million) of special increase has not been released (see III(C)).

(d) Holdings of World Bank Bonds

None

(e) I.F.C.

Member

IFC has made two investments in Venezuela one of which has been sold. The other is an investment in a steel plant (\$3,000,000). The only application from Venezuela under consideration at this time would involve an investment by IFC of approximately \$1.3 million in a proposed finance corporation and it should be presented to the Board shortly.

(f) I.D.A.

Not a member. See Comments III(c).

V. POLITICAL SITUATION

President Rómulo Betancourt was elected in November 1958 for a five-year term. He cannot succeed himself, and a new President will be elected in November 1963 to take office in February 1964. Betancourt will be the first elected President in the country's history to serve out his full term of office. This is in itself a good indication of the political stability that Venezuela has achieved during the last four years.

At present the political scene in Venezuela is dominated by the elections scheduled for late November 1963. It appears that the Acción Democrática Party of Betancourt has enough strength to elect its candidate, Dr. Raúl Leoni. He does not appear, however, to be as strong and dominant a personality as Betancourt. Furthermore, it is unlikely that the Acción Democrática alone will be able to obtain a majority in Congress, and it will probably seek a coalition with the Christian-Socialists for that purpose. For both these reasons, the next regime might not be as strong as Betancourt's has been. The situation is, however, quite fluid, and one has to wait until the next election before making any predictions.

VI. ECONOMIC SITUATION

Population: 8 million (approx.)  
GNP per capita: \$500-600

In 1962, the GNP has grown about 6% versus 1% in both 1960 and 1961. Population growth is about 3% per year. Petroleum output has increased sharply (9.5%) and revival of the construction industry has provided a considerable impetus to the economy.

The external public debt of Venezuela as of the end of 1962 amounted to \$362 million, most of which is short term. Service on total external debt amounts to \$114 million in 1963 or 7% of net foreign exchange earnings of \$1.7 billion in 1962, and it declines very rapidly after 1964 dropping to \$14 million after 1966.

Venezuela's external financial position has continued to improve from 1961 to the present, and the substantial surplus on current account registered in 1962 may even increase in 1963. Following the de facto 30% devaluation of the Bolivar to B's 4.54 = \$1, and the institution of direct import and exchange controls, the fall in foreign exchange reserves was arrested and the rate of capital outflow was reduced to a manageable level.

The overall level of prices, as measured by the wholesale price index, appears to have risen less than 5% in 1962 which is a very small increase in view of the change in the exchange rate during the



year. In view of the existing monetary and fiscal situation, the prospects are good that prices will remain stable for 1963. Venezuela's main economic problems are: (a) the continued lag in the expansion of the private sector, with a pick-up in investment unlikely until after the elections in November of this year; and (b) the continuing flight of private capital, although at a lower rate than before. Should the coming elections, as now expected, provide for continued political stability, there is every reason to believe that private investment will revive and the rate of increase in overall production will improve further in 1964.

TO: Files

FROM: C. B. Straut

SUBJECT: VENEZUELA - The CADAFE Dispute

September 24, 1963

The Bank learned from Col. Alfonzo during his recent visit to sign the Guri loan, some of the background to the CADAFE dispute. In particular Col. Alfonzo indicated that the man responsible for the last minute controversy was the newly appointed Minister of Fomento, Perez la Salvia, who refused to agree to the reelection of CADAFE's Board and the reappointment of the Presidente Ejecutivo (Galavis) both for three year terms without further study. Apparently Col. Alfonzo and Minister Otero were to put it mildly "displeased" with the new Minister's action but after listening to their opinions, Perez la Salvia remained obdurate and insisted that this was his province and prerogative. The Colonel added that now that the Guri loan was signed, he would return to Caracas and take up the CADAFE matter with President Betancourt. While some "feelings" might get hurt in the process, as he put it, the Colonel hopes to bring with him some clear indication of his government's policy on CADAFE when he comes for the Annual Meeting.

While it may be accurate that Perez la Salvia was the "villain of the piece," we have known that Luis Vallenilla, the head of CVF (Corporacion Venezolana de Fomento) which owns CADAFE, and Dr. Galavis, the latter's Presidente Ejecutivo, have been at odds for some time. The Vallenilla-Galavis struggle apparently centers around Vallenilla's continuing efforts to run CADAFE by remote control and Galavis' insistence on independence. Furthermore, CADAFE has been growing rapidly and there has even been cabinet level discussion of the possibility of separating it from CVF. However, Vallenilla was able to block serious consideration of this, since CVF would not look like much without CADAFE.

At present, there would appear to be three general avenues of approach, one of which the Venezuelans may present to the Bank at the Annual Meeting as their decision on CADAFE.

(1) The new Minister of Fomento may "decide" that the CADAFE Board and the Presidente Ejecutivo are acceptable for three year terms. Obviously, this would be the simplest solution from the Bank's point of view.

(2) More likely, the new Minister of Fomento will "decide" that the Board and Presidente are acceptable but will propose some compromise on the time period i.e. one year or two years instead of three. The Bank would then have to make up its mind whether a two year period say would be acceptable. Since what we were striving to achieve was continuity of management during the construction and reorganization period, two years i.e. 1964-1965 would just cover that, and therefore might be accepted by the Bank.

(3) A third possibility would be that an entirely new Board and a new Presidente would be put up for our consideration. This alternative seems less likely than (2) since it would mean that the new group would be appointed just

September 24, 1963

prior to the Presidential election slated for late November and it is stated Government policy per Col. Alfonso, that President Betancourt does not want to make new term appointments until the President-elect can be consulted. Add to this the fact that the Venezuelans, particularly in view of the nature of the case, could not expect the Bank to make a speedy judgement on the new groups' acceptability, and it becomes obvious that the presentation of the CADAFE loan would be delayed until say January. To be sure, the loan is only for \$14 million, and the Government would not have to slow down construction of the project because of lack of funds.

In sum, as hazardous as it is to try to anticipate the Venezuelans' reaction, number (2) might be **their** choice and then if a decision has not been reached by the time of the Meeting, number (3) may well win out by default.

cc: Messrs. Schmidt/Matter  
Kaupisch  
Straut  
Cancio  
Lithgow/Howell  
Hasal

CBStraut:pcm



September 27, 1963

BIOGRAPHICAL NOTES OF MEMBERS OF THE

VENEZUELAN DELEGATION

Col. Rafael Alfonso Ravard

Governor of the Bank for Venezuela.  
About 45 years of age.  
MIT graduate. President of the  
Corporacion Venezolana de Guayana  
(CVG), a regional development authority.  
Also President of EDELCA, newly created  
subsidiary of CVG, which just signed  
\$85.0 million Bank loan for Guri hydro-  
project. CVG also owns and through a  
subsidiary operates, the large Venezuelan  
steel mill at Ciudad Guayana. The Colonel  
is very close to President Betancourt.

Dr. Luis Vallenilla

President of Corporacion Venezolana de  
Fomento (CVF). CVF owns CADAPE to which  
Bank proposes to loan \$14.0 million for  
a high voltage transmission line. See  
material on CADAPE dispute. Through  
Fomento, Vallenilla has played an  
important role in the proposed financiera,  
(C.A. Venezolana de Desarrollo) in which  
IFC may take a B's 6 million equity par-  
ticipation.