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THE WORLD BANK

Washington, D.C.

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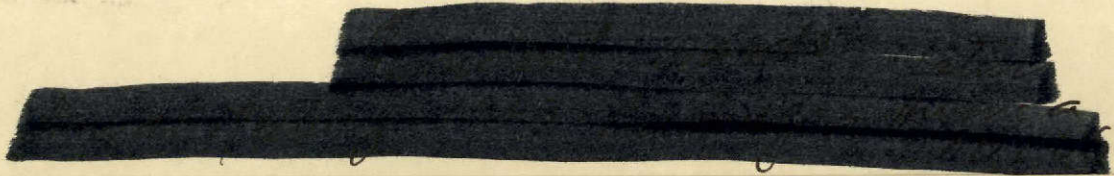
President G.D. Woods Briefs - 19th Annual Meeting
Latin America

1964



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Finally, Mr. Chairman, I should like to express the opinion of the countries on whose behalf I am speaking, with respect to the Draft Convention regarding Conciliation and Arbitration.

The resolution submitted for the consideration of the Board of Governors recommends and entrusts the Executive Directors of the Bank with the preparation and drafting of an international convention to create a Conciliation and Arbitration Center to which private foreign investors may have access to settle their differences with contracting states without, necessarily, having to exhaust proceedings and remedies ^{necessary} before local tribunal. It is believed that this would stimulate private investment in the underdeveloped countries.

The legal systems of all the Latin American countries, members of the Bank, offer the foreign investor at this time the same rights and protection as nationals; confiscation and discrimination are forbidden and all expropriations for a justified cause of public policy must be accompanied by fair compensation fixed, in the last instance, by the courts of justice.

The proposed new system could give a private investor, by reason of being a foreigner, the right to claim against a sovereign state outside its national territory, ^{negotiating} without going to the national tribunals. This provision goes against the traditional juridical norms of our countries, and, in fact, would establish a privilege in favor of the foreign investor and place the national in a situation of inferiority.

The suggested procedure, Mr. Chairman, does not carry the sympathy of our countries, because we believe that this matter, of so delicate political - legal importance, should be approached in a different manner, taking into account the political norms, including the constitutional ones which prevail in our countries.



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Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 25-Jul-16</td></tr></table>	Withdrawn by Shiri Alon	Date 25-Jul-16
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Mr. Woods to see

As Revised - 9/8/64

Mr. Woods ✓
Rm 728

OUTLINE FOR STATEMENT BY MR. WOODS

AT LATIN AMERICAN CAUCUS

Introduction

1. Always a pleasure to meet with Latin American Governors. Want to use this occasion to review briefly our operations in the past year and discuss informally our plans for immediate future.

2. Brief characterization of Latin American economic situation:

We are meeting at a time when export position is strong. Strength and recovery of prices of coffee, metals, sugar, meat and wool. Despite improvement in primary export earnings, continued need for export diversification. We stand ready to work with countries in the diversification of their economies and expansion of their export production.

Service on external debt remains high in a number of countries, particularly Argentina, Brazil and Chile. We are keenly aware of this situation in working out financing plans for their development. Where economic considerations of this nature warrant it, I am prepared to recommend special terms for Bank loans. In this connection we also consider utilization of IDA resources in Latin America, taking into account availability of aid on special terms which Latin America can obtain from other sources.

Countries continue to face difficulties in achieving an increase in savings adequate to sustain investment at satisfactory levels. This reflected in scarcity of funds to supplement external finance in some countries; and in strong inflationary pressures and price rises in others. On the other hand we are glad to notice the continuing stability in Mexico, Central America, Peru, Venezuela and Ecuador.

Last Year's Activities

3. Main outline of 1963/1964 lending. (See Table) Draw attention to

- (a) Bank's first loan on 35-year term (Colombia, \$45 million for Nare)
- (b) Bank/IDA lending jointly with others (IDB and AID), for Ecuadorian highway program and for Bolivian power projects.
- (c) Given projects now under active consideration I believe that 1964/65 lending activity will substantially exceed the 1963/64 level. Moreover, I want to call your attention to the fact that in the last two years we have greatly expanded our actual disbursements on loans in Latin America, so that our net contribution after deducting repayments, reached \$200 million in this past fiscal year.

Bank's Work in Formulation of Lending Programs for Latin American Countries

4. In my speech to the Governors' meeting last year I mentioned that the Bank wanted to make more loans for education, agriculture and industry. I also said that because of its strong financial position the Bank could start making loans with longer periods of grace and/or amortization.

5. In order to broaden our operations in Latin America we feel we must formulate lending programs rather than consider projects in isolation. These programs to be based on an understanding with the Governments of investment plans and priorities and of means for financing. To further our operations on this basis we are collaborating closely with CIAP. Orvis A. Schmidt, formerly Director for Western Hemisphere operations, is now the Bank's special representative to CIAP. Essential characteristics of such lending programs are:

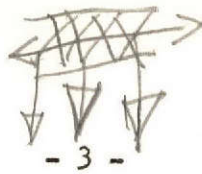
- (a) Selection of projects on the basis of their priorities within a program stretching out over several years;
- (b) An understanding of the total financing requirements and of the contribution to be made by domestic sources and by external finance;
- (c) An understanding with the Government of the measures it is taking to increase savings, concentrate investment on high priority projects, and manage the balance of payments;
- (d) Have understanding with other lenders on the amount and terms of their financing of the program.

6. Have attempted to follow this approach in Colombia and Mexico. In both cases our efforts started with a thorough appraisal of countries' programs and policies, carried out by a broad economic mission: Colombia in 1962, Mexico in 1963.

7. These missions found, in both countries, the investment plans well conceived and recommended measures to provide a financial basis for the program. Colombia, in 1962 and 1963, followed our advice, enabling use to proceed with Consultative Group for coordination of external finance and policy advice. Colombia now receiving continuous flow of long-term finance for high priority projects. New mission planned this fall. Bank proposal for joint financing to Colombia.

8. Mexican mission report has been discussed with Government which is now considering recommended measures to increase public savings. Understanding on investment program enables Bank to lend in several fields, in cooperation with other lenders. Pace and scope of Bank financing dependent on Government action to increase savings.

9. We hope to do similar work on other countries. Our efforts to be guided by the availability of staff, readiness of individual countries' plans and policies, and by the ability of other lending institutions to take the lead in appraising country programs and policies.



Brief reference to work in Argentina and Brazil

- (a) An economic mission is now in Argentina to appraise creditworthiness and study development problems in several sectors. Parallel with this mission a technical assistance mission is helping Argentina draw up a public investment plan for 1965;
- (b) During October and November we plan to have in Brazil a mission to study Brazil's development plans and financial policies.

10. We are also planning to have a mission in Costa Rica to take stock of the possibility of the Bank assisting in drawing up a financing plan and are considering to do the same in some other countries

Special Points for Attention

(1) Local Currency Financing

The recent decision of the Executive Directors has clarified Bank policies; the Bank is able to select high priority projects within a program for investment external financing, even if such projects may require some local currency financing. The extent of local currency financing to be determined within the frame-work of a country program setting forth development priorities and measures to increase savings.

(2) Mobilization of Savings

The Bank's lending programs are, in practice, contingent upon measures taken by the Government to increase public savings, e.g. tax increases or tariff increases by public enterprises. The Bank stands ready to work with countries in their efforts to increase domestic savings. In this connection we must mention the Machado Proposal for Bank guarantee of value-linked bonds. This proposal, which we have been studying intensively, would be one of the ways in which we might help countries to mobilize savings for high priority productive purposes. ~~I hope that in the near future we shall conclude our study and determine in what way the proposal may best be applied in the Western Hemisphere.~~

(3) Lending for Agriculture

As we proceed in the formulation of our lending programs I hope that lending for agriculture in Latin America will increase in importance. I am thinking not only of loans for irrigation and flood control projects but also of financing more directly geared to assist the growth of commercial agriculture. In some situations the Bank will find it possible to extend such loans through existing financing and agricultural institutions. In others, lending may be conditional on such institutions being strengthened, reorganized or newly established.

11. Last year we made only three loans and credits for agriculture in the Western Hemisphere totalling \$27 million - two in Chile and one in Paraguay. We have, however, been working on many more agricultural projects than in previous years: an agricultural credit loan in Peru; a livestock development program in Nicaragua; two projects in Venezuela; and an expanded livestock credit program in Uruguay. We are discussing with the Guatemalan Government the possible financing of an irrigation program. There are also several irrigation projects in the Mexican program. Moreover, we are discussing with the Mexicans, the Colombians, and the Costa Ricans the possibility of providing finance for agricultural credit programs to be carried out through existing financial institutions under more simple procedures than we have employed in the past.

12. Lending for education: Under our cooperative agreement with UNESCO, a project identification mission went to Colombia in July and another will go to El Salvador in November. We have under active consideration education projects in Chile and Peru.

Role of IDA in Latin America

13. IDA has to ration its relatively small resources among countries throughout the world. By and large preference has been given to poor countries, with a per capita income of clearly less than \$200. In Latin America this means Bolivia, Honduras, Paraguay, Haiti and Ecuador. All but Haiti, where development policy performance and debt servicing record has been poor, have received substantial amounts. On a per capita basis, these countries have received \$2.53 per capita, compared with \$0.67 per capita in all other countries with a per capita income of less than \$200. In addition we have extended IDA credits in Latin America to Chile, Colombia, Costa Rica, Nicaragua and El Salvador. If we include all of Latin America in calculating per capita credits extended by IDA, we find that Latin America has had a substantial share, as shown in Table 2B.

Bank Lending Policy

14. It is now clear that IDA resources are not sufficient to cover the whole range of less developed countries requiring external assistance on non-conventional terms. The Bank is, however, in a position to provide in certain cases loans on special terms. Those less developed countries with somewhat higher per capita incomes are now being given special consideration in considering whether the Bank's loans should be extended on special terms. My thinking is that the somewhat richer countries which have fairly good long-term prospects and may therefore be creditworthy, but whose near-term capital requirements are heavy relative to debt servicing capacity, should be able to pay interest at conventional rates but might receive the benefits of more liberal repayment terms, particularly in the form of longer grace periods. In some extreme situations external debt refinancing may be needed in addition to extension of special terms, and in other cases development policy performance may have to be improved before such loans can be safely extended.

Table 1 - IBRD LOANS TO WESTERN HEMISPHERE IN 1963/1964

Country	Purpose	US \$ million
Chile	Agriculture	19
"	"	5
Colombia	Power	45
"	"	5
Costa Rica	Power & Communications	22
Ecuador	Roads	9
El Salvador	Communications	9.5
Mexico	Roads	40
Peru	Port	3.1
"	Power	15
Venezuela	Power	85
	Total	<u>257.6</u>

Table 1A - IDA CREDITS TO WESTERN HEMISPHERE 1963/1964

Country	Purpose	US \$ million
Ecuador	Highways	8
Paraguay	Cattle Project	<u>3.6</u>
	Total	<u><u>11.6</u></u>

Table 2: WORLD BANK LOANS TO LATIN AMERICA, 1947-1964

(In millions of U.S. dollar equivalents)

Year ending June 30	Loans authorized (gross)	Loans authorized (net of cancellations)	Total disbursements	Total repayments	Net outflow
1947	-	-	-	-	-
1948	16.0	16.0	-	-	-
1949	109.1	109.1	19.3	-	19.3
1950	58.5	48.5	38.5	-	38.5
1951	85.3	85.3	42.2	0.5	41.7
1952	78.9	69.5	65.4	1.0	64.4
1953	29.3	29.3	56.6	2.3	54.3
1954	98.7	98.6	62.3	5.3	57.0
1955	123.0	123.0	70.5	10.5	60.0
1956	75.1	74.1	86.0	15.1	70.9
1957	50.1	25.0	95.0	17.2	77.8
1958	120.8	119.3	69.3	22.4	46.9
1959	136.5	136.5	66.2	36.6	29.6
1960	134.4	118.8	73.7	38.5	35.2
1961	147.2	147.2	76.4	40.4	36.0
1962	388.5	388.2	102.1	40.8	61.3
1963	125.6	125.6	203.7	45.7	158.0
1964	<u>257.6</u>	<u>257.2</u>	<u>244.8</u>	<u>51.9</u>	<u>192.9</u>
Total	2,034.7	1,971.2	1,372.0	328.2	1,043.8

Statistics Division
IBRD-Economic Department
August 11, 1964

Table 2A: IDA DEVELOPMENT CREDITS TO LATIN AMERICA, 1961-1964
(in millions of U.S. dollars equivalent)

Year ending June 30	Credits authorized (gross)	Total disbursements
1961	28.0	--
1962	31.0	3.0
1963	11.35	6.5
1964	<u>11.6</u>	<u>8.2</u>
	<u>81.95</u>	<u>17.7</u>

Table 2B: IDA CREDITS TO JUNE 30, 1964 PER HEAD
OF POPULATION FOR VARIOUS CATEGORIES
OF COUNTRY, BY GEOGRAPHICAL AREA

(\$ per head)

Area	All underdeveloped countries in area	Present Part II members and overseas territories of Part I members	Countries which have received credits
Middle East & South Asia	0.89	0.90	1.05
Far East	0.11	0.18	0.75
Western Hemisphere	0.37	0.40	1.95
Africa	0.24	0.25	1.06
Europe	0.26	0.29	0.88
All areas	<u>0.52</u>	<u>0.58</u>	<u>1.08</u>

Table 3: TOTAL WORLD BANK LOANS MADE TO 17 LATIN AMERICAN COUNTRIES CLASSIFIED BY NUMBER AND MAJOR PURPOSE AS OF JUNE 30, 1964

(Gross amounts in millions of U.S. dollars)

Item	Total number of loans	Original principal amount	Purpose			
			Power and Communications	Transportation	Agriculture	Industry
Number	133		57	44	23	9
Amount		<u>2,034.73</u>	<u>1,186.71</u>	<u>631.58</u>	<u>122.14</u>	<u>94.30</u>
Percentage distribution of amount of loans		100	58	31	6	5
Argentina	2	143.50	95.00	48.50	-	-
Brazil	12/1	292.09	264.09	28.00	-	-
Chile	11	136.60	61.00	6.00	22.80	46.80
Colombia	25	388.98	205.83	143.15	10.00	30.00
Costa Rica	7	47.80	30.80	5.50	6.50	5.00
Ecuador	7/2	55.60	10.00	45.60	-	-
El Salvador	7	50.99	34.89	16.10	-	-
Guatemala	1	18.20	-	18.20	-	-
Haiti	1	2.60	-	2.60	-	-
Honduras	4	19.95	10.25	9.70	-	-
Mexico	14/3	458.80	264.80	156.50	27.50	10.00/4
Nicaragua	12	38.10	22.05	10.20	5.85	-
Panama	5	18.59	-	17.10	1.49	-
Paraguay	1	5.00	-	-	5.00	-
Peru	17/5	138.43	39.00	60.93	36.00	2.50
Uruguay	5	89.50	64.00	18.50	7.00	-
Venezuela	2	130.00	85.00	45.00	-	-

1 Includes Loan 64 BR (power) of \$25 million which was cancelled as of June 18, 1957.

2 Includes Loan 181 EC (transportation) of \$600 thousand which was cancelled as of July 14, 1959.

3 Includes Loan 13 ME (power) of \$10 million which was refunded by Loan 24 ME.

4 Of which \$9.47 million was cancelled.

5 Includes Loan 190 PE (transportation) of \$15 million which was cancelled as of August 13, 1959.

Statistics Division
IBRD-Economic Department
August 11, 1964

Table 4: TOTAL IBRD LENDING FOR DEVELOPMENT AS OF JUNE 30, 1964

(In millions of U.S. dollar equivalent, initial commitments
net of cancellations and refundings)

Loans (net)	Area	Amount (net)	% of development lending
129	Latin America	1,971.2	27
50	Africa	981.6	14
116	Asia and Middle East	2,619.9	36
70	Europe ^{/1} and Western Hemisphere Possessions	1,226.6	17
9	Australia	458.0	6
<u>374</u>		<u>7,257.4</u>	<u>100</u>
	Total development loans	7,257.4	
	4 reconstruction loans	496.7	
	Total loans	<u>7,754.1</u>	

/1 Cyprus included in Europe.

Statistics Division
IBRD-Economic Department
August 11, 1964

Table 5: LOANS TO LATIN AMERICA CLASSIFIED BY MAJOR PURPOSE AND TYPE OF BORROWER, AS OF JUNE 30, 1964

(Millions of U.S. dollars, initial commitments net of cancellations and refundings)

Page 1

Purpose of loan and country	Type of borrower							
	Nat'l govt. or autonomous entity controlled thereby		State or Municipal entity		Private company		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
<u>Electric power and communications</u>								
Argentina	1	\$ 95.00	-	\$ -	-	\$ -	1	\$ 95.00
Brazil	2	88.00/a	3/b	30.66/b	3	120.39/c	8	239.05
Chile	3	61.00	-	-	-	-	3	61.00
Colombia	10	104.23	4	101.60	-	-	14	205.83
Costa Rica	2	30.80	-	-	-	-	2	30.80
Ecuador	-	-	2	10.00	-	-	2	10.00
El Salvador	5	34.28	-	-	-	-	5	34.28
Honduras	2	10.22	-	-	-	-	2	10.22
Mexico	4/d	217.80/d	-	-	2	37.00	6	254.80
Nicaragua	5	22.05	-	-	-	-	5	22.05
Panama	-	-	-	-	1	4.00	1	4.00
Peru	-	-	-	-	2	39.00	2	39.00
Uruguay	3	63.96/c	-	-	-	-	3	63.96
Venezuela	1	85.00	-	-	-	-	1	85.00
Total	40	\$ 812.34	9	\$ 142.26	8	\$ 200.39	55	\$ 1,154.99
As % of total power loans		(70%)		(12%)		(18%)		(100%)
<u>Transportation</u>								
Argentina	1	\$ 48.50	-	\$ -	-	\$ -	1	\$ 48.50
Brazil	3	27.98	-	-	-	-	3	27.98
Chile	1	6.00	-	-	-	-	1	6.00
Colombia	8	143.15	-	-	-	-	8	143.15
Costa Rica	2	14.50	-	-	-	-	2	14.50
Ecuador	1/e	14.50/e	2	20.50	-	-	3	35.00
El Salvador	2	16.10	-	-	-	-	2	16.10
Guatemala	1	18.20	-	-	-	-	1	18.20
Haiti	1	2.60	-	-	-	-	1	2.60
Honduras	2	9.70	-	-	-	-	2	9.70
Mexico	4	156.50	-	-	-	-	4	156.50
Nicaragua	3	10.20	-	-	-	-	3	10.20
Panama	2	13.10	-	-	-	-	2	13.10
Peru	6	32.58	-	-	1/f	13.25/f	7	45.83
Uruguay	1	18.50	-	-	-	-	1	18.50
Venezuela	1	45.00	-	-	-	-	1	45.00
Total	39	577.11	2	20.50	1	13.25	42	610.86
As % of total transportation loans		(95%)		(3%)		(2%)		(100%)

See footnotes at end of table.

Table 5: LOANS TO LATIN AMERICA CLASSIFIED BY MAJOR PURPOSE AND TYPE OF BORROWER, AS OF JUNE 30, 1964 (CONT.)

(Millions of U.S. dollars, initial commitments net of cancellations and refundings)

Page 2

Purpose of loan and country	Type of borrower							
	Nat'l govt. or autonomous entity controlled thereby		State or Municipal entity		Private company		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Agriculture								
Chile	3	\$ 22.35	-	-	-	-	3	\$ 22.35
Colombia	2	9.93	-	-	-	-	2	9.93
Costa Rica	2	6.50	-	-	-	-	2	6.50
Mexico	2	27.50	-	-	-	-	2	27.50
Nicaragua	4	5.84	-	-	-	-	4	5.84
Panama	2	0.95	-	-	-	-	2	0.95
Paraguay	1	4.49	-	-	-	-	1	4.49
Peru	6	36.00	-	-	-	-	6	36.00
Uruguay	1	7.00	-	-	-	-	1	7.00
Total	23	\$ 120.56	-	-	-	-	23	\$ 120.56
As % of total agriculture loans		(100%)						(100%)
Industry								
Chile	1	\$ 5.00	-	-	3	\$ 41.80	4	\$ 46.80
Colombia	-	-	-	-	1	30.00	1	30.00
Costa Rica	2	5.00	-	-	-	-	2	5.00
Mexico	-	-	-	-	1	0.53	1	0.53
Peru	-	-	-	-	1	2.50	1	2.50
Total	3	\$ 10.00	-	-	6	\$ 74.83	9	\$ 84.83
As % of total industry loans		(12%)				(88%)		(100%)

- /a The government has the majority share holding in the stock of these companies.
 /b Excludes loan #64 BR which was completely cancelled.
 /c Small amounts of these loans were used to finance expansion of telephone systems owned and operated by the borrower.
 /d Excludes loan #13 ME which was completely cancelled.
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Statistics Division
 IBRD-Economic Department
 August 11, 1964

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

INDEX - WESTERN HEMISPHERE

✓ Argentina (OECD)	Thu.	10	10:00-11:00	WKC
✓ Brazil	Sun.	6	3:40 - 4:20	WKWiC
✓ Latin-American Caucus	Wed.	9	6:10 - 7:00	WKWiC
✓ Mexico	Thu.	10	11:00 - 11:40	WKC

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6. Have attempted to follow this approach in Colombia and Mexico.

In both cases our efforts started with a thorough appraisal of countries' programs and policies, carried out by a broad economic mission: Colombia in 1962, Mexico in 1963.

7. These missions found, in both countries, the investment plans well conceived and recommended measures to provide a financial basis for the program. Colombia, in 1962 and 1963, followed our advice, enabling us to proceed with Consultative Group for coordination of external finance and policy advice. Colombia now receiving continuous flow of long-term finance for high priority projects. New mission planned this fall. Bank proposal for joint financing to Colombia.

8. Mexican mission report has been discussed with Government which is now considering recommended measures to increase public savings. Understanding on investment program enables Bank to lend in several fields, in cooperation with other lenders. Pace and scope of Bank financing dependent on Government action to increase savings.

9. We hope to do similar work on other countries. Our efforts to be guided by the availability of staff, readiness of individual countries' plans and policies, and by the ability of other lending institutions to take the lead in appraising country programs and policies.

Brief reference to work in Argentina and Brazil

(a) An economic mission is now in Argentina to appraise creditworthiness and study development problems in several sectors. Parallel with this mission a technical assistance mission is helping Argentina draw up a public investment plan for 1965;

(b) During October and November we plan to have in Brazil

a mission to study Brazil's development plans and financial policies.

10. We are also planning to have a mission in Costa Rica to take stock of the possibility of the Bank assisting in drawing up a financing plan and are considering to do the same in some other countries (Peru, Ecuador and Venezuela).

Special Points for Attention

(1) Local Currency Financing

The recent decision of the Executive Directors has clarified Bank policies; the Bank is able to select high priority projects within a program for investment external financing, even if such projects may require some local currency financing. The extent of local currency financing to be determined within the frame-work of a country program setting forth development priorities and measures to increase savings.

(2) Mobilization of Savings

The Bank's lending programs are, in practice, contingent upon measures taken by the Government to increase public savings, e.g. tax increases or tariff increases by public enterprises. The Bank stands ready to work with countries in their efforts to increase domestic savings. [In this connection we must mention the Machado Proposal for Bank guarantee of value-linked bonds. We have been studying this proposal and consider that in a number of situations in Latin America it may be worthwhile to give it a try. We are thinking of the sale of bonds for the financing of Bank projects in countries which have programs for financial stability. I am hopeful that further discussion will confirm our tentative conclusions and expect we will recommend that the proposal be adopted in selected cases.]

I think this is premature
[Signature]

(3) Lending for Agriculture

As we proceed in the formulation of our lending programs I hope that lending for agriculture in Latin America will increase in importance. I am thinking not only of loans for irrigation and flood control projects but also of financing more directly geared to assist the growth of commercial agriculture. In some situations the Bank will find it possible to extend such loans through existing financing and agricultural institutions. In others, lending may be conditional on such institutions being strengthened, reorganized or newly established.

11. Last year we made only three loans and credits for agriculture in the Western Hemisphere totalling \$27 million - two in Chile and one in Paraguay. We have, however, been working on many more agricultural projects than in previous years: an agricultural credit loan in Peru; livestock development programs in Nicaragua and Uruguay; two projects in Venezuela; and an expanded livestock credit program in Paraguay. There are also several irrigation projects in the Mexican program. Moreover, we are discussing with the Mexicans, the Colombians, and the Costa Ricans the possibility of providing finance for agricultural credit programs to be carried out through existing financial institutions. ~~under more simple procedures than we have employed in the past.~~

Table 1A: IBRD LOANS TO WESTERN HEMISPHERE IN 1963/1964

Country	Purpose	\$
Chile	Agriculture	19
"	"	5
Colombia	Power	45
"	"	5
Costa Rica	Power & Communications	22
Ecuador	Roads	9
El Salvador	Communications	9
Mexico	Roads	40
Peru	Port	3
Peru	Power	15
Venezuela	Power	<u>85</u>
	Total	<u><u>257</u></u>

Table 1B: IDA CREDITS TO WESTERN HEMISPHERE 1963/1964

Country	Purpose	\$
Ecuador	Highways	8
Paraguay	Cattle project	3
	Total	<u>11</u>

Table 2: WORLD BANK LOANS TO LATIN AMERICA, 1947-1964

(In millions of U.S. dollar equivalents)

Year ending June 30	Loans authorized (gross)	Loans authorized (net of cancellations)	Total disbursements	Total repayments	Net outflow
1947	-	-	-	-	-
1948	16.0	16.0	-	-	-
1949	109.1	109.1	19.3	-	19.3
1950	58.5	48.5	38.5	-	38.5
1951	85.3	85.3	42.2	0.5	41.7
1952	78.9	69.5	65.4	1.0	64.4
1953	29.3	29.3	56.6	2.3	54.3
1954	98.7	98.6	62.3	5.3	57.0
1955	123.0	123.0	70.5	10.5	60.0
1956	75.1	74.1	86.0	15.1	70.9
1957	50.1	25.0	95.0	17.2	77.8
1958	120.8	119.3	69.3	22.4	46.9
1959	136.5	136.5	66.2	36.6	29.6
1960	134.4	118.8	73.7	38.5	35.2
1961	147.2	147.2	76.4	40.4	36.0
1962	388.5	388.2	102.1	40.8	61.3
1963	125.6	125.6	203.7	45.7	158.0
1964	<u>257.6</u>	<u>257.2</u>	<u>244.8</u>	<u>51.9</u>	<u>192.9</u>
Total	2,034.7	1,971.2	1,372.0	328.2	1,043.8

Statistics Division
IBRD-Economic Department
August 11, 1964

Table 3: TOTAL WORLD BANK LOANS MADE TO 17 LATIN AMERICAN COUNTRIES CLASSIFIED BY NUMBER AND MAJOR PURPOSE AS OF JUNE 30, 1964

(Gross amounts in millions of U.S. dollars)

Item	Total number of loans	Original principal amount	Purpose			
			Power and Communications	Transportation	Agriculture	Industry
Number	133		57	44	23	9
Amount		<u>2,034.73</u>	<u>1,186.71</u>	<u>631.58</u>	<u>122.14</u>	<u>94.30</u>
Percentage distribution of amount of loans		100	58	31	6	5
Argentina	2	143.50	95.00	48.50	-	-
Brazil	12 ¹ / ₁	292.09	264.09	28.00	-	-
Chile	11	136.60	61.00	6.00	22.80	46.80
Colombia	25	388.98	205.83	143.15	10.00	30.00
Costa Rica	7	47.80	30.80	5.50	6.50	5.00
Ecuador	7 ² / ₂	55.60	10.00	45.60	-	-
El Salvador	7	50.99	34.89	16.10	-	-
Guatemala	1	18.20	-	18.20	-	-
Haiti	1	2.60	-	2.60	-	-
Honduras	4	19.95	10.25	9.70	-	-
Mexico	14 ³ / ₃	458.80	264.80	156.50	27.50	10.00 ⁴ / ₄
Nicaragua	12	38.10	22.05	10.20	5.85	-
Panama	5	18.59	-	17.10	1.49	-
Paraguay	1	5.00	-	-	5.00	-
Peru	17 ⁵ / ₅	138.43	39.00	60.93	36.00	2.50
Uruguay	5	89.50	64.00	18.50	7.00	-
Venezuela	2	130.00	85.00	45.00	-	-

¹/₁ Includes Loan 64 ER (power) of \$25 million which was cancelled as of June 18, 1957.

²/₂ Includes Loan 181 EC (transportation) of \$600 thousand which was cancelled as of July 14, 1959.

³/₃ Includes Loan 13 ME (power) of \$10 million which was refunded by Loan 24 ME.

⁴/₄ Of which \$9.47 million was cancelled.

⁵/₅ Includes Loan 190 PE (transportation) of \$15 million which was cancelled as of August 13, 1959.

Statistics Division
IBRD-Economic Department
August 11, 1964

Table 4: TOTAL IBRD LENDING FOR DEVELOPMENT AS OF JUNE 30, 1964

(In millions of U.S. dollar equivalent, initial commitments net of cancellations and refundings)

Loans (net)	Area	Amount (net)	% of development lending
129	Latin America	1,971.2	27
50	Africa	981.6	14
116	Asia and Middle East	2,619.9	36
70	Europe ^{/1} and Western Hemisphere Possessions	1,226.6	17
9	Australia	458.0	6
<u>374</u>		<u>7,257.4</u>	<u>100</u>
	Total development loans	7,257.4	
	4 reconstruction loans	496.7	
	Total loans	<u>7,754.1</u>	

/1 Cyprus included in Europe.

Statistics Division
IBRD-Economic Department
August 11, 1964

Table 5: LOANS TO LATIN AMERICA CLASSIFIED BY MAJOR PURPOSE AND TYPE OF BORROWER, AS OF JUNE 30, 1964

(Millions of U.S. dollars, initial commitments net of cancellations and refundings)

Page 1

Purpose of loan and country	Type of borrower							
	Nat'l govt. or autonomous entity controlled thereby		State or Municipal entity		Private company		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Electric power and communications								
Argentina	1	\$ 95.00	-	\$ -	-	\$ -	1	\$ 95.00
Brazil	2	88.00/a	3/b	30.66/b	3	120.39/c	8	239.05
Chile	3	61.00	-	-	-	-	3	61.00
Colombia	10	104.23	4	101.60	-	-	14	205.83
Costa Rica	2	30.80	-	-	-	-	2	30.80
Ecuador	-	-	2	10.00	-	-	2	10.00
El Salvador	5	34.28	-	-	-	-	5	34.28
Honduras	2	10.22	-	-	-	-	2	10.22
Mexico	4/d	217.80/d	-	-	2	37.00	6	254.80
Nicaragua	5	22.05	-	-	-	-	5	22.05
Panama	-	-	-	-	1	4.00	1	4.00
Peru	-	-	-	-	2	39.00	2	39.00
Uruguay	3	63.96/e	-	-	-	-	3	63.96
Venezuela	1	85.00	-	-	-	-	1	85.00
Total	40	\$ 812.34	9	\$ 142.26	8	\$ 200.39	55	\$ 1,154.99
As % of total power loans		(70%)		(12%)		(18%)		(100%)
Transportation								
Argentina	1	\$ 48.50	-	\$ -	-	\$ -	1	\$ 48.50
Brazil	3	27.98	-	-	-	-	3	27.98
Chile	1	6.00	-	-	-	-	1	6.00
Colombia	8	143.15	-	-	-	-	8	143.15
Costa Rica	2	14.50	-	-	-	-	2	14.50
Ecuador	1/e	14.50/e	2	20.50	-	-	3	35.00
El Salvador	2	16.10	-	-	-	-	2	16.10
Guatemala	1	18.20	-	-	-	-	1	18.20
Haiti	1	2.60	-	-	-	-	1	2.60
Honduras	2	9.70	-	-	-	-	2	9.70
Mexico	4	156.50	-	-	-	-	4	156.50
Nicaragua	3	10.20	-	-	-	-	3	10.20
Panama	2	13.10	-	-	-	-	2	13.10
Peru	6	32.58	-	-	1/f	13.25/f	7	45.83
Uruguay	1	18.50	-	-	-	-	1	18.50
Venezuela	1	45.00	-	-	-	-	1	45.00
Total	39	577.11	2	20.50	1	13.25	42	610.86
As % of total transportation loans		(95%)		(3%)		(2%)		(100%)

See footnotes at end of table.

Table 5: LOANS TO LATIN AMERICA CLASSIFIED BY MAJOR PURPOSE AND TYPE OF BORROWER, AS OF JUNE 30, 1964 (CONT.)

(Millions of U.S. dollars, initial commitments net of cancellations and refundings)

Purpose of loan and country	Type of borrower							
	Nat'l govt. or autonomous entity controlled thereby		State or Municipal entity		Private company		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Agriculture								
Chile	3	\$ 22.35	-	-	-	-	3	\$ 22.35
Colombia	2	9.93	-	-	-	-	2	9.93
Costa Rica	2	6.50	-	-	-	-	2	6.50
Mexico	2	27.50	-	-	-	-	2	27.50
Nicaragua	4	5.84	-	-	-	-	4	5.84
Panama	2	0.95	-	-	-	-	2	0.95
Paraguay	1	4.49	-	-	-	-	1	4.49
Peru	6	36.00	-	-	-	-	6	36.00
Uruguay	1	7.00	-	-	-	-	1	7.00
Total	23	\$ 120.56	-	-	-	-	23	\$ 120.56
As % of total agriculture loans		(100%)						(100%)
Industry								
Chile	1	\$ 5.00	-	-	3	\$ 41.80	4	\$ 46.80
Colombia	-	-	-	-	1	30.00	1	30.00
Costa Rica	2	5.00	-	-	-	-	2	5.00
Mexico	-	-	-	-	1	0.53	1	0.53
Peru	-	-	-	-	1	2.50	1	2.50
Total	3	\$ 10.00	-	-	6	\$ 74.83	9	\$ 84.83
As % of total industry loans		(12%)				(88%)		(100%)

/a The government has the majority share holding in the stock of these companies.

/b Excludes loan #64 BR which was completely cancelled.

/c Small amounts of these loans were used to finance expansion of telephone systems owned and operated by the borrower.

/d Excludes loan #13 ME which was completely cancelled.

/e Excludes loan #181 EC which was completely cancelled.

/f Excludes loan #190 PE which was completely cancelled.

ARGENTINA

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August 26, 1964

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ARGENTINA

BRIEFING PAPER

I. MEETINGS WITH DELEGATION

Date: September 8, 1964

Time: 11:00 a.m. - 11:40

Attended by:

Management: Mr. Knapp
Mr. Cope

Staff: Mr. Alter
Mr. deVries
700 Representative

Date: September 10, 1964

Time: 10:00 a.m. - 11:00

Attended by:

Management: Mr. Woods
Mr. Knapp
Mr. Cope

Staff: Mr. Alter
Mr. deVries
Mr. Schmidt

II. MEMBERS OF DELEGATION

Felix Gilberto Elizalde

(B) President,
Central Bank
(Governor of IBRD)

Manuel San Miguel

(B) Vice President,
National Development Council
(Alternate Governor, IBRD)

Juan Carlos Pugliese

(F) Minister of Finance

Advisers

Guillermo Cano

Ambassador to Japan

Rodolpho Barbagelatta

Economic Counselor

Guillermo Walter Klein

Executive Director, IMF

Carlos S. Brignone

Alternate Executive
Director, IBRD

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS(a) State of relations, including Bank/IDA lending prospects:

(i) Loans or credits made since July 1, 1964:

None

(ii) Major problems on existing loans:

Highway Loan (288 AR)

Progress on this project is still unsatisfactory for a number of reasons, the most important ones being the unsatisfactory performance of the Government agency in charge (Vialidad) in regard to planning, contracting and supervision. Based on the most recent visit to Buenos Aires by Mr. Loftus and Mr. Alexander of TOD, we are presently preparing a letter to the Government proposing a minimum of improvements necessary in order for the Bank to continue to disburse on this loan. We have suggested that these improvements be discussed in the near future either in Buenos Aires or in Washington.

SEGBA Loan (308 AR)

The position on this loan continues essentially as it was left at the time of the visit of three members of the new Board of Directors to the Bank in late May of this year. The tariffs have not been increased but the company still maintains that it will be earning the rate of return provided in the concession. The Government has made the first payments of additional share capital to the company in order to allow the investment program to continue. The appointment of a new Executive Vice-President is still pending. The so-called "14 partidos" have still not been legally transferred to SEGBA, but for all practical purposes they are part of the enterprise, including their revenues, and there is no move underway to change any of this. And as regards the so-called "political" clauses of the Loan and Guarantee Agreements, the Government has not raised any new issues or made any new approaches.

(iii) Loans presently under consideration:

The only loan that we have presently under active consideration -- but even that only with the reservations mentioned below -- is the proposed expansion of the steel plant of ACINDAR, for which we have a

request for a Bank loan in the order of \$20-25 million, with another \$40 million to come from European banks. Another group (Propulsora) backed by the Italian firm Techint, subsequently asked the Bank to finance a steel plant that they propose to build in lieu of or in addition to the ACINDAR expansion. We have asked the Argentine Government to determine the priority between these projects before we proceed with an appraisal.

During their recent visit to the Bank, Dr. Elizalde and Dr. Carranza inquired what additional Bank lending the Government could expect and they were told that the Bank might go as far as lending up to \$100 million a year for the next few years provided (i) that the Bank was satisfied with the country's economic and financial position and policies; and (ii) that the Government were to come forward with a list of suitable projects (it was understood at the time that the two most likely projects to be ready first would be one of the two above-mentioned steel projects and the further expansion of SEGBA).

(b) Topics to be raised by us:

General

The most important topic to be raised by us is the economic and financial situation. The chief of the Bank economic mission (Mr. Ross) which is now in Argentina will return to Washington a few days before the Annual Meeting for an interim report. Based on his report we will prepare a supplement to this briefing paper, which will summarize the main problems confronting the economy and suggest a series of specific questions to be raised with the delegation.

Highway Loan

We should mention to the delegation how we are proposing to deal with Vialidad in order to obtain a more satisfactory performance on the Bank's Highway Loan, and ask the Government to instruct the Director General of Vialidad to cooperate with the Bank's efforts in this direction and specifically to designate a senior official of the Ministry of Public Works to be responsible for ensuring effective utilization of this loan.

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

The delegation will most likely want to discuss the same topics already mentioned above, namely the prospects of the Bank financing the ACINDAR project and considering further lending to Argentina.

Should the delegation bring up SEGBA, we might reiterate that the most important and most constructive steps which the Government could take in this matter would be (i) to make sure that SEGBA will be allowed such tariffs that will give it the rate of return provided in the concession (ii) to make the transfer of the "14 partidos" final and (iii) make a really first class appointment to the position of Executive Vice President in order to assure SEGBA a competent and efficient management.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Date of Loan	Borrower	Purpose	Amount (equivalent in million \$)
1961	Republic of Argentina	Road Construction and Development	48.5
1962	Servicios Electricos del Gran Buenos Aires	Buenos Aires power project	95.0
	Total (net of cancellations and refundings) of which has been repaid		143.5 ^{1/} -
	Total now outstanding		143.5
	Amount sold of which has been repaid		.6 -
	Net amount now held by Bank		142.9

^{1/} Includes \$ 51.8 million not yet disbursed

(b) IDA credits as of July 31, 1964

None.

(c) Disbursement problems

Loan No. 288 AR (roads): The shortage of local currency which had hampered construction was overcome in January 1964 with the start of disbursement of funds from an AID loan. But progress continued to be slow owing to the weak administration of the Argentine executing agency.

(d) Technical Assistance Activities

At the request of the Government and following a preliminary Bank mission in May, 1964, the Bank sent two staff members to Buenos Aires in August, 1964 for about three months

to assist the National Development Council in the preparation and rationalization of an inventory of current public investment projects as a basis for a 1965 development plan. Additional staff members are visiting Buenos Aires in August and September to advise on particular aspects of this work.

(e) 9% 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 then 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 Argentina's precarious financial conditions.

(f) Holdings of World Bank Bonds

\$8,000,000

(g) IFC

Member. IFC management plans meetings at the Annual Meeting with the Argentine delegation.

Industrial Investments

IFC has four active investments in Argentina, steel (\$3,660,000), automotive transmissions (\$1,500,000), petrochemicals (\$3,050,000), and pulp and paper (\$2,500,000). IFC is presently negotiating with the petro-chemical company the prepayment of the outstanding loan and the cancellation of the balance. No current applications.

(h) IDA

Member. Not approached re release of 90% local currency subscription.

(i) Access to Private Capital Markets

The last external bond issue was in 1961: \$25 million at 6½%, 1961-73, issued at 95 in Switzerland, Germany, Belgium, U.K., France, Italy, and Netherlands. The issue was placed by an international banking syndicate, consisting of 17 banks in the above countries and led by Swiss Credit Bank and Deutsche Bank A.G. The external debt and internal financial position preclude new issues at present.

V. POLITICAL SITUATION

President Arturo Illia (Union Civica Radical del Pueblo) took office on October 12, 1963 for a six years term. The President appears to be a moderate; but his Government is in a weak position having approximately 25% of the popular vote and being in a minority in the Chamber of Deputies. His cabinet includes a wide spectrum of political opinions; so far the more nationalistic and dirigiste members appear to have prevailed with respect to the annulment of oil contracts, the refusal to raise public utility rates, and the passing of legislation providing the Government with sweeping powers of price and other control.

VI. ECONOMIC SITUATION

Population: 22 million

GNP per head: about US\$ 450

- (i) Economic growth: GNP fell by approximately 5% in 1963; but this overall figure conceals an even greater fall in the first part of the year followed by a slow recovery continuing into 1964. Population grew at the rate of 1.8% per year. Revised national income data, published in April 1964, give a more favorable impression of economic performance in recent years. Excluding the serious slump of 1962 and 1963, GNP rose about 3% per year between 1950 and 1961, yielding a rise in income per head of approximately 1% per year.
- (ii) External debt position: The external debt outstanding at the end of 1963 was estimated to be \$2.3 billion, compared to \$2.4 billion at the end of 1962. Debt service payments (interest and amortization) due in 1964 (\$497 million for public debt and \$22 million for guaranteed private debt) will absorb some 38% of export earnings at the 1963 level. The corresponding figures for 1965 and 1966 will be 36% and 27% respectively, unless there is an increase in exports. From 1967 onwards the ratio falls below 20%.
- (iii) Balance of payments position: A sharp fall in imports and a rise in exports resulted in a current account surplus, according to official data, of \$210 million in 1963, compared to deficits of \$585 million in 1961 and \$273 million in 1962. Helped by excellent grain crops, the prospects are good for a surplus in 1964, provided that the Government's exchange rate policy does not curb exports unduly. Since October, 1963 the Government appears to have been following a policy of holding the peso as high as possible. The exchange rate had been held stable at around 137 pesos per dollar until early August when it was permitted to move to 144; in the meantime there has been a substantial rise in domestic costs. In April, 1964, a system of exchange regulations was introduced designed to conserve Argentina's foreign reserves. Since then the regulations have been tightened.
- (iv) Prices and wages: Prices rose 28% in 1963, and wages 38%. Monetary expansion has been more rapid in 1964 than in 1963; but this additional inflationary pressure has not been fully reflected in the official price index since this is now influenced by the various price controls imposed on foodstuffs in 1964.

- (v) Principal economic problems: The principal economic problems in the shorter term are (a) the budget deficit, which is estimated to be about 50% of public expenditure in 1964 and thus appreciably above the already severe deficit of 1963; (b) a high rate of monetary expansion; and (c) the heavy debt burden in the years 1964 through 1966. The heavy reserve loss of \$104 million in June 1964, resulting apparently from the Government's attempts to hold the exchange rate and from domestic inflation, raises the question of whether the Government will be able to keep to its declared policy of paying off the external debt without further refinancing. Over the longer period there is the problem of whether Argentina can sustain a high rate of growth where agricultural output has shown little sign of expansion in the past decade and manufacturing appears to be high cost.

BOLIVIA

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August 26, 1964

BOLIVIA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: September 11, 1964

Time: 3:30 p. m. - 4:00 p. m.

Attended by:

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Jaime Escobar Quiroga (F)

Minister of Finance

Adolfo Linares A. (B)

President, Corporacion Boliviana
de Fomento

Gaston Guillen Osorio (F)

Raul Lema Pelaez

President, Banco Central de
Bolivia

BOLIVIA

August 12, 1964

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations since July 1, 1963, including Bank/IDA lending prospects.

(i) Loans and Credits made since July 1, 1963.

Date	Borrower	Purpose	Amount (\$ million)
<u>Loans</u>			
None			
<u>Credits</u>			
July 1964	Republic of Bolivia	Electric Power (ENDE)	10
July 1964	Republic of Bolivia	Electric Power (BPC)	5

(ii) Major Problems in Executing Existing Loans.

None.

(iii) Loans presently under consideration.

None.

(b) Topics to be raised by us.

Technical Assistance for Railroads.

In a letter to the Minister of Public Works dated August 7, 1964, the Bolivians were advised that a mission would arrive in La Paz on September 12 to update the Bank's understanding of the status of the railways. At Bank expense, the supervisor of the SOFRERAIL study will join the Bank mission. Based on the findings and recommendations of the mission, the Bank will then be in a position to explore with the Bolivian Government the external assistance that would be most effective in implementing the railroad rehabilitation program.

BOLIVIA

August 12, 1964

(c) Topics likely to be raised by the Delegation.

The need for technical assistance for the railways.

We should emphasize our mutual agreement on the importance of the rehabilitation of Bolivia's railways and that as soon as the recommendations of the above-mentioned mission are available, the Bank will be in touch with the Government.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1964.

None.

(b) IDA Credits as of July 31, 1964.

Date	Borrower	Purpose	Amount (\$ million)
1964	Republic of Bolivia	Power Development	10.0*
1964	Republic of Bolivia	Power Development	5.0*

* Includes US \$15.0 million not yet disbursed.

(c) Disbursement Problems.

None.

(d) Technical Assistance Activities.

The Bank financed a study by SOFRERAIL in 1962 of the Bolivian railroads, and a Bank mission is arriving in La Paz to determine what external assistance would be most effective (see III (b)).

(e) 9% Capital Subscription

None released. No release likely under present circumstances.

(f) Holdings of World Bank Bonds

None.

(g) I. F. C.

Member. No activity.

(h) I. D. A.

Member. No approach for release of 90% local currency subscription contemplated at this time.

BOLIVIA

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(i) Access to Private Capital Markets.

None.

BOLIVIA

August 12, 1964

V. POLITICAL SITUATION

Dr. Paz Estenssoro of the Movimiento Nacionalista Revolucionario was reelected in May 1964 for a second consecutive four-year term as President. As a result of the split between Dr. Paz and Mr. Lechi, leader of the Miners' Union, it seems likely that the political power of the miners will decline. The newly elected Vice President is the Chief of the Air Force and his election marks the return of the Armed Forces to political prominence for the first time since 1952.

VI. ECONOMIC SITUATION

- (a) Population: 4.1 million GNP per capita: about \$100
- (b) Economic growth has averaged 3 - 5% since 1960 and may reach 7% in 1964. Agriculture, private mining, and industry are the leading sectors. Production of the state mining corporation has increased, and with better tin prices, its cash position is improving, but the company still has a long way to go toward a sound position. Bolivia has a considerable potential for growth in agricultural and mineral output. Continuation of recent growth depends in part on improvement in the position of state enterprises, especially the mining company, which will be slow at best. The deficit of the state enterprises has caused a public sector deficit of 10 - 15% of public expenditures. There has been a gradual improvement in Central Government financial performance, and its credit policy is relatively cautious. In 1963 prices were stable; this year prices are increasing at a rate of about 6%.

High prices of minerals and some increase in export volume led to an increase in export earnings in 1963. Imports also increased, but U.S. aid and other aid disbursements more than covered this increase so that there was a net rise in foreign exchange reserves from \$6 million as of June 1963 to \$18 million as of June 1964.

Until there is a decisive improvement in public sector finances, Bolivia will need substantial external assistance. In the past 7 years external debt has more than doubled, reaching about \$218 million in 1963. Last year the payments deficit was \$50 million, more than 10% of GNP, compared with \$72 million net export earnings. Debt service, about 19% of export earnings in 1964, will continue about 19 - 22% for several years to come.

BRAZIL

August 13, 1964

Dear Mr. Minister:

Your letter of August 8, containing your kind invitation to pay a visit to Brazil, has reached me just as I am about to leave on some overseas visits before going to Tokyo for our Governors' Meetings.

I hope I may have the pleasure of seeing you in Tokyo and, if you are to be there, that will afford an opportunity for us to talk further about your invitation.

With best personal regards.

Sincerely,

(Signed) George D. Woods

George D. Woods

The Honorable
Octavio Gouvea de Bulhoes
Minister of Finance of Brazil
Rio de Janeiro, Brazil

cc: Mr. Knapp
Mr. Schmidt
Mr. Alter

GCWishert:ml *W*

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C. 226

Rio de Janeiro, August 8th, 1964.

The Honorable George Woods
President of the International Bank for
Reconstruction and Development
1818 H Street, N.W.
WASHINGTON, D.C.

Dear Mr. Woods,

I have the honor to refer to the conversation between you and the President of Banco Nacional do Desenvolvimento Econômico, Dr. Garrido Torres, during the latter's visit to Washington last June. As you will recall, Dr. Garrido Torres on that occasion expressed the hope of the Brazilian Government that you might find time in the near future to visit our country.

May I now formally confirm Dr. Garrido Torres' invitation and, in the name of the Brazilian Government, invite you to visit Brazil, at your earliest convenience, as its guest.

I would be delighted to hear from you as to the time that would suit you best, as well as to the places and people that you would be interested to know and see, so that the necessary arrangements may be started.

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May I also seize the opportunity to stress once again how gratified I was to receive the visit of Mr. Orvis Schmidt and the accompanying IBRD team and that the Brazilian Government looks forward to the announced early return of the Bank's mission.

In the hope to welcome you soon in Brazil, I remain

Very sincerely yours



OCTÁVIO GOUVÊA DE BULHÕES
Minister of Finance of Brazil

MMM/nbm.



Record Removal Notice



File Title George D. Woods - Nineteenth Annual Meeting Briefing Papers, 1964 - Latin America		Barcode No. 1076801
Document Date September 6, 1964	Document Type Memorandum with attached note	
Correspondents / Participants To: Mr. Woods From: Gerald Alter		
Subject / Title BRAZIL- Supplementary Briefing on Proposed Power Loan		
Exception(s) Communications of Governors and/or Executive Directors' Offices		
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.
		Withdrawn by Shiri Alon
		Date 25-Jul-16

September 4, 1964

BRAZIL -- Supplementary Briefing on
Economic Situation.

The Government economic and financial program, submitted to Congress in early August, gives top priority to the restoration of financial stability and resumption of economic growth. The Government hopes to achieve stabilization gradually over a period of two years by improving the budget position and by keeping wage increases below the price increases of the recent period.

The Government expects the 1964 budget deficit to be some 20% below 1963 in real terms. The Government expects a further 30% reduction in its deficit in 1965. However, the program is not specific about the measures affecting state enterprises, especially the railroads, which are essential in achieving fiscal balance.

The program also sets forth specific targets for credit expansion to the private sector which, it is expected, will enable private industry to expand production while the economy is being stabilized. These targets would be increased in the event of utilization of new external credits.

Other points in the Government policy statement:

- (1) Expanded role of private foreign capital through more liberal treatment of remittances (cf. recent enactment of changes in the profit remittances law).
- (2) Centralization of Central Banking functions in SUMOC (the Brazilian monetary agency), monetary policy being formulated in recently established monetary council.
- (3) Expansion of agricultural production through improved credit facilities, storage, use of fertilizers, etc.
- (4) Greatly increased efforts to expand exports through realistic exchange rate policy, tax rebates, credit facilities, administrative simplification, etc.

from Alter

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CONFIDENTIAL

August 12, 1964

BRAZIL

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: September 6, 1964

Time: 3:40 p.m. - 4:20 p.m.

Attended by:

Management: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Cope

Staff: Mr. Alter
Mr. Schmidt
Mr. de Vries

II. MEMBERS OF DELEGATION

Otavio Gouvea de Bulhoes (B-F)

Minister of Finance
Governor

Denio Chagas Nogueira (B-F)

Executive Director of SUMOC
(Superintendencia da Moneda
e do Credito)
Alternate

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations since July 1, 1963, including Bank/IDA Lending Prospects:

(i) Bank loans and IDA credits since July 1, 1963:

None

(ii) Major problems in executing existing loans:

None

(iii) Loans presently under consideration:

Purpose	Approximate Amount (millions \$)	Status	Tentative date for Negotiations
Estreito Power Project (FURNAS)	45.0	Appraisal mission for August	Late 1964 - early 1965
Xavantes Power Project (USELPA)	14.0	Appraisal mission for August	Late 1964 - early 1965
Power distribution in Rio and Sao Paulo (Brazilian Traction)	16.0	Appraisal mission for August	Late 1964 - early 1965

The disbursement of the proposed loans would keep the Bank's net investment in Brazil at the present level.

A mission is going to Brazil about August to appraise the projects.

(b) Topics to be raised by us

(1) Government's financial policies

The Government submitted in August to the Congress its 1965 budget proposal and its plans for public investment during the next few years. The Government has taken several measures to improve the budget position and to reduce inflation. Nevertheless, inflation is still progressing at a rapid pace. (See Section VI)

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We should ask the Minister what he considers the prospects to be for stabilization. We might inquire in particular into

- a) the prospective budget deficit in 1964 and 1965
- b) the main outlines size and composition of the Government investment plans for 1965
- c) the prospects for measures to reduce the railroad deficit
- d) the prospects for keeping down industrial wage increases to be negotiated in September and October.

We might also ask the Minister what amount of external financing he is seeking from the US Government, the IMF and other creditors in support of the Government's financial program and investment plan.

(2) Electric Power

A Bank mission is at present in Brazil to appraise power projects for which we intend to lend \$75 million. We expect the Mission's report in October. We might inquire into two relevant points:

a) Prospects for increasing electric power tariffs and obtaining budgetary support for electric power investment.

b) Prospects for agreement on the purchase of American and Foreign Power properties which we hope will be in effect before the negotiation of new Bank loans for electric power.

(c) Topics likely to be raised by the delegation

The delegation may ask what the prospects are of the Bank resuming lending operations in Brazil over and above the \$75 million for electric power.

Suggested reply: We are encouraged by the posture of the present Government but hope that more progress toward stabilization will be made in coming months. The Bank mission in October and November will review Brazil's financial and development plans and problems. In early 1965 we expect to be in a position to discuss the scope and nature of further operations in Brazil.

IV. BACKGROUND INFORMATION

	(Millions \$)
(a) <u>Bank Loans as of July 31, 1964:</u>	
Total (net of cancellations and refundings)	267.0 ^{/1}
of which has been repaid	<u>76.4</u>
Total now outstanding	190.6
Amount sold	5.4
of which has been repaid	5.4
Net Amount now held by Bank	<u>190.6</u>

/1 Includes 4.8 million not yet disbursed.

(b) IDA Credits as of July 31, 1964

None

(c) Disbursement Problems

None

(d) Technical Assistance Activities

The Bank is Executing Agency for the U.N. Special Fund financed power survey of South Central Brazil. The preliminary report covering a 4-year construction period has been released and accepted.

(e) 9% Capital Subscription (\$33.6 million)

None released. No action to be taken in present circumstances.

(f) Holdings of World Bank Bonds

None

(g) I.F.C.

Member

IFC management plans meetings at the Annual Meeting with the Brazilian delegation.

Industrial Investments

IFC (with other participants \$3,175,000) has six investments in Brazil, three of which have been sold. The three remaining investments are automotive parts (\$450,000), motor vehicles (\$2,450,000), and pulp (\$4,000,000). IFC is presently considering a request for financing of a steel project in Brazil.

(h) I.D.A.

Member (since March 15, 1963)

No approach to Government on release of 90% local currency subscription contemplated at this time.

V. POLITICAL SITUATION

President Humberto Castelo Branco, former Army Chief of Staff, took office after the revolution of April 1964. He had promised presidential elections for October 1965. Later, the President proposed and Congress approved a constitutional amendment which extends his present term in office to March 15, 1967, thus postponing the elections to October 1966. Another amendment proposed by the President and approved by Congress alters the rules for the election. A majority of votes instead of a plurality, will be required for the direct election of the President. If no candidate receives a majority of votes, the election of the candidate with the most votes will have to be ratified by a majority of Congress. If there is no majority vote in Congress, a run-off election between the two candidates with the highest vote will be called.

With former President Kubitschek stripped of his political rights, Carlos Lacerda, the Governor of Guanabara, has become the front runner for the presidency.

Castelo Branco has assembled an able group of technicians in his cabinet who are attempting to formulate sensible investment and expenditure policies to cope with the inflation. The government has proposed and introduced several reform measures.

VI. ECONOMIC SITUATION

Population: 77 million
GNP per capita: US \$200-250

According to preliminary estimates the Brazilian GNP increased by only approximately 2% in 1963, compared with a population growth of 3%. Thus, the slow-down in economic growth from an average growth rate of 7% over the years from 1957 to 1961 to 5% in 1962 became even more pronounced in 1963. The explanation for the change in the pace of development must be sought in the consequences of an accelerated inflation reaching a rate of 80% in 1963 as compared to about 50% in 1962; in poor crops due to bad weather which was only partly offset by improved export prices; in the decline of foreign direct investment from US \$136 million in 1962 to US \$30 million in 1963, and last but not least in the uncertainties of the political situation.

Before last spring, the internal economic scene was characterized by a large, growing budget deficit which amounted

to CR\$500 billion for 1963. About three-fourths of the deficit can be attributed to payments to autonomous government agencies, the most prominent of which are the railroads and the merchant marine. Wage demands went beyond adjustment for past changes in order to defend and possibly improve the real income position of wage earners.

The new Government is attempting to reduce progressively the budget deficit and keep wage adjustments from exerting new inflationary pressures. Measures taken include: elimination of the preferential exchange rate for imports of wheat, petroleum products and newsprint; certain tax increases; attempts to reduce the operating deficits of government enterprises through cost savings, wage restraints, and rate adjustments in the fields of power, transportation and communication; and a cut of non-personnel budget expenditures by about 23%.

In 1964 inflationary pressures, although less than under the last phase of the Goulart administration, will still be considerable, averaging perhaps as much as 70% for 1964 as a whole. One weak element in the financial situation has been the 1964/65 coffee policy under which the effective tax on coffee has been reduced in comparison with 1963/64.

Mostly due to an improvement in coffee prices, total foreign exchange earnings increased by 15% in 1963 to a total of US\$1.4 billion. The external position of Brazil continued to be burdened by a highly unfavorable external debt structure. Without a rescheduling of debt payments 56% of the total Brazilian external debt of US\$3.6 billion (including swaps and arrears) would fall due before 1968 with a peak of repayments in 1964. Scheduled service of compensatory and project loans would have absorbed 40% of export earnings.

In the meetings of the Hague Club it has been agreed that European creditors would refinance 70% of amortization and interest payments due in 1964 and 1965, providing for the first repayments to begin in January 1967, with total repayments being spread out over five years. The U. S. Government is planning to provide relief on similar terms. As a result debt service on project and compensatory loans would be reduced from US\$670 million to US\$270 million in 1964, compared with foreign exchange earnings which amounted to \$1.4 billion in 1963 and which may improve in 1964. The Brazilian Government hopes to be able to roll over the short-term swap and commercial arrears debts totalling about \$500 million at present. On the basis of the new debt schedule, service on external debt (excluding swaps and arrears) amounts to about 14% of projected export earnings in 1965, 25% in 1966 and falls to the 15-20% range in 1967-69.

CHILE

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August 18, 1964

CHILE

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: September 8, 1964

Time: 9:30 a.m. - 10:00

Attended by:

Staff: Mr. Alter
Mr. de Vries

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

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations since July 1, 1963, including Bank/IDA lending prospects:

(i) Loans and credits made since July 1, 1963:

December 18, 1963 \$19.0 million loan for livestock development

December 18, 1963 \$ 5.0 million loan for meat and milk processing plants.

(ii) Major problems in executing existing loans:

None

(iii) Loans presently under consideration:

The following projects are under consideration: they have not been submitted to SLC.

<u>Purpose</u>	<u>Amount</u>	<u>Status</u>	<u>Tentative date for negotiations</u>
ENDESA electric power generation and transmission	\$4-4.5 million	Appraisal report being completed	September 1, 1964
Vocational training	\$2-4 million	Pre-appraisal mission visited in early July. Full scale appraisal mission is scheduled for mid-September.	December 1, 1964

(b) Topics to be raised by us:

Since the Chilean delegation will at best be a lame-duck one, designated by the outgoing Alessandri administration and en route to the Annual Meeting during the September 4th presidential elections, there seems to be no reason for raising any questions of substance with the Chileans. The Bank is tentatively scheduling a mission in early November for general discussions with the new Government.

(c) Topics likely to be raised by Delegation:

None.

IV. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1964

Total (net of cancellations and refundings)	136.2	^{1/}
of which has been repaid	<u>25.8</u>	
Total now outstanding	110.4	
Amount sold	4.7	
of which has been repaid	4.2	<u>0.5</u>
Net amount now held by Bank	<u>109.9</u>	

^{1/} Includes US\$50.0 million not yet disbursed.

Date	Borrower	Purpose	Amount (\$ million)
1963	CORFO	Livestock development	19.0
1963	CORFO	Milk and meat processing	5.0

(b) IDA Credits as of July 31, 1964

Date	Purpose	Amount (\$ million)
June 28, 1961	Road Construction	19.0 ^{2/}

^{2/} Includes US\$15.5 not yet disbursed.

(c) Disbursement Problems

US\$9.6 million and US\$12.2 million loans of July 24, 1957 to coal companies Lota and Schwager, (171 CH and 172 CH):

The serious difficulties which confronted these loans and delayed disbursements were resolved during the past fiscal year. On June 16, 1964 the Bank approved a Supplemental Agreement which provides for revised amortization schedules and an extended period of grace in order that the merged company may be able to service the loans from its own earnings. The revised project is now expected to be carried out promptly and disbursements to proceed as scheduled.

US\$6 million Highway Maintenance Loan and US\$19 million Road Construction Development Credit, both of June 28, 1961 (Loan No. 287 CH and Credit No. 4 CH): Because of inadequacies in administration of the project, Bank and IDA disbursements were temporarily suspended by mutual agreement. The shortcomings have, however, been eliminated and the project is now expected to proceed without any additional delays.

US\$19 million Livestock Development Loan of December 18, 1963 (366 CH): Disbursements were delayed about six months because the loan did not become effective until July 2, 1964. A Bank mission to Chile is now planned to consider the Chileans' request for a modification of the sub-lending terms of this loan.

(d) Technical Assistance Activities

- (i) A permanent resident mission (Havlik and Reitter) has been maintained in Santiago since April 1962. Mr. Reitter has returned to headquarters and Mr. Havlik will return by September 15, 1964. Replacements for them are still under consideration.
- (ii) Capital Markets Study Mission (Thomas, Ewbank, Den Dunnen) were in Santiago, from September 1962 to March, 1964. Final report of mission expected to be transmitted to Chilean Government not later than early November 1964.
- (iii) A special technical representative (Parmeggiani) to assist on the Bank/IDA Highway Project has been stationed in Santiago since January 1963.

(e) % Capital Subscription (\$8.4 million)

No release. Because of Chile's difficult balance of payments position, we should not press for release at this time.

(f) Holdings of World Bank Bonds

None

(g) I.F.C.

IFC management plans meetings at the Annual Meeting with the Chilean delegation.

Industrial Investments

IFC (with other participants \$770,161) 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). No applications are under consideration.

CHILE

- 5 -

(h) I.D.A.

Member; no approach for release of 90% local currency subscription contemplated at this time.

(i) Access to Private Capital Markets

None

V. POLITICAL SITUATION

President Jorge Alessandri, an Independent supported by a coalition of conservatives, liberals and radicals took office in November 1958 for a six-year term.

Presidential elections will be held on September 4, 1964. The two major contenders for the presidency are (1) Eduardo Frei of the Christian Democratic Party -- a left-of-center, non-marxist, pro-clerical party and (2) Salvador Allende of the Popular Front Action which is backed by a Socialist-Communist coalition. A third candidate, Julio Durán, is also in the race on the Radical Party ticket. The Liberal and Conservative Parties are backing Frei. According to reliable political observers Frei had the edge as of the beginning of August. The new President will take office on November 4, 1964. Congressional elections are due in March 1965.

VI. ECONOMIC SITUATION

Total population: 8 million
GNP per capita: US\$ 300-350 (in terms of purchasing power parity)

The Chilean economy continues to experience serious inflationary pressures, a difficult budgetary position and a very substantial balance of payments deficit.

The cost of living index increased during the first half of 1964 by almost 25% and under the expansionary stimulus of the forthcoming elections is expected to rise by some 50-60% by the end of 1964 as compared with 45% last year. Recently enacted tax reforms and improved tax administration have contributed much toward increasing government revenues but inflation has been eroding the current account budget surplus and the earnings of the state economic enterprises for financing public investment. As a result, savings of the public sector are hardly expected to exceed last year's level in real terms. The deficit of the public sector for 1964 will be of the order of US\$200 million and corresponds to roughly 50% of public investment. The deficit in the balance of payments is of the same order of magnitude. Thanks to U.S. aid of US\$115 million, IMF drawings of US\$25 million and draw-down of the foreign aid pipeline, both gaps are largely being filled.

The difficult balance of payments position and the very heavy external debt service requirements (about 25% of foreign exchange earnings) impose serious limitations on Chile's creditworthiness for any additional sizeable external borrowing on conventional terms. Only if the new administration comes to grips promptly with the urgent need to increase exports, to create a climate favorable to private foreign investment, to raise the level of domestic public savings in support of the growing investment requirements, and to arrest the inflation, would Chile become creditworthy for large-scale external borrowing on conventional terms. There are indications that among its first few steps the new administration will be seeking a renegotiation of Chile's external indebtedness.

COLOMBIA

CONFIDENTIAL

August 27, 1964

COLOMBIA
BRIEFING PAPER

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JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 10, 1964

Time: 11:40 a.m. - 12:00

Attended by:

Management: Mr. Woods
Mr. Knapp
Mr. Cope

Staff: Mr. Alter
Mr. Schmidt
Mr. de Vries
TOD Representative

II. MEMBERS OF DELEGATION

Hernando AGUDELO VILLA (Temp.)	(B)	Former Minister of Finance Alternate
Eduardo ARIAS ROBLEDO	(F)	Manager, Banco de la Republica Governor
Jorge OSPINA (Temp.)	(F)	Member, Board of Directors - Banco de la Republica and President, Banco Cafetero Alternate
<u>Advisers</u>		
Alvaro LOPEZ		Adviser to the Monetary Board
Augusto RAMIREZ MORENO		Member, Board of Directors, Banco de la Republica
Jorge MEJIA SALAZAR		President, Banco de Bogota and Member, Board of Directors, Banco de la Republica
Eduardo SOTO P.		President, Banco de Colombia and Member, Board of Directors, Banco de la Republica
Guillermo HERREPA CARRIZOSA		President, Corporacion Financiera de Desarrollo Industrial
Vincente URIBE		President, Banco Comercial Antioqueno
Camilo HERRERA		Manager, Banco del Comercio

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations, including Bank/IDA lending prospects:

(i) Loans and Credits made since July 1, 1963:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (equivalent in \$ million)
<u>Bank Loans</u>			
July 16/63	Electrifi- cadora de Bolivar	Power	5.0
Feb. 7/64	Empresas Publicas de Medellin	Power	45.0
			<hr/> 50.0

I.D.A. Credits

None

(ii) Major problems:

Loan 295-CO and Credit 5-CO (Highways):

There are substantial delays in construction, primarily due to poor organization of the Ministry of Public Works and lack of cooperation between the Ministry and the consultants. Despite constant Bank urging, the improvement has been very slow. On July 14 we sent to the Government a letter explaining in detail what should be improved in the administration of the loan and credit and indicating that when an agreement is reached on the necessary improvements, the Bank will be prepared to start discussing a new loan. We have received since then a letter from the Government proposing certain modifications in the Ministry of Public Works. A mission (Springuel and Lacayo) is scheduled to go to Bogota at the end of August to discuss the detailed improvements to be made by the Ministry.

Loan 343-CO (National Railroads):

When the loan was signed, Mr. Knapp informed the Government of the serious concern expressed by the E.D.'s about the shortcomings in the railroad's maintenance. As feared at that time, new equipment financed by the Bank is often seriously damaged after a few months of operation because of repeated derailments. The situation has been repeatedly

brought to the attention of the Government which has contributed, after much delay, 60 million pesos and has promised an additional 26 million for the end of the year. We are now preparing cash flow projections on the basis of which we hope to propose to the Government a financial plan which will permit progressive reduction and final suppression of its yearly payments. In the meantime, the Government should be prepared to make additional payments to the railroads.

(iii) Loans Presently under consideration:

SLC decided in May 1964 that the Bank should be prepared to lend about \$150 million to assist financing various projects between July 1964 and June 1966.

Purpose	Amount (\$ million)	Status	Tentative date for Negotiations
Power Expansion Program of CVC	8-10	Appraisal report being prepared.	Late 1964
Telecommunication Expansion	23-25	Appraisal report being considered, awaiting 50-60% rate increase.	Early 1965
Financieras (through PIF)	10-20	Awaiting position of the Government on the Guarantee Agreement.	First half of 1965
Pilot Loan for Agricultural Credit	3-5	Being discussed with Government.	First half of 1965
Power Interconnection	25-30	Appraisal mission tentatively scheduled for early 1965.	Middle of 1965
Irrigation (Atlantico Sur)	10-12	Appraisal mission tentatively scheduled for spring 1965.	Fall of 1965

In addition, for possible later consideration by the Bank, the following projects are in early stages of discussion: Additional hydro capacity for the Interconnected

August 19, 1964

System (San Francisco and/or Colegio II and/or Canoas), further expansion of CVC facilities (Salvajina multi-purpose project), road construction (including the Medellin-Santuario road), Paz del Rio (expansion program, possibly including a second blast furnace), Magangue thermal power station (Electraguas), grain storage, secondary education in Antioquia, and agricultural education (Instituto Colombiano Agropecuario).

(iv) Consultative Group:

In June 1964 the second meeting of the Consultative Group was held to review the progress of Colombia's development program and exchange information on external lending plans for the program. Another meeting at the working level is being convened for August 25 for discussion of possible participation by members of the Group in the financing of three projects being considered by the Bank (Telecommunication, CVC Power Expansion, and Power Interconnection). As of June 1, 1964, participants in the Group had committed \$255 million in total. An economic mission is scheduled to go to Colombia in September to update the economic information.

(b) Topics to be raised by us:

(i) Economic Policy Measures in Support of Development Program:

Domestic price increases are the main obstacle obstructing the progress of the development program. They are persistently increasing the cost of operating public enterprises, and the local cost of capital investment. To cover these rising costs, rate increases are required at too frequent intervals. The Government should, therefore, take steps first to hold the domestic price level, then to establish realistic tariff rates which will hold for a substantial period. It is of the essence that the Government take measures to prevent slippages of tax revenue.

(ii) Government Policy on Rates and Tariffs:

Several applications for rate increases have been pending with the Government for a long time (CVC (50%) and Telecom (50-60%) more than one year, Bogota Power (35%) nine months). The Government refuses to act on these applications for fear of the political consequences. As a result, Bogota Power has a severe liquidity problem (slowing down the rate of construction of the distribution network, thereby further aggravating the financial difficulties because of shortfalls in sales), and negotiations on the proposed loan for CVC and Telecom could be delayed. A letter was sent in July to the Minister of Finance, explaining the general need for adequate tariffs.

August 19, 1964

We should remind the delegation of this need and of the consequences any lack of action on this front would have for Colombia's public savings and its ability to obtain long-term development financing. The need for increasing the user charges in the transportation sector should also be emphasized.

(c) Topics Likely to be Raised by Delegation:

- (i) The Finance Minister is likely to inquire about the results of the informal Consultative Group meeting of August 25. Information on this item will be available at the Tokyo meeting.

With regard to the more general question of Bank leadership in the Consultative Group, the Minister should be reminded that a prerequisite for an active role by the Bank is a better management of the financial affairs of Colombia, in particular, by taking the tax measures necessary to prevent a decline in tax revenue, and by permitting reasonable rates and tariff increases, limiting imports financed by suppliers' credit.

- (ii) Proposed Loan to the Financieras:

Briefing to be provided later.

IV. BACKGROUND INFORMATION

(a) <u>Bank Loans as of July 31, 1964:</u>	(Millions \$)
Total (net of cancellations and refundings)	388.9 ^{/1}
of which has been repaid	<u>63.9</u>
Total now outstanding	325.0
Amount sold	14.3
of which has been repaid	<u>9.6</u>
Net amount now held by Bank	<u>320.3</u>

^{/1} Includes 149.6 million not yet disbursed.

Date of Loan	Borrower	Purpose	Amount (Equivalent in \$ millions)
1962	Empresa 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
1964	Empresas Publicas de Medellin	Power	45.0

(b) IDA Credit as of July 31, 1964:

Date of Credit	Borrower	Purpose	Amount (Equivalent in \$ millions)
Aug. 28/61	Colombia	Highway construction	19.5 ^{/3}

^{/3} Includes 12.0 million not yet disbursed.

(c) Major Disbursement Problems:

(i) Loan 295-CO and Credit 5-CO (Highways): Because of the delays mentioned above (par. III (a) (ii)), the project is about 35% completed while 70% of the construction period has elapsed with corresponding delays in disbursement. It is not expected that the project will be completed before December 1967, more than two years after the original Closing Date (June 30, 1965).

(d) Technical Assistance Activities

Executing Agent for the U.N. Special Fund Cauca Valley Coal Survey. The final reports of the consultants are now being translated.

Conger and Laurenti of DAS have been stationed in Cali since April 1963 and October 1963 respectively, on two-year assignments to assist Cauca Valley Corporation (CVC) in regional planning.

Resident Mission in Bogota: Lacayo began assignment in August 1964 and Iverson due in October.

Consultative Group meetings in June and August 1964.

Considering candidates for one to be stationed in Bogota for two years to assist the Planning Office in project preparation.

(e) 9% Capital Subscription

US\$3.4 million released in dollars. The Government has agreed to release balance of subscription (\$5.0 million) in semi-annual installments to be completed by December 1966. On November 23, 1962, the Bank agreed to reschedule the July 1, 1962 installment to December 1, 1966.

(f) Holdings of World Bank Bonds

None

(g) I.F.C.

Member

(i) Industrial Investments

IFC (with other participants \$1,725,000) has made seven industrial investments in Colombia, two of which have been sold or agreed to be sold. The five remaining investments include

fibreboard (\$500,000), food products (\$1,000,000), home furniture (\$170,000), cotton textiles (\$2,000,000), and a forge plant (\$1,336,005). IFC is presently considering an investment in a livestock breeding and meat packing plant and is considering a further investment in the food products company.

(ii) Development Finance Companies

Bank Loan to the Financieras. Discussions are continuing regarding the basis of a proposed Bank loan to the Private Investment Fund, guaranteed by the Republic of Colombia, whose proceeds would be available for long-term operations of Colombian financieras approved by the World Bank.

CFC and CFN. The relationships between IFC and the financieras of Bogota (CFC) and Medellin (CFN) are cordial and the financieras are making satisfactory progress.

Caldas Financiera. On March 31, 1964, IFC invested Col.\$7,000,000 in the share capital of Corporacion Financiera de Caldas, a private development finance company established in 1961, to encourage the development of the Caldas region in Colombia. Soon afterward, four U.S. financial institutions invested Col.\$8,000,000 in the capital of the financiera.

Financiera del Norte. IFC has agreed to follow the progress of the new private development finance company operating on the Northern Coast region of Colombia, but it has decided not to invest in the share capital for the time being.

Financiera del Valle. A proposed IFC investment of Col.\$7,000,000 in the share capital of the Financiera del Valle is awaiting the appraisal by IFC of an unusually large investment which the financiera has made in a sugar project "Ingenio del Cauca".

(h) I.D.A.

Member

No release of 90% local currency subscription (\$3.2 million) has been made. We feel that Colombia should, in principle, start releasing its 90%, but that we should not press at this time in view of Colombia's current schedule of releasing 9% Bank capital (see IV (e)).

(i) Access to Private Capital Markets

Kuhn, Loeb & Co. have informed the Bank that they would be interested in helping Colombia to market a public bond issue. They are thinking of a registered issue of three, four and five

years serials in the amount of \$10 million to \$15 million. Mr. Miller has had some short exploratory talks on the subject in London with Schroder and the Bank of London and South America. Schroder (whose relationship with Colombia is mostly via Schroder Trust, N. Y.) doubts that much could be done without a considerable education campaign, but Sir George Bolton of BOLSA is enthusiastic and ready to help Colombia.

V. POLITICAL SITUATION

President Guillermo Leon Valencia, Conservative, took office in August 1962 as Chief of the Second Coalition (National Front) Administration, for a four-year term. His administration continues the basic national front policies of economic development and social betterment within a framework of monetary stability. This Government has also been successful in cleaning up pockets of rural violence and banditry. It has been strengthened by the selection of an excellent team of ministers, and by the unification of the Conservative Party which, until 1963, was split into three factions. On the other hand, the Government has lost some political ground on account of increases in the cost of living, which have been exploited by political factions outside the National Front coalition system.

VI. ECONOMIC SITUATION

Population: 15 million
GDP per capita: US\$ 220

(a) Economic Growth:

Population is increasing at 2.8% per annum. Gross Domestic Product increased 3.8% in 1963 (in real terms), compared with an annual increase of 5% in the two preceeding years. The decline in the rate of economic growth in 1963 was due to a fall in agricultural output (on account of drought), in public sector expenditures, and in construction activities. National product is expected to increase this year on account of a boom in private sector investment.

(b) External Debt Position:

The outstanding long-term external public debt at the end of 1963 was \$740 million compared with \$640 million at the end of 1962. Service payments on outstanding external public debt will be about 15% of export earnings in 1964 and are expected to decline to 6% of projected earnings in 1970. However, including service on new debt to be contracted for the Colombian program (roughly \$200 million per year) total service payments are expected to remain in the 15-20% range for several years to come.

(c) Balance of Payments Position:

The Balance of Payments deficit on current account was \$124 million in 1963 compared with \$120 million in 1962. The deficit is projected to increase to \$140 million in 1964. This is not the effect of a deterioration in the balance of payments position, which is in fact rapidly improving on account of

higher coffee prices; net international reserves increased by \$38 million in the first half of this year, compared with a decline of \$30 million in calendar 1963. The projected increase in the balance of payments deficit is the result of the planned acceleration of the development program, with rising capital goods imports financed in advance by foreign project and program loans. Since the devaluation of November 1962, there has been no alteration in the official exchange rate of 9 pesos to the U.S. dollar; and the free market rate has been maintained by official intervention at a fixed rate of 10 pesos since January 1963.

(d) Prices and Wages:

After four years of relative price stability ending in 1962, the cost of living increased by 27% in 1963, and is expected to rise by another 11% this year. There were substantial wage increases last year. Official policy is concerned to restrain wage increases.

(e) Main Economic Problem:

A principal concern is the recent acceleration in the rate of domestic price increases. The Government is taking steps to correct the situation by maintaining balanced budgets in both 1963 and 1964, and by firmly restricting monetary expansion in the private sector under a newly established monetary authority with broad powers.

Public savings are falling short of the domestic financing requirements of planned investment: there is a continuing need for maintaining adequate tariffs of state enterprises, for maintaining the level of tax revenue in relation to GNP and for restraining operational expenses.

Colombia should take more vigorous action to diversify and expand its exports through encouragement of production (especially in agriculture) and giving proper price incentives.

COSTA RICA

CONFIDENTIAL
August 26, 1964

COSTA RICA

DECLASSIFIED

BRIEFING PAPER

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 8, 1964

Time: 10:00 - 10:30 a.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Alvaro Castro	(F-B)	Manager, Banco Central de Costa Rica
Jose Antonio Castro (Temp.)	(B)	Member, Board of Directors, Banco Central de Costa Rica
Guillermo Gonzalez (Temp.)	(F)	Director, Research Department, Banco Central de Costa Rica
Rufino Gil		Adviser to Delegation, Economic Minister Counselor, Embassy of Costa Rica, Washington; Alt. ED (B)

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations, including Bank/IDA lending prospects:

(i) Bank loans made since July 1, 1963:

<u>Date</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>
July 10/63	Instituto Costarricense de Electricidad	Power and Telecommunication Development	\$22.0 million

(ii) Major problems in executing existing loans:

1. \$5.5 million (Highway Project) Loan and \$5.5 million (Highway Project) Credit of October 1961: Due primarily to the failure of the Government to provide local funds as required and to insufficient engineering capacity the Bank/IDA financed highway project is now about twenty months behind schedule and cost estimates have increased substantially. Meanwhile the Government has contracted a \$4 million loan from the IADB for a local road project and is negotiating a loan of about \$5 million with the CABEI for the improvement of the Inter-American Highway between El Coco and San Ramon. The Bank has asked the Government to make a comprehensive review of these various road projects with a view to determining their priorities and adjusting them to the technical and financial capacity of the Government.
2. \$3.0 million (Second Industrial Equipment Project) Loan of September 1961 to Banco Central de Costa Rica: Only \$2.0 million has been committed to date under this loan. The delay has been principally attributed to the lack of qualified personnel and of proper coordination among the local parties concerned. Corrective steps have been taken by the Banco Central on these matters and absorption of the loan is expected to improve.

(iii) Loan presently under consideration:

1. None. However, projects may shape up in the course of the next year in the fields of transportation (based on U.N. Special Fund Port and Railway Study), industry (a third industrial equipment loan) and agriculture.

August 10, 1964

2. The Government has also inquired about possible Bank assistance in education. The Bank has replied that it would be prepared to discuss the means of identifying and developing education projects in Costa Rica.

(b) Topics to be raised by us:

1. Highway Program: In case it has not yet been received, we should inquire into the status of the Government's review of the highway program (mentioned in III (a) (ii) 1).
2. IADB Road Loan: We might also point out that the Government signed the \$4 million loan with IADB for a local road project without showing us in advance the draft loan agreement. This was contrary to repeated promises by the Government that it would show us the draft agreement before signing it.
3. Second Industrial Equipment Loan: With reference to the utilization of Loan 296-CR we might inquire about the effect of the corrective measures taken by the Central Bank.
4. Telecommunications: We might inquire about the status of Costa Rica's approval of the Convention for the Central American Telecommunications Company and, if it is being delayed, urge that it be expedited.

(c) Topics likely to be raised by delegation:

During the visit of President Orlich to Washington in July, 1964, the Bank offered to assist the Government in its planning of public investment and in drawing up a financing plan. The delegation may inquire about our plans. The Bank might indicate that an economic mission is expected to visit Costa Rica in September which would discuss with the Government the means by which it could best assist in the matter.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1956	Banco Central de Costa Rica	Agricultural development and light industry	3.0
1959	Banco Central de Costa Rica.	Agricultural development and light industry	3.5
1960	Banco Central de Costa Rica	Industrial equipment	2.0
1961	Instituto Costarricense de Electricidad	Electric power development	8.8
1961	Republic of Costa Rica	Highway construction and improvement	5.5
1963	Instituto Costarricense de Electricidad	Electric power and telecommunications development	22.0
	Total (net of cancellations and refundings) of which has been repaid		47.8 ^{1/} <u>5.8</u>
	Total now outstanding		42.0
	Amount sold	3.2	
	of which has been repaid	2.2	<u>1.0</u>
	Net amount now held by Bank		41.0

^{1/} Includes \$25.5 million not yet disbursed

(b) IDA Credits as of July 31, 1964

Date	Borrower	Purpose	Amount (equivalent in \$ million)
Oct. 13/61	Republic of Costa Rica	Highway construction and improvement	5.5 ^{2/}

^{2/} Includes \$4.3 million not yet disbursed.

(c) Disbursement Problems

Delays in disbursements under Loan 296-CR (Second Industrial Equipment Project) and Loan 299-CR and Credit 10-CR (Highway Project) have been explained in Section III (a) above.

(d) Technical Assistance Activities

1. The Bank is acting as Executing Agency for the U.N. Special Fund Port and Railway Study in Costa Rica. Field work for the study was completed in March 1964 and the final report is expected to be completed in September 1964.

2. Studies on long-term telecommunications development were carried out by French experts as part of the U.N. Special Fund Central American Telecommunications Study, for which the Bank was Executing Agency. The study was completed in March 1964.

(e) 9% Capital Subscription

\$360,000 released and lent in dollars. \$360,000 not yet released. In view of unfavorable external reserves and payments position at present, the Bank should not press for release.

(f) Holdings of World Bank Bonds

None.

(g) I.F.C.

IFC (with other participants \$89,848) has invested in a concrete products plant (\$269,529). No applications are pending.

(h) I.D.A.

Member. We do not propose to approach Costa Rica for release of 90% local currency subscription.

(i) Access to Private Capital Markets

Not applicable.

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 policy of the previous Government, Costa Rica formally joined the Central American Common Market in September 1963. The President follows an anti-communist, liberal policy.

VI. ECONOMIC SITUATION

Population: 1.4 million
GNP per capita: U.S.\$290

After a decrease of per capita income in Costa Rica in the late fifties, it has resumed its growth in recent years as a result of buoyant industrial production and the growth of exports other than coffee, such as bananas and sugar.

Another contributing factor to economic growth in the last two years has been the increasing levels of public investment. At the same time, however, the Government has had to support rapidly increasing current expenditures, not only in education (which uses up one-third of the budget) but in most other fields also. Sizeable budget deficits have ensued in the last three years, and increasing recourse has been taken to foreign borrowing not only for investment projects but also for current expenditure

External public debt service for the next few years is consequently fairly heavy, and will reach a peak of \$13.4 million in 1965 (or 14.6% of export earnings). Projects underway together with relatively large project under study will mean continued sizeable capital requirements by the public sector in the next few years. In view of Costa Rica's weak fiscal position the elaboration of a sound financial plan deserves high priority. An IBRD economic mission is at present in Costa Rica appraising the country's credit worthiness and exploring ways in which the Bank could provide assistance in elaborating the financial plan.

DOMINICAN
REPUBLIC

CONFIDENTIAL
August 26, 1964

DOMINICAN REPUBLIC

BRIEFING PAPER

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JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 8, 1964

Time: 10:30 - 11:00 a.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Diogenes H. Fernandez (F) (Gov.) Governor, Banco Central de
la Republica Dominicana

Jose Andres Aybar Castellanos (B) (Gov.)

Luis Maria Guerrero Gomez (Temp.) (F-B) (Alt.)

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of relations since July 1, 1963, including Bank/IDA lending prospects.

(i) Amounts loaned since July 1, 1963

None.

(ii) Major problems on existing loans

None.

(iii) Loans presently under consideration

None. The Government has emphasized that it expects the Bank to play a major role in the country's economic development. However, no projects are yet ready for consideration.

(b) Topics to be raised by us

1. We should reiterate the Bank's intention to provide substantial assistance.
2. We should emphasize the necessity for proper studies to establish the priority and economic justification of projects and to ensure their adequate execution.
3. Power: We should inquire whether the 44 MW Haina thermal plant project has been entrusted to General Electric of England (suppliers' credit) or whether the Bank's consideration of that project is desired; such a possibility was mentioned to a Bank mission in May 1964.
4. Transportation: We should encourage the Government to present a project comprising the rehabilitation of a large number of bridges; such a project was discussed in a preliminary way by Mr. H. Young (TOD) on a recent visit to Santo Domingo. A follow-up letter was sent.
5. Education: We should emphasize the Bank's interest in educational projects. Upon our prompting, the Government has requested a UNESCO project identification mission.

(c) Topics likely to be raised by the delegation

None - except, perhaps, the expressions of its general desire to speed up the Bank's preparatory work on projects. We should indicate our willingness to do so, especially with respect to the Yaque investigations (see IV d).

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

None.

(b) IDA Credits as of July 31, 1964

None.

(c) Disbursement problems

Not applicable.

(d) Technical Assistance Activities

A resident advisor (Mr. Bochenski) on development programming has been stationed in Santo Domingo since February 5, 1964, for an initial period of one year. An economist (Mr. van der Heijden) is to join him in September.

Three Bank technical missions reviewed between March and June 1964 the possibilities for the multipurpose development of the Yaque del Sur and Yaque del Norte river basins; the mission gave assistance in drafting an application for U.N. Special Fund grant for a feasibility study; the application was presented to the Special Fund at the end of July.

(e) 9% capital subscription

On March 16, 1964, the Board of Governors approved an increase in the capital subscription from \$8 to \$13.3 million. There has been no release of 9%. It would not be appropriate to raise the issue until the foreign exchange position improves further or perhaps until we are considering our first loan.

(f) Holdings of World Bank Bonds

None.

(g) I.F.C.

Member. IFC has made no investments in the Dominican Republic and there are no active applications.

Development Finance Companies: IFC has held discussions with a group of U.S. investors who are considering the possibility of establishing a development finance company. A report by the Bank's resident

August 11, 1964

representative, which concluded that there was a need for such an institution, was transmitted to the Government by Mr. Rosen on July 17 with an offer of IFC assistance in organizing such a company.

(h) I.D.A.

Member. We do not propose to approach the Dominican Republic for release of 90% local currency subscription.

(i) Access to Private Capital Markets

Not applicable.

V. POLITICAL SITUATION

The administration of President Bosch, constitutionally elected in December 1962, for a four-year term, was overthrown in September 1963 by the Armed Forces backed by some of the opposition parties and most of the business community. A Triumvirate was set up, composed of civilians with rather conservative leanings. Their Government is now generally recognized, with some exceptions such as Venezuela and Mexico. While the composition of the Triumvirate as well as of the cabinet has been changed repeatedly, there is a certain continuity due to the continued backing of the Administration by the forces responsible for its establishment.

Political parties are preparing for a series of elections ranging from municipal to presidential, which are supposed to take place in about six months. Further changes in the political setup are to be expected, but given the basically pacific, non-radical and not excessively nationalistic nature of the population, these changes are not likely to be very violent or far going.

The Triumvirate has in the past taken most decisions on a day-to-day basis. Recent developments, e.g. the foreign exchange crisis, have shown that more long-term thinking is needed.

VI. ECONOMIC SITUATION

GNP per capita: about \$240
Population: 3.3 million

1. After three years of stagnation due to an unsettled political climate, the economy of the Dominican Republic began recovering in 1961. The recovery accelerated in 1962 and 1963, with the gain of sugar exports from their 1961 low and a rapid rise of industrial production for the local market, particularly of consumer goods.
2. The Central Government in 1963 reverted to more conservative fiscal policies, after two years of large deficits. However, the state-owned Sugar Corporation - which produces two-thirds of the country's sugar and has a budget half the size of the Central Government's - has had increasingly large deficits since 1961. These have been partly due to padding, but largely to the sizeable wage increases which have taken place since 1961. The official wage index has risen by about 100% since 1961, although wage increases in the sugar sector have been larger than this. This increase in purchasing power caused an increase of imports while the cost of living has tended to remain stable. In 1962 and 1963, imports reached record levels, but left a surplus on trading account. For 1964, the situation may be more difficult, since imports continue to grow.
3. The foreign exchange reserve situation has been made increasingly difficult by these developments, by an apparent capital flight, and by the Central Bank's willingness to let commercial arrears to foreign banks accumulate to unprecedented levels. The liquidation of these arrears is a condition for the \$25 million stand-by under negotiation with the IMF.
4. With an annual external debt service in the next five years of less than 2% of 1963 export earnings (\$174 million), the Dominican Republic can be considered creditworthy for Bank loans. However, the authorities should be cautioned against the accumulation of short-term debts to foreign banks: the chief of these - a \$24 million loan for the Sugar Corporation made in 1963 - has already been rolled over once.

ECUADOR

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WBG ARCHIVES

CONFIDENTIAL
August 19, 1964

ECUADOR

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: Tuesday, September 8

Time: 3:30 - 4:00 p.m.

Attended by: Delegation

Staff: Mr. Alter
Mr. de Vries
TAD Representative

II. MEMBERS OF DELEGATION

Victor J. Maspons y Bigas (B)

Minister of Commerce and Banking -
Governor

Guillermo Perez Chiriboga (F)

General Manager, Banco Central -
Governor

Francisco Baquerizo (Temp.) (F)

General Secretary, Banco Central -
(Alternate)

Jose C. Cardenas (B)

Minister of Development
(Alternate)

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of relations, including Bank/IDA lending prospects

(i) Loans and credits made since July 1, 1963:

<u>Date of Loan/Credit</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (equivalent in \$ million)</u>
<u>Bank Loan</u> May 26, 1964	Government	Highway Construction	9.0
<u>I.D.A. Credit</u> May 26, 1964	Government	Highway Construction	8.0

(ii) Major problems related to existing Loans and Credits:

Highway Construction Loan and Credit

The Government has negotiated but not yet signed a 12-year contractor's credit backed up by European banks in the amount of \$14 million for the reconstruction of the road from Quito to Tulcan. We have urged the Government orally and in writing not to go through with this credit because (1) the terms are unfavorable, and (2) this additional construction would interfere with the Government and the Ecuadorian contractors' capacity to carry out the "consortium's" highway program (the consortium meaning IBRD, IDA, IDB and AID which jointly finance the current nationwide four-year program).

Costain Claim Against the Port of Guayaquil Authority

This claim still is not settled. The latest step on the part of Costain has been to propose to the Port of Guayaquil Authority by letter of June 30, 1964, that the outstanding claims be submitted to a mediator to be chosen by the Bank. Mr. Perez enquired during his last visit to Ecuador what the Port Authority plans to do about this proposal, and their reply was that they would give it further study but that their first reaction was to do nothing and leave it to Costain to pursue their claim through the Ecuadorian Court as provided in their contract.

(iii) Bank/IDA lending prospects:

Following is a list of projects that the Bank has under active consideration.

August 19, 1964

<u>Purpose</u>	<u>Approximate Amount (\$ millions)</u>	<u>Status</u>	<u>Tentative date for Negotiations</u>
Quito Power (Cumbaya II)	5.9 to 6.0	Awaiting financing plan before reappraisal	Late 1964 - early 1965
Port of Guayaquil expansion (banana handling facilities)	10.0 to 12.9	Awaiting revised study demonstrating economic justification before appraisal	Mid-1965
Guayas River Bridge	9.0 to 10.0	Definitive engineering studies underway expected to be presented to Bank in late 1964 <u>/1</u>	Mid-1965

(b) Topics to be raised by us:

- (i) Highway construction Loan and Credit: We should urge the the Government again not to go through with the contractors' credit mentioned under III(a)(ii) above.
- (ii) Proposed Quito Power Loan: We should urge the Government and the shareholders of the company to come to an agreement on the financing plan to be presented to the Bank.

(c) Topics likely to be raised by delegation:

- (i) Possible Bank or IDA financing for Guayas River Bridge project recommended by recent Transport Study.

Suggested response: Awaiting studies.

- (ii) Further technical assistance support to National Electrification Institute (INECEL).

Suggested response: Bank would not be prepared to extend present advisory assistance, which was to help getting INECEL established, but would consider, for example, financing feasibility studies of specific power projects as recommended by present advisors.

- (iii) Possibilities for Bank or IDA assistance to education.

Suggested response: Bank or IDA ready to review specific proposals.

/1 The Government has informally indicated interest in Bank financing, but no loan request has yet been received.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964:

	<u>(Millions \$)</u>
Total (net of cancellations and refundings)	54.0 <u>/1</u>
Of which has been repaid	<u>11.3</u>
Total now outstanding	42.7
Amount sold	0.5
Of which has been repaid	<u>0.4</u> <u>0.1</u>
Net amount held by Bank	\$42.6

/1 Includes \$9.2 million undisbursed, of which \$9 million not yet effective.

(b) IDA credits as of July 31, 1964:

<u>Date</u>	<u>Purpose</u>	<u>Amount</u> <u>(\$ million)</u>
May 26, 1964	Highway Construction	\$8.0 <u>/1</u>

/1 Not yet effective.

(c) Disbursement problems:

A small balance of less than \$100,000 remains on the 1957 national highway loan, but is expected to be fully withdrawn by September or October.

(d) Technical Assistance Activities:

National Institute of Electrification (INECEL): Bank technical assistance grant increased from \$120,000 to \$220,000 in February 1964 to continue advisory services to INECEL until October 1964.

Transportation Study: Final report of the study (financed by Bank grant of \$340,000) published in July 1964.

(e) 9% Capital Subscription (\$1.54 million)

\$1.15 million released in dollars. Supplementary subscription of \$387,000 not yet released, although requested (See II (b) (i))

(f) Holdings of World Bank Bonds:

None

(g) I.F.C.

Member.

IFC has made no investment in Ecuador but would consider investing. A mission to Ecuador is planned during the last half of 1964 to review investment possibilities.

(h) I.D.A.

Member.

Release of 90% local currency subscription not yet requested. Suggest no action be taken.

(i) Access to Private Capital Markets

No prospects in foreseeable future.

V. POLITICAL SITUATION

The military junta which assumed office in July 1963, has stayed in control and has not shown any intention of handing over power to civilians. It intends to remain as a transitional government for the period required to revise the Constitution and institute agrarian reform and no time period has been set for this process. The enthusiastic support for the regime shown in the early months has died down and despite some internal political difficulties, the junta appears to have firmly consolidated its position. The regime has adopted a Plan for Social and Economic Development prepared by the National Planning Board. It has also instituted important reforms in the field of taxation and has begun the task of eliminating and reforming the autonomous agencies.

The Government has announced that it will not permit two former Presidents, Velasco Ibarra and Camillo Ponce, to run for the Presidency when power is returned to civilian hands. The possible candidates for this position are Jose Cardenas, a popular figure in the present Government who is at present Minister of Development, and possibly Captain Freile, one of the four members of the military junta.

VI. ECONOMIC SITUATION

Population: 4.6 million
GNP per capita: U. \$175

The gross national product increased 5.5% in 1963 (in real terms), compared with 4.6% in 1962 and 3.4% in 1961. The rate of growth of population is 3%. The continued increase in the rate of growth of the GNP was due to rising exports and increasing manufacturing activity.

The external public debt outstanding at the end of 1963 was approximately \$116 million, compared with \$122 million at the end of 1962. Interest and amortization payments were equal to 14% of export earnings in 1963 and are projected to decline to about 5% by 1967.

The current account deficit was \$2 million in 1962, with a surplus of the same size in 1963; a small deficit is forecast for 1964. The strength of the Balance of Payments was reflected in an appreciation of the Sucre on the free market, and an inflow of private capital.

The cost of living increased by 3.6% in 1963, compared with 1.8% in 1962 and almost 5% in 1961; this was largely due to shortages in food supplies, a factor which has continued to raise food prices in 1964. Wages and salaries rose by 7% in 1963, so that real wages increased about 3%, the first increase for two years.

The central fiscal problem continues to be the dispersion of public financial resources among many autonomous enterprises (regardless of the priority of their investment) and the consequent relatively weak Central Government position. In 1963 savings of the public sector as a whole increased while investment fell by 16%; as a result the overall deficit fell from 366 million sucres in 1962 to an estimated 60 million sucres in 1963. This net deficit arises from the Central Government's deficit (which fell from 255 million sucres in 1962 to 159 million in 1963) offset by a surplus in the rest of the Public Sector. The Central Government has an acute liquidity problem because it cannot obtain the use of these surpluses. A series of reforms (including the concentration of tax funds in a national highway fund) aim at giving the Government more control over public financial resources.

EL SALVADOR

CONFIDENTIAL
August 26, 1964

EL SALVADOR

BRIEFING PAPER

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JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 11, 1964

Time: 4:00 - 4:30 p.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Francisco Aquino	(F-B) (Gov.)	President, Banco Central de Reserva de El Salvador
Abelardo Torres	(B) (Alt.)	Minister of Economy
Roberto Hill	(F) (Alt.)	Director, Banco Central de Reserva de El Salvador
Walter Beneke		Adviser to Delegation, Ambassador of El Salvador to Japan
Roberto Daglio		Adviser to Delegation

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations, including Bank/IDA lending prospects:

(i) Bank loans made since July 1, 1963:

<u>Date</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>
Oct. 1/63	Administracion Nacional de Telecomunicaciones	Telecommunications development	\$9.5 million

(ii) Major problems:

None.

(iii) Loans presently under consideration:

None. However, the Government has approached the Bank for assistance in the fields of agriculture and education. The Bank has requested UNESCO to send a project identification mission for education to El Salvador in the near future, if possible by November 1964.

(b) Topics to be raised by us:

1. Telecommunications: We might inquire about the status of El Salvador's approval of the Convention for the Central American Telecommunications Company and, if it is being delayed, urge that it be expedited.
2. 9% Capital: We might inquire about the status of the unreleased portion of El Salvador's 9% capital subscription. The delegation may explain that El Salvador would be willing to release the 9% on condition that purchases be limited to those from Central America and Mexico. The Bank might indicate that a release with such a limitation would be of very little value to the Bank and request that the problem be reconsidered on the basis of an unrestricted release.

(c) Topics likely to be raised by delegation:

The delegation may press for an early favorable decision by the Bank on ANTEL's request to proceed with the second

stage of its telecommunications development program.

The Bank might indicate that when the first stage development has progressed to a point where a reasonably firm estimate of its cost is available, the Bank would send a mission to appraise the program.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Year of Loan	Borrower	Purposes	Amount (equivalent in \$ million)
1949	Comision del Rio Lempa	Electric power development	12.5
1954	Republic of El Salvador	Coastal highway project	11.1
1959	Republic of El Salvador	Highway construction	5.0
1959	Comision del Rio Lempa	Electric power development	3.0
1960	Comision del Rio Lempa	Electric power development	3.84
1963	Comision del Rio Lempa	Electric power development	6.0
1963	Administracion Nacional de Telecomunicaciones	Telecommunications development	9.5
		Total (net of cancellations and refundings) of which has been repaid	50.4 ^{1/} <u>12.4</u>
		Total now outstanding	38.0
		Amount sold of which has been repaid	2.0 1.6
		Net amount held by Bank	<u>0.4</u> 37.6

^{1/} Includes \$6.0 million not yet disbursed.
Includes \$9.5 million not yet effective.

(b) IDA Credits as of July 31, 1964

Date	Borrower	Purpose	Amount (equivalent in \$ million)
Nov. 2/62	Republic of El Salvador	Highway construction and improvement	8.0 ^{2/}

^{2/} Includes \$7.5 million not yet disbursed.

August 10, 1964

(c) Disbursement Problems:

None.

(d) Technical Assistance Activities:

Studies on long-term telecommunications development were carried out by French experts as part of the U.N. Special Fund Central American Telecommunications Study, for which the Bank was Executing Agency. The study was completed in March 1964.

(e) 9% Capital Subscription:

\$180,000 released and lent in dollars. \$783,000 not yet released. Early this year, Mr. Aquino, President of the Central Bank, indicated that he was in principle agreeable to release the latter amount. Subsequently he indicated his desire to coordinate the policies of the Central American countries on the matter and alluded to the possibility of a release conditional upon its use for purchases in Central America and Mexico only. No discussions or correspondence have since been undertaken on the matter.

(f) Holdings of World Bank Bonds:

\$600,000.

(g) I.F.C.:

IFC made an investment in a textile plant (\$140,000) which has been sold. There are no active applications.

(h) I.D.A.:

Member. We do not propose to approach El Salvador for release of its 90% local currency subscription.

(i) Access to Private Capital Markets:

Not applicable.

V. POLITICAL SITUATION

President Julio Rivera of the Partido de Conciliacion Nacional (National Conciliation Party) assumed office on July 1, 1962, for a term of five years. The President holds middle-of-the-road views and advocates moderate social and economic reforms.

VI. ECONOMIC SITUATION

Population: 2.7 million

GNP per capita: U.S. \$250

After a halt in the growth of GNP in 1958, due to a decline in the value of coffee exports, the economy of El Salvador resumed its growth as a result of growing exports. GNP averaged an annual 7.5% average growth rate in 1960-63. This has been achieved despite the slow growth of coffee exports. Total exports rose from \$103 million in 1960 to \$154 million in 1963, mainly as a result of cotton exports and rapidly growing exports of manufactures to other Central American countries (which accounted for about \$25 million in 1963). Industrial production for the Central American market has continued to be a dynamic element in the economy.

With the recent rise in exports, the economy of El Salvador is booming. There has been an increasing inflow of foreign private capital. The banks are increasing their excess of liquid funds, which the authorities are endeavoring to channel into productive uses.

The fiscal position of the central government, which improved markedly in 1963, is likely to be further strengthened with these developments. For the next two years or so, therefore, El Salvador would be able to support a level of public investment substantially larger than in previous years with only a small amount of additional external borrowing.

El Salvador's low debt service for 1964 (about 5% of 1963 export earnings) leaves it an ample margin to incur additional external debt on conventional terms.

CONFIDENTIAL
August 26, 1964

GUATEMALA
BRIEFING PAPER

DECLASSIFIED
JUL 06 2016
WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 8, 1964

Time: 4:00 - 4:30 p.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Carlos E. Peralta Mendez	(B) (Gov.) Minister of Economy
Arturo Perez-Galliano	(F) (Gov.) President, Banco de Guatemala
Jorge Lucas Caballeros Mazariegos	(B) (Alt.) Minister of Finance
J. Francisco Fernandez Rivas	(F) (Alt.) Manager, Banco de Guatemala
Manuel Rubio-Sanchez	Adviser to Delegation, Chief of Public Relations, Banco de Guatemala
Jorge Gonzalez del Valle	Adviser to Delegation, Director of Economic Research, Banco de Guatemala
Jorge Papadopolo	Adviser to Delegation
Emilio Peralta	Adviser to Delegation

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of relations, including Bank/IDA lending prospects

(i) Loans and credits since July 1, 1963:

None.

(ii) Major problems in executing existing loans:

The Bank's only loan to Guatemala was for highway construction and maintenance. Maintenance has been inadequate. Within the last year, however, increasing attention has been given to this problem and it is understood there has been appreciable improvement.

(iii) Loans presently under consideration:

None.

(b) Topics to be raised by us:

1. Economic Mission: The delegation should be told that we propose sending an economic mission as soon as possible (November 1964?) to update the latest report (dated December 1962).
2. Telecommunications: We might inquire about the status of the Guatemalan approval of the Convention for the Central American Telecommunications Company and, if it is being delayed, urge that it be expedited.
3. Nickel Mining Project: The Government has shown much interest in a nickel mining project (total investment \$50 million) sponsored by International Nickel of Canada. A Bank loan could conceivably be made to EXMIBAL, a subsidiary of International Nickel, with the guarantee of the Government. Such a guarantee has been a controversial subject in Guatemala and no request has been submitted to the Bank for the financing of the project. We might mention this subject very casually and see whether there is any willingness on the part of the delegation to discuss it further.

(c) Topics likely to be raised by delegation

Lending Prospects: Power. On July 2, 1964 Mr. Woods informed the Chief of Government, Col. Enrique Peralta Azurdia, that since there now seemed to exist a reasonable hope for a favorable solution of the external debt problem, the Bank would be

August 11, 1964

willing to proceed with steps preliminary to the resumption of Bank loan operations. Subject to the receipt of satisfactory information from the Instituto Nacional de Electrificación (INDE), the Bank would be prepared to send a technical mission to Guatemala to review INDE's power expansion program and to study possibilities of Bank financial assistance for power projects. The information requested was received in late July. INDE seems to have departed considerably from the recommendations of the UN Power and Irrigation study. In order to avoid misunderstandings in the future and to learn more about projects now under consideration by INDE as well as about INDE's long-term intentions, we plan to send a technical mission to Guatemala in late September. At present there is no power project ready for appraisal. We would also look into irrigation projects, in the light of the recommendations of the Power and Irrigation Study.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964:

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1955	Guatemala	Roads	18.2
	Total (net of cancellations and refundings) of which has been repaid		18.2 <u>7.1</u>
	Total now outstanding		11.1
	Amount sold of which has been repaid	0.6 0.58	<u>0.02</u>
	Net amount now held by Bank		11.08

(b) IDA Credits as of July 31, 1964:

None.

(c) Disbursement problems:

None.

(d) Technical Assistance Activities:

1. The resident advisory mission (Deriaud and Parker) which took up its duties in March 1963 was terminated, by mutual agreement, at the end of February 1964. The effectiveness of the mission was hampered by the change in Government (March 1963), Guatemalan feeling concerning the Bank's position on the sterling debt and the illness of Mr. Deriaud (who died in February 1964.)

2. The final report on the Power and Irrigation Study carried out under a United Nations Special Fund grant was submitted to the Special Fund on December 31, 1963.

(e) 9% Capital Subscription:

\$720,000 of which \$360,000 has been released and lent in dollars. We should not press for release of the balance at this time.

(f) Holdings of World Bank Bonds:

None.

(g) I.F.C.:

Member. IFC made an investment of \$200,000 in a flour milling project in Guatemala which has been sold. There are no active applications

(h) I.D.A.:

Member. We do not propose to approach Guatemala for release of 90% local currency subscription.

(i) Access to Private Capital Markets:

Not applicable.

V. POLITICAL SITUATION

The present military Government headed by Col. Enrique Peralta Azurdia seized power on March 31, 1963. The Government, which has been recognized by most foreign Governments, provides more stability and better administration to the country than the previous one.

A Constituent Assembly was convened in July 1964 to:

- (a) elect the present Chief of Government President of the transitional Government,
- (b) review and validate legislation passed on a decree basis by the present Government,
- (c) draft a new constitution.

It is unlikely that a new President will be inaugurated for at least another year.

The military Government, which has been and is considering itself as a caretaker government only, has not been particularly innovative in any except the political field, but has put into effect certain economic policies devised under previous administrations, especially with respect to taxes. No clear policy pronouncements of major significance can be expected before a new civilian government takes over.

VI. ECONOMIC SITUATION

GNP per capita 1963: about \$190
Population: 4 million

1. From 1957 to 1962, the Guatemalan economy suffered a virtually continuous stagnation, largely due to low world coffee prices. Starting in 1963, the economy has been making a strong recovery, paced by growing cotton exports and a rapid increase in industrial production.

2. After the difficult fiscal situation of the previous two years - during which substantial short- and medium-term foreign borrowing took place to cover current expenditures - the fiscal situation in fiscal 1963/64 (ending June 30, 1964) represents a strong improvement, with revenues up 20% over the 1962/63 level as a result of the economic recovery and new taxes passed in July 1963. The improved fiscal position should enable the Government to step up the rate of public investment, which fell in recent years. Before this can be done, however, the necessary project studies will have to be prepared.

3. Guatemala's external debt service for 1964 and 1965 is fairly high, at about 10% of 1963 export earnings of \$145 million. Beyond 1965, debt service falls rapidly to less than 4% of 1963 export earnings. Guatemala can be considered creditworthy for Bank loans.



HAITI

CONFIDENTIAL
August 11, 1964

HAITI

BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 8, 1964

Time: 4:30 - 5:00 p.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of relations, including Bank/IDA lending prospects

(i) Amounts loaned since July 1, 1963

None.

(ii) Major problems on existing loans:

1. \$2.6 Million (Highway Maintenance) Loan of May 7, 1956:
On December 17, 1963 the amortization schedule of this loan was revised. Semi-annual instalments will be about \$125,000 (down from about \$250,000). The final maturity was postponed from January 1, 1967 to July 1, 1971. The Haitians have paid the amounts due January 1 (interest only) and July 1, 1964 without delays.
2. \$2.6 Million (Highway Maintenance) Loan of May 7, 1956 and \$350,000 (Interim Highway) Credit of November 2, 1962:
Performance on both the Bank loan and IDA credit has not been satisfactory, both as far as the Government and the "Service" in charge of road maintenance are concerned. The Government has been slow in allocating the 260,000 gourdes (\$52,000) which were considered to be the monthly budget contribution necessary to assure normal maintenance operations. Recently the situation has worsened, and over the period March-June 1964, the Service received only an average of \$8,000 per month from the Government. In 1963 there was also large scale diversion of equipment for other purposes.

(iii) Loans presently under consideration

None.

(b) Topics to be raised by us:

Highway Project: In January 1963 we received a letter from the Secretary of State for Finance requesting IDA to finance a highway construction and rehabilitation program. The request was turned down with the explanation that IDA resources were very limited and that arrangements for their replenishment were still under way. In early July 1964 a Haitian delegation headed by Mr. Beauvoir, director of the Service, visited the Bank to request an IDA credit for the construction and rehabilitation of roads located mainly in the Southern peninsula. This includes 374 kms of roads which were to be included in a project under consideration by IDA early in 1962, which was subsequently dropped. The total cost of the new project would be \$18 million.

Our position, as already outlined to the Haitians in a meeting on July 7 between the Beauvoir delegation and Messrs. Machado and Alter, should be as follows:

1. We should express our concern about the still outstanding claims by US Government agencies (DLF and Exim Bank); see also economic section.
2. We would have to make a new assessment of the country's IDA-worthiness (the last economic report was written in 1961). We would not be able to send an economic mission before the end of the year.
3. We would have to be satisfied that the the Service is functioning reasonably well and road maintenance is adequate.
4. We should caution the delegation against any excessive hopes about the size of IDA funds that would be likely to come forward.

(c) Topics likely to be raised by delegation

None, except that delegation may raise topic under (b) first.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1956	Republic of Haiti	Highway Maintenance and Rehabilitation	2.6
Total (net of cancellations and refundings) of which has been repaid			2.6 <u>1.0</u>
Total now outstanding			1.6
Amount sold		0.386	
of which has been repaid		0.386	<u>0.0</u>
Net amount now held by Bank			<u>1.6</u>

(b) IDA credits as of July 31, 1964

Date	Borrower	Purpose	Amount (equivalent in \$ million)
1962	Republic of Haiti	Interim Highway Project	.35

(c) Disbursement problems

None.

(d) Technical Assistance Activities

Following a technical assistance grant of \$130,000 made by the Bank in 1961, two firms of consultants (Gibb and Partner of Toronto and Buckley of New York) were engaged to study the reconstruction and reorganization of the port of Port-au-Prince. The Buckley contribution was delayed considerably; the complete report was finally sent to Haiti on September 30, 1963. No action has been taken yet on the report, but the Haitians continue to be interested in a port project.

(e) 9% Capital Subscription

No release; it would not be realistic to press for a release now.

(f) Holdings of World Bank Bonds

None.

(g) I.F.C.

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

(h) I.D.A.

Member. We do not propose to approach Haiti for release of 90% local currency subscription.

(i) Access to Private Capital Markets (where appropriate)

None.

V. POLITICAL SITUATION

In May 1963 President Duvalier, after having made use of an ingenious electoral procedure, began his second six-year term, assuming the title of "Chief of the Revolution."

On May 27, 1964 the National Assembly ratified the decree providing a life-term for Dr. Duvalier. This was subsequently confirmed by a popular referendum.

The Duvalier regime is likely to stay in power for the foreseeable future. Most policies are subordinated to the self-preservation of the regime.

VI. ECONOMIC SITUATION

GNP per capita: about \$60
Population: 3.5/4 million

1. Haiti is the poorest and one of the most densely populated countries in the Hemisphere. Since the mid-fifties, its national income has steadily declined. In the last two years the situation has deteriorated considerably as the result of the disturbed political environment. Tourism, a sizeable foreign exchange earner, has virtually stopped; the virtual cessation of foreign aid put a halt to virtually all public investment activity.

2. In October 1963, Haiti was battered by Hurricane Flora. A third of the coffee crop was destroyed or damaged. Higher world coffee prices, however, are likely to lead to total export earnings of \$45 million or so in 1964 compared with an average of \$40 million for the last two years. There are signs of a slight revival in the economy: sugar production is being expanded, and imports are rising somewhat from their unusually depressed recent level.

3. Haiti's debt service record is not satisfactory: at present, payments to the Eximbank and to DLF have not been met for the last year, although there are signs that the Haitians are now willing to talk to these agencies about a possible settlement. Haiti's debt record and the generally poor performance of the public sector make it difficult to consider it IDA-worthy unless substantial improvement in these fields occurs. At the end of 1963, a special debt service fund was established with assigned tax revenues to meet debt service, even if on a reduced scale, on most debts. The defaults on the external debt continue, however.

CONFIDENTIAL
August 26, 1964

HONDURAS

BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 8, 1964

Time: 5:00 - 5:30 p.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Edgardo Dumas Rodriguez (B) (Gov.) Minister of Economy and Finance

Roberto Ramirez (F) (Gov.) President, Banco Central de Honduras

Guillermo Bueso (F) (Alt.) Chief, Department of Economic Studies,
Banco Central de Honduras

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations, including Bank/IDA lending prospects:

(i) Bank loans and IDA credits made since July 1, 1963:

None.

(ii) Major problems in executing existing loans:

\$8.8 million (Canaveral Hydroelectric Project) Loan of June 1960 to ENEE:

The accumulation of Government arrears on its payments due to the Empresa Nacional de Energia Electrica (ENEE) continued to hinder the effective operation of the latter. Four letters were written to the Government on the subject and an early settlement was pressed on several occasions by Bank missions. Although the Minister of Finance has promised to review the matter, no specific results have been obtained to date.

(iii) Loans presently under consideration:

The following three projects are presently under consideration for financing by the Bank. None of them have been presented for SLC consideration as yet.

<u>Purpose</u>	<u>Tentative Amount</u>	<u>Status</u>	<u>Tentative Dates for Negotiations</u>
Expansion and improvement of port at Puerto Cortes	\$ 4.5 million	Bank awaiting establishment of autonomous port authority before proceeding with consideration of loan.	September, 1964
Construction and improvement of Northern Highway	\$12.0 million	Feasibility report being reviewed by Bank.	October, 1964
Honduras/El Salvador power interconnection project	\$ 9.0 million	Feasibility report under review by ENEE and CEL (El Salvador)	December, 1964

August 11, 1964

(b) Topics to be raised by us:

1. \$8.8 million (Canaveral Hydroelectric Project) Loan to ENEE:

The Bank might reiterate to the delegation its serious concern about the Government's arrears to the Empresa Nacional de Energia Electrica (ENEE) and strongly press for a permanent and satisfactory solution thereof.

2. Telecommunications: The Bank might inquire about the status of Honduras' approval of the Convention for the Central American Telecommunications Company and, if it is being delayed, urge that it be expedited.

(c) Topics likely to be raised by delegation:

The delegation might inquire about the expected dates of negotiations for the financing of the projects presently under consideration. The Bank might give tentative indications along the lines of (a) (iii) above.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Year of Loan	Borrower	Purposes	Amount (equivalent in \$ million)
1955	Republic of Honduras	Highway maintenance	4.2
1958	Republic of Honduras	Highway construction and improvement	5.5
1959	Empresa Nacional de Energia Electrica	Electric power development	1.45
1960	Empresa Nacional de Energia Electrica	Electric power development	<u>8.8</u>
Total (net of cancellations and refundings) of which has been repaid			19.9 ^{1/} <u>4.9</u>
Total now outstanding			15.0
Amount sold		1.4	
of which has been repaid		1.4	<u>0.0</u>
Net amount now held by Bank			15.0

^{1/} Includes \$0.2 million not yet disbursed.

(b) IDA Credits as of July 31, 1964

Date	Borrower	Purpose	Amount (equivalent in \$ million)
May, 12/61	Republic of Honduras	Highway development and maintenance	9.0 ^{2/}

^{2/} Includes \$4.5 million not yet disbursed.

(c) Disbursement Problems:

None.

(d) Technical Assistance Activities:

1. On request of the Government, the Bank assigned Mr. C. J. Thomas as economic advisor in April 1963. His assignment was concluded in April 1964.

2. Studies on long-term telecommunications development were carried out by French experts as part of the U.N. Special Fund Central American Telecommunications Study, for which the Bank was Executing Agency. The study was completed in March 1964.

(e) 9% Capital Subscription: (\$540,000)

Entire 9% released and lent in dollars.

(f) Holdings of World Bank Bonds:

None.

(g) I.F.C.:

IFC (with other participants \$100,750) has made an investment of \$350,000 in a leather tanning project in Honduras. There are no active applications.

(h) I.D.A.:

Member. We do not propose to approach Honduras for release of its 90% local currency subscription.

(i) Access to Private Capital Markets:

Not applicable.

V. POLITICAL SITUATION

Col. Oswaldo Lopez Arellano has been Chief of Government since the military coup of October 3, 1963. For March 1965, elections are scheduled for a Constituent Assembly, which is expected to undertake a revision of the Constitution and decide the date for Presidential and Congressional elections.

The political situation under Col. Lopez' Government has been quiet. No far-reaching social reforms have been undertaken. The business community has confidence in the Government. The Government has pursued a conservative budgetary policy.

VI. ECONOMIC SITUATION

Population: 2.1 million
GNP per capita: U.S.\$200

After several years of stagnation, the economy of Honduras in 1962 made a noticeable recovery which has continued to the present time. Good economic management by the public sector (especially the Administration from 1957 to 1963), the recovery of banana production, and a substantial increase in industrial production accounted for this awakening.

In recent years, Central Government revenues have not kept up with the growth of the economy, but Honduras' fiscal effort has improved somewhat in 1963. The new Government recently introduced a new excise tax: this and other tax measures are likely to lead to an increase in tax revenue of over 10% in 1964.

Honduras has sizeable capital requirements for high-priority projects in the immediate future. Among these are the Puerto Cortes, the North Road and Power Interconnection (to El Salvador) projects, which will represent total expenditures of some \$40 million for Honduras. Honduras' external debt service is low (for 1963 it was \$2.5 million or 3% of export earnings, and will remain at this level for the next few years). However, since public sector capital requirements are large relative to present and prospective domestic financial resources, it is desirable that part of these requirements be financed on extended amortization terms, or in the form of a blend of conventional and "soft" IDA-type terms.

MEXICO

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JUL 06 2016

WBG ARCHIVES

CONFIDENTIAL

August 19, 1964

MEXICO

BRIEFING PAPER

I. MEETING WITH DELEGATION

Date: September 10, 1964

Time: 11:00 a.m. - 11:40 a.m.

Attended by:

Management: Mr. Woods
Mr. Knapp
Mr. Cope

Staff: Mr. Alter
Mr. Schmidt
Mr. de Vries

II. MEMBERS OF DELEGATION (to be confirmed)

Antonio Ortiz Mena	Minister of Finance
José Hernandez Delgado	Director General, Nacional Financiera
Alfredo Navarrete	Subdirector, Nacional Financiera
Javier Marquez	Director, Centro de Estudios Monetarios Latinoamericanos
Juan Gallardo Moreno	Coordinator, Alliance for Progress
Francisco Ruiz de la Pena	Chief, Department of Various Deposits, Nacional Financiera
Victor L. Urquidi	Consultant, Banco de Mexico, S.A.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations since July 1, 1963, including Bank/IDA lending prospects:

(i) Bank Loans and IDA Credits since July 1, 1963:

Date	Borrower	Purpose	Amount (\$ million)
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Loans:

Sept. 20, 1963	Nacional Financiera	Federal highways	40.0
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Credits:

None.

(ii) Major problems in executing existing loans:

None.

(iii) Loans presently under consideration:

At an SLC meeting in July, 1964 the following lending program was approved for consideration by the Bank:

Purpose	Amount (\$ million)	Status	Tentative Date for Negotiations
Toll roads	30	Appraisal mission scheduled for Sept.	open
Electric power	150)		
Federal highways	20)	Action awaiting receipt of studies and completion of financial planning.	open
Irrigation	open)		
Agricultural credit	open)		

The SLC approved a total lending program of \$400-450 million. In addition to above projects Mexican Government also desires Bank financing of a water and sewerage project in the Mexico City area. The possibility of Bank consideration of this project is still open. We have informed the

Mexican Government (in a meeting of Alter and the Finance Minister) of the Bank's readiness to consider projects in the five fields listed above and of the Bank's readiness now to consider up to 50% financing of the electric power, toll roads and Federal highways projects if the Government begins to take measures agreed to earlier to raise revenues by some 1.2 billion pesos in 1965.

(b) Topics to be raised by us:

(i) Mexican Plans for Increasing Governmental Revenues

The Government has been planning actions by the end of 1964 to increase government revenues by 1.2 billion pesos beginning in 1965, as summarized in VI below. In July the Minister of Finance told Bank's staff that action on one of the major revenue measures, an increase in the electric power tax, would have to wait until the new Government took office in December, 1964. He indicated that the out-going Government would, however, initiate other measures which would yield at least 1.2 billion pesos annually. We should inquire into the Government's plans for raising revenue. We should indicate that the Bank's attitude toward cost-sharing and therefore the future amount of such lending will be affected by Mexican progress in raising additional domestic revenue from non-inflationary sources, as well as on restraint in increasing short- and medium-term external debt.

(ii) Status of Projects for Bank Financing

Of the five projects listed above the toll roads submission was received in late July. We should ask for the summary of the status of other projects, particularly for agricultural credit and electric power. A summary of status of various projects in July, as reviewed by a Bank mission, follows for background:

- (a) Agricultural credit - General agreement existed among Mexican officials that external financing was needed for priority credit programs. The major outstanding problem was a difference of opinion between the Minister of Agriculture, who strongly favored the lending to farmers through the two official banks, and the Finance Minister, who favored the lending through the commercial banks. The Finance Minister indicated in July that we could expect to receive within two

July 31, 1964

to three months a detailed agricultural credit program for external financing, with full supporting studies, and a precise description of the Government's preferred channel for relending to farmers.

- (b) Electric power - The main outstanding problems are the need to increase power sector revenues and extend the average maturity of the sector's very burdensome short period indebtedness. In January, 1964, the Finance Minister said the present Government would act to increase the power tax from the present rate of 10% to 20% before November 30, 1964, when its term ends. He indicated in July, however, that this is no longer possible politically. His present plan is to have the necessary legal and administrative action to increase revenues taken by the outgoing government, for implementation in the early months of the new Government, and to take measures during 1964 to refinance the sector's short-period debt. He also plans to prepare the way for the new Government to consolidate Mexlight and CFE and its affiliates institutionally. The Minister understands the Bank will not consider new lending for power without a satisfactory sector-wide financing plan.
- (c) Irrigation - A schedule for submission of project studies to the Bank, prepared by the Ministry of Hydraulic Resources in July, indicated that the first of a series of six irrigation projects would be sent to us in October and that the remaining projects would be submitted over the period December 1964 - May 1965.
- (d) Federal Highways Program - We should not expect to receive this program before the new Government has had time to review it.
- (e) Mexico City Water Supply and Sewerage - The Finance Minister indicated that the Government still desires Bank financing of this project and that the study would be sent to us upon completion of a review by a technical commission.
- (iii) Reports on progress of investment plan and its financing

We should emphasize to the Finance Minister the importance of periodic updating of the Mexican development program to take account of changes in the economic, fiscal, balance of payments situation and the progress of the investment program.

Without continuous reporting we would be unable to document the continuing reasonableness of the overall financing plan and therefore soon be unable to justify continued Bank financing of some portions of the local currency costs of recommended projects.

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

(i) Timing of market issue

The Finance Minister may inquire regarding the possibility of coordinated timing of a market issue of Mexican bonds and the next Bank loan, which is likely to be for toll roads late in 1964. In discussions in July he was definitely interested in this approach as a means of helping to strengthen the market for the Mexican issue which has been planned by the end of 1964. If he does not raise the question, we should inquire regarding the status of planning for the next market issue and its possible timing in relation to a Bank loan.

IV. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1964:

Total (net of cancellations and refundings)		439.3	<u>1/</u>
of which has been repaid		56.6	
		<hr/>	
Total now outstanding		382.7	
Amount sold	29.0		
of which has been repaid	18.0	11.0	
		<hr/>	
Net amount now held by Bank		371.7	<hr/> <hr/>

1/ Includes \$113.7 not disbursed.

Loans made since July 1, 1962:

Date	Borrower	Purpose	Amount (\$ million)
1963	Nacional Financiera	Irrigation	12.5
1963	Nacional Financiera	Highways	40.0

(b) IDA Credits as of July 31, 1964:

None.

(c) Disbursement Problems:

No serious obstacles currently exist.

(d) Technical Assistance Activities:

Early in 1963, in response to a request by the Mexican Government, a Bank mission visited Mexico for two months to appraise the Government's development plans for the next few years. The report

July 31, 1964

of this mission was reviewed with the Mexican Government in January, 1964 and amended to incorporate its comments and changes indicated by the passage of time. The report was distributed to the Executive Directors and to key Mexican officials in July, 1964.

(e) 9% Capital Subscription (\$15.6 million)

All released in dollars.

(f) Holdings of World Bank Bonds

\$41.85 million.

(g) I. F. C.

IFC (with other participants \$7,754,370) has made seven investments in Mexico two of which have been sold. The other five include an aircraft engine overhaul plant (\$520,000), a steel mill (\$1,127,302 purchase of shares and an underwriting commitment of \$9,194,856 equivalent of shares issued or to be issued), a sodium sulphate plant (\$750,000), a steel pipe plant (\$250,000 purchase of debentures and a standby commitment of \$750,000 of debentures issued) and a construction and industrial equipment plant (\$1,601,281).

Development Finance Companies

There have been discussions between IFC and Intercontinental S.A. about the possibility of an IFC equity participation in the capital stock of Intercontinental. IFC expects soon to receive data bringing up to date information on Intercontinental.

(h) I. D. A.

Member.

We should ask Mexico to consider release of 90% local currency subscription (\$7,866,000).

(i) Access to Private Capital Markets

A Government bond issue of \$40 million was floated in July, 1963, the first in many years, and a further issue of \$25 million was floated in April, 1964. The underwriters were The First Boston Corporation and Kuhn Loeb & Co. A third issue is being considered for the latter part of 1964.

V. POLITICAL SITUATION

President Lopez Mateos' six-year term expires on December 1, 1964. The President-elect, Mr. Diaz Ordaz (of the ruling Institutional Revolutionary Party (PRI)) stands practically at the middle of the political spectrum, and is expected to continue supporting the basic economic policies and the gradual social reforms under which Mexico has shown such steady progress.

VI. ECONOMIC SITUATION

Population: over 38 million in mid-1963.

GNP per capita: US\$340 equivalent.

The rate of economic growth showed a substantial recovery in 1963, rising by 6% in real terms after declining to 4-5 per cent during 1957-62. Prospects are favorable for a continued increase in GNP of around 5-6 percent annually.

With a view to assuring the continuation of the rapid rate of economic growth that has been characteristic of Mexico, the Government is planning new public investment expenditures at an annual rate of Ps. 13.5 billion (about US\$1.1 billion equivalent) during 1964-65 compared with 10.4 billion in 1962 and 12.4 billion in 1963. The Bank mission which appraised Mexico's public investment program came to the conclusions that (a) this investment level is fully justified from an economic point of view; (b) that it is technically feasible; and (c) a satisfactory financing plan for these investments could be developed with reasonably modest increases in public savings.

The Mexican Government has indicated that it plans to reduce its dependence on borrowing to finance the proposed program by initiating before the end of the current year tax and price increases which would raise public savings by approximately Ps. 1.2 billion annually beginning in 1965. With these additions, the total domestic contribution to the financing of public investment in 1965 would reach 71%, including public sector use of domestic bank credit. On this basis, external financing of the 1964-65 program would need to total US\$350 million equivalent per year. The necessary disbursements in 1964 would be mainly under loan commitments already made. Official borrowing totalling \$400 million annually would be needed for direct expenditure by public agencies in 1965 and subsequent years and for relending to the private sector.

At the end of 1963, Mexico's total external public debt amounted to about \$1.6 billion, including some \$400 million still undisbursed. Service on this debt will be about \$300 million in 1964, equivalent to slightly less than 17% of total current account exchange receipts. On the basis of the conservative projection of exchange earnings (4% per annum growth), Mexico could borrow as much as \$400 million per year gross for the next six or seven years without exceeding the present debt service ratio, provided that the bulk of this borrowing were obtained at fairly long term.

There are risks in a borrowing pattern by which Mexico would increase its external public indebtedness by extending the average maturity of its present external debt, which is relatively short, without reducing its present relatively high annual debt service obligations in the process. But the risk appears to be a reasonable one. Devoting 16-17% of exchange earnings to external debt servicing has not yet created any financial problems for Mexico. With continued prudent financial policies and a good investment climate, a debt burden of this magnitude should be sustainable, even in the face of temporary unexpected financial adversity. Furthermore, the dynamism of Mexico's entrepreneurs is well established, and the prospects for rapid expansion of private investment are good. If the Government realizes its intentions to increase public savings by at least Ps. 1.2 billion in 1965, domestic borrowing by the Government can be reduced substantially below present levels in 1965, thus giving the private sector enlarged access to bank credit to finance expansion plans without inflationary effects.

Biographical Notes of Members of the Mexican
Delegation

- Antonio Ortiz Mena: As Minister of Finance has been the key official in the Mexican Government concerned with economic development policies and programs. Was highly cooperative in the work of the Bank's appraisal mission.
- José Hernandez Delgado: Director-General of the Bank's co-borrower on all loans to Government and official agencies.
- Alfredo Navarrete: Assistant Director, Nacional Financiera; particularly responsible for its industrial investment policies; well-known and helpful to Bank staff.
- 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.

NICARAGUA

CONFIDENTIAL
August 25, 1964

NICARAGUA

BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 10, 1964

Time: 9:30 - 10:00 a.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

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

Francisco J. Lainez (F) (Gov.) President, Banco Central de
Nicaragua

Federico E. Lang (F) (Alt.) President, Banco Nacional de
Nicaragua

Andres Garcia (B) (Alt.) Minister of Economy

Alfonso Ortega Urbina Adviser to Delegation, Minister
of Foreign Affairs

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of relations, including Bank/IDA lending prospects

(i) Bank Loans and IDA Credits since July 1, 1963

None.

(ii) Major problems on existing loans

\$2.6 million (Rivas irrigation) loan of March 1, 1963:

We have not yet succeeded in recruiting a qualified agricultural and research director who is to play a key role in the execution of the project. The agricultural director is to be hired through U.N.-OPEX.

(iii) Loans presently under consideration

None.

(b) Topics to be raised by us

1. We might express our satisfaction about the release in dollars of the 9% capital subscription, and inquire, if no confirmation about the proposed arrangements for the release has been received, whether the confirmation can be expected soon; see (IV-e).
2. Possible irrigation project: A number of irrigation projects were mentioned to the Bank at the beginning of this year. The Bank agricultural mission which visited Nicaragua in late May identified one project in Tuma Viejo for which we have proposed a full-fledged feasibility study. We are exploring possibilities of FAO technical assistance for the feasibility study. The study of long-term irrigation possibilities could be made the subject of a U. N. Special Fund study.
3. Livestock projects: Projects are being prepared for our consideration by the National Development Institute (INFONAC) (total cost \$2.4 million, foreign exchange component \$1.2 million) and by the Banco Nacional (total cost about \$7 million, with a foreign exchange cost of only about \$1.5 million). While the INFONAC project study will not be ready before the end of the year, the Banco Nacional study is nearing completion. Two Bank missions visiting Nicaragua in 1963 and

August 11, 1964

in June 1964 expressed interest in these projects, but urged that we be given an integrated program; we would not consider separate loans. Recently some friction seems to have developed between the Banco Nacional and INFONAC which would make cooperation between the two institutions difficult. We know that both projects are under preliminary consideration by the IDB also. IDB has had two technicians stationed in the Banco Nacional for the last year and has already made a \$1.2 million loan for livestock to INFONAC.

We should inquire whether the Government still wants the Bank to take an interest in these projects. During a recent conversation at the Bank, Mr. Sacasa, General Manager of INFONAC, maintained that both livestock projects would be presented to the Bank by the end of the year.

4. Telecommunications: We might inquire about the status of the Nicaraguan approval of the Convention for the Central American Telecommunications Company and, if it is being delayed, urge that it be expedited.
5. Feeder roads: A transportation mission visiting Nicaragua in June 1964 identified two feeder road projects, one in the Matagalpa area (495 kms), the other in the cotton-growing Chinandega area (70 kms). Total cost would be between \$10 and \$12 million, with a foreign exchange cost not established yet. We have advised the Nicaraguans on further project preparation.
6. Power: We might inquire about the status of the feasibility studies for the second stage of the Río Tuma hydroelectric project.
7. Sector and Project Studies: We should stress the need for sector and project studies (as pointed out in the recent economic report on Nicaragua) and express the hope that the arrival of a US planning team financed by AID will be helpful in this connection.
8. Education: The Bank's interest in educational projects has already been communicated by the mission visiting Nicaragua in June. We might remind the delegation again of this new line of Bank activities.

(c) Topics likely to be raised by delegation

The delegation is likely to inquire about the recruitment of the agricultural director for the Rivas project. We should say that we have interviewed more than a dozen candidates but none had sufficient experience with extension problems. We are continuing our search.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Total (net of cancellations and refundings)	38.1
of which has been repaid	<u>11.9</u>
Total now outstanding	26.2
Amount sold	2.0
of which has been repaid	1.8
	<u>0.2</u>
Net amount held by Bank	26.0 <u>1/</u>

1/ Includes \$6.5 million not yet disbursed.

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1963	Republic of Nicaragua	Irrigation	2.6

(b) IDA Credits as of July 31, 1964

Date	Borrower	Purpose	Amount (equivalent in \$ million)
Sept. 7/62	Nicaragua	Managua Water Supply	3.0 <u>1/</u>

1/ Includes \$2.6 million not yet disbursed.

(c) Disbursement problems

None.

(d) Technical Assistance Activities

A Bank transportation mission which visited Nicaragua in June 1964 prepared an outline for a study to determine the feasibility of building a port on the Atlantic coast, as well as of the possibilities of transportation on Lake Nicaragua. The outline will

serve as the basis for an application to the United Nations Special Fund for a grant to cover full-fledged pre-investment studies.

(e) 9% Capital Subscription (\$540,000)

Nicaragua has agreed to release its 9% capital in twelve semi-annual instalments beginning July 1, 1964. A letter was sent to the Minister of Finance in April 1964 outlining the procedure for the release. No confirmation has yet been received from the Government.

(f) Holdings of World Bank Bonds

No holdings.

(g) I. F. C.

Member. IFC has made no investments in Nicaragua and there are no applications.

Development Finance Companies

IFC decided in December 1963 not, for the present, to invest in Corporación Nicaragüense de Inversiones (CNI), a private development finance company in Nicaragua which came into being on January 8, 1964, with 47 participants, including Wells Fargo Bank and a German bank. However, IFC has informed CNI that it would be prepared to consider an investment after CNI had accumulated experience and demonstrated its profitability and that in the meantime, IFC would be happy to consider joint financing with CNI of industrial projects in Nicaragua.

(h) I. D. A.

Member. We do not propose to approach Nicaragua for release of 90% subscription.

(i) Access to Private Capital Markets

Not applicable.

V. POLITICAL SITUATION

Dr. Rene Schick of the Liberal (Somoza) Party, a former Minister of Education, was inaugurated President in May 1963 for a four-year term. He is generally respected, and there is a sizeable segment of the population willing to cooperate with him who avoided any cooperation with the Somozas who continue to have a large following.

The Government is generally pursuing moderately liberal policies, especially in the social field.

VI. ECONOMIC SITUATION

GNP per capita: About \$250
Population: 1.5 million

1. In the last four years real gross domestic product has grown at an average rate of 8-9 percent a year. Exports have accounted for a major part of this growth rising from \$70 million in 1961 to about \$107 million in 1963: cotton exports were the prime mover, but there were also growing exports of minor products, such as meat, sugar, bananas, shellfish, soluble coffee and copper ore. At the same time, industrial production for the local market made a growing contribution.
2. The fiscal position of the Government has greatly improved in the last two years, with the rapid growth of revenues: a small surplus actually emerged in fiscal 1962/63, and there is a larger surplus in 1963/64. There is considerable scope for preparation of new high-priority projects in the public sector, for which a substantial amount of domestic resources are available.
3. Nicaragua's debt service in 1963 amounted to 5.6% of export earnings. The country's moderate debt service together with its favorable export prospects should enable it to meet its external capital requirements for the public sector in the next few years on conventional terms.

PANAMA

CONFIDENTIAL
August 26, 1964

PANAMA

BRIEFING PAPER

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JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

Date: September 11, 1964

Time: 9:30 - 10:00 a.m.

Staff: Mr. Alter
Mr. de Vries

II. MEMBERS OF DELEGATION

Julio E. Linares	(B) (Gov.)	Minister of Finance and Treasury
Rene Orillac	(F) (Gov.)	General Manager, Banco Nacional de Panama
Carlos F. Alfaro	(F) (Alt.)	Director, Banco Nacional de Panama
Carlos A. Velarde	(B) (Alt.)	General Manager, Desarrollo Industrial, S.A.
Federico Humbert		Adviser to Delegation
Julio Ernesto Heurtematte		Adviser to Delegation

August 11, 1964

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including Bank/IDA lending prospects

(i) Amounts loaned since July 1, 1963

None.

(ii) Major problems on existing loans

\$4 million (Central Provinces Electrification) Loan of September 14, 1962 to Instituto de Recursos Hidraulicos y Electrificacion: the La Yeguada hydroplant (foreign cost \$0.8 million) has been delayed considerably and instead of being ready in early 1965 as planned is now scheduled for 1966. This is due mainly to the amount of time taken in awarding major contracts, mainly because of Morales, Director General of IRHE, has opposed the hydroplant solution. Finally bids were asked for last May and it is expected that the contracts were to be awarded by October.

\$7.2 million (Second Road) Loan of August 19, 1960: Due to the disbursement problems listed under IV-c, we had to postpone the closing date for this loan for one year.

(iii) Loans presently under consideration: The following loan under consideration has not yet been approved by SIC.

Purpose	Amount	Status	Tentative Date for Negotiations
Road construction and maintenance	\$7 million	Studies to be ready by December 1964. See conditions under (ii-2).	2nd quarter of 1965

(b) Topics to be raised by us

- Increase in subscription: The Governors have approved, in May 1964, Panama's application for increasing its subscription from \$400,000 to \$9 million. The 1% portion of the additional subscription payable by Panama in gold or US dollars amounts to \$86,000. A letter outlining the proposed arrangements for the increase was sent to Governor Velarde on May 4, but we have had no reply. We should inquire about the status of this matter. We should not press at this time for a release of the 9% of the additional subscription.

August 11, 1964

2. Proposed Road Loan: The matter of the above mentioned new road loan is likely to be raised. In view of the contemplated new road loan (see below), we have told the Panamanians that a number of conditions would have to be fulfilled before we could consider the new loan: strengthening of the organization of CAM (the road maintenance organization); preparation of periodic progress reports; preparation of revised cost estimates and a program of action for the roads remaining under the existing loan; signing of a contract with the consultants (Brown and Root) for a study of the organization and administration of CAM, including a four-year maintenance and rehabilitation program of the road network.
3. Other Road Projects: The Panamanians have asked the Bank to consider financing a variety of roads contained in Plan Vial III. Since the relevant studies date back to 1958, they must be updated, especially with regard to cost estimates and economic benefits. We have already urged the Panamanians to start thinking about relative priorities. Mr. Lacayo discussed these questions on an end-use visit in July 1964.
4. Land settlement or general agricultural development projects: We have encouraged the Panamanians to prepare such projects in two or three of six priority areas, preferably in Alanje and Tonosi where the Bank is already financing roads.

We should indicate our willingness, subject to the receipt of preliminary project studies, to send a staff member of the agriculture division to advise on project preparation.

5. Telecommunications: We might inquire about the status of the Panamanian position with regard to the proposed Central American Telecommunications Company.
6. Economic Mission: We should advise the delegation that an economist (probably Mr. Kuczynski) will visit Panama towards the beginning of next year to prepare a new economic report.
7. Mr. Morales: Our concern about Mr. Morales, Director General of IRHE, was expressed to Mr. Samudio, head of the Planning Office, during his visit to the Bank in June. Mr. Samudio then indicated his sympathy with our position, and it seemed apparent

August 11, 1964

that Samudio agreed that especially if Bayano should become a definite possibility, it would not be possible to continue Mr. Morales at the helm of IRHE. Nothing is likely to be done on the Panamanian side until the new administration takes over in October. President-elect Robles has given verbal assurances to Habib that the necessary changes in IRHE management will be made.

We should indicate our interest in working with IRHE, but be firm in insisting that good cooperation is unlikely with a man like Mr. Morales.

(c) Topics likely to be raised by delegation

1. La Yeguada hydroelectric project: The delegation is likely to press again the issue of the financing of local currency costs. In early 1964 we received numerous letters from Mr. Morales, Director General of IRHE, informing us that the ability of IRHE to contribute toward financing the local cost of the project would be less than had been expected, and that the Government would not be able to provide more than it had committed on the basis of earlier estimates. A Panamanian loan application to AID to cover part of the local cost was turned down. We have discouraged IRHE from asking bidders to finance the local currency costs, and IRHE has finally taken our advice.

We should stress the importance of adequate local contributions to high-priority projects.

2. Bayano hydroelectric project: (120 MW for Panama City area). TOD has studied the technical aspects of the project, but questioned the cost estimate of \$60 million. The Panamanians have agreed to have the cost estimates checked by an independent consulting firm (Harza). In the meantime, no design work should be started.
3. Resident advisor: The assignment of Habib has been extended until the end of February 1965. The Panamanians are likely to ask for a further extension. In view of the variety of contemplated new operations in Panama, it would be advisable to give an initial favorable reaction to such a request, with the understanding that Mr. Habib, having stayed in Panama for about three years, might be replaced by another staff member.

IV. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1964

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1955	Republic of Panama	Roads	5.9
1960	Republic of Panama	Roads	7.2
1953	Instituto de Fomento Economico	Agriculture	1.2
1953	Instituto de Fomento Economico	Grain silos	.29
1962	Instituto de Recursos Hidraulicos y Electrificacion	Power	<u>4.0</u>
	Total (net of cancellations and refundings) of which has been repaid		18.05 <u>1/</u> <u>5.1</u>
	Total now outstanding		12.95
	Amount sold	2.3	
	of which has been repaid	1.7	<u>0.6</u>
	Net amount now held by Bank		12.35

1/ Includes \$4.3 million not yet disbursed

(b) IDA Credits as of July 31, 1964

None.

(c) Disbursement Problems

At the request of the Government, we agreed to postpone the closing date of loan 264-PAN (second road project) from May 30, 1964 to May 30, 1965. Frequent changes in the management and personnel of CAM (the highway authority), which occurred after the present administration took power in August 1960, delayed the completion of 138 kms of access roads by about one year. In 1963 heavy rains, landslides and the washing out of a bridge retarded progress on both the feeder and access roads.

August 11, 1964

(d) Technical Assistance Activities

The assignment of Bank resident advisor (Habib) has been extended until the end of February 1965. That of the advisor on land settlement (Buri) was terminated at the end of May 1964.

(e) 9% Capital Subscription (\$36,000)

Entire 9% has been released and lent in dollars.

(f) Holdings of World Bank Bonds

None.

(g) I.F.C.

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

(h) I.D.A.

Member. We do not propose to approach Panama for release of 90% local currency subscription.

(i) Access to Private Capital Markets

Panama has placed long-term bonds in the New York market for a total of \$26.3 million from 1950 to 1962. The 1962 issue was for \$9 million at 4-1/2% repayable over 39 years. Panama's access to the U.S. capital market was based entirely on the fact that service on these debts was secured by the U.S. Canal annuity payment of \$1.93 million. The 1962 issue took up the remaining unpledged portion of the annuity, and thus for the time being exhausted Panama's access to the U.S. capital market.

V. POLITICAL SITUATION

President Chiari of the Liberal Party was inaugurated in October 1960 for a four-year term. The Presidential elections of May 1964 resulted in the victory of Marcos A. Robles, the present Administration's candidate. He is to take office in October 1964. Mr. Robles is known for his integrity strength of character and pro-US sentiments. Unless current efforts to create a coalition government succeed, the incoming government might find it difficult to get majority support in the National Assembly.

The new Government will probably continue to institute moderate economic and social reforms.

VI. ECONOMIC SITUATION

GNP per capita: \$440
Population: 1.2 million

1. Panama has the highest income per head of the Central American area. Impelled largely by the growth of services and construction in the capital area, GNP has grown at a rapid 8% per year on average in the last four years.
2. The January political disturbances led to a heavy capital flight and a virtual halt in investment activity. Improved relations with the United States and measures taken by the authorities to counteract the adverse developments have arrested the downward trend. The economy should rapidly recover from the recent crisis, although there still remains a sizeable amount of unemployment.
3. In the fiscal year ending February 1964, there was a fairly sizeable deficit. Prospects for the 1964/65 fiscal year are not encouraging, but the incoming Administration has promised new taxes and further improvements in the tax administration. There is considerable scope for improvement in fiscal performance, especially in view of the increase in public investment proposed in the Government's 1964-66 investment plan.
4. Panama's external public debt service is modest: service in 1963 was less than 5% of gross foreign exchange earnings. The public sector should be able to borrow its external capital requirements on conventional terms.

PARAGUAY

CONFIDENTIAL

August 18, 1964

PARAGUAY
BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 11, 1964

Time: 10:00 a.m. - 10:30

Attended by:

Staff: Mr. Alter
Mr. deVries

II. MEMBERS OF DELEGATION

Dr. Cesar Romeo Acosta	(B)	President Banco Central del Paraguay
Dr. Oscar Stark Rivarola	(B)	Manager Banco Central del Paraguay
General Cesar Barrientos	(F)	Minister of Finance
Edgar F. Taboada	(F)	Undersecretary of Finance

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of Relations since July 1, 1963, including Bank/IDA lending prospects.

(i) Loans and credits made since July 1, 1963:

December 26, 1963 \$3.6 million credit for
cattle development

(ii) Major problems in executing existing loans:

None

(iii) Loans presently under consideration:

The following projects are under consideration; they have not been submitted to SLC.

Purpose	Amount	Status	Tentative Date for Negotiation
Highway Construction	\$2 million	Pre-appraisal mission visited in early July	December 1964
Port Improvement	\$3 million	Appraisal mission tentatively scheduled for October 1964	Mid 1965

(b) Topics to be raised by us:

Mission requested by President Stroessner: President Stroessner has requested a mission to study Paraguay's economic situation, to suggest appropriate economic policies and to help in the preparation of an investment plan and a loan plan. We should answer that we are very sympathetic to the request and hope to comply. However, the timing and composition is not yet decided.

(c) Topics likely to be raised by delegation:

Dredging of the Paraguay River: The delegation may request prompt consideration to their request for financing not only the expansion of the Port of Asuncion but of a dredge. We should answer that an appraisal mission for the port project is scheduled for October at which time they will also look into this request, as the Bank has always considered the two projects interrelated.

IV. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1964

Date	Borrower	Purpose	Amount (\$ million)
1951	Republic of Paraguay	Agricultural Development	4.5
	Total (net of cancellations and refundings)		4.5
	of which has been repaid		4.2
	Total now outstanding		.3
	Amount sold	.1	
	of which has been repaid	.1	0.0
	Net amount held by Bank		0.3

(b) IDA Credits as of July 31, 1964

Date	Purpose	Amount (\$ million)
October 26, 1961	Highways	6.0
December 26, 1963	Cattle Improvement	3.6
		9.6 <u>1/</u>

1/ Includes \$9.4 million not yet disbursed.

(c) Disbursement Problems

None

(d) Technical Assistance Activities

The Bank is acting as Executing Agency for U. N. Special Fund Road Survey which started in May 1964 and is expected to be completed at the end of 1965.

(e) 9% Capital Subscription (\$540,000)

\$126,000 released for purchases in local currency

(f) Holdings of World Bank Bonds

None

(g) I.F.C.

Member. IFC has no investments in Paraguay and there are no applications.

(h) I.D.A.

Member. No approach for release of 90% local currency subscription contemplated.

(i) Access to Private Capital Markets

None at present.

V. POLITICAL SITUATION

President Stroessner began his second full five-year term in August 1963. Political stability is as firm as in the past but there is greater freedom of expression with respect to national issues. The President and the Cabinet for their part appear to be more aware of the importance of and of the need for sound policies to promote economic development.

VI. ECONOMIC SITUATION

POPULATION: 2.6 million

GDP PER CAPITA: US\$100 to US\$125

The Paraguayan economy has emerged from a period of stagnation. A notable growth in agricultural and industrial output, particularly for export, took place in 1963 and is continuing this year. Prices have risen very moderately in spite of a rather rapid increase in credit, largely due to increasing public sector deficits. With the help of an increasing inflow of external assistance, the level of both public and private investment has been rising. Combined with improved policy measures, particularly in the vital livestock sector, the higher investment activity gives promise of substantial further growth in output and income. Improvements in public sector finances with a view to increasing financial resources for development projects remains *The* number one priority.

The foreign trade situation has on balance registered some improvements. Exports have increased in 1963, because of the growth in output, expanded market demand and improved terms of trade; these improvements have continued this year. Imports have on the whole remained remarkably stable, partly due to limited foreign exchange availabilities.

The external public debt of Paraguay has now increased to the point where debt service is a heavy burden both on foreign exchange earnings as well as on public sector savings. (External debt service is equivalent to 9% of export earnings in 1964). Additional external borrowing must be highly selective for high priority projects and a substantial part of it on essentially non-conventional terms.

PERU

CONFIDENTIAL

July 31, 1964

PERU

BRIEFING PAPER

DECLASSIFIED

JUL 08 2010

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 6, 1964

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

Attended by:

Management: Mr. Knapp

Staff:

Mr. Alter

Mr. Schmidt

Mr. de Vries

TOD Representative

II. MEMBERS OF DELEGATION

Celso Pastor

Ambassador to U.S.

Enrique Bellido

President of Banco Central de la Reserva del Peru.

Emilio Barreto

Director of Economic Studies, Banco Central de la Reserva del Peru.

Javier Otero

Manager of Banco Central de la Reserva del Peru. Advisor to the Delegation.

Tulio de Andrea

General Manager of Banco Industrial del Peru.

Carlos Ferreyros

President of Banco Industrial del Peru. Advisor to the Delegation.

Alfonso Montero

President of Mantaro Corporation. Advisor to the Delegation.

Enrique Ayulo

President of Banco de Credito del Peru. Advisor to the Delegation.

Juan Pardo

Industrialist. Advisor to the Delegation.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations since July 1, 1963, including Bank/IDA lending prospects:

(i) Bank Loans and IDA Credits since July 1, 1963:

Date	Borrower	Purpose	Amount (\$ million)
<u>Loans:</u>			
Nov. 22, 1963	Lima Light	Power Development	15.0
April 22, 1964	Republic of Peru	Development of Port of Paita	3.1

Credits:

None.

(ii) Major problems in executing existing loans:

Peruvian Corporation's Financial Difficulties

The financial situation of the borrower has critically deteriorated, and it will not be able to meet its financial obligations later this year, due to increases in wages, delays in obtaining permission to increase tariffs, and truck competition which limits the possibility of raising tariffs. The Corporation, therefore, requested in mid-June that the Bank (and the Eximbank) acquiesce in the June 30, 1964 interest payment to the debenture holders, to "buy time" needed to work out some new arrangements. The two creditors acquiesced. The Corporation is preparing recommendations to the Government and the creditors designed to permit the Company to achieve a measure of financial viability; the recommendations will include a rescheduling of the amortization of the Bank and Exim loans, as well as of the Intercompany Debentures, and a Government financial contribution in some form.

(iii) Loans presently under consideration:

Loans are under consideration for the individual projects listed below. A lending program has not as yet been developed for Peru.

Purpose	Amount (\$ millions)	Status	Tentative date for Negotiations
Highways	10-15	Being appraised in August.	open
Irrigation	20-30	Status of plans to be reviewed in September.	open
Farm Credit	10-15	To be summarized in supplementary briefing memo.	open

(b) Topics to be raised by us:

(i) General

We should start off by commending the Belaunde Government on the generally cautious and responsible monetary and fiscal policy which has kept price increases under control, improved the foreign reserve position, and enabled the country to maintain a stable exchange rate since 1959.

(ii) Further Bank-lending

We should point out that we have the three above-mentioned loans under active consideration, that we plan to review the Government's investment program this fall and that we hope out of this would come a program of further Bank lending.

(iii) Peruvian Corporation

We should point out that we are seriously disturbed about the difficulties in which the Peruvian Corporation finds itself only a little over one year after the signing of the loan.

We realize that the main problem of the railway is its competitive position with road transport. This is partly attributable to the basic economic advantages of road transport, but there are many steps which could be taken by the Government to reduce artificial advantages of road transport (enforcing of road transport regulations especially as regards maximum weight of vehicles, increases in the exceptionally low fuel prices and truck taxes, etc).

We now expect the Corporation to produce a financial reorganization plan. We have asked the Corporation to discuss this plan in the first instance with the Government.

We realize that this plan will ask the IBRD and the EXIM-Bank to re-schedule their repayments, but before considering such re-scheduling we would want to be satisfied: (1) that such a reorganization plan would really put the Corporation on a viable basis; (2) that the bondholders would agree to a comparable rescheduling; and (3) that the Government as the Guarantor would make specific commitments regarding a number of matters affecting the Corporation directly and indirectly. (One of these would be for the Government to make a substantial cash contribution to the Corporation at least during the period of postponement of the amortization payments on the loans. The second would be to agree to exercise restraint on the labor unions in the next round of negotiations with the labor unions. The third would be agreement to a much faster procedure for approving tariffs and the last one would be for the Government to commit itself to enforce the road transport regulations agreed with the Bank at the time of our last highway loan and to take certain other measures mentioned above that would redress at least in part the balance in the competitive position of railroad versus road transport.)

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

(i) Mantaro Project

The Government has already approached the Bank several times about financing this project, which consists of the construction of a power station with an initial capacity of 330 MW at a cost of \$185 million. Roughly one-third of the cost (partly equipment and partly civil works) has been financed by a consortium of U.K. and German firms which were given the contracts before proper engineering had been developed and without international competitive bidding. The Government's latest proposal to the Bank was that the Government would reduce the contracts and the financing with the consortium to about \$20 million and that the Bank should come in and finance the rest of the foreign currency component of the project, which totals somewhere between \$75 and \$100 million, on the basis of international competitive bidding. We told the Peruvians that even such a reduction would not be acceptable and that we could consider financing this project only if the existing contracts were terminated by negotiation and if the contracts for the entire project were to be awarded on the basis of international competitive bidding. The Peruvians may well reopen the discussions on that point.

(ii) Banco Agropecuario (Agricultural Bank)

We may be asked what our next steps will be in regard to the Government's request for making a fifth loan to the Banco. Our reply should be that we have been disappointed to learn of the deterioration in the financial position of the Banco in the last two years, that we are preparing a list of the improvements necessary for the Banco to qualify for Bank financing, and that we are looking for an institution that would be able to provide the Banco with the technical assistance that it has requested from us.

IV. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1964:

Total (net of cancellations and refundings)		123.3 <u>1/</u>
of which has been repaid		24.6
		<hr/>
		98.7
Amount sold	10.0	
of which has been repaid	7.2	2.8
		<hr/>
Net amount now held by Bank		95.9
		<hr/> <hr/>

1/ Includes \$32.2 not disbursed

Loans made since July 1, 1962

Date	Borrower	Purpose	Amount \$(million)
1963	Peruvian Corporation Ltd.	Railways	13.25
1963	Lima Light & Power Co.	Power	15.0

(b) IDA Credits as of July 31, 1964:

None.

(c) Disbursement Problems:

None.

(d) Technical Assistance Activities:

1. A Bank staff member (Craig-Martin) has been stationed in Peru since 1960. Initially he was to assist the Government in carrying out land colonization and settlement in the area of the San Lorenzo Irrigation Project (financed by the Bank in 1955 with a loan of US\$18 million). In October, 1963, his terms

of reference were broadened to include all the functions of a Bank's Resident Representative.

2. At the request of the Government for assistance in re-organizing the Lima Securities Market, the Bank arranged for Mr. Pierre Moxnet, a well-known Mexican Banker, to visit Lima for two weeks in June, to advise the Government on pending legislation affecting the securities market, and advise the Government and the Bank on possible further studies.

3. Bank staff visited Peru at the turn of the year to advise the Santa Corporation on the kind of studies it would need in order to review the expansion program of the Chimbote Steel Mill (SOGESA) and improve the operations of the plant. In accordance with the mission's advice, the Corporation retained the services of John Miles & Partners (London) to review the expansion program, and is now seeking to enter into a management contract with a competent firm. Once these various consultants' arrangements have been completed we will have to consider how to respond to the Government's request that we finance part of their cost with a technical assistance grant.

4. Bank staff visited Peru last fall to advise the Mantaro Corporation on the terms of reference for a study of possible alternatives to the proposed Mantaro hydroelectric project. Sofrelec was subsequently retained by the Corporation to carry out the study along lines recommended by the mission.

5. A technical assistance operation of about \$550,000 to finance road studies is pending. The studies are part of an overall national highway studies program, other parts of which are being financed by AID and IDB. The studies will make possible the initiation of a national highway construction program beginning 1965.

(e) 9% Capital Subscription (\$3.15 million):

Entire 9% paid and lent in dollars.

(f) Holdings of World Bank Bonds:

None.

(g) I. F. C

Industrial Investments

IFC (with other participants \$3,572,600) has made six investments in Peru, metal products and household appliances (\$250,000), brick manufacturer (\$280,000), building materials (\$300,000), ammonia and fertilizers (\$4,083,290), and two cement plants (\$2,400,000 and \$1,600,000). The building material plant remains closed and an orderly disposition of the company's assets is being studied. IFC is considering a proposal to assist in financing an expansion of the ammonia and fertilizer plant, and is also considering participation in an underwriting of an issue of common shares in Lima Light and Power.

Development Finance Companies

Mr. Carlos Ferreyros approached IFC in 1962 for assistance to a new privately owned development finance company, Inversiones Abancay, S.A., to be organized from a merger of the Montero and the Ferreyros holding companies. The reorganization was completed on March 31, 1964. IFC is following with interest the progress of the company, but has decided to defer consideration of an investment until it could show a record of good management and profitability.

(h) I. D. A.

Member. No approach for release of 90% local currency subscription contemplated.

(i) Access to Private Capital Markets:

Not likely in immediate future.

V. POLITICAL SITUATION

President Belaunde Terry, leader of the Accion Popular Party, supported by the Christian Democrat Party, was inaugurated on July 28, 1963 for a six-year term. Belaunde was elected on a platform that included land reform and the opening of the north-east section of the country east of the Andes. Although the congressional coalition which supports Belaunde does not command a majority in Congress, the Belaunde Administration has succeeded in increasing public investment and in restoring the confidence of the private sector, which was badly shaken during the government of the Military Junta and continued to be hesitant during the initial period of the Belaunde Administration. A land reform bill, regarded as moderate, has been widely supported, and was enacted in the spring of 1964. The Belaunde Government's popular support is reportedly increasing steadily.

VI. ECONOMIC SITUATION

Population: 11 million

GNP per capita: \$210

GNP increased in 1963 by around 5.5%, about the same as in recent years and well above the increase in population. The main impetus to growth was investment in both the public and the private sectors.

The 1963 budget deficit was larger than in previous years but a restrictive monetary policy prevented any considerable monetary expansion. Although there exist pressures for new increases in Government expenditures, the Government is maintaining a policy of not increasing expenditures unless corresponding increases in resources are voted. The monetary authorities propose to keep the expansion of credit within limits compatible with external stability. Despite substantial new wage demands the increase in prices is expected to be held within the pattern of recent years-- i.e. about 6% per year.

The external position continues to be strong, with new private foreign loans and investments and increased foreign investment in the public sector offsetting some decline in exports. Foreign exchange reserves have risen, the sol remains convertible and the exchange rate continues to be stable, as it has been since 1959. In March Peru renewed a \$30 million stand-by agreement with the IMF. The prospects for exports are good both in the immediate future and over the longer term.

Behind the favorable economic performance there continue to exist the basic problems of the unequal distribution of agricultural land and the low incomes of most of the urban and the rural population. The outlook for the success of a recently-enacted land reform bill is good. The outlook is also good for increased investment in both the public and the private sector. On the basis of present showings, it is estimated that Peru should be able to maintain a rate of growth well above the rate of growth of the population.

Service payments on Peru's present external public debt will amount to about 11% of estimated foreign exchange earnings in 1964, declining to about 8% by 1970. Peru may therefore be regarded as creditworthy for additional loans for high priority projects.

July 31, 1964

Biographical Notes of Members of the Peru

Delegation

- Celso Pastor: Ambassador to the U.S. In his late forties. Lawyer and head of a firm which has been counsel to Banco Industrial del Peru and to a number of foreign firms operating in Peru. Very close friend of President Belaunde.
- Enrique Bellido: President of Banco de la Reserva del Peru. In his late forties. Economist and agricultural expert.
- Tulio de Andrea: General Manager of Banco Industrial. Industrial engineer and economist. Has been with Banco since 1946 except for five years he took as leave of absence to work for CEPAL. He has represented Peru at a number of international conferences on economic development.

URUGUAY

CONFIDENTIAL
August 18, 1964

URUGUAY
BRIEFING PAPER

DECLASSIFIED

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 11, 1964

Time: 10:30 a.m. - 11:00

Attended by:

Staff: Mr. Alter
Mr. deVries

II. MEMBERS OF DELEGATION

Raúl Ybarra San Martín

(B)

Contador General de
la Nación

Romeo Maseo

(F)

Roberto A. Ferber

(B)

Daniel Rodriguez Larreta

(F)

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION(a) State of relations since July 1, 1963, including lending prospects:

(i) Loans and credits made since July 1, 1963:

None

(ii) Major Problems in existing loans:

None

(iii) Loans presently under consideration:

The following projects are under consideration; they have not been submitted to SIC.

Purpose	Amount (\$ million)	Status	Tentative Date for Negotiations
Livestock Improvement	About \$12	Appraisal report almost finished	October 1964
Power	\$50-60	Appraisal mission tenta- tively scheduled for October	February 1965

(b) Topics likely to be raised by us:

Capital Subscription: We should stress the importance of Uruguay regularizing its capital subscription. The small quota increase and the 100% increase have not yet been approved (see also IV (a)).

(c) Topics likely to be raised by delegation:

The delegation may request prompt consideration of the Power project. We should reply that to be able to appraise the project we need the up-to-date financial, technical and economic information requested in June 1964.

IV. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1964

Date	Borrower	Purpose	Amount (\$ million)
1950	UTE	Power development and telephones	33.0
1955	UTE	Power development	5.5
1956	UTE	Power development	25.5
1959	República Oriental del Uruguay	Livestock improvement	7.0
1962	República Oriental del Uruguay	Highways	<u>18.5</u>
	Total (net of cancellations and refundings)		89.5 ^{1/}
	of which has been repaid		19.7
	Total now outstanding		69.8
	Amount sold	3.2	
	of which has been repaid	2.8	<u>0.4</u>
	Net amount held by bank		69.4

^{1/} Includes \$ 20.5 million not yet disbursed.

(b) IDA credits as of July 31, 1964:

None

(c) Disbursement Problems

None. However, disbursements have been very slow in starting due to delays in Parliamentary ratification of loans.

(d) Technical Assistance Activities

None.

(e) 9% Capital Subscription (\$1,890,000)

The Government agreed to release beginning March 31, 1963 its 9% in 10 semi-annual payments. The Government, however, has not fully complied with the agreement. Only \$202,000 have been released. \$365,000 is in arrears. The Minister of Finance promised to a Mission in July 1964 to regularize this situation before the end of the year.

(f) Holdings of World Bank Bonds

None.

(g) I.F.C.

Not yet a member. Legislation to be submitted to Parliament in November 1964.

(h) I.D.A.

Not yet a member. Legislation to be submitted to Parliament in November 1964.

(i) Access to Private Capital Markets

None.

V. POLITICAL SITUATION

Luis Giannattasio began his one year as President of the 9 man National Council of Government on March 1, 1964. The Council, which assumed office in March 1963, will be in power until February 1967.

The Government Party does not control a majority in Parliament, as a result of which legislation sponsored by the Government is slow in being approved.

VI. ECONOMIC SITUATION

POPULATION: 2.6 million

GNP PER CAPITA: US\$550

Since 1955/56 GNP has stagnated. GNP in 1963 was probably the same as in 1962. Population is increasing by 1.3% p.a. In late 1963 a revival of the economy began under the impact of favorable export prices for wool and meat.

A 50% devaluation in May 1963 brought the balance of payments into equilibrium. The current account deficit in 1963 was only \$5 million. With export prices presently 20% higher than a year ago the balance of payments prospects for 1964 are favorable. Even so, the peso has weakened as a result of the 40% domestic price increase since the devaluation. Domestic price increases are likely to continue, perhaps by 25% by 1964 as credit expansion to public and private sectors has been of the order of 20-25% (through February 1964).

Uruguay's economic problem is to expand agricultural production while at the same time increasing productive employment in the cities - only 22% of employment is presently found in agriculture and this ratio will probably be further reduced. With IBRD aid modern production techniques are systematically introduced into livestock production. This program should be accelerated. It will directly affect meat and wool exports (presently providing over two-thirds of merchandise exports). Crop production also needs improvement, primarily in wheat. Manufacturing industries should increase production for exports if it is to create sufficient new employment possibilities.

The Government financial position is expected to improve as export incomes are rising in 1964; further actions to improve tax revenue are required, however, if Uruguay is to secure sufficient resources to finance investment and restore stability. Export and income growth largely depends on a realistic exchange rate policy. A three-year program is to be presented by the Economic Planning Commission (CIDE) in fall 1964. It is likely that the program will realistically focus on the Uruguay's principal economic problems summarized above.

At the end of 1963 long-term external public debt amounted to \$233 million. Service payments amount to 11% of export earnings in 1964. By replacing medium-term debt through 1970 with new long-term debt (annually \$20-25 million) debt service by 1970 (\$29 million) would be \$2 million higher than in 1964 and the ratio of service payments to current account receipts estimated for 1970 would be 8-9%.

VENEZUELA

CONFIDENTIAL

August 26, 1964

VENEZUELA

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BRIEFING PAPER

JUL 06 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 6, 1964

Time: 4:40 p. m. - 5:00 p. m.

Attended by:

Management: Mr. Knapp

Staff: Mr. Alter
Mr. Schmidt
Mr. de Vries

II. MEMBERS OF DELEGATION:

General Rafael Alfonso
Ravard (B)

Governor of Bank for Venezuela
President, Corporacion Venezolana
de Guayana

Luis Vallenilla (B)

Alternate Governor of Bank for
Venezuela

Alfonso Espinosa (B)

Director, Corporacion Venezolana
de Guayana

Alfredo Machado Gomez (F)

President, Banco Central de
Venezuela

Benito Raul Losada (F)

Adviser, Ministry of Finance

Ernesto Peltzer (F)

Adviser, Economic Advisor Banco
Central de Venezuela

Marcos Sandoval (F)

Adviser, Director's Assistant,
Economic Research Dept., Banco
Central de Venezuela

Samuel Rieber

Secretary to the Delegation
Banco Central de Venezuela

VENEZUELA

August 12, 1964

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations since July 1, 1963, including Bank/IDA lending prospects.

(i) Loans and Credits made since July 1, 1963.

Date	Borrower	Purpose	Amount (\$ million)
<u>Loans</u>			
Sept. 1963	EDELCA	Electric Power (Guri)	85.0
*August 1964	CADAFE	Electric Power	14.0
*August 1964	Republic of Venezuela	Highways	30.0

* It is expected that these loans will be presented to the Executive Directors during the week of August 24.

Credits

None (see III (b) (ii)).

(ii) Major Problems in Executing Existing Loans.

None.

(iii) Loans presently under Consideration.

On July 23, 1963 SLC agreed that Venezuela is credit-worthy for about US \$100 million of loans for high priority projects (in addition to loans for the Guri and CADAFE projects) provided the character and policies of the next (i.e. Leoni) Government are conducive to Venezuela's sound economic growth and development.

August 12, 1964

Purpose	Amount (\$ million)	Status	Tentative Date for Negotiations
CANTV (Tele-communications)	40.0	Appraisal report being written	November 1964
INOS, Caracas Water Supply	25.0 - 30.0	Appraisal scheduled for Sept. 1964	January 1965
EDELCA Transmission Line	15.0	Appraisal scheduled for October 1964	January 1965
Guayana Agricultural Project		Mission's recommendation for technical assistance being studied	
Zulia Flood Control and Drainage		Mission's recommendation for technical assistance being studied	

(b) Topics to be raised by us.

(i) 9% Capital Subscription.

We should express our gratification at the Government's agreement in principle to release in dollars in 10 semi-annual installments over a five year period the balance of its 9% capital subscription. However, the Government has not yet confirmed our letter dated June 26, 1964 spelling out this process. We should press the Venezuelans to act on this matter.

(ii) IDA Membership.

We may also want to take this opportunity to discuss Venezuela's membership in IDA. In the past the Government has been reluctant to consider participating in IDA on the grounds that it would not qualify for IDA lending. With our large lending program and

August 12, 1964

the country's good economic condition, the Government may well be more receptive now to becoming a member of IDA (Venezuela's total contribution to IDA would be \$7.07 million including \$707,000 in gold and foreign exchange).

(c) Topics likely to be raised by the Delegation.

(i) Proposed Loans.

The Delegation will want to know what progress is being made on the proposed Projects listed in (a)(iii) above, particularly those dealing with agriculture and the Caracas Water Supply System. We should reply that a joint Bank-FAO mission visited Venezuela in July 1964 and recommendations for technical assistance in organizing the planning and pre-appraisal preparation of the agricultural projects are being studied. As indicated, the INOS Caracas Water Supply Project is scheduled for appraisal in September.

(ii) Economic Mission.

The Delegation may also inquire how soon the Bank will be able to send the proposed economic mission to review the economy and the four-year investment plan. We should reply that a Bank mission will probably go to Caracas in October or November to up-date our economic information.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1964.

Date	Borrower	Purpose	Amount (\$ million)
1961	Republic of Venezuela	Express Highways	45.0
1963	EDELCA	Electric Power	85.0
	Total (net of cancellations and refundings)		130.0
	of which has been repaid		-
	Total now outstanding		130.0
	Amount sold	2.168	
	of which has been repaid	-	2.168
	Net Amount now held by Bank		127.832*

* Includes US \$96.5 million not yet disbursed.

(b) IDA Credits as of July 31, 1964.

None.

(c) Disbursement Problems.

None.

(d) Technical Assistance Activities

None at present (see III (a)(iii) and (c)).

(e) 9% Capital Subscription (\$12,590,000)

Original "18%" subscription equivalent to \$1,890,000 fully released; the balance of the 9% portion (resulting from special increase) equivalent to \$10.7 million is in the process of being released (see III (b)(i)).

VENEZUELA

August 12, 1964

(f) Holdings of World Bank Bonds.

None.

(g) I. F. C.

Industrial Investments. I. F. C. has made two investments in Venezuela one of which has been sold. The other is an investment in a steel plant (\$3,000,000). I. F. C. is presently considering an investment in a pulp and paper project.

Development Finance Companies. Organization of the C. A. Venezolana de Desarrollo was completed on October 17, 1963, with an I. F. C. participation of Bs. 6 million (US \$1.32 million) in the Bs. 36.5 million share capital. CAVD has been somewhat slow to build an adequate staff and develop its investment activities.

(h) I. D. A.

Not a member (see III (b)(ii)).

(i) Access to Private Capital Markets

While the time may not be far off when Venezuela will be able to market a bond issue, the investment bankers are still wary because of the country's political history.

V. POLITICAL SITUATION

President Raul Leoni of the Accion Democratica Party took office in March 1964, for a five year term, succeeding Romulo Betancourt, the first elected President in Venezuela's history to serve out his full term of office. This orderly transition is an indication of the political stability that has been achieved during the last six years. As the head of the Accion Democratica, the Party he assisted Betancourt in founding, Leoni is committed to that Party's policies of raising the country's rate of growth and reducing unemployment. In view of Venezuela's vastly improved economic condition, Leoni plans to increase substantially the country's development efforts and has recently proposed to Congress a US \$850 million four year public investment program, which represents a first phase of the public investment called for in the country's National Development Plan.

VI. ECONOMIC SITUATION

(a) Population: 8.1 million GNP per capita: about \$500

(b) Economic Growth. In 1963, GNP in real terms grew about 5.8% continuing the pattern of the previous year as opposed to the virtual stagnation of 1960 and 1961. This high level of activity was accomplished inspite of only a nominal 1.5% expansion in petroleum production and exports. Manufacturing output - particularly in the durable goods field - expanded rapidly and the construction industry experienced a substantial recovery with the result that the cement companies are now operating at full capacity.

Balance of Payments. The Government's conservative fiscal and monetary policies, which it is expected will be continued under President Leoni, strengthened private confidence, maintained monetary stability and protected the balance of payments. The favorable impact on confidence within the private sector resulted in a sharp drop in the rate of capital outflow that has bedeviled the economy in recent years, and with imports and exchange earnings remaining close to their 1962 levels, international reserves increased to \$738 million by the end of 1963.

Prices and Wages. The internal price level experienced an increase of 3.6% in 1963 and is attributable to the higher

VENEZUELA

August 12, 1964

prices of imported commodities resulting from the previous year's "de facto" 30% devaluation of the Bolivar to B's4.50 - \$1. The level of prices for domestically produced goods remained unchanged.

External debt. Venezuela's external public debt as of June 30, 1964 amounted to US \$361 million, most of which is short term, compared with US \$362 million at the end of 1962. Service on total external debt amounts to US \$76 million in 1964 or less than 5% of expected foreign exchange earnings of about \$1.7 billion; and it declines to US \$50 million or less during the years 1965-68 and to less than US \$22 million for 1969 and thereafter.