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THE WORLD BANK

Washington, D.C.

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President G. D. Woods Briefs - 21<sup>st</sup> Annual Meeting  
Latin America

1966

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WESTERN HEMISPHERE

G. D. WOODS MEETINGS

| <u>Country</u> | <u>Date</u>          | <u>Time</u>   |
|----------------|----------------------|---------------|
| Argentina      | Friday, September 30 | 4:30 (1 hour) |



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JUL 19 2016

WBG ARCHIVES

CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

ARGENTINA

I. MEETING WITH DELEGATION

Date: Friday, September 30, 1966

Time: 4:30 p.m.

Attended by:

Management: Mr. Woods  
Mr. Knapp

Staff: Mr. Alter  
Mr. Paterson  
Mr. Wright  
Mr. Knox  
Mr. Fajans

II. MEMBERS OF DELEGATION

Mr. Jorge NESTOR SALIMEI

Minister of Economy

Mr. Felipe TAMI

President, Central Bank,  
(Governor of IBRD)

ADVISERS

Adolfo E. DIZ

Roberto H. MURCIA

Raul L. URTIZBEREA

Manuel SAN MIGUEL

Executive Director (IBRD)

Enrique DOMENECH

Alternate Executive Director  
(IMF)

III. BANK/IDA PROSPECTIVE OPERATIONS

| Purpose         | Amount<br>(\$ Million) | Status   | Tentative<br>date of<br>negotiations |
|-----------------|------------------------|--|--------------------------------------|
| Livestock       | 15.3                   | Presentation to Executive Directors dependent on outcome of economic policy discussions with new Government and clarification of constitutional problems.                    | Took place in June/July              |
| Power (SEGBA)   | 50.0                   | Negotiations to be scheduled on the understanding that presentation to Executive Directors will depend on the outcome of discussions on economic policy with new Government. | October                              |
| Steel (ACINDAR) | 45.0                   | Awaiting increase in share capital and strengthening of management.  | Open                                 |

Matters related to these operations are described in Section IV.



IV. TOPICS FOR DISCUSSION(a) To be raised by the Bank (in order of importance)Economic Policy

Before making loans to Argentina, we will want to review the new Government's economic policy. The immediate issues for 1966, as pointed out in Mr. Knapp's letter of August 2 to Mr. Micele, are: (i) the need for current savings in the public sector sufficient to finance at least 45 per cent of public sector investment in 1966; (ii) a policy of maintaining a flexible exchange rate which moves in line with domestic costs and prices; and (iii) policies for limiting credit expansion, containing wage increases and controlling external indebtedness. We hope to have discussions with the Government in Buenos Aires in early October.

Loans presently under consideration

If we are satisfied with the outcome of our economic discussions, we would hope to go ahead with preparations for three loans: power, livestock, and steel.

In the power sector, we expect to negotiate in October the proposed loan to SEGBA. We should stress that the proposed loan would provide only temporary relief to the power situation in Buenos Aires and that future Bank assistance to SEGBA would, inter alia, depend on visible progress in reducing the labor force and coordinating power services with Italo. In the light of our talks with Secretary Gotelli in mid-September, we may then want to discuss the Government's intentions with regard to Italo. Finally, we should explore the Government's views on El Chocon and Salto Grande and indicate that, before doing further work on El Chocon, we would like to have a firm expression of the Government's medium and long-term plans for the expansion of power supply in the Buenos Aires area.

On livestock, loan negotiations are substantially completed. Presentation of the loan documents to the Board awaits the outcome of the economic discussions.

On the Acindar project, we should ask whether the Government is willing, as was its predecessor, to guarantee a loan from the Bank. Whether the Bank will be able to make a loan will depend on the outcome of the Company's negotiations to obtain additional equity and to strengthen its management. The new

equity, which would be in addition to loans the Company is seeking from the Bank and other sources, should be \$30 to \$35 million equivalent. This would roughly double the present capitalization. While the Bank does not want to upset the control of the Company by Argentine interests, it has to recognize that the proposed project will greatly expand the operations of Acindar and change their present nature. For this reason, we consider it necessary that Acindar should enter into a partnership arrangement with an experienced steel producer, who would make an equity investment in the range of \$10 to \$15 million in cash and assume some responsibility for management. We would prefer a figure at the upper end of this range, but we would be prepared to evaluate that amount proposed by the major partner in the light of the additional equity contributions that other industrial firms with experience in steel making may be prepared to make.

#### Future Operations

It would be useful to impress on the new Government that one factor which has impeded Bank operations has been the lack of suitably prepared projects. Unless steps are taken to improve project preparation, this difficulty will remain.

The Bank has one loan for roads in Argentina (Loan 288AR). This is clearly an area where additional finance is needed. But, we can see no prospect of new lending to the National Highways Authority (Direccion Nacional de Vialidad) until, firstly, priority projects are submitted for consideration, and secondly, measures are taken to improve the Authority's administration.

The Bank attaches great importance to the rehabilitation of the Argentine railways, particularly since the substantial reduction of the railways' deficit is crucial for cutting the deficit of the Central Government. But before we could consider lending for the railways, we would have to be satisfied that the Government was determined to deal with the issues raised by the 1960/62 U.N. Special Fund transportation study, for which the Bank acted as executing agency. Among the measures to be initiated by the Government, prior to any loan for the railways being recommended to the Executive Directors, would be the closing of uneconomic lines and redundant workshops, changes in operating methods, reduction in personnel, changes in work rules and regulations, increases in rates and the introduction of an adequate rate structure. Some of these measures were recently mentioned by the new President of



the Railways, Ing. Hasperue, who apparently expects to prepare within 60 days a plan for immediate corrective action.

- (b) To be raised by Bank at meeting with President

See under (a)

- (c) Likely to be raised by the Delegation

The delegation will probably enquire whether the Bank would be prepared to assist in the rehabilitation of the railways. According to Ambassador Alsogaray, once the livestock and SEGBA operations have been concluded, the Government may ask the Bank to help the railways. For a reply, see under (a).

V. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1966

(US \$ Million)

| Year | Borrower                                      | Purpose                   | Amount<br>less<br>cancellations | Un-<br>disbursed<br>Balance |
|------|---|---------------------------|---------------------------------|-----------------------------|
| 1961 | Republic of Argentina                         | Road<br>Construc-<br>tion | 32.0                            | 13.8                        |
| 1962 | Servicios Electricos<br>del Gran Buenos Aires | Buenos Aires<br>power     | <u>93.3</u>                     | <u>-</u>                    |
|      | Total   |                           | 125.3                           | 13.8                        |
|      | of which has been repaid                      |                           | <u>6.5</u>                      |                             |
|      | Total outstanding                             |                           | 118.8                           |                             |
|      | Amount sold                                   | .9                        |                                 |                             |
|      | of which has been repaid                      | <u>.6</u>                 | <u>.3</u>                       |                             |
|      | Net amount held by Bank                       |                           | 118.5                           |                             |

(b) IDA Credits as of July 31, 1966.

None

(c) Technical Assistance Activities

- 1959/60 - Executing Agency, UN Special Fund Power Study.
- 1960/62 - Executing Agency, UN Special Fund Transport Study.
- 1964 - Review of 1965 development program and sector studies.
- 1965 - Preparation of a livestock project by FAO.

No prospective activities.

(d) Access to Private Capital Markets

The last issue - \$25 million, 6½%, 12-year Government bonds, priced at 95 - was made in Switzerland, Germany, Belgium, U.K., France, Italy and The Netherlands in 1961. Since then, Argentina was compelled to ask her creditors, in 1962 and 1965, to reschedule debt maturities. This and the general political

and economic position of the country preclude borrowing in the private market in foreseeable future.

(e) Bank 9% Capital Subscription

\$33.6 million, of which \$6.7 million was released in 1961, and \$1.0 million transferred into dollars and used by early 1962. Further transfers were suspended at that time because of heavy loss of reserves. In March 1962, we informed the Central Bank that we would not plan to use or convert any additional amounts until we have further consulted with them.

(f) IDA - 90% Subscription - \$16.9 million.

No release

(g) Holdings of Bank Bonds

\$5 million of two-year bonds held by the Central Bank.

(h) I.F.C.

IFC's gross commitments amount to \$13.7 million, of which about \$7 million is held by the Corporation. Outstanding investments are in Acindar (\$3,660,000), Celulosa Argentina (\$2,500,000) and Fabrica Argentina de Engranajes (\$1.5 million). IFC has been involved in the appraisal work concerning proposed IBRD financing of Acindar and has also a preliminary project for IFC financing of expansion of Schcolnik S.A., a pulp and paper converter. Apart from general delays and uncertainties connected with the recent change in Government, further progress on the Acindar proposal is contingent on the attraction to the project of a technical partner with a substantial equity position. Ford Motor Company has been in discussion with the Company concerning the possibility of its filling this role.

(i) Settlement of Investment Disputes

Argentina has shown no interest in signing the Convention.



VI. POLITICAL SITUATION

After nearly three years in power, President Illia's Government of the Radical Popular Union was overthrown by the Armed Forces on June 28. The apparent reasons for the bloodless coup d'Etat were the gains of the Peronist parties in several provincial elections and the Government's reluctance to take drastic measures to stem the tide before it engulfed the all-important Buenos Aires province. Although the Constitution was not abrogated, Congress and the provincial assemblies were dissolved, political parties disbanded and their assets confiscated, new judges appointed to the Supreme Court, and provincial governors dismissed and replaced mainly by high-ranking Army officers. General Juan Carlos Ongania, the 52-year old former Commander-in-Chief of the Army, was designated President by the Commanders of the Armed Forces and swore to observe the Statute of the Revolution, which vested in him legislative powers, and the Constitution. Politically little known men of Christian Social beliefs and free enterprise outlook were appointed to the Government. Dr. Salimei, a 40 year old suburban banker, became Minister of Economy and of Labor and Social Security. The new Government assumed power without a firm economic program and its economic policies are only now being worked out. Of crucial significance for the future of the economy will be the relationship between the Government and the labor unions. While initial support for it came from the business community, the Government seems also to have established contact with the Peronist labor movement. However, recent steps against the autonomy of the Universities have, to some extent, alienated business and labor opinion, and the sympathies of Catholic hierarchy. The business community has also shown signs of being disappointed over the size of recent wage increases.



VII. ECONOMIC SITUATION

|                               |                  |
|-------------------------------|------------------|
| Population:                   | 22-23 million    |
| GNP per capita:               | US\$ 600-650     |
| Foreign Exchange<br>Reserves: | US\$ 293 million |

In 1965, for the second year in succession, Argentina achieved a substantial increase in production, GNP rising by about 8% in real terms. Favorable agricultural conditions contributed to this result. The additional output was used to increase consumption and to a lesser degree investment. This growth completely offset the decline of the 1962-63 recession, and income per head is now at least as high as in 1961.

While the economy performed well last year in real terms, the results achieved on the incomes and prices front were much less satisfactory. It was the Government's aim to hold the price increases during the year to 20%; in fact, the cost of living index rose by 38% from the beginning of the year to the end. This was to some extent a consequence of the monetary overhang from 1964, but was mainly attributable to the inefficacy of the Government's incomes policy. The guidelines for wage increases of 22% were publicly announced only in mid-1965 and were vitiated both in the public and private sectors. Wage increases of 35-40% became the rule, and widespread expectations of further inflation persisted.

Central Government revenues in 1965 rose quite sharply in real terms, coming close to the target set at the beginning of the year. However, government expenditures and transfers (especially social security payments) rose faster than expected, and public sector savings, though considerably better than in 1964, fell well short of the target. The current account surplus of the Central Government covered about 20% of the Government's gross investment expenditures in 1965, whereas in the previous year there had been a substantial deficit. As a result, government recourse to Central Bank financing, while still very large in absolute amounts, was on a much reduced scale.

The current account surplus in the balance of payments increased in 1965 to US\$170 million, a significant improvement over the 1964 surplus of US\$ 34 million and about twice as much of an increase as originally expected. This meant a third consecutive year of current account surpluses and net external debt repayment. There was some deterioration in the trade balance as imports grew



faster than exports, but this was more than offset by a reduction in the outflow of foreign exchange for "invisibles" (mostly profits and interest), which was partly attributable to government efforts to restrict and postpone the transfer of funds outside Argentina.

Exchange rate adjustments in 1965 lagged behind the increase in the cost of living. The value of the peso was reduced three times (in April, September and December) in order to dispose of major exports. However, along with the devaluation in April, taxes (retentions) ranging from 3.6% to 20% were applied to certain major exports. Even though these taxes were gradually reduced or eliminated by the end of the year, they did partially negate the incentive effect devaluation has had on the export sector. These tax retentions have been adopted for short-run terms of trade purposes, but their continuing use weakens the long-run objectives of increasing exports. The total drop in the value of the peso during the year (from M\$N150 = US\$1 to M\$N188 = US\$1) was only 24%, compared to a rise in prices of 38%. At the end of the year the peso once again appeared to be over-valued.

The problem of the management of the external debt overshadowed much of Argentine economic policy during 1965 and certainly dominated the balance of payments during the year. Total amortizations required during 1965 on the public and private external debt were about US\$630 million (more than 40% of exports). In contrast to 1964, when all external debt amortizations were met, the declared policy of the Argentine authorities for 1965 was to seek substantial relief on the payments of its external obligations. During the year some US\$120 million of debt was rolled over, including US\$67 million due IMF, US\$30 million to European and U.S. banks, and a number of lesser items. Additional relief was obtained in the amount of some US\$203 million by postponing US\$70 million of arrears repayment to 1966, the issuance of US\$83 million in three-year dollar bonds and agreement with the automobile industry to postpone US\$50 million in transfers to 1966-67. In the case of the Paris Club refinancing of 1965, US\$90 million relief was obtained in principle, but only US\$20 million were utilized during 1965, with the balance expected to benefit the 1966 balance of payments.

The Illia Government proposed the strengthening in 1966 of the policies initiated last year, with the aim of reducing the annual price increases to 12%, while achieving some further increases in production. Government reliance on borrowing from the banking system was to be further curtailed and curbs on credit to the private sector were to be strengthened. The principal objective of government policy was to



increase the Government's current account surplus sufficiently to cover 45% of its gross investment, as against 20% last year. Congressional intransigence over the budget threatened to undermine this objective. Likewise, while the Government expressed its determination to limit wage increases to 15%, serious slippages occurred as a result of strike action by powerful unions, and wage increases of up to 30% became the rule.

During the first half of this year exports moved well, while imports declined as a result of monetary restraint and a shift in output growth from industry to construction. The exchange rate was moved in May from M\$N188 to M\$N202 = US\$1 and a current account surplus of US\$250 million was achieved. Gross foreign exchange reserves increased by US\$60 million. The balance of payments outlook for 1966 remains tight, however, because of the capital account. Nearly US\$700 million of external debt falls due for repayment during the year, including a roll-over of about US\$200 million from last year. A current account surplus of approximately US\$200 million can now be expected, and gross capital inflow, including suppliers' credits, disbursements on existing project loans and other assured financing, is on present reckoning likely to amount to US\$500 million. Thus the prospect for achieving balance of payments equilibrium in 1966 is reasonably good, provided economic management during the second half of the year does not deteriorate. The most recent devaluation to M\$N218 to US\$1 should help achieve the high export goals for 1966.

The key to the success or failure of the new Government in the economic field will be whether or not it manages to instill a greater sense of public responsibility and discipline in the labor unions. Without this, there is little prospect that any stabilization policy will succeed. In the very short run, the most significant indicators of economic performance will be exchange rate policy and the mobilization of public sector savings. Provided the present Government follows the policies indicated in our June 1966 discussions with the previous Government, and (a) moves the exchange rate in line with domestic prices and (b) increases current public sector savings to cover at least 45% of public investment in 1966, Argentina may be regarded as creditworthy for the three loans now under consideration. Creditworthiness is due for further review in early 1967. In view of the relatively high per capita income, Argentina is not eligible for IDA credits under present IDA criteria.

BOLIVIA



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September 21, 1966

BRIEFING PAPER - 1966

BOLIVIA

I. MEETING WITH DELEGATION

Date: Wednesday, September 28, 1966

Time: 11:00 - 11:30

Attended by:

No meeting with Management

Staff: Mr. Alter  
Mr. Wright  
Mr. Knox  
Mr. Wyss  
Mr. Favilla

II. MEMBERS OF DELEGATION

Mr. Jose ROMERO LOZA

Minister of Finance

Mr. Ivan ANAYA OBLITAS

President, Banco Central  
de Bolivia (Governor)

Col. Enrique VARGAS GUZMAN

President, Corporacion  
Boliviana de Fomento  
(Alternate Governor)

Mr. Wenceslao ALBA QUIROZ

General Manager, Banco  
Central de Bolivia  
(Alternate Governor, IMF)

ADVISERS

Mr. Gaston GUILLEN

Director General of Money,  
Banking and Public Credit,  
Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

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| Purpose                             | Amount<br>(\$ million) | Status  | Tentative<br>date of<br>negotiations |
|-------------------------------------|------------------------|---|--------------------------------------|
| Livestock<br>Development<br>Program | \$2.6 million          | Appraisal Mission<br>just returned from<br>the field          | Open                                 |
| Education                           | Unknown                | A UNESCO Project<br>Identification<br>Mission in the<br>field |                                      |

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The United Nations Development Program approved a Bolivian request for technical assistance in a general transport study. The Bank has agreed to be the executing agency and work on the study is expected to begin in early January 1967 and to take about one year.

1950  
1951  
1952

We shall also follow closely developments related to Bobin's external debt. We have noted the steps taken to resolve outstanding issues we hope the question of compensation for the nationalized will soon be retrospectively resolved.



IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level

There are no issues to be raised, beyond expressing appreciation of the action taken on power rates and on the Direccion Nacional de Electricidad (DINE). On July 26, 1966, in compliance with the Credit Agreement, the Government raised power rates and reorganized DINE, a power regulatory agency, in a form acceptable to the Association. (This section is subject to revision pending receipt of further information from Bolivia).

(b) No meeting scheduled with President or Vice President(c) Likely to be raised by delegation

The Bolivian Representatives may wish to explore the possibility of obtaining additional finance for education, rail-ways, and possibly power. We should explain that the present economic position of Bolivia (see Section VII), which does not qualify for Bank loans, restricts IDA's activities to a limited number of high priority projects. We have noted that the outstanding issues with the Eximbank have been resolved and we hope that the question of compensation for the nationalized railroads will soon be settled.

Looking somewhat further ahead, we have noted the possibilities for an expansion of petroleum and gas exports. In part the realization of these possibilities depends on the working out of a satisfactory national petroleum policy. We should point out to the Bolivian delegation the importance of this matter, since the expansion of petroleum and gas exports could open up the possibility of Bank, as opposed to purely IDA, lending to Bolivia (see Section VII).

With regard to the specific areas where the Bolivians have asked about assistance, we might reply as follows:

(i) Livestock

The appraisal mission, which visited Bolivia from August 19 to September 6, is preparing its report. Should the conclusions of the mission be satisfactory, we could call for negotiations on the proposed loans early next year.

(ii) Education

A UNESCO project identification mission is now in Bolivia. It is expected that the mission's report will be presented to the Government early in 1967. We hope that on the basis of this report the Government will submit a loan application.

(iii) Power

We decided to defer consideration of further power projects on the grounds that available IDA funds would be absorbed by the proposed livestock and education projects. Should more funds be available from IDA or the IBRD, we might be able to reconsider.

(iv) Railways

Before defining our position we would wish to see a satisfactory settlement on the compensation to ex-British owners for the nationalized railroads and the conclusions of the UNDP general transport study. The latter are important to determine the role of the railways in Bolivia's transport system.

V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

None

(b) IDA Credits as of July 31, 1966

(US \$ Millions)

| Date          | Purpose                | Amount<br>less<br>cancellations | Undisbursed<br>Balance |
|---------------|------------------------|---------------------------------|------------------------|
| July 24, 1964 | Power Develop-<br>ment | 10                              | 4.3                    |
| July 24, 1964 | Power Develop-<br>ment | <u>5</u>                        | <u>2.3</u>             |
|               |                        | 15                              | 6.6                    |

(c) Technical Assistance Activities

|                                 | Approved  | Completed | Allocation | Revised<br>Est.<br>Cost |
|---------------------------------|-----------|-----------|------------|-------------------------|
| Railways Studies<br>(Sofrerail) | Sept. '61 | June '62  | \$43,000   | \$42,791                |

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

US \$ 1.89 million. None Released

(f) IDA Subscription

US \$ 0.954 million. None Released

(g) Holdings of Bank Bonds

None

(h) I.F.C.

I.F.C. has made no investments in Bolivia.



(i) Settlement of International Disputes

To date the Government has shown no interest in signing the Convention.

VI. POLITICAL SITUATION

On July 3, 1966, the military junta held national elections and on August 6 an elected Government under the Presidency of General Barrientos took office. President Barrientos will govern with a coalition cabinet drawn from the major political parties, which range from the extreme left to the far right. Neither the new President nor the political parties appear to have clear cut programs. There are hopes in Bolivia that the new constitutional Government will be able to promote the country's economic development. It will be seen, however, from Section VII that a number of difficult problems have to be resolved. Moreover, difficulties may arise as a result of the glowing promises made by President Barrientos in his election campaign to both miners and peasants. The army is now no longer in control of the Government; but General Ovando on retiring from the Presidency of the military junta, indicated that the army would return to save the country, if the new Government failed to bring a larger measure of prosperity to the impoverished nation. The new Government is thus attended by hopes but also by problems.

VII. ECONOMIC SITUATION

|                           |                             |
|---------------------------|-----------------------------|
| Population:               | 3.7 million                 |
| GNP per capita:           | US\$ 150                    |
| Foreign Exchange Reserves | US\$ 38 million (June 1966) |

In 1965 GNP rose by 5% or by about the same rate as during 1964. Exports increased by 15% (after a rise of 30% in 1964) and foreign exchange reserves continued to rise to new peaks. During the same period the price level remained relatively stable.

These favorable developments have been caused mainly by external factors, i.e. high mineral prices. But since early 1965 improvements in domestic performance have also taken place. These were concentrated in COMIBOL where decisive action to meet the cost problem was taken. As a result production costs have declined substantially. This, combined with continued high tin prices, has permitted COMIBOL in early 1966, for the first time in its history, to make royalty payments to the Government. Improvements have also taken place in the remainder of the public sector with the result that ordinary budget support by AID in 1966 will be nil for the first time in more than ten years. Budget support has been "projectized" increasingly, and disbursements on development projects have risen considerably over the last three years.

In the private sector there have been important improvements mainly in the petroleum sector where a foreign petroleum company has advanced its activities to the point that later in 1966 petroleum will be exported at an annual rate of US\$15 million. Such exports are scheduled to increase, however, to much higher amounts, probably to at least US\$ 40 million annually in three years. Private mining also has made considerable progress, and new investments are under way which will result in higher levels of mineral production.

In spite of this recent progress Bolivia still is South America's most underdeveloped country with a very poor social and economic infrastructure, a large agricultural sector mostly of a subsistence type and a weak public finance structure. Although social tensions have been reduced since the 1952 revolution, this change was achieved with a shift toward a high consumption/low savings structure and with heavy dependence on external resources.

The new Government taking office in early August 1966 faces some major and immediate problems. The most pressing problem can be recognized in the natural gas sector where discoveries already made by a foreign petroleum company should be followed up with the exploitation of these resources on a large scale. Once the Government's natural gas



policy is clarified, further significant investments will be required, and exports of the petroleum sector may as a result increase to more than double the figure given above. Moreover, further action is also required by COMIBOL to put into effect its intention to lease to interested foreign companies a number of mines which COMIBOL is presently not exploiting because of lack of capital - an agreement to lease a major zinc/lead mine was reached recently with a group of U.S. companies.

There is need for an increase in public sector investment, particularly in the transport sector where a UNDP financed and IBRD executed study will get under way early in 1967. At present practically all public investment is being financed from external sources, but Bolivia should be able in the future to finance an increasing proportion from domestic savings.

Considering Bolivia's low per capita income, the prospects of continued dependence on substantial gross capital inflows and the improvements in economic performance which have taken place in the recent past, the country may be considered eligible for additional IDA credits. With the clarification of the natural gas policy and when gas is exploited on an economic scale, lending on conventional terms may become feasible in the not too distant future.



BRAZIL

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September 22, 1966

BRIEFING PAPER - 1966

BRAZIL

I. MEETING WITH DELEGATION

Date: September 25, 1966

Time: 11:30-12:00

Attended by:

Management: Mr. Knapp

Staff: Mr. Alter  
Mr. Avramovic  
Mr. Weiner  
Mr. Wiese  
Mr. Husain  
Mr. Lerdau

II. MEMBERS OF DELEGATION

Octavio Gouvea de BULHOES (B-F)

Minister of Finance  
Governor

Denio Chagas NOGUEIRA (B-F)

President, Central Bank  
Alternate

Mauricio Chagas BICALHO

Executive Director, IMF

Alexandre KAFKA

Alternate Exec. Director, IMF

Luiz MORAES BARROS

President, Banco do Brasil

Charles Pullen HARGREAVES

Director of Foreign Exchange,  
Banco do Brasil

III. BANK/IDA PROSPECTIVE OPERATIONS

## (i) Loans presently under consideration:

Bank lending totalling \$150 million for a number of power projects was authorized by the Loan Committee for the 1965/66 fiscal year. A Loan of \$50 million was signed in March 1966 and negotiations of the remaining loans of \$99.6 million are expected to be completed in the next few weeks. In addition, at a meeting on May 20, 1966, the Loan Committee authorized preparations to lend to Brazil up to \$150 million between January and June 1967. The projects listed below totalling \$200 million are being actively processed. However, it is realistic to assume that no more than \$50-80 million of Bank lending will be possible in the six months January/June 1967.

| Purpose   | Approximate Maximum Amount (million \$) | Status                                 | Tentative Date for Negotiations |
|---|---|--|---------------------------------|
| Livestock Credit  | 50                                      | Appraisal mission to return on Sept. 9 | January 1967                    |
| Agricultural Storage  | 25                                      | Appraisal early 1967                   | After April 1967                |
| Federal & State high-ways in Minas Gerais, Santa Catarina, Parana & Rio Grande do Sul | 60                                      | Appraisal in early 1967                | After April 1967                |
| ALCOA Aluminium Project   | 30                                      | Appraisal in Oct.-Nov. 1966            | After April 1967                |
| Hanna/Antunes Iron Ore pelletizing and transportation                                 | 35                                      | Appraisal early 1967                   | After April 1967                |

## (ii) Technical Assistance under Consideration:

None

IV. TOPICS FOR DISCUSSION

## (a) To be raised by Bank at meeting with President or Vice President:

None. No meeting is scheduled.

## (b) To be raised by Bank at staff level:

Economic issues are likely to dominate the dialogue between the Bank and Brazil in the coming year. The following subjects are sufficiently important to merit discussion at this stage:



1) Government's policies to promote a healthy growth of the balance of payments

When the present Government took office more than two years ago, it adopted a policy of flexible exchange rates, elimination of exchange subsidies and gradual elimination of quantitative restrictions. These measures have led to the emergence of a strong balance of payments position. However, lately there have been signs of reluctance on the part of the Government to continue the use of a flexible exchange rate. A departure from such a policy in the long run would seriously undermine the growth and diversification of exports, would lead to the erection of differential measures for the restriction of imports, and ultimately impair Brazil's creditworthiness for substantial foreign lending. At the meeting with the delegation, it should be explained to the Brazilians that, among other things, continued Bank lending at the recent rates would presume exchange rate flexibility to insulate the balance of payments from the domestic price increases.

2) The Interest Rate Problem

Present interest rate policies in Brazil imply credit subsidies over a wide area. Although the annual price increase projected for 1966 is about 40 percent, the Banco do Brasil's rate for industrial loans is frozen at 24 percent and for agricultural loans at 18 percent. Consequently, the interest rate has lost its important function of allocating funds on the basis of the efficiency of their use. Moreover, the subsidized rates have increased the pressure for an inflationary expansion of credit. In our negotiations for the forthcoming livestock credit and agricultural storage loans, the Bank should ask for appropriate allowance for inflation in setting interest rates and repayment terms.

(c) Likely to be raised by the delegation:

1) The delegation may ask about the status of the proposed above loans. The appraisal mission for the livestock credit project is already in Brazil. Other projects in the lending program would be appraised between November and April. Allowing time for project appraisal and processing within the Bank, it will not be until January 1967 that the first loan, the livestock credit loan, can be negotiated. Other loans will not be ready for negotiation until after April 1967. Meanwhile, the Bank will send an economic mission to Brazil in November-December to review the economy and the Government's economic policies and to reappraise Brazil's creditworthiness for Bank lending. The mission will review the progress of the stabilization program and other measures to promote economic efficiency and growth and a healthy long-term development of the balance of payments.



2) The delegation may ask about the Bank's lending beyond the above lending program. The transport survey and the steel study will be concluded later this year and should yield, among other things, a number of projects suitable for external financing. There may be some suitable projects in electric power and in the field of development finance companies as well. The extent and timing of Bank lending in these and other areas would depend on a further appraisal of economic trends and the Government's policies.

3) The delegation may inquire about the Bank's intention to convene a Consultative Group for Brazil in 1967. Depending upon our appraisal of Brazil's economic performance following the economic mission next fall, on the availability of a sufficient number of projects for external financing, and the interest shown by potential participants, the Bank may convene a Consultative Group in 1967.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1966:

| Year | Borrower                                  | Purpose | Amount less<br>Cancellations | Undisbursed<br>Balance |
|------|---|---------|------------------------------|------------------------|
|      | Loans fully disbursed                     |         | 267.1                        | 00.0                   |
| 1965 | Usinas Eletricas do<br>Paranapanema, S.A. | Power   | 22.5                         | 22.4                   |
| 1965 | Central Eletrica<br>de Furnas, S.A.       | Power   | 57.0                         | 56.0                   |
| 1966 | CEMIG <u>1/</u>                           | Power   | 49.0 <u>1/</u>               | <u>1/</u>              |
|      | Total                                     |         | 395.6                        | 78.4                   |
|      | of which has been repaid                  |         | <u>97.9</u>                  |                        |
|      | Total outstanding                         |         | 297.7                        |                        |
|      | Amount sold                               | 7.2     |                              |                        |
|      | of which has been repaid                  | 5.6     | <u>1.6</u>                   |                        |
|      | Net Amount held by Bank                   |         | <u>296.1</u>                 |                        |

1/ Not yet effective

(b) IDA Credits as of July 31, 1966:

None.

(c) Technical Assistance Activities:

1) The Transport Survey, financed partly by the Bank (grant of \$1.5 million) is progressing satisfactorily and will be concluded by the end of 1966. The Brazilians had asked for Bank assistance in a second phase, to be started in early 1967. The Government has been advised to approach the U.N.D.P. The Bank is also in touch with the U.N.D.P. A Bank mission will visit Brazil in September-October to help define the scope of the second phase.

2) The Steel Study (Bank grant of \$420,000) is progressing on schedule. Its results will also be available before the end of the year.

3) The Bank is the executing agency for the UNDP-financed power studies of South-Central and Southern Brazil.

(d) Access to Private Capital Markets

No prospects in foreseeable future.

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

None released.

(f) IDA Subscription (\$16.947 million)

None released.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

IFC's commitment in Brazil, as of July 31, 1966, was the largest in any single member and amounted to about \$22,500,000, of which about \$6 million is held by the Corporation. In the fiscal year to June 30, 1966, commitments amounting to \$11 million were made; \$5 million to Acos Villares and over \$6 million to Papel e Celulose Catarinense S.A. (Klabin). IFC expects to present to the Board, before the Annual Meeting, a further investment of over \$10 million in a fertilizer project involving Phillips Petroleum and the Ultragas group of Sao Paulo. IFC also has under active study possible IBRD

financing for an aluminum operation and is having implemented a study of the Brazilian steel industry. Finally, IFC has under preliminary review for possible IBRD/IFC financing the Hanna/Antunes project for iron ore mining and pelletizing and for possible IFC financing a steel expansion project, Belgo Mineira.

(i) Settlement of Investment Disputes

Membership being considered by Government but decision unlikely to be made for some time.



VI. POLITICAL SITUATION

Presidential elections are scheduled for October 3 this year. The elected candidate will assume office on March 15, 1967. The Government party, ARENA, has a majority in the Congress and it is a foregone conclusion that its candidate, General Costa e Silva, would be elected. In protest against the indirect election to the presidency, the opposition has decided not to nominate a candidate. Elections for the new Congress will take place following the presidential elections. With the introduction of a single constituency simple voting system, it is likely that the Government party would gain a majority in the new Congress. Gubernatorial elections by State legislatures are also scheduled for this fall.

General Costa e Silva has not elaborated on his future program, beyond emphasizing the need to continue the present Government's policies to combat inflation and promote economic growth. He has emphasized the need to "humanize" public policies. There is general speculation that some of the key members of the present Government, like Mr. Roberto Campos, would not be included in the new Government. Apparently, General Costa e Silva considers them too much of a political liability to associate with his Government.

Politically, Brazil is in a significant phase of transition. Political, social and economic developments during the next year or two will indicate whether the country can find a balance between a populist regime, like Goulart's, and an authoritarian one like Castelo Branco's. The Castelo Branco Government has shown a capability of taking decisive actions on important issues of economic policy and economic reform, but there is little evidence that these policies helped the Government to widen its political base. Many people think that had there been direct elections for the presidency, the Government candidate would have lost. The "gradualist" approach to the control of inflation has led to declining support for the Government since the results are not immediately visible and sacrifices continue for an indefinite period. In the absence of substantial gains on the stabilization front by the end of this year, the new Government is likely to be under a strong pressure to relax important stabilization measures such as the limitation of wage increases, limitation of credit expansion and periodic increases in the tariffs of public utilities. It remains to be seen to what extent the new Government would be able and willing to govern without popular support and what role the new Congress to be elected democratically in November 1966 will play.



VII. ECONOMIC SITUATION

|                                  |                            |
|----------------------------------|----------------------------|
| Population:                      | 82 million, 1965 estimate. |
| Per capita GDP:                  | \$250-\$300 equivalent.    |
| Gross Foreign Exchange Reserves: | \$738 million.             |

Nearly all the indicators of economic performance registered substantial improvement in 1965. The rise in the cost of living slowed down from 86 percent to 45 percent; GNP rose by an estimated 5 percent; the Central Government budget deficit declined from 29 percent of total expenditures in 1964 to 17 percent; non-coffee exports rose to an all-time high, and this increase in exports, together with a drop in imports and substantial capital inflows (including debt rescheduling), raised foreign exchange reserves to the highest level in some years. The major area of slippage in the Government's 1965 program was the rate of monetary expansion which substantially exceeded the programmed level. This was due primarily to unexpected developments in coffee financing and a very high rate of commercial bank credit expansion during the latter weeks of the year.

Developments on the stabilization front during the first half of 1966 give cause for concern. The consumer price index rose 24 percent during this period. While much of the increase resulted from a series of administrative actions - exchange devaluation, higher public service rates, and especially the removal of price control on beef and milk - it was substantially higher than the Government expected and was due in significant part to the demand pressures produced by the heavy monetary expansion during the latter weeks of 1965 and early weeks of 1966. In view of the volatility of business and consumer expectations, especially after years of rapid inflation, the continuation of rapid monetary expansion could abruptly reverse the trend towards moderating inflationary expectations and undermine the Government's entire stabilization program. The Brazilian authorities are well aware of this danger and are determined to keep inflation under control. Nevertheless, the developments of recent months are symptomatic of the difficulties of carrying out a stabilization program, while trying to maintain and expand economic activity and particularly a large public investment program. At the end of 1965, Brazil's external debt was about \$3 billion, nearly half of it repayable during 1966-70. Debt service obligations are a major claim on the country's external resources and are likely to remain so for a number of years.

The Economic Committee concluded at its June 14 meeting on the report of the most recent economic mission to Brazil that:

- a) The Bank should be prepared to consider lending up to \$200 million to Brazil during the fiscal year 1966-67, providing Brazil continued to carry out policy commitments (including exchange rate adjustment) to protect the balance of payments, lives up to its commitment to limit suppliers' credits, and maintains sufficient control over the budget deficit and credit expansion to the private sector. The Committee recommended that the Western Hemisphere Department should check periodically to determine that these policies are being fulfilled.
  
- b) In the proposed lending program, the Bank should consider financing local costs up to approximately \$100 million and the granting of extended grace periods on its loans. Another economic mission will be visiting Brazil in November to renew the latest developments and to reassess the prospects for the coming years.



CHILE

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September 21, 1966

BRIEFING PAPER - 1966

CHILE

I. MEETING WITH DELEGATION

|              |              |        |   |
|--------------|--------------|--------|---|
| Date:        | September 29 | Time:  | 3:00 - 3:30                                 |
| Attended by: |              | Staff: | Mr. Alter<br>Mr. Chaufournier<br>Mr. Wright |

II. MEMBERS OF DELEGATION

|                |       |   |
|----------------|-------|---|
| Carlos MASSAD  | (B-F) | Vice President<br>Banco Central de Chile<br>Governor  |
| Jorge MARSHALL | (B-F) | Director<br>Department of Economic<br>Studies<br>Banco Central de Chile<br><br>Alternate Governor |

III. BANK/IDA PROSPECTIVE OPERATIONS

At present, there is only the following project under active consideration:

| <u>Purpose</u>  | <u>Amount</u>      | <u>Status</u>                           | <u>Tentative date<br/>for negotiations</u> |
|---|--------------------|---|--|
| ENDESA electric<br>power generation<br>and transmission | Up to \$60 million | Appraisal re-<br>port being<br>prepared | October 1966                               |

In addition, the Bank is considering a lending level of about \$30 to \$40 million a year for 1967 and 1968. However, the composition of the lending program for these two years is not yet determined; possible operations may include a small loan for highway maintenance equipment, a further loan for road construction and improvement in connection with highway studies presently being undertaken by consultants under a technical assistance grant by the Bank (See V (c) ) and (IV (b) ). Other, although more remote possibilities, may be a Bank loan as well as an IFC investment in a private development finance company subject to the establishment of such a company. For political reasons, however, this appears unlikely in the near future. Other fields of interest for the Bank may be in ports, irrigation and education but some projects would have to be identified and probably require Bank's assistance for their preparation.



IV. TOPICS FOR DISCUSSION

To be raised by Bank:

- (i) In view of the frequent contacts there have been with Chile for the past several months, both on general economic and on project matters, it does not seem necessary for the Bank to plan to raise any particular issues with the members of the delegation since everything will have been previously discussed with Chilean authorities more knowledgeable than the members of the delegation.

If the Finance Minister is in Washington at or about the time of the Annual Meetings and if he has a meeting with Mr. Knapp, it would be useful if Mr. Knapp would outline the Bank's present viewpoint regarding Chile:

- (i) For the near future no additional IDA credits could be considered.
- (ii) The Bank is prepared this year to negotiate and present to the Executive Directors a loan to ENDESA for power system expansion in the amount of up to \$60 million.
- (iii) As indicated in the mission's report further lending to Chile will be subject to:
- the Government's fiscal and other policies being consistent with reducing inflation and stimulating growth, with particular emphasis on restraining government current expenditures, and improving the quality and composition of investment,
  - satisfactory performance by Chile of its commitments to the IMF, to CIAP and to the U. S. Government,
- (iv) In view of recent developments and the so far negative position of the government, the Bank does not propose at the present time to push forward with the idea of establishing a consultative group for Chile. It would be prepared, however, to discuss this possibility should the Chilean authorities express interest.

August 24, 1966

- (v) Disbursement problems. US\$19 million Livestock Development Loan and US\$5 million Loan for Meat and Milk Processing Plants, both of December 18, 1963 (Loans No. 366 CH and 367 CH). Mr. Knapp should also impress upon the government the need for more determined action in getting the Livestock project on its way lest the Bank should cancel the outstanding balance at the Closing Date which falls at the end of the year. Similar action would be required in the case of Loan 367 CH. In view of the slow demand for loans to expand milk processing facilities, a portion of the Loan may be subject to cancellation in any case.

Likely to be raised by delegation:

Given the composition of the delegation, it is unlikely that they will raise any issues except perhaps to inquire about the Bank's lending intentions for Chile - to which an answer can be given along the lines of IV (b) above.

V. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1966

| Year | Borrower                    | Purpose              | Amount less<br>Cancellations<br>(in millions US\$) | Undisbursed<br>Balance<br>(in millions US\$) |
|------|-----------------------------|----------------------|--|--|
|      | Loans fully disbursed       |                      | 51.85  | 0.00   |
| 1957 | <u>Lota-Schwager</u> /CORFO | Coal mining          | 9.60   | 0.00   |
| 1957 | <u>Lota-Schwager</u> /CORFO | Coal mining          | 12.20  | 1.08   |
| 1959 | ENDESA/CORFO                | Power                | 32.50  | 5.60   |
| 1961 | Republic of Chile           | Roads                | 6.00   | 2.62   |
| 1963 | CORFO                       | Livestock            | 19.00  | 13.24  |
| 1963 | CORFO                       | Meat and Milk Plants | 5.00   | 4.98   |
| 1965 | ENDESA/CORFO                | Power                | 4.40   | 2.19   |
| 1965 | CORFO                       | Vocational Training  | 2.75   | 2.75   |
|      | TOTAL                       |                      | 143.30   | 32.46  |
|      | of which has been repaid    |                      | <u>35.80</u>                                       |  |
|      | Total outstanding           |                      | 107.50   |  |
|      | Amount sold                 | 5.93                 |  |  |
|      | of which has been repaid    | 4.48                 | <u>1.45</u>  |  |
|      | Net amount held by Bank     |                      | 106.05   |  |



(b) IDA credits as of June 30, 1966

| Date          | Purpose           | Amount less<br>Cancellation<br>(US\$ million) | Undisbursed<br>Balance |
|---------------|-------------------|---|------------------------|
| June 28, 1961 | Road Construction | 19.00   | 9.95                   |

(c) Technical Assistance Activities

- (i) 1962-64 resident mission (Havlik and Reitter). Reestablishment of mission would depend on formation of Consultative Group.
- (ii) 1962-64 Capital Markets Study Mission (Thomas, Ewbank, Den Dunnen). The final report of the mission was transmitted to the Chilean Government in January of 1965.
- (iii) A special technical representative (Parmeggiani) to assist on the Bank/IDA Highway Project has been stationed in Santiago since January 1963.
- (iv) In July 1965, the Bank approved a US\$210,000 technical assistance grant for a highway study to develop a coordinated highway program which the Bank may in the future help to finance. The study is to be completed later this year.
- (v) In October 1965, a Bank expert (Craig-Martin) to assist the Government in project preparation assumed his duties for a period of up to two years. The government was notified that the Bank would terminate his assignment as of October 15, 1966.
- (vi) In October a mission organized by the Bank and consisting of three French railroad experts visited Chile. The mission's report suggesting necessary reforms in the operations, organization and management of Chilean State railroads was submitted to the Chilean Government in December 1965. The Government has subsequently prepared a program of action along the lines suggested by the mission and has approached the Bank for future technical assistance. We have just written Chile indicating that we would be prepared to assist in organizing the study but not to finance it.

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription (\$8.4 million)

No release

(f) IDA 90% Subscription (\$3.177 million)

No release.

(g) Holdings of World Bank Bonds

None.

(h) IFC

IFC (with other participants \$2,457,661) has made four investments in Chile; copper mining and smelting (\$4,337,500), food products (\$1,653,846), cement (\$1,300,000), and pulp and paper (\$3,000,000). No applications are under consideration.

(i) Settlement of Investment Disputes

No action expected from the government in the foreseeable future.

VI. POLITICAL SITUATION

Eduardo Frei of the Christian Democratic Party - a left of center, non-Marxist, pro-clerical party - took office as President in November 1964 after he had won an impressive victory in the presidential elections in September 1964 over his most serious contender, Salvador Allende of the Popular Action Front which is backed by a Socialist-Communist coalition. The President constitutionally serves a 6-year term and cannot succeed himself for a second term.

In the congressional elections in March 1965, President Frei's Christian Democratic Party won an absolute majority in the House of Deputies by gaining 82 seats out of 147 (formerly they held only 28), and a third of the seats in the Senate. The extent of the Frei victory was unexpected and heavy losers were primarily the right wings Conservative and Liberal Party as well as the Radical Party, an anti-clerical, middle-of-the-road party.

Despite this victory and the initial support of the right wing parties in the presidential elections, the government has been facing opposition from both the right and left in the Senate on most of its social and economic programs, which has unduly delayed or in some cases even prevented urgent and necessary legislation. A case in question are the new copper laws which were finally approved by Congress in March of this year after a fight of over one year. Agrarian reform legislation was submitted to Congress late in 1965 and approval is not expected before the end of this year. One other problem facing the President is a split in his own party between the more moderate and leftist elements. So far, Frei has been able to hold the Party together but the need to compromise between the views of the opposing wings of the Party has made it all the more difficult for the Government to follow policies consistent with the economic and social objectives.



VII. ECONOMIC SITUATION

|                            |                            |
|----------------------------|----------------------------|
| Population:                | 8.9 million (mid-1965)     |
| GNP per capita:            | US\$400-450 approximately  |
| Foreign Exchange Reserves: | US\$104 million (May 1966) |

Since the Frei Government took office in November 1964 there has been moderate progress toward the achievement of its major domestic economic goals - more rapid growth, the control of inflation and the redistribution of income. In addition, record copper prices have vastly improved the balance of payments position, and in April this year the Government finally succeeded in obtaining the legislation necessary to the implementation of its agreements with the large foreign copper companies for a major expansion of production over the next 5 years.

Preliminary estimates indicate that GDP rose by roughly 5 percent in real terms last year, compared with an average annual increase of about 4 percent during 1960-64. Increased exports, mainly reflecting higher copper prices, accounted for much of the recorded growth in real income. Domestic consumption increased sharply, especially in the public sector, but investment is reported to have risen little despite the Government's stepped up capital spending. The rise in the cost of living was reduced from 40 percent in 1964 to 26 percent last year, an achievement in line with the Government's target, but one which owed much to price and other direct controls. The money supply rose 65 percent, more than double the target amount set in the IMF standby agreement, reflecting in part the unexpected balance of payments surplus and an apparent increase in the public's desire to hold money. Despite a sharp increase in tax revenue the 1965 public sector budget deficit was much larger than in 1964, although the increased inflow of foreign loans made it possible to finance the deficit with less government borrowing from the banking system. An estimated 12-15 percent rise in real wages contributed much to the general buoyancy of demand.

1966 promises to be another good year. A further rise in real income of 5-6 percent may be expected, with increased export earnings again weighing heavily in the outlook. It may not be possible to repeat the expansion of industrial production recorded in 1965, when there was a considerable unutilized capacity, but, with better weather, agricultural production should be up substantially over last year's low levels. While an increase in minerals production is also expected, the gain is limited by the 3 months strike against one of the major copper producers in the first quarter. On the stabilization front, some further progress is probable in slowing the rise in the cost of living, although the Government's target ceiling of 15 percent has already been breached. While the firm line the Government took in the copper strike seems to have had the effect of moderating wage demands somewhat, prices had already risen more than 15 percent by the end of July. A money supply increase of no more than 24 percent is aimed at and the stand-by agreement with the IMF sets a ceiling of 15 percent (half the 1965 amount) on the expansion of Central Bank credit to



the public and private sectors. Total Central Bank credit was within this ceiling at mid-year, although Central Bank credit to the Government exceeded the agreed amount for this item, presumably because of temporary factors associated with the copper strike.

Improved budgetary performance is a major item in the 1966 stabilization program. As a result of the Government's tax program, and higher copper revenues, total revenues were budgeted to rise sufficiently to more than offset a large increase in current expenditures and make possible a substantial real increase in the current account surplus of the public sector. The expansion of public investment this year, while more restrained than in 1965, is nonetheless planned to exceed 15 percent. The largest single increase in capital spending will, as in 1965, be on housing. In addition, substantial increases are planned for public investment in agriculture, particularly in connection with the agrarian reform program which is being expanded in anticipation of the expected passage of new legislation this year, and in education. The increased current account surplus, partly as a result of the additional revenue from higher copper prices since the passage of the budget, together with greater use of foreign loans, made it possible to budget for the increased investment with only minor recourse to the banking system.

The balance of payments position has been vastly improved by the rise in copper prices which began in 1964 and led the Government this year to put the Chilean producers' price up from 42¢ to 62¢ in April and then to 70¢ in July. While copper tends to dwarf all else, iron ore exports have increased significantly in recent years, and in 1966 there should also be substantial increases in foreign exchange earnings from fishmeal and pulp and paper. The current account deficit was cut from US\$200 million in 1963 to US\$50 million last year and, assuming that the copper price holds near the present level through the year-end, there could well be a surplus on current account in 1966 for the first time in 10 years. This allows for a very substantial increase in imports reflecting in part the constantly increasing need to import foodstuffs to meet the widening deficit in domestic agricultural production. The improved current account position plus a steadily rising inflow of foreign loans enabled the Government to relax import restrictions, virtually eliminate arrears in import payments, and make a start with rebuilding foreign exchange reserves. Gold and foreign exchange holdings rose by US\$60 million during 1964-65, and while the country's net foreign exchange position (i.e. taking account of short-term liabilities) was still negative at the end of last year, an improvement of around US\$100 million now appears likely in 1966. The foreign debt of the public and private sectors had mounted to US\$1,500 million at the end of 1965, and even allowing for the relief provided by the renegotiation of certain debts due in 1965-66, debt service this year is estimated to exceed US\$200 million, or about 23 percent of net foreign exchange earnings.

The most important task for government policy is to restrain the growth of government current expenditures and to improve the quality of public investment, shifting resources away from economic and social infrastructure (particularly housing) to the more directly productive sectors. At the same time, a major effort has to be made to raise private investment in industry and agriculture which has been lagging badly during the past two years. Provided that these things are done, a substantial program of external borrowing would be justified to supplement domestic savings during the next five years. As long as most of this borrowing is on extended terms, with sparing use of suppliers' credits, it should be possible gradually to reduce the present high debt service ratio.



COLOMBIA

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September 21, 1966

BRIEFING PAPER - 1966

COLOMBIA

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**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 28, 1966

Time: 11:30 a.m. - 12 noon

Attended by:

Management: Mr. Knapp

Staff: Mr. Alter  
Mr. Chauffournier  
Mr. Frost  
Mr. Weiner  
Mr. Teigeiro  
Mr. Zenick

II. MEMBERS OF DELEGATION

|                           |     |  |
|---------------------------|-----|--|
| Abdon ESPINOSA VALDERRAMA | (B) | Minister of Finance                            |
| Eduardo ARIAS-ROBLEDO     | (F) | General Manager,<br>Banco de la Republica      |
| Jorge MEJIA SALAZAR       | (B) | President,<br>Banco de Bogota                  |
| Arturo GOMEZ JARAMILLO    | (F) | General Manager,<br>National Coffee Federation |
| Hernan GOMEZ OTAROLA      |     | Adviser Counselor to Monetary<br>Board         |

### III. BANK/IDA PROSPECTIVE OPERATIONS

#### (a) Loans presently under consideration:

The following loans could be ready for signing before June 30, 1967:

| Purpose                            | Amount<br>(\$ million) | Status  | Tentative<br>date for<br>Negotiations |
|------------------------------------|------------------------|---|---------------------------------------|
| Telecommuni-<br>cations            | 23.0                   | Awaiting conditions for submission to Board to be fulfilled   | Second Semester 1966                  |
| CVC/YUMBO IV                       | 10.5                   | Appraisal report in draft. Borrower informed of conditions for negotiation  | Second Semester 1966                  |
| Power Inter-<br>connection         | 26                     | Agreement has been reached between the power companies on the basis for interconnection. Next step is formation of interconnection company. | First Semester 1967                   |
| Irrigation<br>(Atlantico<br>No. 3) | 10                     | Appraisal mission supplementing and revising project data   | First Semester 1967                   |
| Bogota Water &<br>Sewerage         | 20                     | Awaiting completion of Master Plan for water supply   | First Semester 1967                   |
| Secondary<br>Education             | 12                     | Awaiting supplemental views and information prior to appraisal  | First Semester 1967                   |

In addition, the following projects are in the early stages of discussion: additional power generating capacity associated with the interconnected system, additional irrigation systems, Paz del Rio steel mill expansion project, Northern Thermal power station, agricultural education and research, and the highway and railway investment programs.



(b.) Consultative Group:

Consideration is being given to a meeting of the Group early next year to review financing of the 1967 program and to consider an agreed Project List for the 12 months period ending June 1968.

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at Staff Level:

- (i) Economic Policies - We should inquire as to the Government's attitude and intentions with respect to fiscal, monetary and foreign exchange policy. The Bank has received a copy of an official memorandum on economic/financial policy.
- (ii) Highway Program - (Road User Charges Study) - If by the time of the meetings no definite decision has been made by the Government to proceed with such study, we should inquire as to their intentions in this respect. The establishment of an appropriate system of road user charges is an important aspect in the development of a national highway investment program.
- (iii) Telecommunications - If the required actions have not been taken by the time of the meetings, we should inquire as to (a) when the tariff adjustments will be put into effect and (b) how the Empresa intends to improve the revenue situation in 1966 and future years. (Financial results for 1965, recently received, were less favorable than had earlier been projected by the Empresa.)
- (iv) Power Tariffs - We should refer to the memorandum of Economic Policy by the Government of Colombia and the letter from the Minister of Finance, both dated December 17, 1965 in which the Government undertook both to review the need for adjustment of public utility tariffs and to act upon all requests for tariff adjustments within 60 days. In the case of Bogota Power (Loan 313), the time period elapsed from the date of application was more than 60 days. We should emphasize the importance we attach to prompt action on tariff adjustments.

(b) To be raised by Bank at meeting with Vice-President:

- (i) Consultative Group Meeting - We should exchange views as to the most suitable time to hold a meeting of the Consultative Group.
- (ii) Power Interconnection - Now that agreement has been reached as to the basis for interconnection in the form of a written "convenio" we should inquire about the schedule for the establishment of the interconnection company; and also about the progress being made by the interconnection committee in scheduling future generating plants for the interconnected system.

(c) Likely to be raised by delegation:

- (i) Livestock Project - Dissatisfaction may be expressed as to the long delay in finding experts to permit the loan to be made effective.

Suggested response: The Caja Agraria has now approved some of the experts and employment details are being worked out and confirmation of availability is being checked. If the legal opinions required for effectiveness have not been received by the time of the meetings we should urge their early submission.

- (ii) Bogota Power Overrun Loan - We may be requested to reconsider our decision not to make an additional loan to complete the project.

Suggested response: We should state that we considered that the amount (perhaps \$2.0 - 2.5 million) of the foreign exchange overrun should be manageable by the company. We regretted the delay in informing the company of our views, but we had been looking for some way to make the loan and therefore had requested the additional data, which, unfortunately did not adequately support the case for a loan.



V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

|                            |  |             | (US\$ million)                 |                        |
|----------------------------|--|-------------|--------------------------------|------------------------|
| Year                       | Borrower                                       | Purpose     | Amount<br>less<br>Calculations | Undisbursed<br>Balance |
| Loans fully disbursed      |  |             | 187.4                          |                        |
| 1961                       | Republic of Colombia                           | Roads       | 19.5                           | 4.8                    |
| 1961                       | Empresas Publicas de<br>Medellin               | Power       | 22.0                           | 1.9                    |
| 1964                       | Empresas Publicas de<br>Medellin               | Power       | 45.0                           | 38.4                   |
| 1962                       | Emp. de Energia<br>Electrica de Bogota         | Power       | 50.0                           | 4.6                    |
| 1963                       | Electrificadora de<br>Bolivar, S.A.            | Power       | 5.0                            | 1.5                    |
| 1963                       | Ferrocarriles<br>Nacionales                    | Railways    | 30.0                           | 3.8                    |
| 1963                       | Acerias Paz del Rio,<br>S.A.                   | Steel       | 30.0                           | 19.1                   |
| 1/ 1966                    | Banco de la Republica                          | Industry    | 25.0                           | 25.0                   |
| 1/ 1966                    | Caja de Credito Agrario<br>Industrial y Minero | Agriculture | 16.7                           | 16.7                   |
| Total                      |  |             | 430.6                          | 115.8                  |
| Of which has been repaid   |  |             | 78.1                           |                        |
| Total outstanding          |  |             | 352.5                          |                        |
| 2/ Amount sold             |  |             | 15.9                           |                        |
| Of which has been repaid   |  |             | 12.3                           | 3.6                    |
| 3/ Net amount held by Bank |  |             |                                | 348.9                  |

(b) IDA Credits as of July 31, 1966:

|                      |          |                         | (US\$ million)                  |                        |
|----------------------|----------|-------------------------|---------------------------------|------------------------|
| Date<br>of<br>Credit | Borrower | Purpose                 | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
| Aug. 28<br>1961      | Colombia | Highway<br>Construction | 19.5                            | 7.7                    |

1/ Loans not yet effective but for which agreement has been signed.

2/ Including agreements to sell \$1.0 million of loans not yet in effect.

3/ Including loans at 1/.

(c) Technical Assistance Activities:

Resident Mission in Bogota: Lacayo began his assignment in August 1964 to assist the Ministry of Public Works execute the Bank and IDA-financed road project. Iverson's assignment as the Bank's representative in Colombia, which began in November 1964, is being terminated in September 1966.

(d) Access to Private Capital Markets:

No prospects in foreseeable future.

(e) 9% Capital Subscription (US\$8.4 million):

The Government has agreed to release its subscription of US\$8.4 million in semi-annual installments to be completed by June 1967. On November 23, 1962, the Bank agreed to reschedule the July 1, 1962 installment to December 1, 1966, and on August 5, 1965, it agreed to reschedule the July 1, 1965 installment to June 1, 1967.

(f) IDA Subscription (90% Subscription): US\$3.2 million

None released.

(g) Holdings of World Bank Bonds:

None.

(h) I.F.C.

Member

Industrial Investments

IFC (with other participants) has made ten industrial investments in Colombia, two of which have been sold. The eight remaining investments include fiberboard (\$500,000), food products (\$2,000,000), home furniture (\$170,000), cotton textiles (\$2,000,000), a forge plant (\$1,103,409), warehousing company (\$1,000,000) and a livestock and slaughterhouse project (\$1,550,000).

Development Banks

IFC has equity investments in three financieras, as follows:

| <u>Company</u>                                | <u>Amount Invested</u> | <u>Date Approved</u>                 | <u>Portion Sold<br/>(Cost)</u> |
|---|------------------------|--------------------------------------|--------------------------------|
| Corporacion Financiera<br>Colombiana (Bogota) | \$2,023,216            | August 29, 1961<br>and June 12, 1962 | -                              |
| Corporacion Financiera<br>Nacional (Medellin) | \$2,041,996            | August 29, 1961<br>and June 3, 1963  | \$843,807                      |
| Corporacion Financiera<br>de Caldas           | \$ 701,403             | March 31, 1964                       | -                              |

IFC is represented on the Board of Directors of C.F. Caldas.

An IBRD loan of \$25 million was made on May 31st 1966 for re-loan to the industrial sector by the financieras. An IFC mission composed of Mr. Robert L. Skillings, Deputy Director of the DFC Department, and Mr. Robert Fernandes, Operations Officer, which went to Colombia on June 7 - 21st 1966, visited all five financieras with a view to clarifying procedures for the utilization of this loan.

(i) Settlement of Investment Disputes:

Colombia has not signed the Convention on the Settlement of Investment Disputes and there is no indication that it will sign in the near future.



VI. POLITICAL SITUATION

A new administration took office on August 7 under the Presidency of Dr. Carlos Lleras Restrepo. This Government intends to increase the country's investment program, within a context of sound economic policy. To this end the new administration has indicated to the Bank its intention of breaking administrative bottlenecks impeding the progress of public investment, of raising adequate revenues to finance public investment, and of requesting constitutional reforms that will prevent interference by Congress in the shaping of the public investment program. It has submitted the first series of proposals in this respect to the Congress.

VII. ECONOMIC SITUATION

|                            |                            |
|----------------------------|----------------------------|
| Population:                | 18.5 million (1966)        |
| Per capita income:         | US\$220                    |
| Foreign exchange reserves: | US\$155 million (May 1966) |

The ratio of service on existing external debt to export earnings is estimated at about 15 percent in 1966, declining to 6 percent in 1971. Taking account of new debt required for the financing of the development program, the ratio would amount to about 13 percent in 1971 (assuming that new project lending is on average terms of 20 years repayment, 6 percent interest and grace periods of three years). The rate of economic growth reached 5 percent in 1961 and 1962, and 6 percent in 1964, but was little more than 3 percent in 1963 and 1965, mainly owing to policy deficiencies. Since 1965 the Bank, working in close cooperation with the IMF and AID, has endeavored to reach agreement with the Government on economic policies designed to maintain and improve Colombia's creditworthiness for lending by the Bank and other members of the Consultative Group. (Given the present limitations on IDA funds and present eligibility criteria, Colombia is not considered eligible for IDA credits at this time).

Colombia experienced balance of payments difficulties in the first eight months of 1965, arising from deficiencies in exchange rate, fiscal and monetary policy.

Following policy discussions with the Bank (acting in its capacity as leader of the Consultative Group) the Government adopted in September 1965 a series of policy measures designed to correct the balance of payments situation, reestablish domestic stability and provide a basis for a higher level of public and private investment in 1966. In December 1965 the Government formally committed itself to maintaining these policies through 1966 in its standby agreement with the IMF, and in a Memorandum of Understanding with the Bank. On the basis of this Memorandum of Understanding, the U.S. Government committed a program loan of US\$65 million last December and agreed to commit further Treasury, Eximbank and PL 480 assistance totalling US\$37 million, and the Bank considered that its conditions for creditworthiness had been met.

The policy measures specified in the Government's Memorandum of Understanding with the Bank are as follows: first, the depreciation of the principal rate of exchange by 50 percent; second, the liberalization of at least 50 percent of imports; third, the abandonment of official support of the free exchange rate applying to private capital, tourism, etc.; fourth, the establishment of new sources of Government revenue to finance an unprecedented level of public investment in 1966 within the framework of a completely balanced budget; fifth, the adoption of a flexible policy towards public utility tariffs; sixth, the establishment of sources of revenue from the coffee sector



sufficient to finance the requirements of coffee stockpiling without recourse to borrowing for this purpose; seventh, a policy of wage restraint; eighth, the framing of a monetary policy designed to provide adequate financing for the private sector without disturbing domestic price stability.

Performance under these policies has been generally satisfactory. The combination of exchange rate adjustment with sound fiscal and monetary policies resulted in an immediate improvement of 65 percent in net exchange reserves in the last quarter of 1965, and it is expected that the exchange reserve target for December 1966 set in our Memorandum of Understanding will be met. Regarding liberalization of imports, the Government has exceeded its commitment to liberalize 50 percent of imports from quantitative restrictions, attaining a proportion of 65 percent in the second quarter of 1966. In fiscal policies commitments to raise new sources of revenue have been met in full, and the current account surplus exceeds the target and may well reach double the 1965 level. Investment expenditure has not accelerated to utilize the inflow of government revenue, and the government is presently running a large overall surplus. Regarding the commitment to adopt a flexible policy toward public utility tariffs, tariff increases have been approved very promptly by the Central Government, though delays still occur at the municipal level which is outside the scope of the government's authority. Regarding wages policy, wage adjustments have been agreed in an orderly manner, though the extent of increases may be slightly higher than is consistent with price stability, and the government's target of a price increase of 13 percent in the 15 months ending September 30, 1966, may be exceeded by about 3 percent.

Some deficiencies of performance have developed in relation to coffee policy and monetary policy. As compared with the commitment to avoid any Central Bank financing of coffee stockpiling, there has been a small amount of such financing in the first semester of 1966, indicating that the crop is larger than expected and that the coffee sector may need additional revenues this year. Regarding monetary policy, while net Central Bank credit has been kept well below the IMF ceiling, this is primarily because the Central Government's overall surplus has offset an excessive amount of Central Bank credit to the private sector. However, measures were taken in June to restrain the growth of credit to the private sector, and there are indications that these have been effective.

In May 1966 the Economic Committee concluded that Colombia was creditworthy for about \$160 million of external lending in 1966 on the basis of fulfillment by that date of commitments under the Memorandum of Understanding; and with continued satisfactory performance should be creditworthy for about \$350 million in 1967, including \$110 million of lending by the Bank in the fiscal year ending June 1967. The Loan Committee met in May 1966 to consider



a memorandum on future Bank lending operations by the Western Hemisphere Department and agreed that the Bank was prepared to make loans for the projects listed and on the conditions listed in that memorandum (these projects would have total requirements for Bank loans of \$107.5 million in the fiscal year ending June 1967), and that the Bank would continue its long-term program of project preparation and identification.

In June, Western Hemisphere Department held informal discussions with the incoming administration about the externally financed investment program, and about the general shape of government policy in the coming year. These discussions indicated the existence of an identity of viewpoint in principle on the major issues. Parallel discussions held by the IMF were equally satisfactory. In August, the IMF will open preliminary discussions with the Government regarding the renewal of its standby agreement in 1967, and Western Hemisphere Department will proceed with further policy discussions in September and again in October.

COSTA RICA

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September 21, 1966

BRIEFING PAPER - 1966

COSTA RICA

I. MEETING WITH DELEGATION

Date: September 26, 1966

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

Staff: Mr. Alter  
Mr. Chauffournier  
Mr. Weiner  
Mr. Mirza  
Mr. Rose  
Mr. Kuczynski  
Mr. Schmitt

II. MEMBERS OF DELEGATION

Alvaro VARGAS (F-B)

Assistant Manager, Banco Central  
de Costa Rica

Rodolfo LARA (Temp.) (F)

President, Board of Directors,  
Banco Central de Costa Rica

Guillermo GONZALEZ (Temp.) (B)

Director, Research Department,  
Banco Central de Costa Rica

Rodrigo CAAMANO (Temp.) (F-B)

Secretary General,  
Banco Central de Costa Rica



COSTA RICA

September 8, 1966

III. BANK/IDA PROSPECTIVE OPERATIONS

Projects presently under consideration:

| Purpose  | Tentative<br>Amount<br>(US\$ million) | Status   | Tentative<br>Date of<br>Negotiations |
|--|---------------------------------------|--|--------------------------------------|
| a) Agricultural<br>Credit  | 5.0                                   | Ready for presenta-<br>tion to Executive<br>Directors as soon as<br>fiscal measures are<br>taken.                            |                                      |
| b) Industrial<br>Credit  | 5.0                                   | Loan application<br>and supporting study<br>being reviewed   | Late 1966                            |
| c) Roads:<br>Plan Vial II  | To be de-<br>termined                 | Plan Vial being<br>presently reviewed<br>at Ministry of Trans-<br>portation before sub-<br>mitting it officially<br>to Bank. | Mid 1967                             |
| d) Limon Road <sup>1/</sup>  | 9.0                                   | Design work to be<br>completed by Ministry<br>of Transportation<br>before the end of<br>1966.                                | Mid 1967                             |
| e) Power<br>(expansion at<br>Cachi and con-<br>struction of<br>Tapanti hydro<br>project) | 12.0                                  | Experts from Elec-<br>tricité de France to<br>review ICE studies.<br>Loan application<br>expected first half<br>of 1967.     | Late 1967                            |

<sup>1/</sup> Includes a) complete construction of the Siquirres - Rio Chirripo link, b) construction of three bridges on the Pacuare, Barbilla, and Chirripo rivers, c) final work on the Rio Chirripo - Liverpool link and d) some improvements of the existing road from San Jose to Siquirres and from Liverpool to Limon.

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| Purpose   | Tentative<br>Amount<br>(US\$ million) | Status   | Tentative<br>Date of<br>Negotiations |
|---|---------------------------------------|--|--------------------------------------|
| f) Atlantic Port  | To be de-<br>termined <sup>1/</sup>   | Consultants to be<br>selected shortly to<br>prepare study for<br>Bank appraisal. | Late 1967                            |
| g) Telecommuni-<br>cations II<br>(29,000 new<br>telephone<br>lines) | 8.0                                   | ICE preparing<br>studies.  | Early 1968                           |

In addition, one or two projects may develop in the field of education (construction of schools for secondary education and, perhaps creation of a polytechnic institute) but nothing has been decided yet at the Ministry of Education.

All loans beyond the agricultural credit loan would be considered only if long-term fiscal measures are taken to increase the revenues of the Central Government.

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<sup>1/</sup> A preliminary study prepared by Transportation Consultants Inc. (Report on Port and Railway Study) estimates total costs at about \$20 million of which about \$7 million would be in foreign exchange.

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IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff level:

(i) Fiscal problem

As a result of the conversations that Mr. Alter held early in June in Costa Rica with the Minister of Finance, Lic. Alvaro Hernandez Piedra, an "Aide-Memoire" was handed over to the Government outlining the measures we expect them to take to cope with the fiscal problem both in the short and in the longer term. The Aide Memoire was accepted by the Government. We are still awaiting action on the short-term measures for 1966. Such action is a pre-requisite to our presenting the proposed Agricultural Credit loan to the Executive Directors. While pressing for the short-term measures, we should continue to stress that the longer term measures are of the highest priority if the public sector is to generate the savings necessary to carry out the investment required for a faster rate of economic growth. The study of the tax reform proposals of the OAS/IDB expert team should be accelerated and the proposals presented to the National Assembly as soon as possible.

(ii) Delays in payments

Payments on our road loan and credit (Loan 299-CR and Credit 10-CR) have been consistently delayed in the past. The point was raised with the Costa Rican delegation in last year's Annual Meeting. Payments due on May 2, 1966, however, were again delayed for almost four weeks. Next payment is due on November 1, 1966.

(iii) Central American Mission

The Central American Mission that is studying the economies of the countries in the context of regional integration hopes to discuss its conclusions and findings with the Government at the end of this year or beginning of next year.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled.



(c) Likely to be raised by delegation:

- (i) The delegation may suggest that the Bank finance a higher percentage of the total cost of projects (especially for power projects), regardless of the foreign exchange component. Our position is that the Bank's last economic mission which appraised Costa Rica's investment program concluded that the external financing needed for it is such that we cannot at this time consider financing more than the foreign exchange costs of projects except in cases where, as in the proposed Agricultural Credit, the foreign exchange component is low.
- (ii) The delegation may inquire about the status of a fifth industrial credit to the Central Bank. The application, received in August, is being reviewed; we feel that more is needed on the overall demand for industrial funds, in view of other loans either made or under consideration by other agencies.

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V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1966

| (US \$ Million)          |               |  |                                 |                        |
|--------------------------|---------------|--|---------------------------------|------------------------|
| Year                     | Borrower      | Purpose                                  | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
| 1956                     | Banco Central | Agric. and industrial imports            | 3.0                             | nil                    |
| 1959                     | Banco Central | Agric. and industrial imports            | 3.5                             | nil                    |
| 1960                     | Banco Central | Industrial imports                       | 2.0                             | nil                    |
| 1961                     | ICE           | Power (Rio Macho)                        | 8.8                             | nil                    |
| 1961                     | Banco Central | Industrial imports                       | 2.9                             | 0.1                    |
| 1961                     | Government    | Roads (Plan Vial I)                      | 5.5                             | 2.5                    |
| 1963                     | ICE           | Power (Cachi Dam) and telecommunications | 22.0                            | 6.0                    |
| Total                    |               |  | <u>47.7</u>                     | <u>8.6</u>             |
| of which has been repaid |               |  | 9.0                             |                        |
| Total outstanding        |               |  | <u>38.7</u>                     |                        |
| Amount sold              |               |  | 3.2                             |                        |
| of which has been repaid |               |  | 3.0                             |                        |
| Net amount held by Bank  |               |  | <u>38.5</u>                     |                        |

(b) IDA Credits as of July 31, 1966

| (US \$ Millions) |            |                     |                                 |                        |
|------------------|------------|---------------------|---------------------------------|------------------------|
| Year             | Borrower   | Purpose             | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
| 1961             | Government | Roads (Plan Vial I) | 5.5                             | 2.5                    |

(c) Technical Assistance Activities

UN Development Programme Port and Railway Study, for which the Bank acted as Executing Agency, was completed end of 1964 by Transportation Consultants Inc. (TCI). Based on the consultants' recommendations, Bank drafted terms of reference for feasibility study of new Atlantic Port. A request was sent by the Costa Rican Government to the UNDP on January 5, 1966, for assistance in establishing the National Institute of Apprenticeship (INA). The Bank has supported the request. Another request was sent on January 19, 1966, to the UNDP for assistance in an "Integral Transport Study for the Development of the Metropolitan Area of San Jose". The Bank supports the Government's request and may act as Executing Agency. Some changes have been suggested by the Bank to the original request.

(d) Access to Private Capital Markets

Not applicable.

(e) Bank 9% Capital Subscription

Total subscription: \$10.7 million. 9% of the subscription - \$963,000. \$360,000 released in US dollars and on loan.

(f) IDA Subscription

90% Subscription: \$180,000. No releases.

(g) Holding of Bank Bonds

None

(h) IFC

IFC has one active investment of \$324,542 in Costa Rica in pre-stressed concrete products and cement tubes. IFC has no new active projects before it.

IFC intends to send a mission later this year, to follow up previous work on the feasibility of a regional investment company or DFC.



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COSTA RICA

(i) Settlement of Investment Disputes

Costa Rica has not signed the Convention on the Settlement of Investment Disputes and is not expected to do so in the near future.

COSTA RICA

September 19, 1966

VI. POLITICAL SITUATION

Elections were held in February 1966 and Professor Jose Joaquin Trejos, a University professor of statistics and mathematics, won the presidency by a narrow margin over the government candidate, Daniel Oduber, of the National Liberation Party. Trejos, a political neophyte, headed a coalition called National Unification, a very mixed group. He ran with the support of three former presidents: Rafael Angel Calderon Guardia (1940-1944), Otilio Ulate Blanco (1949-1953) and Mario Echandi Jimenez (1958-1962). Each of the three is antagonistic to the other two and each sees himself now as the power behind the President. The National Unification Party does not control the country's 57-seat Legislative Assembly. It also remains to be seen to what extent the National Liberation Party co-operates with the new government. The National Liberation Party feels that they lost the election, which was decided by less than 1% of the total vote, because of a rural area whisper campaign that their candidate - Daniel Oduber - was tainted with communist ties, which all responsible observers agree is totally false. Trejos himself is not blamed for the whisper campaign. It is expected that Professor Trejos will run a moderate, free-enterprise oriented government, with rather close ties with the US.

VII. ECONOMIC SITUATION

Population: 1.4 million  
GNP per capita: about \$400  
Gross Foreign  
Exchange Reserves: \$30.0 million (May 1966)

With relatively large areas of land available for development on the Atlantic coast areas which are closest to the US market, a more educated population than in many comparable countries and a stable democracy, Costa Rica has a good development potential. Since 1962, Costa Rica's rate of economic growth, which had slowed down considerably after the drop in coffee prices in the late fifties, has recovered to an annual rate of about 6 percent in real terms. This recovery continued in 1965 despite the temporary stagnation of exports resulting from the volcanic eruption of 1961-64. The main stimulus for this improved performance has been the rapidly rising exports of manufactures to the Central American Common Market, which Costa Rica joined in 1963, and the opening up of new areas for the expansion and diversification of agricultural exports into such items as beef, sugar and cotton.

Since 1961, rapidly rising expenditures for education and subsidies in the face of more slowly rising revenues have caused an increasing budget deficit. To finance the deficit, the authorities have resorted increasingly to foreign borrowing on short- and medium-term: the resulting high levels of debt service in the next five years (reaching 17 percent of export earnings in 1966 and falling to 8 percent of projected export earnings in 1970) make it necessary for the authorities to carry out substantial expenditure and tax reforms if Costa Rica is to conserve a sufficient margin of creditworthiness to undertake the external borrowing for the high-priority projects now under preparation. The recent implementation of the expenditure and tax measures for 1966 discussed with the Bank, indicates that the new Government is willing to take the necessary action. The Bank plans to continue to review closely with the authorities in the course of 1966 their plans for fiscal reforms.

The recent (February 15, 1966) Bank Report on "The Financing of Costa Rica's Public Investment Program 1965-68" recommends specific steps to correct the longer-term fiscal imbalance. While a slower growth of expenditures is possible, this depends on reforms in the educational system and in the finances of various public agencies which receive government subsidies. These reforms are likely to take time and would not in any case be sufficient to eliminate the present gap, which amounts to about 2.5 percent of GDP. The authorities are beginning to consider possible measures to raise



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income, property and sales taxes in 1967: as a minimum, these measures should aim at raising central government revenues from the existing 12 percent of GDP to 14 percent. This higher level would be consistent with Costa Rica's public savings requirements to carry out its projected public investment. The Bank expects that these or equivalent tax measures will have been taken before it can proceed with the consideration of loans for high-priority projects for ports, electric power and road construction.

DOMINICAN REPUBLIC

CONFIDENTIAL

September 22, 1966

BRIEFING PAPER - 1966

DOMINICAN REPUBLIC

**DECLASSIFIED**

**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 29, 1966

Time: 5:30-6:00 pm.

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Wright  
Mr. Nelson  
Mr. Bocchenski  
Mr. van der Heijden  
Mr. Creyke  
Mr. Dumoulin

No meeting scheduled with President or Vice President.

II. MEMBERS OF DELEGATION

Diogenes H. FERNANDEZ (F-B)

Governor, Banco Central de la Republica Dominicana

Hector GARCIA GODOY (Temp.)(B)

Appointed Ambassador of the Dominican Republic to the United States.

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Adviser

Bernardo VEGA (Temp.) (F)

Economic Adviser to Governor, Banco Central de la Republica Dominicana



III. BANK/IDA PROSPECTIVE OPERATIONS

No lending is considered in the near future and no projects suggested for possible Bank financing are close to being ready.

Yaque Studies (UNDP Program)

The UNDP program, which started fully in April 1966, is behind schedule. The Bank mission in August 1966 found the following problems: (a) lack of Dominican counterpart personnel; and (b) reluctance of the Dominican engineers to follow instructions from the consultant. Action has been initiated to find more Dominican experts; one of the Dominican engineers resigned and so did the head of the consultants' mission who is now being replaced by a man favorably known to the Bank. It will have to be decided during the next weeks whether the original Program can be followed with only minor adjustments or whether a revision of the entire Program is indispensable. A Bank Mission will, probably, have to visit the country again very soon.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

None

- (b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled with President or Vice-President.

- (c) Likely to be raised by delegation:

The delegation can be expected to press for emphasis in the Yaque studies on projects which are relatively close to realization and could be financially assisted by Bank or IDA.

We should reply that: (a) the proposed revision of the Yaque studies program will shift the emphasis to priority irrigation projects which could be executed before big reservoirs have been constructed; (b) even these projects may require up to one year of preparatory work .

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1966

No loans have been made.

(b) IDA Credits as of July 31, 1966

No credits have been made.

(c) Technical Assistance Activities

The Plan of Operation for the Yaque Studies Program was signed on February 25, 1965, and was declared effective on October 18, 1965. The timetables for the reports to be prepared under the program started running on April 11, 1966, when the basic facilities needed for the program became available.

(d) Access to Private Capital Markets

Banking connections:

|        |   |            |
|--------|---|------------|
| Canada | - Royal Bank of Canada, Bank of Nova Scotia | )all have  |
| USA    | - Chase Manhattan Bank,                     | )branches  |
|        | - First National City Bank                  | )in the DR |

(e) Bank 9% Capital Subscription

Total 9%: US\$1.2 million

On March 16, 1964, the Board of Governors approved an increase in the capital subscription from \$8 million to \$13.3 million. The increase became effective on July 16, 1964. There has been no release of 9%.

(f) IDA Subscription

US\$360,000. No release.

(g) Holding of Bank Bonds

None



(h) IFC

Private DFC

The Steering Committee for this DFC was organized early in 1965. Its request for an IFC investment is in abeyance since the revolution.

Major Issues:

- (a) The very existence of the Steering Committee.
- (b) The volume of business expected.
- (c) The availability of local capital.
- (d) The availability of quasi-equity.

(i) Convention on Investment Disputes

The Dominican Republic has not signed the Convention.

VI. POLITICAL SITUATION

Under the administration of Provisional President, Dr. Hector Garcia Godoy, backed by an OAS Commission and Peace Force, conditions in the country have, gradually, become normal again, at least since the beginning of 1966. In the elections of June 1, 1966, Dr. Joaquin Balaguer and his "Reformista" party won by a large majority. Balaguer had become known first under the Trujillo regime, but after Trujillo's assassination, he played an independent role and gained merit in helping toward a peaceful transition to a more normal political system. He has the reputation of an honest and scholarly statesman of moderately progressive leanings.

The first weeks of the new administration indicate its serious concern about restoring equilibrium in the balance of payments, eliminating budgetary deficits and finding solutions for the losses of the Government-owned sugar industries. Austerity measures seem to be accepted, without much protest, by the country, which is exhausted by political strife and anxious to resume normal economic activities. If there is still danger to political stability, it seems to come at this moment predominantly from the extreme right, possibly linked with certain officers' groups, fearful of losing their privileges and traditional preponderance to a civilian administration backed by most of the segments of the population.

Population : 3.5 million  
GNP per capita : US\$225  
Gross foreign exchange reserves : US\$38.4 million

The Balaguer administration which took power in July 1966 appears to be determined to reverse the serious deterioration in the country's internal and external finances which took place in the period following Trujillo's downfall in 1961 and which was aggravated by the revolution which shook the Dominican Republic in 1965. Various measures have already been taken to reduce the high level of public current expenditures which may eventually lead to the creation of public savings which so far have been negative. The new Government has received a \$40 million loan on soft terms from the US Government which, with undisbursed balances on earlier commitments, provide a very substantial fund to cover the public current deficit and finance an emergency "public investment" program which is to be carried out to reduce unemployment and to restore the bases for the country's economic viability and growth.

Having decided not to devalue the peso, the Balaguer administration is trying to restore equilibrium in the country's deteriorating external finances by fiscal and monetary means only. So far, these efforts have not been successful and are not likely to lead to balance of payments equilibrium which is to be reached in the face of a level of export earnings which is stagnating at a pre-1962 level, an important backlog in import demand due to the need to replete stocks, a grossly inadequate level and composition of gross foreign exchange assets and a pronounced bunching of short-term external debt maturities in 1967 and 1968. Disbursements on US loans and grants are slow as for the most part they are dependent upon the progress achieved in the execution of the public investment program. In addition, US financial assistance can only be used to finance approved imports from the US constituting roughly 30 percent of total Dominican imports. The present prospects, therefore, are for continuing uncovered foreign exchange deficits. Meanwhile, the country's foreign exchange situation is precarious and commercial arrears to foreigners (the main problem under the original IMF stabilization program) are building up again.

Much harsher austerity measures will have to be taken to restore balance of payments equilibrium than have been adopted so far. As the new Government excludes an adjustment in the rate of exchange from its instruments to manage the balance of payments, a severe contraction in economic activity and monetary incomes is required to reduce the high level of imports inasmuch as the Government does not contemplate any additional import surcharges which would tend to run counter to one of the President's main policy objectives, i.e. to reduce the cost of living. The Government



hopes to improve the foreign exchange situation by trying to renegotiate the Dominican Republic's short-term debts to the International Monetary Fund and a consortium of US banks and by creating a stable political and a favorable investment climate which could lead to the repatriation of some Dominican dollar holdings in the US.

While it is yet too early to evaluate fully the country's economic prospects and the effects of the austerity measures taken so far, preliminary impressions indicate a genuine desire on the part of the Government to restore public financial discipline which had been badly lacking in the past five years. However, substantial further corrective action is required to improve the country's deteriorating external financial situation.

EQUADOR

CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

ECUADOR

**DECLASSIFIED**

**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 28, 1966

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

Attended by:

Staff: Mr. Alter  
Mr. Chauffournier  
Mr. Frost  
Mr. Wright  
Mr. Shibusawa  
Mr. daCosta

II. MEMBERS OF DELEGATION

Pedro Jose ARTETA MARTINEZ

(B)

Minister of Industries and  
Commerce

Guillermo PEREZ CHIRIBOGA

(F)

General Manager,  
Banco Central del Ecuador

Gustavo LARREA

(B)

Ambassador of Ecuador to the  
United States

Alfonso ARCOS

(F)

Director of Economic Research,  
Banco Central del Ecuador

Jacinto BENELCAZAR

Adviser,  
Under Secretary of Finance



III. BANK/IDA PROSPECTIVE OPERATIONS

Loans presently under consideration:

| <u>Purpose</u>                 | <u>Approximate<br/>Amount<br/>(\$ millions)</u> | <u>Status</u>   | <u>Tentative<br/>date for<br/>Negotiations</u> |
|--------------------------------|---|---|--|
| Livestock Project              | 6.2   | Appraisal mission<br>in the field at<br>present                                     | January 1967                                   |
| Guayas River Bridge<br>Project | To be<br>determined                             | Consultants' study<br>to be undertaken<br>in near future                            | Sept. 1967                                     |
| Secondary Education<br>Project | 3.0 - 5.0                                       | UNESCO identifi-<br>cation mission<br>in the field at<br>present                    | Sept. 1967                                     |
| Forestry Project               | To be<br>determined                             | FAO project<br>identification/<br>preparation mission<br>in the field at<br>present | Uncertain                                      |

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level:

To inquire what measures the Government has taken to raise additional S/250 million (about US\$ 13.8 million) for the fiscal year 1967. The current Fund standby agreement requires that the Government undertake measures by October 15, 1966 to raise new current resources of S/250 million for the 1967 budget.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled.

(c) Likely to be raised by delegation:(i) Scheduling for negotiations of the proposed Livestock Project:

Suggested response: Negotiations are tentatively scheduled for January 1967.

(ii) Possible Bank financing for the Guayas River Bridge:

Suggested response: Bank is willing to appraise the project provided that the feasibility study, which is to be undertaken in the near future, clearly demonstrates economic justifications for the project.

(iii) Possible Bank financing for the Secondary Education Project:

Suggested response: Bank is prepared to study the project upon confirmation by UNESCO, on the basis of findings of its project identification mission which is in the field at present, that the project has high priority within the education sector.

(iv) Possible Bank financing for the Forestry Project:

Suggested response: An FAO project identification/preparation mission is in the field at present. The Bank is willing to study the project upon the receipt of recommendations which will be presented to the Bank by the aforementioned mission.

- (v) Possible Bank financing for the Nayon Hydroelectric Project (Empresa Electrica Quito):

Suggested response: Bank is prepared to study the project if and when the Empresa Electrica Quito succeeds in solving its financial problems, especially with regard to the debt outstanding from the Municipality of Quito for the consumption of electricity over the past 8-10 years.

- (vi) Possible Bank financing for the Pisayambo Hydroelectric Project (INECEL):

Suggested response: Bank is prepared to review the feasibility study as soon as it is ready.

- (vii) Possible Bank financing of the Toachi Hydroelectric Project (INECEL):

Suggested response: Bank is prepared to review the feasibility study as soon as it is ready.



V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

| Year | Borrower                                   | Purpose              | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
|------|--|----------------------|---------------------------------|------------------------|
| 1954 | Comite Ejecutivo de<br>Vialidad del Guayas | Roads                | 7.5                             | 0.0                    |
| 1956 | Empresa Electrica Quito,<br>S.A.           | Power                | 5.0                             | 0.0                    |
| 1957 | Empresa Electrica Quito,<br>S.A.           | Power                | 5.0                             | 0.0                    |
| 1957 | Republic of Ecuador                        | Roads                | 14.5                            | 0.0                    |
| 1958 | Autoridad Portuaria de<br>Guayaquil        | Port<br>Construction | 13.0                            | 0.0                    |
| 1964 | Republic of Ecuador                        | Roads                | <u>9.0</u>                      | <u>5.5</u>             |
|      | Total                                      |                      | 54.0                            | 5.5                    |
|      | of which has been repaid                   |                      | <u>14.5</u>                     |                        |
|      | Total outstanding                          |                      | 39.5                            |                        |
|      | Amount sold                                | 1.2                  |                                 |                        |
|      | of which has been repaid                   | <u>0.7</u>           | <u>0.5</u>                      |                        |
|      | Net Amount held by Bank                    |                      | 39.0                            |                        |
|      |  |                      | ====                            |                        |

(b) IDA Credits as of April 30, 1966

| Date         | Purpose              | Amount<br>(\$ millions) | Undisbursed<br>Balance |
|--------------|----------------------|-------------------------|------------------------|
| May 26, 1964 | Highway Construction | 8.0                     | 8.0                    |

(c) Technical Assistance Activities

National Institute of Electrification (INECEL): Bank advisory assistance to INECEL in preparing the basis for a national electrification plan was completed in October 1964.

(d) Access to Private Capital Markets

No prospects in foreseeable future.

(e) Bank 9 percent Capital Subscription (\$1.54 million)

Full amount released in dollars.

(f) IDA Subscription (\$0.585 million)

None released.

(g) Holdings of Bank Bonds(h) I.F.C.

Member

(i) I.F.C. has one investment of approximately \$2 million equivalent in equity and debt of La Internacional, a major Ecuadorian textile firm. I.F.C. is currently exploring other new industrial projects in Ecuador.

(ii) A proposal by the Compania Financiera Privada (COFIEC) for an I.F.C. investment was turned down on July 9, 1965. At the same time, COFIEC was informed that I.F.C. would reconsider the proposal after a satisfactory record of operations was established by COFIEC. Recently, COFIEC requested an I.F.C. mission to appraise its performance with a view to a reconsideration of the proposed investment. I.F.C. is considering the possibilities of sending the requested mission sometime in 1967.

(i) Settlement of Investment Disputes

Ecuador has not signed the Convention on the Settlement of Investment Disputes. There is no indication that it will sign in the near future.

## VI. Political Situation

Following the resignation on March 29, 1966 of the Military Junta which had held office since July 11, 1963, an interim civilian Government has been established. President Yerovi has announced the holding of elections in October 1966 to appoint a Constituent Assembly.

The present Executive, while claiming strong business representation - including representation from Guayaquil - has found it necessary to implement unpopular measures of economic restraint which have propagated opposition from elements in that sector. Simultaneously it has inherited a legacy of unemployment. The political situation is therefore somewhat sensitive, and the Government is trying to weather a difficult financial period within the limitations inherent in its temporary status.



VII. ECONOMIC SITUATION

|                            |                              |
|----------------------------|------------------------------|
| Population:                | 5.1 million (1965)           |
| GDP per capita:            | \$210 (1965)                 |
| Foreign exchange reserves: | \$30.0 million (August 1966) |

After enjoying a boom in 1960-64 with a 7.7 percent per annum increase in GDP at current prices, a marked decline in growth rates commenced in 1964 which, as preliminary estimates indicate, led to a static per capita GDP in 1965. This reflects a deterioration in the external trade position with its heavy dependence on bananas, a crop which is suffering from world overproduction and the virtual loss to Ecuador of the Japanese market. Lagging economic growth resulted in budgetary difficulties necessitating a reappraisal of the public investment targets in the Ten-Year Development Plan 1964-1973 (which was prepared in consultation with the IDB in its capacity as Financial Agent and leader of the Consultative Group).

The subsidence of the banana boom and excessive Central Bank financing created balance of payment difficulties in 1965 and early 1966, and a capital flight developed, reducing international monetary reserves in May 1966 to less than two months' imports. The interim Government, with support from the U.S. and the IMF, is now trying to get the economy back into balance.

The original revenue estimates for 1966 were over-optimistic, requiring drastic reductions last June in the scale of expenditures. Arrangements have now been made to finance the estimated budgetary deficit for 1966 (reduced from \$53.4 million to \$23.3 million equivalent) involving a US budget support loan of \$10 million of which \$4 million has been already disbursed, and a further \$13 million under negotiation from foreign banks. In addition to these specific budget financing measures, the IMF has granted a standby of US\$ 13 million. The standby arrangement places great emphasis on fiscal rectitude, import restraint and periodic reviews, spelling out quantitative and directional prescriptions on Central Bank credit, loans and investment. As a result of the improvement of the fiscal position and an improved June trade performance, the international monetary reserves steadied from a low of \$16.2 million in May and rose to \$30.0 million on August 12.

The external public debt outstanding at the end of December 1965 was \$164.8 million, compared with \$160.7 million at the end of 1964. Interest and amortization payments were equal to a modest 8 percent of current account exchange earnings in 1964 and are projected to decline to around 6 percent in 1971. The external debt, while of some consequence, has been undertaken on average terms which are not onerous, and the debt service ratio is quite moderate. However, the position could be aggra-

vated by the poor prospects for exports.

The Economic Policy Memorandum of last April recommends that "every effort be made to develop new kinds of exports", but points out that "all the known possibilities require a number of years to develop them to the point at which a sizeable contribution will be made to exports." External loan funds are essential for development and diversification of the economy, and the consequent rising burden of debt service could become unwieldy unless additional debt is contracted on extended terms. This situation has been recognized by the Economic Committee in recommending that "Ecuador should continue to be eligible for IDA assistance."

EL SALVADOR



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September 21, 1966

BRIEFING PAPER - 1966

EL SALVADOR

I. MEETING WITH DELEGATION

Date: September 26, 1966

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

Staff: Mr. Alter  
Mr. Chauffournier  
Mr. Weiner  
Mr. Mirza  
Mr. Rose  
Mr. Kuczynski  
Mr. Schmitt

II. MEMBERS OF DELEGATION

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

Albelardo TORRES (B) Minister of Economy

Roberto PALOMO (F)

Tomas Alfonso MEDINA Adviser, Economic Research Department,  
Banco Central de Reserva de El Salvador

Mauricio Ernesto  
MARTINEZ Adviser

III. BANK/IDA PROSPECTIVE OPERATIONS

| Purpose                    | Tentative Amount<br>(US \$ million) | Status                                      | Tentative dates<br>for negotiations |
|----------------------------|-------------------------------------|---|-------------------------------------|
| Supplementary Highway Loan | 2.8                                 | Awaiting authorization by National Assembly | Negotiated                          |
| Education                  | 5.0 to 8.0                          | Awaiting completion of information          | End 1966                            |
| Irrigation                 | To be determined                    | Feasibility study underway                  | Mid 1967                            |
| Power                      | To be determined                    | Feasibility study underway                  | Mid 1967                            |

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at Staff level:(i) Highways

We should express concern about delays in authorization by the National Assembly of the \$2.8 million Supplementary Highway loan which was negotiated in December 1965. Since negotiations were completed, we have had no replies to our letters and cables urging the El Salvadoreans to advise us when the authorization may be expected. Last June, the President of El Salvador promised to press the matter, but since then we have not received any indication of progress. In view of this and because, at the last Annual Meeting, the El Salvadoreans insisted we accelerate the loan procedure, we should ask the delegation whether this financing is still needed. So far our existing highway project, to complete which the supplementary loan is needed, has been proceeding on schedule. However, further delays in obtaining the above authorization may hurt it unless other financing has already been obtained. If other financing has been arranged then the justification for the proposed loan would no longer exist. If, however, the El Salvadoreans still want our loan then in view of the lapse of time between appraisal and presentation to our Executive Directors, we should tell them that it would be necessary to send a mission to El Salvador to update the technical data in addition to reviewing progress on the existing project which would be done in any case at the end of this year or early next year.

(ii) Education Project

We might also express concern about the slow rate of preparation of the education project. Preparation has been underway since late 1964. We propose to send a Bank staff member to El Salvador, before the end of this year, to accelerate the preparation of this project. We can also tell the delegation that the use of IDA funds for this project is under serious consideration at top level in the Bank.

(iii) 9% Capital Subscription:

We should enquire about the status of the unreleased portion of El Salvador's capital subscription, and press for its release over, say, a four-year period.



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(The original \$180,000 was released several years ago.) The delegation may explain that the decision was deferred out of concern that the Bank would use it as a precedent in requesting similar releases from other Central American countries. We should reply that we consider the case of each country on its own merit (example Costa Rica) and that Nicaragua, for example, had already agreed to release its 9% subscription. Also the delegation may explain that El Salvador would be willing to release the remaining portion (\$780,000 equivalent) of its 9% subscription on condition that purchases be limited to those from Central America and Mexico. We then should indicate that a release with such a limitation would be of very little value to the Bank. Finally, we might observe that at the last two Annual Meetings, the Salvadorean delegation promised that the matter would be given full consideration. This was discussed with the President of the Central Bank early this year, but we have received no advice from him on the subject.

(iv) Central American Mission

The Central American Mission that is studying the economies of the countries in the context of regional integration hopes to discuss its conclusions and findings with the Government at the end of this year or beginning of next year.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled.

(c) Likely to be raised by delegation:

The delegation may enquire as to whether more IDA funds could not be made available to El Salvador. Our reply should be that we hope to make some IDA funds available to finance the Education Project that is under preparation, but at this time we cannot say how much IDA funds can be made available. We consider El Salvador to be a hard blend country and the major portion of our future lending to El Salvador would be on conventional terms.

V. BACKGROUND INFORMATION(a) Bank Loans as of June 30, 1966

| (US \$ Millions)            |  |                         |                                 |                             |
|-----------------------------|--|-------------------------|---------------------------------|-----------------------------|
| Year                        | Borrower   | Purpose                 | Amount<br>less<br>cancellations | Undis-<br>bursed<br>Balance |
| 1949                        | Comision del Rio Lempa                           | Power                   | 12.5                            | nil                         |
| 1954                        | Republic of El Salvador                          | Roads                   | 11.1                            | nil                         |
| 1959                        | Republic of El Salvador                          | Roads                   | 5.0                             | nil                         |
| 1959                        | Comision del Rio Lempa                           | Power                   | 2.7                             | nil                         |
| 1960                        | Comision del Rio Lempa                           | Power                   | 3.4                             | nil                         |
| 1963                        | Comision del Rio Lempa                           | Power                   | 6.0                             | .8                          |
| 1963                        | Administracion Nacional de<br>Telecomunicaciones | Tele-<br>communications | 9.5                             | 4.2                         |
| Total                       |  |                         | 50.2                            | 5.0                         |
| of which has been repaid    |  |                         | 17.8                            |                             |
| Total outstanding           |  |                         | 32.4                            |                             |
| Amount sold                 |  | 3.2                     |                                 |                             |
| of which has been repaid    |  | 1.8                     | 1.4                             |                             |
| Net amount held by the Bank |  |                         | 31.0                            |                             |

(b) IDA Credits as of June 30, 1966

| (US \$ Millions) |          |                                 |                             |
|------------------|----------|---------------------------------|-----------------------------|
| Date             | Purpose  | Amount<br>less<br>cancellations | Undis-<br>bursed<br>Balance |
| Nov. 2, 1962     | Highways | 8.0                             | 3.0                         |

(c) Technical Assistance Activities

None since 1964.

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(d) Access to Private Capital Markets

Not applicable.

(e) Bank 9% Capital Subscription

US \$0.96 million; \$0.18 Released and lent in dollars.

(f) IDA subscription

90% subscription: US \$270,000. No releases.

(g) Holding of Bank Bonds

\$100,000 as of December 31, 1965.

(h) I. F. C.

IFC no longer holds any investments in El Salvador and has no new active projects before it.

IFC intends to send a mission later this year, to follow up previous work on the feasibility of a regional investment company or DFC.

(i) Settlement of Investment Disputes

El Salvador has not signed the Convention on the Settlement of Investment Disputes and is not expected to do so in the near future.



VI. 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. Candidates have not yet been selected for the election scheduled in March 1967. President Rivera will not be a candidate.

The elections for the National Assembly in March 1966 returned about the same proportion representation from the majority and minority parties. The largest minority party (Christian Democratic Party) increased its strength in municipal elections and won the capital of San Salvador by a considerable majority. The Government party still does not have the two-thirds majority in the Assembly required for the authorization and ratification of external loans. The latter has contributed to the delay in project approval.

VII. ECONOMIC SITUATION

|   |                |
|---|----------------|
| Population:                               | 2.95 million   |
| GDP per capita:                           | US\$ 275       |
| Gross foreign exchange reserves (end May) | \$70.3 million |

El Salvador's economic performance continued to be highly satisfactory in 1965. In the last 4 years, GDP has averaged an annual increase of 8 per cent in real terms. The major stimulus to economic growth has been the rapid growth of exports, especially of cotton to Japan and Western Europe, and of manufactures to the Central American Common Market. The authorities have taken advantage of this period of prosperity to expand public investment substantially and to advance the preparation of a number of high priority public investment projects.

There are signs in 1966 of a slowing down of economic growth, due to the failure of the cotton crop. The probable drop in cotton production, partly because of the prospects of lower cotton prices in the international market, and the likelihood of an increasing unsaleable surplus of coffee above El Salvador's quota in the international coffee agreement together with falling coffee prices, will probably lead to the stagnation of El Salvador's export earnings in the next four or five years. As a result, even with the considerable increase in public investment projected together with the rapid growth of manufacturing, El Salvador will do well to maintain an annual rate of economic growth of 5 per cent in the remainder of the decade.

In the longer term, over the next fifteen or twenty years, El Salvador's economic growth will probably be restricted by its very limited land area: unlike its Central American neighbors, which have large areas of good land capable of development on the Atlantic coast, El Salvador has virtually used all its available agricultural land. While over a long period El Salvador can be expected to become an increasingly industrialized economy, its present heavy dependence on agriculture will make it more difficult than in the past to raise exports fast enough to support a continued and rapid economic expansion.

El Salvador continues to follow cautious monetary and fiscal policies. These policies are reflected in a low external debt service ratio (5 per cent of export earnings in 1966). It is probable, however, that, if the country implements its present external borrowing programs for high priority projects, the burden of the external debt will rise substantially in the next ten years. In the face of its uncertain foreign exchange earnings<sup>1</sup> prospects, and the long-term obstacles to its growth posed by its limited land area, El Salvador is justified in seeking to obtain part of its external financing requirements at less than conventional terms. Consequently, IDA financing of about \$4.0 million for an education project will be discussed with the Part I countries at the next review with them scheduled for December 1966.





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**JUL 19 2016**

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September 21, 1966

BRIEFING PAPER - 1966

GUATEMALA

I. MEETING WITH DELEGATION

Date: September 26, 1966

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

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Weiner  
Mr. Mirza  
Mr. Steuber  
Mr. Kuczynski  
Mr. Schmitt

II. MEMBERS OF DELGATION

Alberto FUENTES MOHR

(B-F) Minister of Finance and  
Public Credit

Isidro LEMUS DIMAS (B F)

Minister of Economy

Mario GOMEZ VALENCIA

Adviser Sub-Gerente, Banco  
de Guatemala

Manuel MENDEZ ESCOBAR

Adviser, Banco  
de Guatemala

Armando GONZALEZ-CAMPO

Adviser Director, Department  
of Economic Studies, Banco de  
Guatemala

Manuel RUBIO SANCHEZ

Adviser Chief of the Public  
Relations Dept., Banco de  
Guatemala

Gert ROSENTHAL

Adviser, Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

The following projects are presently under consideration:

| Purpose      | Tentative Amount | Status   | Tentative Date for Negotiations |
|--------------|------------------|--|---------------------------------|
| Power        | \$15 million     | Awaiting clarifications from INDE on revised project content           | Late 1966                       |
| .....        |                  |  |                                 |
| Roads        | \$25 million     | Feasibility study to be completed by early 1967                        | Mid-1967                        |
| Pacific Port | \$12 million     | Preliminary engineering available; awaiting detailed traffic forecasts | Mid-1967                        |

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level:(i) Status of Sterling Debt Settlement

In late July the new Government which took office on July 1 decided to recognize by an "acuerdo gubernativo" the validity of the balance of the 4 percent external debt, authorize the Minister of Finance and Public Credit to prepay the principal of the bonds when presented, with interest accrued since July 1, 1964, and instruct the Bank of Guatemala to act as its fiscal agent for the implementation of the debt settlement. Bank of Guatemala representatives with full powers were sent to Europe to discuss payment procedures with the Belgian Bondholders' Association and various European banks. We should congratulate the Government again for its rapid action and enquire about the status of the implementation of the debt settlement. We should reiterate the hope that the settlement is the beginning of a long and fruitful relationship between Guatemala and the Bank.

(ii) Power

The Bank is prepared to make a loan of about \$15.5 million for the financing of a power project comprising the Jurun-Marinala hydroelectric scheme, associated transmission lines and other generating facilities. A Bank mission visited Guatemala in early August to discuss the status of the project and to prepare for subsequent loan negotiations. INDE proposed to include in the project a steam plant of between 25 - 40 MW which might be needed in view of the delay in constructing Jurun. We should inquire about the status of the feasibility study for the steam plant, including the revised load forecast, availability of water for cooling, and a realistic estimate of the period of construction.

The Bank's lending prerequisites as set forth in the appraisal report were all accepted by INDE. However, there are two conditions that have to be met prior to signing that may cause some delays. They are:

- (i) Conclusion of an interim sales contract with EEG for the sale of power from INDE's existing generating facilities; and



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- (ii) Legal permission for INDE to gain access to, and commence construction on, that part of EEG's land which is essential to the construction of the project, together with compensation to EEG for the loss of electricity generated by two EEG-owned hydroplants.

INDE promised to keep the Bank informed about their discussions with EEG regarding both problems. We should enquire about their status.

(iii) Roads

The Bank is prepared to assist the Government in financing the roads El Estor-San Felipe (200 km.) and Morales-Puerto Mendez (69 km.). A possible loan might amount to \$15 million. A USAID financed feasibility study is underway and should be completed by early 1967. We should express interest in the project, but also make it clear that we regard the acquisition of needed highway maintenance equipment as a condition for Bank highway lending. We are prepared in principle to include the foreign cost of such equipment in the proposed road loan.

(iv) Pacific Port

This project would be a combined commercial and fishing port at San Jose or Champerico to replace the present lighterage operations which are costly. The project might be the basis for a loan of about \$12 million. A preliminary study carried out by the U.S. Army Corps of Engineers is available, and an FAO mission commented favorably on the port's fisheries aspects. We still need detailed traffic projections to form a judgement on the port's economic feasibility. The Bank is willing to assist in this by providing a transportation economist. A major question remaining is the location of the port. We should inquire whether any decision has been made as to this.

(v) Education

A UNESCO project identification mission proposed an investment program designed to correct deficiencies in middle-level education, including the training of technicians in agriculture and industry, etc. The Bank's views on the project were communicated to the new Minister of Education in early August. The

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Minister promised to let us have his reaction within a month. If the Government essentially goes along with the project as proposed by UNESCO and the Bank, a UNESCO project preparation mission could be arranged fairly quickly.

(vi) Central American Mission

The Central American Mission that is studying the economies of the countries in the context of regional integration hopes to discuss its conclusions and findings with the Government at the end of this year or beginning of next year.

(vii) Bank 9% subscription

We do not propose to ask for the release of the remaining \$603,000 of the unreleased 9% subscription until the first of the prospective Bank loans to Guatemala is concluded.

(viii) IDA 90% subscription

We do not propose to ask for the release of the 90% subscription (\$360,000) at this time.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled.

(c) Likely to be raised by Delegation:

None.

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V. BACKGROUND INFORMATION

## (a) Bank Loans as of July 31, 1966

| (U. S. \$ Million) |                          |                          |                                 |                        |
|--------------------|--------------------------|--------------------------|---------------------------------|------------------------|
| Year               | Borrower                 | Purpose                  | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
| 1955               | Republic of Guatemala    | Roads                    | <u>18.2</u>                     | <u>00.0</u>            |
|                    | Total                    |                          | 18.2                            | 00.0                   |
|                    |                          | of which has been repaid | <u>10.2</u>                     |                        |
|                    | Total outstanding        |                          | 8.0                             |                        |
|                    | Amount sold              | 2.2                      |                                 |                        |
|                    | of which has been repaid | <u>1.3</u>               | <u>0.9</u>                      |                        |
|                    | Net amount held by Bank  |                          | <u>7.1</u>                      |                        |

(b) IDA Credits as of July 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not applicable.

(e) Bank 9% Capital Subscription: \$963,000

In August 1965 Guatemala's subscription was raised by \$2.7 million to \$10.7 million. \$360,000 corresponding to the original subscription has been released and lent in dollars.

(f) IDA 90% Subscription: US\$360,000

No release.

(g) Holdings of Bank Bonds

None so far, but we understand that Guatemala intends to purchase US \$250,000 of the Bank's Two-Year 6% Bonds.



(h) I.F.C.

IFC no longer holds any investments in Guatemala and has no new active projects before it.

IFC intends to send a mission later this year, to follow up previous work on the feasibility of a regional investment company or DFC.

(i) Settlement of Investment Disputes

Guatemala has not signed the Convention on the Settlement of Investment Disputes, and is not expected to do so in the near future.

(i) Settlement of Investment Disputes

Guatemala has not signed the Convention on the Settlement of Investment Disputes, and is not expected to do so in the near future.

VII. ECONOMIC SITUATION

Population: 4.4 million  
GNP per capita: US\$320 (probably overestimated)  
Foreign exchange reserves (gross):  
US\$70 million

After six years of virtual stagnation, the economy resumed a rapid rate of growth in 1963: GDP has averaged an annual rate of growth of about 8% in real terms since then. This has largely been the result of the dynamism of the private sector which, without outside stimulation, rapidly increased production for export, particularly of cotton. The atmosphere of confidence brought in by the Government which took over in March 1963 may also have helped, particularly in spurring the growth of manufacturing, both for the domestic and Central American markets.

Renewed economic growth, together with tax measures taken by the new Government, enabled it to improve its fiscal performance. However, the tax effort (8 percent of GNP) is still very low, and is likely to become rapidly insufficient if even a moderate and desirable expansion of public investment is to be undertaken, especially in high-priority sectors such as power and education. The new Government has inherited a substantial budget deficit for the first half of 1966, but it should be possible to correct this temporary imbalance. For the longer run, a recent Bank economic mission has already discussed with the Minister of Finance the magnitude of a probable future fiscal problem and possible remedial tax measures.

Despite some short-term external borrowing for the budget in recent years, the service on the external public debt is low, falling from an estimated 5 percent of export earnings in 1966 to 2.5 percent in 1970. With its low external debt service and generally sound economic management, Guatemala can be considered creditworthy for a substantial amount of external borrowing for high-priority projects.





CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

GUYANA

**DECLASSIFIED**

**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 27, 1966

Time: 3:30 - 4:00 pm

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Wright  
Mr. Nelson  
Mr. Sapir  
Mr. Kuriyama  
Mr. van der Heijden  
Mr. Carnemark

No meeting scheduled with President or Vice-President.

II. MEMBERS OF DELEGATION

P.S. d'AGUIAR

Minister of Finance

H. BOCKELMANN

Governor, Bank of Guyana

W.P. D'ANRADE

Secretary to the Treasury

III. BANK/IDA PROSPECTIVE OPERATIONS

Guyana has applied for membership in the Bank, IDA and IFC but is not yet a member. An economic mission is visiting Guyana from early October for about four weeks. Possible Bank/IDA operations in Guyana will be dependent upon the findings of the mission.



IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

We might make a general statement about our looking forward to Guyana's membership in the World Bank family and express our desire to assist in the Government's development efforts.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled with President or Vice-President.

(c) Likely to be raised by delegation:

The delegation may ask the Bank to sponsor an informal consultative group for Guyana. We might state that we would consider the request after the return of the economic mission.

V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

| Year | Borrower | Purpose                      | (US \$ millions)               |                        |
|------|----------|------------------------------|--------------------------------|------------------------|
|      |          |                              | Amount<br>less<br>Cancellation | Undisbursed<br>balance |
| 1961 | Guyana   | Agriculture                  | <u>0.9</u>                     | <u>0.0</u>             |
|      | Total    |                              | 0.9                            |                        |
|      |          | of which has been repaid     | <u>0.4</u>                     |                        |
|      |          | Total outstanding            | 0.5                            |                        |
|      |          | Amount sold 0.7              |                                |                        |
|      |          | of which has been repaid 0.4 | <u>0.3</u>                     |                        |
|      |          | Net amount held by Bank      | <u>0.2</u>                     |                        |

(b) IDA Credits as of July 31, 1966

Not yet member of IDA.

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

Banking connections: U.K. - Barclays Bank D.C.O.  
Canada - Royal Bank of Canada

(e) Bank 9% Capital Subscription

Not yet member of Bank

(f) IDA Subscription

Not yet member of IDA

(g) Holdings of Bank Bonds

None

(h) I.F.C.

Not yet member of I.F.C.

(i) Settlement of Investment Disputes

VI. POLITICAL SITUATION

After serious racial clashes in 1963 and 1964 and the election defeat of Dr. Cheddi Jagan's Peoples Progressive Party (PPP), representing the East Indian element of the population, the formation of a new government under Mr. Forbes Burnham (Peoples National Congress) in December 1964 has been followed by relative calm. The members of the PPP at first boycotted the new legislature but subsequently took their seats. Guyana became independent on May 26, 1966, the ceremonies for which were again boycotted by the PPP. The present Government includes several East Indian ministers but the fundamental problem of bridging the hostility between the Negroes and the East Indians remains. Next elections are due in 1968.



VII. ECONOMIC SITUATION

|  |   |                         |
|--|---|-------------------------|
| Population (excluding Amerindians) <u>1/</u> | : | 622,000 (1965)          |
| GNP per capita                               | : | US\$287 (1964)          |
| Gross foreign exchange reserves              | : | US\$40.9 million (1965) |

During the past five years Guyana's economic growth has been uneven. A spurt in 1960 and 1961 was caused mainly by investment in mining but political disturbances accompanied by inflation and capital flight ended the boom and GDP declined in 1963. The decline proved temporary. Real GDP increased by roughly 4 percent per annum in 1964 and 1965 and prices have been more stable. The rise in mining output (19 percent of GDP in 1965) accounted for a large part of the recent growth but agriculture (25 percent of GDP) and construction also advanced considerably, although activity in these two sectors still remains below the 1962 level.

The expansion has been accompanied by weakening external finances. In 1965, bank credit to the private sector rose by 23 percent and caused the demand for imports to increase sharply (up to 16 percent). At the same time, exports decreased somewhat, mainly as a result of declining sugar prices, and direct foreign investment in Guyana was reduced. The balance of payments deficit for 1965 was about G\$11 million and foreign reserves were reduced to a relatively low level.

Although there have been significant increases in private investment in 1964 and in public investment in 1965, the ratio of investment to GDP in 1965 (about 19 percent) was still almost 40 percent below its peak level of 1960.

Unemployment reportedly is high (about 21 percent) and apparently increased in recent years: the population has been growing at an annual rate of 3 percent and expansion in the bauxite, sugar and construction industries has been accompanied by more mechanization. Since arable land in the densely populated coastal belt is scarce, there have been few opportunities for additional agricultural employment.

Since 1954 the Government has spent more than G\$180 million in two five-year development programs; G\$102 million of this was disbursed in the 1960-1965 period alone. 40 percent has gone to agriculture and 15 percent to transport. A third program, for 1966 to 1972, appears to be too ambitious in terms of the financing which is likely to become available. Public savings have been steadily eroded in recent years and public investment was increasingly financed from internal and external borrowing. The long-term public debt increased sharply to G\$154 million, of which G\$117 million is estimated to be external debt (equivalent to US\$68 million).

A Bank program appraisal mission will visit Guyana in October to analyze the recent developments and present situation of the Guyanese economy and to review the Government's development and investment program, particularly from the point of view of executive and financial feasibility.

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1/ Roughly estimated at 25,000



CONFIDENTIAL

August 25, 1966

BRIEFING PAPER - 1966

HAITI

DECLASSIFIED

JUL 19 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date:

Time:

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Weiner  
Mr. Nelson  
Mr. Bochenski  
Mr. van der Heijden  
Mr. Waterston

NOTE: A time should be reserved on our schedule for this meeting but it should be held only if the Haitian delegation definitely wishes a meeting at the Department level. They should be given an informal indication on arrival that our position on Bank-IDA financing for Haiti is the same as expressed at the meeting last year, but that we would be ready to meet if the delegation has topics which it wishes to discuss.

No meeting scheduled with President or Vice-President.

II. MEMBERS OF DELEGATION

Not yet known.



III. BANK PROSPECTIVE OPERATIONS

While seeking to avoid a repetition of last year's annual meeting discussion, we should, if pressed, reply briefly that our position is the same as indicated last year:

- (a) Haiti's current financial position and immediate prospects, jointly with its considerable indebtedness, do not permit further loans on conventional terms.
- (b) The great demand for IDA's limited funds imposes certain strict criteria for IDA eligibility, which consist not only of poverty of the country but also of general performance, in which Haiti has been deficient. Reference might be made to the Finance Minister's interest in strengthening development planning as a constructive element in the current situation and to our cooperation in this effort (Messrs. Bochenski's and Waterston's trips summarized in V (c) below) but that on the other hand revenues and funds available for development have been declining (as summarized in VII below, second paragraph).

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

There will be no point in raising any matters.

- (b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled with President or Vice-President.

- (c) Likely to be raised by delegation:

None foreseen other than the basic matters of Bank/IDA assistance, already discussed.

V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

| Year | Borrower                 | Purpose                                 | (US \$ millions)               |                        |
|------|--------------------------|---|--------------------------------|------------------------|
|      |                          |   | Amount<br>less<br>Cancellation | Undisbursed<br>Balance |
| 1956 | Republic of Haiti        | Haiti maintenance<br>and rehabilitation | <u>2.6</u>                     | <u>0.0</u>             |
|      | Total                    |   | 2.6                            |                        |
|      | of which has been repaid |   | <u>1.5</u>                     |                        |
|      | Total now outstanding    |   | 1.1                            |                        |
|      | Amount sold              | 0.386                                   |                                |                        |
|      | of which has been repaid | 0.386                                   | <u>0.0</u>                     |                        |
|      | Net amount held by Bank  |   | <u>1.1</u>                     |                        |

(b) IDA Credits as of July 31, 1966

| Date             | Purpose                 | (US \$ millions)               |                        |
|------------------|-------------------------|--------------------------------|------------------------|
|                  |                         | Amount<br>less<br>Cancellation | Undisbursed<br>Balance |
| November 2, 1962 | Interim Highway Project | 0.35                           | 0.0                    |
|                  | Total                   | <u>0.35</u>                    |                        |

(c) Technical Assistance Activities

On the request of the Government a staff member visited Haiti in May 1966 to discuss the Government's development planning activities. These discussions were followed by a visit of the Bank's Adviser on Planning Organization in August 1966, who is now preparing for the Haitian Government a report on a program of action for development planning.



(d) Access to Private Capital Markets

Banking connections: Canada - Royal Bank of Canada  
(has branch in Haiti)  
USA - First National City Bank  
(main correspondent of Haiti's  
central bank)

(e) Bank 9% Capital Subscription: (US\$1.35 million)

No release.

(f) IDA Subscription: (US\$0.684 million)

No release.

(g) Holding of Bank Bonds

None.

(h) IFC

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

VI. POLITICAL SITUATION

The Duvalier regime is likely to stay in power for the foreseeable future. Most policies are subordinated to the self-preservation of the regime. Any open political opposition would not be tolerated. There are no signs of activity of any underground political opposition. Anti-regime broadcasts of a U.S. station in Creole are, allegedly, very popular. There are certain indications that some of Duvalier's followers are worried about the future and there seems to be increased pressure for handouts and other privileges which would provide members of that group with some economic security.

Political conditions in Haiti, although particularly deplorable in recent years, have been hardly ever satisfactory throughout the history of that unhappy nation. They are largely an outcome of excessive poverty with too few employment opportunities and with jobs in government coveted by too many people; hence a continuous pressure towards changes and an almost irresistible temptation for illicit gains during the short periods of tenure of office. The relative stability of the Duvalier administration was achieved not only at the price of violating the constitution and electoral laws but, even more, by ruthless elimination of any potential opposition. This, jointly with the lack of opportunities for gainful employment within the country, led to large-scale emigration of the population both among agricultural workers, thousands of whom moved as cane-cutters to the Dominican Republic, and among the educated classes who settled, at least temporarily, in Africa, in the USA, in neighboring Puerto Rico and other countries.

VII. ECONOMIC SITUATION

|                                  |                                 |
|----------------------------------|---------------------------------|
| Population:                      | 4.7 million                     |
| GNP per capita:                  | US\$60-70                       |
| Gross foreign exchange reserves: | US\$3.5 million (June 30, 1966) |

Haiti has not made any significant progress in overcoming its chronic economic difficulties, which have been getting worse since 1962. Estimates of the gross domestic product for 1965 indicate that the economy expanded little, if at all, with a consequent decline in per capita income. Moreover, the rate of gross domestic investment dropped to an all-time low of 3.1 percent and net capital formation has been negative. The balance of payments, which has been adversely affected in recent years by stagnation in exports, dwindling income from tourism, and reduced foreign assistance, showed a larger deficit in 1965 than in 1964. This deterioration was associated with larger interest and amortization payments on Haiti's external debt and possibly also with an increase in the short-term capital outflow. A slight decline in government revenue and an increase in extra-budgetary expenditures widened the fiscal deficit; the financing of this deficit by the National Bank, however, remained within the limits provided for in the IMF Standby.

During 1966, the fiscal situation appears to have worsened further because of a noticeable weakening in the tax collection machinery. About two-thirds of the resulting shortfall in "fiscal" revenues were in import duty collections. The Haitian authorities have undertaken to reduce expenditures on essential government services to levels consistent with the ceilings of the standby (which expired in September, 1966).

Haiti cannot be considered creditworthy for loans on conventional terms. Any external assistance it may seek to obtain, which would need to be on extended terms or in the form of gifts, should be preceded by institutional changes necessary to spur needed investment and to retain in Haiti the skilled manpower which has been leaving the country.

The Government's planning organization, CONADEP, is a small body of relatively well-prepared young Haitians, all of whom have either attended the EDI or equivalent schools abroad. Their approach is encouraging but ineffective in view of the pitifully small development budget. This past summer both Mr. Bochenski and Mr. Waterston have visited Haiti to assist CONADEP in improving its planning procedures.





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WBG ARCHIVES

CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

HONDURAS

I. MEETING WITH DELEGATION

Date: September 26, 1966

Time: 5:30 - 6:00 p.m.

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Weiner  
Mr. Mirza  
Mr. Rose  
Mr. Kuczynski  
Mr. Schmitt

II. MEMBERS OF DELEGATION

Guillermo BUESO (F)

Director, Department of  
Economic Studies, Banco  
Central de Honduras

Manuel ACOSTA BONILLA (B)

Minister of Economy and Finance

Roberto RAMIREZ (F)

President, Banco Central de  
Honduras

Alberto GALEANO M. (Temp.) (B)

President, Banco Nacional de  
Fomento

September 9, 1966

HONDURAS

III. BANK/IDA PROSPECTIVE OPERATIONS

| <u>Purpose</u>  | <u>Tentative<br/>Amount<br/>(US\$ million)</u> | <u>Status</u>   | <u>Tentative<br/>Date of<br/>Negotiations</u> |
|---|--|---|---|
| Power Development                                       | To be de-<br>termined                          | Appraisal in 4th<br>Quarter 1966.   | Uncertain                                     |
| Western Highway<br>Paving                               | 6.0  | Completion of<br>Appraisal Report<br>awaiting further<br>information from<br>consultants. | Early 1967                                    |
| Agriculture,<br>Cattle and<br>Industrial Credit<br>Fund | 5.0  | Preliminary data<br>being prepared by<br>Central Bank.                                    | Uncertain                                     |



IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at Staff Level:(i) Study of Other Ports

The loan for Puerto Cortes, which was signed earlier this month, includes funds for a study of other ports. The two ports are Puerto Castilla on the Atlantic and a port on the Gulf of Fonseca on the Pacific. By the time of the Annual Meeting, the Bank will have provided the Government with draft Terms of Reference for a study of the southern port. The Bank should reiterate to the delegation the importance of performing an adequate study of the port.

(ii) Central American Mission

The Central American Mission that is studying the economies of the countries in the context of regional integration hopes to discuss its conclusions and findings with the Government at the end of this year or beginning of next year.

(b) To be raised by Bank at Meetings with President or Vice-President:

No meeting schedules.

(c) Likely to be raised by Delegation:

Acceleration of Construction of North Road under Loan 400-HO and Credit 71-HO. The Government has indicated that it wants to have construction initiated on certain sections of the North Road earlier than contemplated, to reduce the construction period from 5 to 3 years.

Our position is that we agree with such acceleration and as soon as the documentation is completed and reviewed, barring technical or financial problems, we would be prepared to authorize the letting of bids.

HONDURAS

September 19, 1966

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1966

|                          |  |                      | (US \$ million)                 |                             |
|--------------------------|--|----------------------|---------------------------------|-----------------------------|
| Year                     | Borrower   | Purpose              | Amount<br>less<br>Cancellations | Undis-<br>bursed<br>Balance |
| 1955                     | Republic of Honduras                               | Highway maintenance  | 4.2                             | nil                         |
| 1958                     | Republic of Honduras                               | Highway construction | 5.5                             | nil                         |
| 1959                     | Empresa Nacional de<br>Energia Electrica<br>(ENEE) | Power                | 1.4                             | nil                         |
| 1960                     | Empresa Nacional de<br>Energia Electrica<br>(ENEE) | Power                | 8.8                             | nil                         |
| 1965                     | Republic of Honduras                               | Highway construction | 6.0                             | 6.0                         |
| Total                    |  |                      | 25.9 <sup>1/</sup>              | 6.0                         |
| of which has been repaid |  |                      | 6.3                             |                             |
| Total outstanding        |  |                      | 19.6                            |                             |
| Amount sold              |  | 1.8                  |                                 |                             |
| of which has been repaid |  | 1.5                  | .3                              |                             |
| Net amount held by Bank  |  |                      | 19.3                            |                             |

(b) IDA Credits as of July 31, 1966

|              |   |       | (US \$ million)                 |                             |
|--------------|---|-------|---------------------------------|-----------------------------|
| Date         | Purpose                                 |       | Amount<br>less<br>Cancellations | Undis-<br>bursed<br>Balance |
| May 12, 1961 | Highway construction and<br>improvement |       | 9.0                             | 1.8                         |
| Feb. 2, 1965 | Highway construction                    |       | 3.5                             | 3.4                         |
|              |   | Total | 12.5                            | 5.2                         |

<sup>1/</sup> Loan of \$4.8 million to the Empresa Nacional Portuaria for the Puerto Cortes Project was signed on August 25, 1966. It is not yet effective.

September 19, 1966

(c) Technical Assistance Activities

None since 1964.

(d) Access to Private Capital Markets

Not applicable.

(e) Bank 9% Capital subscription

\$720,000; \$540,000 released (Original 9%) and lent in dollars.

(f) IDA Subscription

90% subscription; \$270,000. No releases.

(g) Holding of Bank Bonds

None.

(h) I. F. C.

IFC currently has one investment of \$276,750 in a tannery enterprise. IFC has no new active projects before it.

IFC intends to send a mission later this year, to follow up previous work on the feasibility of a regional investment company or DFC.

(i) Settlement of Investment Disputes

Honduras has not signed the Convention on the Settlement of Investment Disputes and is not expected to do so in the near future.



HONDURAS

September 19, 1966

VI. POLITICAL SITUATION

Gen. Oswaldo Lopez Arellano who had been chief of Government since the military coup of October 1963 was elected President in March 1965 by the Constitutional Assembly and was inaugurated as President on June 6, 1965. The domestic political situation is considered stable although the opposition Liberal Party is active.

HONDURAS

September 19, 1966

VII. ECONOMIC SITUATION

|                                     |                |
|-------------------------------------|----------------|
| Population:                         | 2.3 million    |
| GNP per capita:                     | US\$220        |
| Gross Foreign<br>Exchange Reserves: | US\$23 million |

Honduras, with a gross national product per capita of approximately \$220, is the poorest of the Central American Republics and one of the poorest in the Western Hemisphere. The rate of economic expansion, however, has accelerated sharply in the past several years, from an estimated 3.5 percent in 1963 and 6.3 percent in 1964 to 10.0 percent in 1965. This growth is attributable largely to sharp gains in export earnings, resulting primarily from expansion in banana, coffee and cotton exports. There are indications, however, that the rate of increase is likely to slow down appreciably in the near future due to the substantial completion of the expansion program of the banana companies and uncertain prospects for the other major export commodities.

After a period of declining gross foreign borrowing and public investment expenditure, the Government has, during 1966, become more active in initiating new projects, largely public infrastructure. The total amount of additional investments which may become eligible for external financing in the next four-five years is in the neighborhood of \$100 million. The highway program is now taking shape, an electric power expansion program is in the offing, and the telecommunications system will be expanded. In the private sector, a detailed feasibility study is now underway to develop a pulp and paper industry to utilize Honduras' vast pine forest resources.

Financial management of the economy has been sound. Estimates indicate that revenues have risen faster than expenditures in all of the past four years. Revenue growth is due largely to income increases, assisted by the reforms introduced at the end of 1963. As a result, the ratio of tax receipts to gross national product increased from 8 percent in 1963 to 11 percent in 1965. However, this level of revenues has proved adequate thus far only because of the country's small public investment endeavors. A substantial additional internal savings effort, and also a substantial external financing contribution, will be required if the investment targets for the next few years are to be realized.

HONDURAS

September 19, 1966

The total external public debt of Honduras at the end of 1965 amounted to US\$60.2 million. The debt service burden in 1965 amounted to US\$2.8 million, or to 2.3 percent of export earnings. New borrowing of about US\$80 million (four-fifths of the US\$100 million mentioned above) on conventional terms would raise the debt service to a peak of about US\$8.5 million, or to an estimated 5.6 percent of export earnings in the early 1970's. Though a debt service burden of this magnitude should be sustainable on balance of payments grounds alone, the rise in debt service payments would be extremely rapid. Honduras is therefore appropriately seeking to obtain some portion of its new assistance over the next five years on concessionary terms to help keep the required additional internal savings effort within tolerable limits.





CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

JAMAICA

**DECLASSIFIED**

**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 26, 1966

Time: 3:00 - 3:30 pm.

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Weiner  
Mr. Nelson  
Mr. Ross  
Mr. Kuriyama  
Mr. Agnew

No meeting scheduled with President or Vice-President.

II. MEMBERS OF DELEGATION

D.B. SANGSTER (B-F)

Acting Prime Minister and  
Minister of Finance

G.A. BROWN (B)

Financial Secretary

R.T.P. HALL (F)

Governor, Bank of Jamaica

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Advisers

D.R. CLARKE

Acting Under Secretary  
Ministry of Finance

Robert MASON

Ministry of Finance

S.J. STEPHENS

Executive Assistant  
Bank of Jamaica

III. BANK PROSPECTIVE OPERATIONS

Projects presently under consideration:

| Purpose            | Amount<br>(\$ million) | Status  | Tentative<br>date for<br>negotiations |
|--------------------|------------------------|---|---------------------------------------|
| Education          | 9.5                    | Negotiations completed.<br>To be presented to<br>Executive Directors for<br>consideration on 20<br>September. |                                       |
| Telecommunications | 11.2                   | Appraisal report being<br>prepared.   | October 1966                          |

In considering the Bank loan for power development in Jamaica the Loan Committee agreed in January 1966 that the above projects should be examined for possible Bank lending when ready.

Apart from the above listed projects, the following projects may eventually be presented to the Bank for consideration:

- (a) Private Development Finance Company: Good progress is being made in the establishment, with IFC assistance, of a private development finance company in Jamaica. If established, it is likely that the company would seek part of its fund requirements from the Bank.
- (b) Water Supply Project: The Government has presently under preparation a water supply project for the city of Kingston. A Bank mission to identify the type of further studies required in preparing the project is now in Jamaica. Preliminary indications are that a less costly alternative to the proposed Harker's Hall project may be feasible.
- (c) Kingston Sewerage and Storm Drainage Project: The Government is seeking U.K. assistance for the carrying out of feasibility studies for sewerage and storm drainage improvement in Kingston. The Government expects to seek in due course Bank financing for the project and the Bank has commented on the proposed terms of reference for these studies.



(d) Agricultural Development Project: In accordance with the findings of a Bank/FAO project identification mission of April 1966, the Government is preparing a project for agricultural development which would probably include land settlement and agricultural marketing.

(e) Fishery Development Project: In accordance with the findings of the above-mentioned Bank/FAO mission the Government is preparing a project for fishery development which would probably include the expansion of the fishing fleet, the existing wharf and ancillary facilities.

(f) Kingston Expressway Project: A feasibility study for this project is under way with the assistance of a Bank technical assistance grant. The study is expected to be completed by the spring of 1967.

(g) Road Rehabilitation Project: The Government is formulating a project for the rehabilitation and improvement of Jamaica's highway system and may seek Bank assistance for it when ready.

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level:

(1) Economic Situation: We might inquire about the status of Government borrowing in the private markets of London and Toronto (see Section on Economic Situation).

We might also inquire about the Government's present thinking with respect to the financing of public investment expenditures in the budget year 1967/68, especially in the light of the earlier announced intentions to introduce additional revenue measures in April 1967.

(2) 9% Release: Jamaica has agreed to release its 9% capital subscription to the Bank (equivalent to \$2,880,000) over a period of five years starting July 1967. We might express our appreciation of the Government's cooperation in this matter.

(3) IDA membership: Jamaica applied for IDA membership in September 1963 but has not proceeded to fulfill the requirements for membership. We should urge Jamaica's membership pointing out the importance we attach to international cooperation in this field.

(4) Telecommunications Project: We might inquire about the status of the proposed new franchise for the Jamaica Telephone Company, the issuance of which is necessary in our consideration of a loan for the proposed telecommunications project.

(5) Private Development Finance Company: The establishment of this company is awaiting Cabinet decision on the various facilities to be offered by the Government. We might inquire as to when this decision is likely to be forthcoming.

(6) Project Preparation: We might inquire about the status of project preparation work in agriculture, road rehabilitation, sewerage, storm drainage and fishery.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled with President or Vice-President.

(c) Likely to be raised by delegation:

None

V. BACKGROUND INFORMATION(a) Bank Loans as of August 24, 1966

| (US \$ millions) |                                   |          |                                |                        |
|------------------|-----------------------------------|----------|--------------------------------|------------------------|
| Year             | Borrower                          | Purpose  | Amount<br>less<br>Cancellation | Undisbursed<br>balance |
| 1965             | Jamaica                           | Highways | 5.5                            | 5.4                    |
| 1966             | Jamaica Public<br>Service Company | Power    | <u>22.0</u>                    | <u>21.6</u>            |
|                  | Total                             |          | 27.5                           | 27.0                   |
|                  | of which has been repaid          |          | -                              |                        |
|                  | Total outstanding                 |          | 27.5                           |                        |
|                  | Amount sold                       | 0.6      |                                |                        |
|                  | of which has been repaid          | -        | <u>0.6</u>                     |                        |
|                  | Net Amount held by Bank           |          | <u>26.9</u>                    |                        |

(b) IDA Credits as of July 31, 1966

Not yet member of IDA.

(c) Technical Assistance Activities

(1) From January 1965 to July 1966 Mr. Henry Wiens, consultant, was seconded by the Bank to the Government of Jamaica to assist in the identification and preparation of projects.

(2) A technical assistance grant of up to \$200,000 was approved by the Executive Directors in May 1965 to assist in a feasibility study for the proposed Kingston Urban Expressway project. The study was started in March 1966 and is expected to be completed in the spring of 1967.



(3) A joint Bank/FAO mission visited Jamaica in April 1966 to help identify agricultural projects. The Government is presently preparing a project following the recommendations of the mission.

(d) Access to Private Capital Markets

Banking connections: U.K. - Barclays Bank D.C.O.  
Canada, U.S.A. - Bank of Nova Scotia

Investment

U.K. - Crown Agents  
U.S.A. - Kuhn, Loeb and Co.  
Canada - Annett and Co.

Bond Issues

£ 3.2 million, London, June 1964, 6-3/4%, 12 years  
Can.\$4.5 million, Toronto, June 1964, 7%, 22 years  
£ 3.15 million, London, June 1965, 7%, 13½ years  
U.S.\$7.5 million, New York, January 1966, 6-3/4%, 15 years

(e) Bank 9% Capital Subscription

U.S.\$2,880,000. To be released in five yearly installments starting July 15, 1967.

(f) IDA Subscription

Not yet member of IDA

(g) Holdings of Bank Bonds

None

(h) I.F.C.

IFC has an investment of \$224,000 in premixed concrete and has recently been contacted concerning investment for tourism.

IFC has indicated its willingness to consider an investment in a development finance company when, and if, it is established. The sponsors are awaiting a Government decision on the amount and form of its assistance.

(i) Settlement of Investment Disputes

Jamaica has signed and ratified the Convention.

VI. POLITICAL SITUATION

Jamaica became an independent member of the British Commonwealth on August 6, 1962. Political power rests with the elected House of Representatives with 45 members. The Senate consists of 21 members, 13 nominated from the Government party and 8 from the opposition party.

Since the elections held in April 1962, Sir Alexander Bustamante of the Jamaica Labour Party (JLP) has held the Premiership. He has been ill since early 1965 (81 years old) and his deputy, Mr. Donald Sangster, is serving as Acting Prime Minister. The Government follows a moderate policy and the political and social situation is stable.

The next elections are due between now and April 1967. The People's National Party (PNP), led by Mr. Norman Manley, a lawyer, constitutes an active opposition party.

VII. ECONOMIC SITUATION

|                                  |                                  |
|----------------------------------|----------------------------------|
| Population:                      | 1.9 million                      |
| GNP per capita:                  | US\$480 (1965)                   |
| Gross Foreign Exchange Reserves: | US\$131.6 million<br>(June 1966) |

The high rate of economic growth (7.5 percent per annum) which Jamaica experienced since mid-1963, continued in 1965 and 1966 because of the booming tourist industry, and fairly rapid rises in agricultural and industrial production. Jamaica's balance of payments performance in 1965 improved in some respects over 1964. Merchandise imports increased only half as rapidly as gross domestic production and food imports declined somewhat. With a moderate rise in exports of goods and services (including tourism), the current account deficit remained at the 1964 level of about L13 million. This deficit was largely covered by the inflow of private capital and by official borrowing abroad, principally in the London market, where the Jamaican Government raised L3.15 million in June 1965. An important achievement was the successful public offering of a US\$7.5 million bond issue in January 1966, Jamaica's first in New York since independence.

With regard to the public sector's financing plans for the immediate and future, the authorities have decided to keep public investment expenditures at the already high 1965 level, but to reduce the recent high rate of increase in current expenditures and to introduce new revenue measures in early 1967. These adjustments, together with presently planned approaches to the private markets abroad (L3 million in London, \$1.5 - \$2 million in Toronto) and increased borrowing from the official external lending agencies should cover the financing requirements of the public sector for the next year or so. If for some reason the market borrowing fails to materialize the Government will take steps to restrain demand through raising consumption taxes. These measures would have a direct effect on the present substantial imports of consumption goods. Its substantial reserves provide for considerable flexibility in the timing of such measures.

Elections are expected to be held in the spring of 1967. There is at this moment no reason to expect that a change in government would signal any sharp change in economic policy.



MEXICO

CONFIDENTIAL

September 22, 1966

BRIEFING PAPER - 1966

MEXICO

**DECLASSIFIED**

**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 29, 1966

Time: 4:00-4:30 pm.

Attended by:

Management: Mr. Knapp

Staff: Mr. Alter  
Mr. Weiner  
Mr. Nelson  
Mr. Bochenski  
Mr. Lerdau

II. MEMBERS OF DELEGATION

Antonio ORTIZ MENA (F-B)

Secretary of Finance and  
Public Credit

Jose HERNANDEZ DELGADO (B)

Director General, Nacional  
Financiera, S.A.

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Advisers

Mario Ramon BETETA (F)

Director General of Credit  
Secretariat of Finance and  
Public Credit.

Alfredo NAVARRETE (B)

Director, Nacional Financiera, S.A.

Gustavo PETRICIOLI ITURBIDE (F)

Manager, Banco de Mexico, S.A.

Jesus ROBLES MARTINEZ (B)

Director General Banco Nacional  
Hipotecario Urbano y de Obras  
Publicas, S.A.

Juan GALLARDO MORENO (B)

Coordinator for the Alianza  
para el Progreso in Mexico

III. BANK/IDA PROSPECTIVE OPERATIONS

| <u>Purpose</u>  | <u>Amount</u>  | <u>Status</u>   | <u>Tentative date for Negotiations</u> |
|---|--|---|--|
| Mexico City Drainage  | Foreign exchange content estimated to be between \$30-50 mill. | Appraisal mission preparing report                          | Late in 1966 or early in 1967          |
| Fourth Irrigation Project (North-western zone) and assistance in sector and feasibility studies | \$40 mill.   | Feasibility study to be received early in 1967              | Sept. 1967                             |
| Third Federal Highway Project   | \$45 mill.   | Feasibility study to be completed and received in September | First half of 1967                     |
| Total   | \$114 mill. - \$125 mill.                                      |   |  |

NOTE:

Above projects at an advanced stage of study or preparation for submission to the Bank. The Government is now preparing a list of projects for external financing which will help to provide the basis for a new lending program.



IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level:(i) 1967-68 Investment Plan

To review with Mexican officials the status of work on the 1967-68 public investment program and related financial plan and discuss the timing of their completion and of arrangements for study by Bank staff. This discussion will go into more specifics than will be feasible in the meeting with the President (see (b) (i), below).

(ii) Lending Program

To review the status of projects currently in the pipeline, as listed in III, and to discuss additional projects which Mexico wishes to include in a further Bank lending program. If the list of new projects (see III, above) is received prior to the meeting, it will serve as a basis for the discussion regarding a future lending program. If not, staff will follow up regarding the status of its preparation and of the priority projects for which Bank financing is likely to be requested.

(b) To be raised by Bank at meeting with President:(i) Financial Policies

Mr. Woods should refer to the concern which he and several of the Executive Directors have had for some time about the high proportion of exchange earnings absorbed by external debt service and the possibility that, without suitable policies, this ratio might increase still further and threaten confidence. He should then comment favorably on the financial policy and budgetary targets for 1967-68 as recently outlined in discussions with a Bank mission (see VII, below) which provide the first evidence that Mexico's present expenditure and financing plans would be consistent with gradual reductions in the very large debt service ratio. At the same time he should encourage the Finance Minister to complete the detailed financing program.

(ii) IDA Contribution

In January 1966 the Bank of Mexico told the Bank informally that the Government had, in principle, decided to make further releases of its 90 percent IDA subscription (the equivalent of US\$76,000 was released in the past for purchases in Mexico under an IDA Credit to India) and

that, while future releases would be less restrictive than the previous one, the possibility of releasing the full amount on a convertible basis was doubtful.

The Management should press for a gradual release of the remaining 90 percent IDA subscription amounting to \$7,790,000 equivalent, perhaps in five annual installments on a convertible basis; otherwise the use of the funds might be very limited.

(iii) Release of Additional Bank Subscription

The increase in Mexico's capital subscription to the Bank became effective on May 5, 1966, in the amount of \$34.7 million. In reply to the Bank's request for a release of the 9 percent of the additional subscription, amounting to \$3,123,000, Mr. Rodrigo Gomez, Director General of the Banco de Mexico, in a letter of July 8, 1966, stated the intention to release the above amount and offered to discuss the timing and the conditions of the release on the occasion of the Annual Meeting. The Management should press for an early release, possibly, if more convenient, in two or three annual installments. Appreciation should be expressed for the fact that Mexico has already released \$15.6 million.

(iv) Frequency Unification

The head of the Federal Electricity Commission has recently indicated to Bank staff that the Government is not in a position to proceed with the first phase of frequency unification, as agreed upon in connection with Loan 436-ME and wishes to come to Washington in October to discuss this problem, as well as other aspects of the power sector investment program and financial plans. It is not proposed that Mr. Woods discuss the frequency unification problem during the meeting with the Delegation in view of the prospect that comprehensive discussions will be held in October.

(c) Likely to be raised by Delegation:

None foreseen, except that the Government has expressed an interest in discussing the phasing of payment of the additional 9 percent contribution, as indicated in (b) (iii), above.



V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

| <u>Year</u> | <u>Borrower</u>   | <u>Purpose</u>         | (US\$ million)                   |                            |
|-------------|---|------------------------|----------------------------------|----------------------------|
|             |   |                        | <u>Amount less cancellations</u> | <u>Undisbursed balance</u> |
| 1949-1962   | Loans fully disbursed   |                        | 316.3                            |                            |
| 1960        | Nacional financiera   | Roads                  | 25.0                             | 1.3                        |
| 1961        | Nacional financiera   | Irrigation             | 15.0                             | .8                         |
| 1962        | Caminos y Puentes<br>Federales de Ingresos<br>and Nacional Financiera | Toll transport         | 30.5                             | .7                         |
| 1963        | Nacional Financiera   | Irrigation             | 12.5                             | 8.0                        |
| 1963        | Nacional Financiera   | Roads                  | 40.0                             | 17.0                       |
| 1965        | Caminos y Puentes<br>Federales de Ingresos<br>and Nacional Financiera | Toll Transport         | 32.0                             | 29.5                       |
| 1965        | Nacional Financiera   | Agricultural<br>Credit | 25.0                             | 25.0                       |
| 1965        | Comision Federal de<br>Electricidad and<br>Nacional Financiera        | Power                  | 110.0                            | 72.8                       |
| 1966        | Nacional Financiera   | Irrigation             | <u>19.0*</u>                     |                            |
|             | Total (less cancellations)  |                        | 625.3                            |                            |
|             | of which has been repaid  |                        | <u>92.6</u>                      |                            |
|             | Total now outstanding   |                        | 532.7                            |                            |
|             | Amount sold   | 43.7                   |                                  |                            |
|             | of which has been repaid  | <u>31.6</u>            | <u>12.1</u>                      |                            |
|             | Total now held by Bank  |                        | <u>520.6</u>                     |                            |
|             | Total undisbursed   |                        |                                  | <u>154.4</u><br>=====      |

\* Not yet effective.



(b) IDA Credits as of July 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets - Banking Connections:

Government and Governmental banking agencies have close connections with leading banks in the U.S. and other countries.

Bond Issues

During the past year two issues were placed by Mexico: one of \$20 million equivalent in European markets and one, most recently, of \$15 million in the U.S. market.

(e) Bank 9% Capital Subscription

Total of 9% capital: US\$18.7 million.

All released, convertible into any currency, except 3.123 million - the 9% on recent addition to subscription.

(f) IDA Subscription

|                     |                   |
|---------------------|-------------------|
| Total subscription: | US\$8,740 million |
| 90% of which        | US\$7,866 million |
| Of which released   | US\$76,000        |

(g) Holdings of World Bank Bonds

According to information available to the Bank, Mexico held, as of July 31, 1966, \$53.9 million worth of IBRD bonds, which would be the largest holding among borrowing member countries.

(h) I.F.C.

IFC's gross commitments amount to \$21.7 million (about \$5 million is held by the Corporation) and are exceeded only by Brazil. The Corporation's activities in Mexico have been concentrated on a series of underwritings for Cia. Fundidora de Hierro y Acero de Monterrey, S.A. (Fundidora), the largest private steel company in Mexico. Standby and underwriting commitments amounted to \$14.8 million and operational investments of \$1.6 million. IFC recently participated in the underwriting of a rights offering, made a purchase commitment for convertible debentures and exercised its pre-emptive rights in connection with the Company's capital increase. (Present holdings: 116,217 shares acquired at a cost of \$1,050,000 and \$1,560,000 principal amount of convertible debentures) - IFC made equity investments of \$2,000,000 in Industria del Hierro S.A., a manufacturer of medium and heavy equipment. Recently IFC exercised its pre-emptive rights in connection with the Company's last capital increase (present holding: 22,500 shares acquired for \$1,800,000) - IFC made commitments of \$750,000 and an operational investment of \$250,000 in connection with the issue of 7-1/2% convertible debentures by Tubos de Acero de Mexico S.A. (Tamsa), a manufacturer of seamless tubes. (Current holding: \$91,000 principal amount of debentures) - IFC extended a loan of \$520,000 to Bristol de Mexico S.A., a company engaged in airplane engine overhauling. (Current holding: \$40,000) - Three previous IFC investments in Mexico have been retired. No further projects are under active consideration.

(i) Convention on Settlement of Investment Disputes

Mexico has not signed the Convention.

VI. POLITICAL SITUATION

President Diaz Ordaz of the ruling Institutional Revolutionary Party (PRI), started his six-year term of office on December 1, 1964. He stands practically at the middle of the political spectrum and, as expected, is supporting the basic economic policies and the gradual social reforms under which Mexico has shown such steady progress.



VII. ECONOMIC SITUATION

Population (mid-1965): 42.5 million  
GNP per capita: US\$473  
Foreign exchange reserves: US\$542 million

After excesses of expenditure and borrowing during 1964, the public sector retrenched substantially during 1965 and is continuing in this direction during 1966. But the growth of the Mexican economy has not been compromised thereby. Good crops, buoyant exports and uninterrupted vigorous private investment activity have maintained a momentum of continuing rapid economic expansion. GNP is estimated to have increased in real terms by about 5 percent in 1965 and is expected to increase by 6.5 to 7 percent this year.

The financial authorities feel that their most important task at present is to preserve this momentum of growth and that to do so they must in the first instance follow prudent financial policies to maintain the confidence of savers and investors, both Mexican and foreign, in Mexico's future prospects and in the stability of the peso. Not all members of the Government are agreed on how this should be accomplished. Some of the major spending agencies would like to expand their programs substantially beyond the levels that the Minister of Finance feels would be necessary or consistent with a prudent financial plan, and are reported to be pressing the President to exceed the benchmarks being outlined by the Minister of Finance. However, the Minister of Finance and of the Director General of the Bank of Mexico assured the Bank mission which visited Mexico last month that Mexico's monetary expansion and public sector expenditures would continue to be restrained to levels consistent with a sound overall financing plan, and that the Government's present plans include raising public sector savings sufficiently to permit public investment expenditure levels to increase gradually. These plans would also permit Mexico to begin to work down the presently very high burden of service payments on external debt.

The memorandum which is attached summarizes these general financial policy intentions and the Government's quantitative targets for 1967 and 1968, as they emerged from the mission's conversations in August with the Government. The memorandum was cleared with the Ministry of Finance and the Bank of Mexico before the mission returned to Washington.

The big question for the next few years is whether the President of Mexico will deem it politically appropriate to authorize the various measures needed to increase public sector savings and to require his Government to observe these financial restraints. For the short run, the objectives appear feasible. A number of important steps have already been taken to reduce the operating losses of Government agencies and to improve further the yield of the tax system. There is a discernible concern throughout the Government with making the public sector more efficient and more economical.



With continuing effort the Government's internal and external financing goals for 1967 and 1968 should be readily attainable. To date decisions about external borrowing plans have been particularly slow to crystallize, but the Government now seems to realize that it must move ahead quickly on this front. The Government has agreed to report regularly to the Bank on economic and financial developments and, in particular, on the actual development of the public sector's expenditure and financing plans, so that the implementation of intentions can be observed closely.

The Government recognizes that there are longer term problems which will not be resolved by actions already scheduled to be taken in the next two years: the need to increase exchange earnings to levels which will provide greater margin for sustaining higher economic growth than at present; the need to increase public sector savings further to levels which will permit increases in public investment substantially greater than are planned for the next two years. The Government has said that it intends to move steadily in these directions and is preparing now for action to be taken later. Among the most important of these preparatory efforts will be preparation of an action program to reduce the large and growing deficits of the railroads. The plans for 1967 and 1968 are consistent with these longer term objectives.

In the light of these most recent clarifications of the Mexican Government's intentions, a positive judgment about Mexico's near term prospects and the appropriateness of continued support by external lenders seems well justified at this time.

Mexico City  
August 26, 1966

The purpose of this note is to ensure that a presentation by the mission to the IBRD along the following lines will accurately reflect the Mexican Government's financial policy intentions at the present time.

#### General policy objectives for 1966-1970

The cornerstone of Mexico's development policy is the preservation of internal and external financial stability. The Mexican Government feels that any sustained increase over the past modest 2 to 3 percent annual increase in internal prices, or any erosion of its present gross international reserve holdings of about US\$500 million and the threat to the exchange rate that such erosion would imply, would have profound negative effects on Mexico's future growth. It would undermine Mexico's social and political stability and thereby reduce the willingness of Mexican businessmen to invest and Mexican savers to place their savings with Mexican banks and financial intermediaries. It would also reduce the willingness of foreigners to invest in Mexico. The Government is firmly of the opinion that the quality and growth of private economic activity, which is a principal determinant of Mexico's economic growth, could not be sustained in such circumstances.

Within this framework, the Government will strive to ensure that the Mexican economy continues to grow on average by at least 6 percent per year, which has been the average rate of growth since the early 1950's. To this end, the Government has identified major public sector facilities which have to be improved or expanded during 1966-70, and the investment expenditures and other policy measures that these sectoral goals will require. However, to ensure that these sectoral development targets remain consistent with the Government's overall stability goals, Government action will in future be determined in the context of detailed annual public investment and financing programs. The first of these, for 1967 and 1968, will be completed by the Intersecretarial Commission during October, 1966.

In preparing these annual programs, the Government will limit total planned investment expenditures in any year to the level of funds expected to be available to finance them from external borrowing, internal borrowing and public sector savings. The Government will limit the amount and terms of new external borrowing by the public sector so that the annual payments of interest and amortization on its total external indebtedness will at no time substantially exceed the level reached in 1965, which was about US\$500 million. This external debt management policy reflects the Government's firm resolve to end the steady increase which occurred during the past decade in the proportion of Mexico's current foreign exchange earnings which have been absorbed by debt service. In 1965 this proportion was 33 percent, of which 24 percent was for the service of public sector debt and 9 percent for interest and dividends on foreign



private capital. With regard to internal borrowing the Government considers that the continued rapid increase in domestic private savings will permit the channelling of increasing amounts of these savings to the public sector without limiting the volume of credit to foster the growth of the private sector. Within this rising trend of domestic savings the Government will ensure that its demand for bank credit does not exceed the possibilities of non-inflationary financing.

The Government considers the rapid increase in domestic private savings channelled by the banking system to the public sector will permit the financing of a rising level of public investment. However, it also recognizes that it will have to take measures to raise the savings of the public sector, which have been declining in the past, if the Government's rising investment expenditure goals are to be financed within the above mentioned constraints on new borrowing. To achieve these increases in public sector savings, the Government will limit transfers for operating subsidies to the rest of the public sector, it will limit the growth in current expenditures, in part by shifting to the private sector some of the cost of services which until now have been borne by the Government, it will raise tax yields by continuing its program of administrative improvements and it will take additional revenue measures as they become necessary.

The Government considers that with the above policies the growth in the level of domestic savings and the allocation of these savings will gradually reduce the need for net capital inflows from abroad to finance desired investment levels, without creating undesirable pressures on internal demand or on the balance of payments. However, if in any period balance of payments developments are such as to threaten the external reserves, it is the Government's firm intention, through monetary and fiscal policy, to restrain total demand to levels consistent with its stability goals. To ensure that balance of payments restraints do not conflict over the long run with its present growth objectives, the Government will exert particular effort, by credit and other export promotion programs and by appropriate import policies, to prevent Mexico's external deficit on current account from increasing further.

#### Intentions for 1967 and 1968

On the basis of its present view of internal financial prospects for the next two years, the Government will take steps to raise public sector savings above their estimated 1966 level by some 500 million pesos in 1967 and by another 700 million pesos in 1968 in order to finance an intended investment level of some 15 billion pesos in each of these years. The revenue and expenditure targets that would produce this result are shown in the tables annexed. If the measures needed to achieve these targets - which are still being defined - were not taken, an absolute reduction in Federal Government savings might result.



On the basis of its present view of Mexico's external prospects for the next two years, Mexico should aim for gross loan disbursements of about \$500 million in 1967 and \$460 million in 1968, with average maturities along the lines outlined in the annex attached. The disbursements implicit in the pipeline of undrawn loans already committed amount to some \$250 million for these two years. The Government is accordingly planning to seek new project loan commitments and general purpose borrowing which would provide an additional \$710 million of disbursements in this period. A major project preparation effort will be required to realize this objective.

Including these measures, the Government expects the public sector finances and the balance of payments for 1967 and 1968 to develop along the lines shown in the attached index.

#### Reporting

Since the preparation by the Intersecretarial Commission of annual public investment and financing plans is a new function in Mexico, a reporting system has to be developed, which will permit the Commission to keep up to date on actual developments and take these into account in the preparation of each succeeding year's program. The reporting system will be established during the remainder of 1966. The Government will provide selected elements of these periodic data regularly to the IBRD to permit it to follow more effectively than is now possible developments in the Mexican economy and in the public sector's investment and financing program.

Table 1: PUBLIC SECTOR RESOURCES AND FINANCIAL REQUIREMENTS

(billions of pesos)

|  | Actuals |      | Estimate | Projected |      |
|--|---------|------|----------|-----------|------|
|  | 1964    | 1965 | 1966     | 1967      | 1968 |
| <b>I. Resources</b>  |         |      |          |           |      |
| 1. Current account surplus of:   |         |      |          |           |      |
| a. Federal Government  | 3.7     | 2.5  | 2.2      | 2.4       | 2.5  |
| b. PEMEX   | 2.6     | 2.6  | 2.9      | 2.9       | 3.0  |
| c. Electric Power Sector   | 0.6     | 0.7  | 0.9      | 1.0       | 1.1  |
| d. Federal District  | 1.2     | 1.2  | 1.1      | 1.2       | 1.4  |
| e. Social Security   | 1.0     | 0.7  | 0.8      | 0.9       | 1.1  |
| f. Other   | 0.6     | 0.6  | 0.6      | 0.6       | 0.6  |
| Total (a through f)  | 9.6     | 8.3  | 8.5      | 9.0       | 9.7  |
| 2. Gross external borrowing  | 8.7     | 4.5  | 6.5      | 6.3       | 5.7  |
| 3. Net domestic borrowing<br>from banks  | 4.8     | 4.7  | 4.0      | 4.7       | 5.4  |
| Total resources  | 23.1    | 17.5 | 19.0     | 20.0      | 20.8 |
| <b>II. Requirements</b>  |         |      |          |           |      |
| 1. Financial investment  | 1.7     | 1.1  | 1.5      | 1.5       | 1.5  |
| 2. Amortization of foreign<br>loans  | 3.9     | 4.5  | 5.2      | 4.5       | 4.2  |
| Total requirements   | 5.6     | 5.6  | 6.7      | 6.0       | 5.7  |
| <b>III. Resources available for gross<br/>    fixed investment of the<br/>    public sector (I-II)</b> |         |      |          |           |      |
|  | 17.5    | 11.9 | 12.3     | 14.0      | 15.1 |

Source: 1964-65 Secretaria de Hacienda

1/ Estimated on basis of data to August 10, 1966

2/ In prices of 1966



Table 2: CURRENT ACCOUNT OPERATIONS OF THE FEDERAL GOVERNMENT

(millions of pesos)

|   | Actual  |         | Estimate <sup>1/</sup> | Projected <sup>2/</sup> |          |
|---|---------|---------|------------------------|-------------------------|----------|
|   | 1964    | 1965    | 1966                   | 1967                    | 1968     |
| I. <u>Current Account Income</u> <sup>3/</sup>                                    | 17,254  | 19,304  | 20,453                 | 22,274                  | 24,275   |
| II. <u>Current Account Expenditure</u>  | 13,549  | 16,749  | 18,266                 | 19,912                  | 21,788   |
| 1. Administrative expenditure <sup>4/</sup>                                       | 7,069   | 7,902   | 9,052                  | 9,939                   | 10,913   |
| 2. Interest on public debt <sup>5/</sup>  | 1,127   | 2,267   | 2,727                  | 3,064                   | 3,496    |
| 3. Transfers <sup>6/</sup>  | (5,165) | (6,407) | (6,280)                | (7,511)                 | (8,983)  |
| 4. Cumulative effect of new measures to be taken to limit transfers <sup>7/</sup> | (-)     | (-)     | (-)                    | (-791)                  | (-1,793) |
| 5. =3+4   | 5,165   | 6,407   | 6,280                  | 6,720                   | 7,190    |
| 6. Miscellaneous expenditures <sup>8/</sup>                                       | 188     | 173     | 207                    | 189                     | 189      |
| III. <u>Current Account Surplus</u>   | 3,705   | 2,555   | 2,187                  | 2,362                   | 2,487    |

Source: 1964-65 Secretaria de Hacienda

- Notes:
- <sup>1/</sup> Estimated on basis of data to August 10, 1966
  - <sup>2/</sup> In prices of 1966
  - <sup>3/</sup> Projected on the basis of (i) the income elasticities of individual taxes and the assumption of a rate of growth of GNP of 6%; (ii) further administrative and minor structural changes, which jointly would yield a cumulative effect of 550 million pesos in 1967 and 1,050 million pesos in 1968.
  - <sup>4/</sup> Projected at a rate of 9.8 percent per year, equivalent to the historical growth rate in real terms
  - <sup>5/</sup> Assumed to increase in relation to the amount of credit available to the public sector from the banking system
  - <sup>6/</sup> Projected at an annual growth rate of 19.6 percent, equivalent to the historical growth rate in real terms
  - <sup>7/</sup> Based on target imposed by the Mexican Government to limit the increase in transfer expenditures in 1967 and 1968 to 9 percent per year in current prices, equivalent to about 7 percent in constant prices. The concrete measures needed to achieve this target are yet to be defined.
  - <sup>8/</sup> Projected at the average level for the 1964-1966 period.



Table 3: BALANCE OF PAYMENTS

(millions of U.S. dollars)

|  | Actual         |                | Estimate     | Projected    |              |
|--|----------------|----------------|--------------|--------------|--------------|
|  | 1964           | 1965           | 1966         | 1967         | 1968         |
| Commodity Exports  | 1,022          | 1,114          | 1,203        | 1,251        | 1,303        |
| Other credits on current account                           | 813            | 880            | 956          | 1,025        | 1,130        |
| <u>I. Total Credits on Current Account</u>                 | <u>1,835</u>   | <u>1,994</u>   | <u>2,159</u> | <u>2,276</u> | <u>2,433</u> |
| Direct foreign investment                                  | 162            | 198            | 230          | 260          | 290          |
| Disbursements of credits to public sector                  | 695 <u>a/</u>  | 378 <u>a/</u>  | 520          | 505          | 457          |
| Amortizations of official debt                             | -343 <u>a/</u> | -395 <u>a/</u> | -419         | -356         | -335         |
| Net inflow of capital to public sector                     | 352            | -17            | 101          | 149          | 122          |
| Errors and Omissions                                       | -138           | 188            | -            | -            | -            |
| Short-term capital   | 63             | -30            | ) 47         | -            | -            |
| Change in international reserves (increase -)              | -32            | 21             |              | -40          | -40          |
| <u>II. Balance on Capital Account</u>                      | <u>+407</u>    | <u>+360</u>    | <u>+378</u>  | <u>+369</u>  | <u>+372</u>  |
| III. (I + II)  | 2,242          | 2,354          | 2,537        | 2,645        | 2,805        |
| Minus:   |                |                |              |              |              |
| IV. Imports of services and factor payments                | 749            | 794            | 904          | 999          | 1,060        |
| Equals:  |                |                |              |              |              |
| <u>V. Foreign exchange available for commodity imports</u> | <u>1,493</u>   | <u>1,560</u>   | <u>1,633</u> | <u>1,646</u> | <u>1,745</u> |

Source: 1964-65, Bank of Mexico

a/ includes the net balance of government debt and trading in securities

Table 4: ESTIMATED SERVICE ON EXISTING AND NEW OFFICIAL FOREIGN DEBT

(millions of U.S. dollars)

|   | 1967       | 1968       |
|---|------------|------------|
| I. <u>Existing debt</u>                       | 348        | 291        |
| Amortization                                  | <u>275</u> | <u>233</u> |
| Interest                                      | 73         | 58         |
| II. <u>New debt</u>                           | 125        | 174        |
| Amortization                                  | <u>81</u>  | <u>102</u> |
| Interest                                      | 44         | 72         |
| <u>Long term (17 years, 6%, 2 year grace)</u> |            |            |
| Contracted in 1966                            |            |            |
| Amortization                                  | -          | 10         |
| Interest                                      | 15         | 15         |
| Contracted in 1967                            |            |            |
| Amortization                                  | -          | -          |
| Interest                                      | 9          | 18         |
| Contracted in 1968                            |            |            |
| Amortization                                  | -          | -          |
| Interest                                      | -          | 9          |
| <u>Medium term (7 years, 7%)</u>              |            |            |
| Contracted in 1966                            |            |            |
| Amortization                                  | 5          | 6          |
| Interest                                      | 3          | 2          |
| Contracted in 1968                            |            |            |
| Amortization                                  | -          | -          |
| Interest                                      | -          | 4          |
| <u>Medium term (5 years, 7%)</u>              |            |            |
| Contracted in 1966                            |            |            |
| Amortization                                  | 26         | 27         |
| Interest                                      | 10         | 9          |
| Contracted in 1967                            |            |            |
| Amortization                                  | -          | 18         |
| Interest                                      | 4          | 7          |
| Contracted in 1968                            |            |            |
| Amortization                                  | -          | -          |
| Interest                                      | -          | 4          |

Continued ...

Table 4: ESTIMATED SERVICE ON EXISTING AND NEW OFFICIAL FOREIGN DEBT  
(Continued)

(millions of U.S. dollars)

|  | 1967        | 1968        |
|--|-------------|-------------|
| <u>Short term (2 years, 7%)</u>          |             |             |
| Contracted in 1966                       |             |             |
| Amortization                             | 20          | 20          |
| Interest                                 | 1           | 1           |
| Contracted in 1967                       |             |             |
| Amortization                             | -           | 20          |
| Interest                                 | 2           | 1           |
| Contracted in 1968                       |             |             |
| Amortization                             | -           | -           |
| Interest                                 | -           | 2           |
| <u>Short term (1 year, 7%)</u>           |             |             |
| Amortization                             | 30          | -           |
| Interest                                 | 2           | -           |
| III. <u>Total</u>                        | <u>473</u>  | <u>465</u>  |
| Amortization                             | <u>356</u>  | <u>335</u>  |
| Interest                                 | <u>117</u>  | <u>130</u>  |
|  | <u>1966</u> | <u>1967</u> |
| Estimated official debt<br>service ratio | 23.4        | 20.8        |
|  |             | <u>1968</u> |
|  |             | 19.1        |



Table 5: ESTIMATED GROSS DISBURSEMENTS OF EXISTING  
AND NEW OFFICIAL FOREIGN DEBT

(millions of U.S. dollars)

|  | 1967       | 1968       | After<br>1968 | Total<br>Commit-<br>ments |
|--|------------|------------|---------------|---------------------------|
| <u>Disbursements on new loans</u>      | <u>290</u> | <u>420</u> | <u>570</u>    | <u>1,280</u>              |
| Contracted in 1966                     |            |            |               |                           |
| Long                                   | 100        | 100        | 50            | 250                       |
| Medium 7                               | -          | -          | -             | -                         |
| Medium 5                               | -          | -          | -             | -                         |
| Short                                  | -          | -          | -             | -                         |
| Contracted in 1967                     |            |            |               |                           |
| Long                                   | -          | 80         | 220           | 300                       |
| Medium 7                               | -          | -          | -             | -                         |
| Medium 5                               | 150        | -          | -             | 150                       |
| Short                                  | 40         | -          | -             | 40                        |
| Contracted in 1968                     |            |            |               |                           |
| Long                                   | -          | -          | -             | 300                       |
| Medium 7                               | -          | 100        | -             | 100                       |
| Medium 5                               | -          | 100        | -             | 100                       |
| Short                                  | -          | 40         | -             | 40                        |
| <u>Disbursements on existing loans</u> | <u>215</u> | <u>37</u>  | -             | -                         |
| <u>Total disbursements</u>             | <u>505</u> | <u>457</u> | -             | -                         |

NICARAGUA

CONFIDENTIAL

September 21 1966

BRIEFING PAPER - 1966

NICARAGUA

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JUL 19 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date September 26, 1966

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

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Weiner  
Mr. Mirza  
Mr. Steuber  
Mr. Kuczynski  
Mr. Schmitt

II. MEMBERS OF DELEGATION

Silvio ARGUELLO CARDENAL (B)

Minister of Economic  
Affairs

Roberto SOLORZANO MARIN (F)

President, Banco Nacional  
de Nicaragua

Guillermo SEVILLA SACASA (B)

Ambassador of Nicaragua  
to the United States



September 9, 1966

III. BANK/IDA PROSPECTIVE OPERATIONS

Projects presently under consideration:

| Purpose          | Tentative Amount | Status   | Tentative Date for Negotiations |
|------------------|------------------|--|---------------------------------|
| Power            | \$5 million      | Loan approved by Executive Directors on June 9. We are reviewing the actions taken in order to determine whether all prerequisites to signing have been met. We expect the signing to take place very shortly. |                                 |
| Port of Corinto  | \$6 million      | Part I (economic) of feasibility study completed; Part II (engineering) to be initiated shortly.   | Mid-1967                        |
| Education        | \$6 - 8 million  | UNESCO project preparation mission report expected shortly.  | Mid-1967                        |
| Rivas Irrigation | \$4 million      | Studies for revision of project to be completed in early 1967  | Late 1967                       |

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level:1. Rivas Irrigation Project

In March 1966 the Government requested, and the Bank agreed, to reduce the loan from \$2.6 million to about \$250,000, which amount would be used for a program of studies and experimentation now in progress, with a view to a complete revision of the project. We do not expect their studies to be completed until about the end of next year. Crop experimentation, especially with regard to bananas, seem to be quite encouraging but more work is necessary before a judgement can be made on this matter. We should ask about the present status of the program of studies and inquire as to whether any problems have been encountered so far.

2. Other irrigation projects

A Bank agricultural mission which visited Nicaragua in May 1964 identified several possible irrigation projects, of which one (Tuma Viejo) appears promising. A study of the Tuma Viejo river basin investigating both hydro-power and irrigation possibilities is expected to be completed during the second half of the year. Based on the conclusions of that study, an irrigation project could then be formulated. We should inquire about the Government's intentions regarding Tuma Viejo or possibly other irrigation projects and offer to explore possibilities for Bank technical assistance to carry out feasibility studies.

3. UN Special Fund study of Atlantic port

The Bank is executing agency for the study which was initiated in June of this year. We should inquire whether any problems have been encountered so far with this project

4. New hydroelectric project

The recent \$5 million Bank loan to ENALUF was for the financing of an interim power project. The next step will undoubtedly be a fairly large hydro scheme, the location and size of which will be known after the completion of a study, now in progress (see 2, above), of hydro possibilities in the Tuma Viejo River basin. We should inquire about the status of the study and express our continued interest in cooperating with ENALUF, as well as in assisting in the financing of their power development program.



5. Central American Mission

The Central American Mission that is studying the economies of the countries in the context of regional integration hopes to discuss its conclusions and findings with the Government at the end of this year or beginning of next year.

6. IDA 90% subscription

We should press for the release of the 90% subscription amounting to \$270,000.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled.

(c) Likely to be raised by delegation:

1. Education

As a result of a UNESCO project identification mission which visited Nicaragua in mid-1965, and of a subsequent project preparation mission in June 1966, an education project is taking shape which would provide for the expansion of general secondary, technical and vocational education, as well as secondary teacher training. Originally the Bank had tentatively agreed to include in the project the expansion and relocation of the National School of Agriculture (university level) and the creation of one or more agricultural vocational schools. However, after reviewing the findings of a recent UN Special Fund mission to Nicaragua we have concluded that the whole matter of higher and vocational agricultural education is at a very early stage and that studies at present under way would not be completed for about another year. We have, therefore, decided to leave out the higher and vocational agricultural education part from our project in order not to delay the rest of the secondary schools project. However, certain elements of agricultural education at the secondary level are included in the present project.

The above would be our response if the Nicaraguans inquire as to why the project has been cut back.

2. Land reform with respect to irrigation

In most areas tentatively identified as being suitable for irrigation, there is a heavy concentration of land



ownership. This is especially true of Tuma Viejo (see a, 2 above). The delegation is likely to ask about Bank policy with respect to land reform. Our position should be that the Bank has no rigid rules, and that the optimum economic size of irrigation would be the foremost consideration. This can only be determined after studies of soils, cropping patterns, etc.

V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

|      |                              |                       | (U S \$ Million)                |                        |
|------|------------------------------|-----------------------|---------------------------------|------------------------|
| Year | Borrower                     | Purpose               | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
|      |                              | Loans fully disbursed | 23.0                            | 00.0                   |
| 1960 | Empresa Nac. Luz y<br>Fuerza | Power                 | 12.5                            | 0.48                   |
| 1963 | Republic of Nicaragua        | Irrigation            | <u>0.25</u> <sup>1/</sup>       | <u>0.14</u>            |
|      | Total                        |                       | 35.75                           | 0.62                   |
|      | of which has been repaid     |                       | <u>15.61</u>                    |                        |
|      | Total outstanding            |                       | 20.14                           |                        |
|      | Amount sold                  | 2.24                  |                                 |                        |
|      | of which has been repaid     | 2.1                   | <u>0.14</u>                     |                        |
|      | Net amount held by Bank      |                       | <u>20.0</u>                     |                        |

(b) IDA Credits as of July 31, 1966

|               |                      |  | (U S \$ Million)                |                        |
|---------------|----------------------|--|---------------------------------|------------------------|
| Date          | Purpose              |  | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
| Sept. 7, 1962 | Managua water supply |  | 3.0                             | 0.0                    |

<sup>1/</sup> The amount of the original loan was \$2.6 million. In March 1966, the Government and the Bank agreed to cancel the difference, pending the outcome of a program of studies and experimentation now under way, with a view to revising the project. The present amount is to be used for studies and some equipment.

(c) Technical Assistance Activities

The Bank is Executing Agency for a United Nations Special Fund Highway and Ports Survey on the Southern Atlantic Coast. The consultants arrived in June 1966; the study will require two years.

We are currently considering making a technical assistance grant of \$175,000 to finance part II (engineering) of the feasibility study for the expansion of the port of Corinto. A decision will be made after we have explored whether the United Nations Development Program is interested in financing this study.

(d) Access to Private Capital Markets

Not applicable.

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

Beginning October 1, 1964, Nicaragua had started releasing its 9% subscription in 12 semi-annual instalments of \$45,000.

(f) IDA 90% Subscription: US\$270,000

No release.

(g) Holdings of Bank Bonds

No holdings.

(h) I.F.C.

IFC has made no investments in Nicaragua, but is presently studying the possibility of an investment in a new textile plant.

IFC intends to send a mission later this year, to follow up previous work on the feasibility of a regional investment company or DFC.

(i) Settlement of Investment Disputes

Nicaragua has not signed the Convention on the Settlement of Investment Disputes, and is not expected to do so in the near future.



VI. 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 died unexpectedly in early August. Mr. Lorenzo Guerrero, a former Vice President and also a member of the Liberal Party, took over as President for the remainder of Dr. Schick's term.

Elections are scheduled for February, 1967 and a new administration will be inaugurated in May of that year. General Anastasio Somoza, the Chief of the National Guard, has been seeking grass roots support for the last two years, with a view to his nomination by the Liberal Party as the Party's candidate for the presidency. It is likely that General Somoza will receive the nomination, and that he will also win the election.

General Somoza does not appear to have the intellectual stature of his brother Luiz, who was President from 1959 to 1963. His bid for the Presidency might lead to internal political unrest, coming especially from the University students.

NICARAGUA

August 29, 1966

VII. ECONOMIC SITUATION

Population: 1.6 million  
GNP per capita: About US\$330  
Gross foreign  
exchange reserves: US\$60 million

The country's economic growth since 1961 has been impressive. GDP rose by about 7 - 8 percent per year in real terms between 1961 and 1965, as compared with about 6 percent average over the previous ten years. Income per capita in 1965 reached a level of US\$330. The main stimulus to growth has come from a rapid expansion in agricultural production for export, particularly of cotton and coffee. Exports of these two commodities in 1965 amounted to \$66 million and \$25 million respectively, and accounted for 46 and 18 percent of total exports. However, the increase in exports dropped from an average annual rate of 18 percent in 1960 - 1964 to 14 percent in 1965. Droughts in 1965 have kept the 1966 output of cotton and coffee at levels somewhat below the 1965 record, with world market prices for both commodities tending to decline.

Public investment more than doubled between 1960 and 1964, rising from \$10.5 million to \$25.9 million equivalent, or from 3 percent of GDP to 5 percent. Expenditures by the Central Government rose by an average annual 12 percent from about 1960 to 1964, but revenues did so even faster by an average 15 percent per year. The increase in revenues has been due to a combination of income increases and improvements in tax administration.

The burden of Nicaragua's external debt service is not heavy. Service on the external public debt represented 4.8 percent of export earnings in 1965. Projects now in various stages of preparation may attract up to \$100 million of new development loans over the next five years, but this would not significantly raise the debt burden until after 1970, when the export diversification program now under way may also begin to bear fruit. Nicaragua's favorable growth prospects, its sound management of development financing and low external debt service ratio are likely to ensure the maintenance of an ample margin of creditworthiness for additional external borrowing on conventional terms.

PANAMA



CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

PANAMA

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JUL 19 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 27, 1966

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

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Weiner  
Mr. Mirza  
Mr. Steuber  
Mr. Kuczynski  
Mr. Schmitt

II. MEMBERS OF DELEGATION

|                                  |     |   |
|----------------------------------|-----|---|
| Jorge T. Velasques               | (F) | General Manager<br>Banco Nacional de Panama               |
| Carlos A. Velarde                | (B) | General Manager<br>Desarrollo Industrial, S.A.            |
| Juan Jose ILLUECA DUTARY(Temp.)  | (F) | Assistant to General Manager,<br>Banco Nacional de Panama |
| Adolfo ICAZA (Temp.)             | (F) | Member, Board of Directors<br>Banco Nacional de Panama    |
| Juan Antonio TEJADA MORA (Temp.) | (F) | Assistant to General Manager,<br>Banco Nacional de Panama |

III. BANK/IDA PROSPECTIVE OPERATIONS

The following projects are under consideration:

| <u>Purpose</u>   | <u>Tentative<br/>Amount</u> | <u>Status</u>  | <u>Tentative<br/>Date for<br/>Negotiations</u> |
|--|-----------------------------|--|--|
| Road rehabilita-<br>tion, maintenance<br>and new construc-<br>tion | \$6.5 million               | Draft appraisal<br>report completed                            | October 1966                                   |
| Bayano hydro-<br>electric project                                  | \$28 million                | Awaiting clari-<br>fication of<br>prospects for<br>power sales | Mid-1967                                       |

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level:(i) New Highway Loan

The Bank is prepared to consider a \$6.5 million loan for new highway construction, road rehabilitation and maintenance, and various consulting services. Key lending prerequisites, which would all be a condition for the presentation of the loan to the Executive Directors, are:

- (a) The engagement of a general management and engineering consulting firm which would advise CAM on organizational and operational problems;
- (b) The discontinuation of the use of CAM's own forces on major construction and rehabilitation work, as well as on municipal street works;
- (c) The establishment of a revolving fund for the purchase of equipment and spare parts.

When a Bank mission visited Panama in July, draft legislation and/or administrative action was agreed upon between Government and Bank representatives. The mission urged that these drafts be cleared within the Government before being submitted for the Bank's approval. Nothing has been received yet. We should inquire about the status of these drafts and the timing of their implementation.

(ii) Bayano Hydroelectric Project

The main outstanding problem is the need to define clearly the price formula to be included in the contract or contracts for the sale of power by IRHE to the distributing companies. It is necessary for us to know the basis for such a formula so that IRHE's future revenues may be estimated. Discussions are being held at present between IRHE and the distributing companies on this point and we should inquire as to their present status. The Bank has also agreed that final design for Bayano should proceed. We should hold out the hope for an appraisal mission in early 1967, provided the power sales discussions have advanced to a point where IRHE's future revenues can be estimated, and we are assured that the management consultants who were engaged recently are assisting IRHE on a continuing basis.



(iii) Bank 9% subscription

In March 1965 Panama's capital subscription was raised from \$400,000 to \$9 million. We should ask for the release of the 9% (\$774,000) corresponding to the capital increase (\$8.6 million).

(iv) IDA 90% subscription

\$14,000 out of the \$18,000 corresponding to the 90% subscription has been released. We should press for the release of the remaining \$4,000.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled.

(c) Likely to be raised by Delegation:Education

The Delegation is likely to inquire about possibilities for Bank financing of a vocational education program. About a year ago we concluded that educational needs, especially in secondary education, had not been determined with any precision. We therefore advocated a sizeable programming effort. Nothing has been accomplished since, but with the help of an AID-sponsored planning team, an overall education program could be shaped up relatively quickly, and projects identified in a preliminary way. If important imbalances in the education sector can be identified leading to the elaboration of specific projects, the time might then be ripe for a UNESCO project identification mission.

V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

|                          |   |             | (U S \$ Million)                |                        |
|--------------------------|---|-------------|---------------------------------|------------------------|
| Year                     | Borrower  | Purpose     | Amount<br>less<br>Cancellations | Undisbursed<br>Balance |
| 1953                     | Instituto de Fomento<br>Economico                           | Agriculture | 0.66                            | 00.0                   |
| 1953                     | Instituto de Fomento<br>Economico                           | Grain silos | 0.29                            | 00.0                   |
| 1955                     | Republic of Panama  | Roads       | 5.90                            | 00.0                   |
| 1960                     | Republic of Panama  | Roads       | 7.20                            | 00.0                   |
| 1962                     | Instituto de Recursos<br>Hidraulicos y Elec-<br>trificacion | Power       | 4.00                            | 0.98                   |
| Total                    |   |             | 18.05                           | 0.98                   |
| of which has been repaid |   |             | <u>8.10</u>                     |                        |
| Total outstanding        |   |             | 9.95                            |                        |
| Amount sold              |   | 2.5         |                                 |                        |
| of which has been repaid |   | 2.4         | <u>0.10</u>                     |                        |
| Net Amount held by Bank  |   |             | <u>9.85</u>                     |                        |

(b) IDA Credits as of July 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Panama has frequently placed long-term bonds in the New York Market. Its access to the U.S. capital market was

PANAMA

September 14, 1966

based entirely on the fact that service on these debts was secured by the U.S. Canal annuity payment of \$1.93 million.

(e) Bank 9% Capital Subscription: US\$810,000

\$36,000 corresponding to original total subscription of \$400,000 released and lent in dollars.

(f) IDA 90% Subscription: US\$18,000

US\$14,000 released.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

IFC has made no investments in Panama, but is in preliminary discussion with Continental Oil, United Fruit and National Bulk Carriers concerning a possible fertilizer operation.

IFC intends to send a mission later this year, to follow up previous work on the feasibility of a regional investment company or DFC.

(i) Settlement of Investment Disputes

Panama has not signed the Convention on the Settlement of Investment Disputes, and is not expected to do so in the near future.



VI. POLITICAL SITUATION

President Marco A. Robles, who was the candidate of the previous administration of President Chiari of the Liberal Party, was elected in May and inaugurated in October 1964. Mr. Robles is known for his integrity, strength of character and pro-U.S. sentiments. His administration has made a commendable effort to increase tax revenues. In the social field, the Government has pursued moderate social reforms. In spite of this, the President has not provided a very forceful leadership for the country's development effort. For example, he has shown very little interest in the improvement of key Government institutions.

For the last two years the key political and economic question in Panama has been the future of the present canal and the possibility of constructing a new sea-level canal. Negotiations with the U.S. have been underway during this period, but no real achievements can be noted so far. The Government expects that negotiations with the U.S. on the canal problem will not be concluded before the beginning of 1967. Final agreement is expected to be reached on three main points:

- (a) The future of the present canal;
- (b) The presence of U.S. forces in Panama;
- (c) The new sea-level canal.

VII. ECONOMIC SITUATION

|                                 |                  |
|---------------------------------|------------------|
| Population:                     | 1.2 million      |
| GNP per capita:                 | US\$467          |
| Gross Foreign exchange reserves | US\$43.5 million |

The rate of growth of Panama's real domestic product accelerated from 4.3 percent per year in the decade of the 1950's to 8.7 percent per year from 1960 through 1963. Due to the Canal Zone incidents of January 1964 and the consequent capital flight, economic growth declined sharply, but recovered to an annual rate of 7.6 percent in the course of 1965. The major stimulus continues to come from export markets, including the Canal Zone though the Zone now accounts for only 42 percent of export earnings as compared with 50 percent in 1960. Bananas, refined petroleum, transport and travel have been primarily responsible for such diversification of exports as has occurred.

The formulation and implementation of public policy can still be improved in spite of recent advances. The implementation of tax reforms caused public savings virtually to triple from 1964 to 1965, raising the proportion of investment financed by them from 11 to 36 percent. Public investment, however, continued to drop, from a peak of \$34 million in 1963 to \$25 million in 1965, or from 7 percent to 4 percent of GDP. The lag in public investment was mainly due to delays in the preparation of projects. A renewed decline in public savings is also in prospect for 1966, due to large percentage increases in average pay rates to Government employees.

Nevertheless, Panama's prospects for the next decade or so are favorable. Exports are expected to continue to expand at about 9 - 10 percent annually, with further possibilities for diversification not only in bananas, but also in cattle and in fruits and vegetables, as well as in sugar and coffee for which quota limits have not yet been exhausted. Gross domestic investment in 1965 expanded by 16 percent to 20 percent of GDP, and further increases in private investment associated with improved business confidence and more settled Panama-US relations are in prospect. Though the absence of a central bank rules out conventional credit policies, balance of payments developments are also expected to remain manageable.

The external public debt outstanding at the end of 1965, including undisbursed, came to \$109 million and was predominantly long-term. The IBRD accounted for 10 percent of the total; other international institutions and the U.S. Government for an additional 53 percent. The debt service burden in 1965 came to \$6.6 million, equivalent to 3.6 percent of foreign exchange earnings. Present

commitments will raise it to a peak of \$10.1 million in 1967, or to an estimated 4.3 percent of foreign exchange earnings. Given Panama's favorable growth prospects, there remains therefore a substantial margin for additional borrowing on conventional terms.



PARAGUAY

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September 21, 1966

BRIEFING PAPER - 1966

PARAGUAY

I. MEETING WITH DELEGATION

Date: September 28, 1966

Time: 12:00-12:30

Attended by:

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Wright  
Mr. Ross  
Mr. Calisto  
Mr. Eory

II. MEMBERS OF DELEGATION

General Cesar BARRIENTOS

(F) Minister of Finance

Cesar Romeo ACOSTA

(B) President, Banco  
Central del Paraguay

Edgar F. TABOADA

(F) Under Secretary of  
Finance, Ministry of  
Finance

Oscar Stark RIVAROLA

(B) Manager, Banco Central  
del Paraguay

III. BANK/IDA PROSPECTIVE OPERATIONS

There are no projects presently under consideration.

The possibility of the Bank financing a \$2-3 million project for the importation of road maintenance equipment has been discussed. A decision awaits the Consultants' (Brown and Root) recommendations on a maintenance program which is expected to be available about mid-September.

A request has been received to consider a loan of about \$1 million for improving and paving about 43 kms. of a section of the Trans-Chaco Road from Jardin Botanico to Benjamin Aceval. We have recommended waiting for results of the feasibility study of the complete Trans-Chaco Road which is being financed by the IDB, and for confirmation that the IDB is not interested in financing the construction of this section.

The National Administration of Telecommunications advised the Bank that a feasibility study financed by the United Nations for the expansion of telephone and telecommunications facilities in Paraguay will be completed shortly. They requested the Bank's Guidance to present this project according to the Bank's requirements for possible financing. No amount has been mentioned as yet.



IV. TOPICS FOR DISCUSSION

## (a) To be raised by Bank at staff level:

Release of 9%. We should stress the need for Paraguay to release in dollars its 9% capital subscription, and ask whether the Government has come to a decision regarding the possibility of releasing it in one lump sum or over a period of years as indicated in our letter of November 5, 1965.

Recommendations of the Ross mission: The economic mission which visited Paraguay in May/June 1965 concluded that the present economic and financial position is favorable but that a number of problems must be faced:

- (i) The utilization of the very substantial pipeline of external credits and loans will necessitate increases of public sector savings if the external assistance is to be effectively utilized under conditions of internal and external stability. Although legislation is pending to improve fiscal revenues, the need for further action to increase the level of public sector savings should be stressed.
- (ii) The debt service is becoming heavy both in relation to foreign exchange earnings and to domestic savings. Additional external borrowing should therefore be carefully coordinated and limited to high priority productive projects. In this connection, investments in livestock, in agriculture, and in the processing of agricultural produce for export as well as for the domestic market should be encouraged. This will require not only diligent preparation of appropriate projects but also a great deal of emphasis will have to be placed on organizational and institutional arrangements for channeling financial assistance.
- (iii) Additional external borrowing should concentrate on long-term loans with extended grace periods and the public sector should refrain from taking on suppliers' credits in excess of annual repayments on previously contracted suppliers' credits.

## (b) Likely to be raised by delegation:

- (i) Slaughter House Project. The delegation might ask the Bank's position concerning a slaughter house project in the area of Villarica sponsored by members of the Villarica Cooperative of which Ambassador Plate and Dr.

August 26, 1966

Romeo Acosta are members. Our reply should be (as it was expressed to Ambassador Plate during his last visit to the Bank) that we could not consider Bank or IFC financing this project, because it is under active consideration by IDB.

- (ii) Education projects. The delegation might enquire whether the Bank would be prepared to consider projects in the field of education. We should answer that our latest economic report stresses the importance of technical education in agriculture at the secondary school level and in rural centers. However, we would like to wait for the results of the Project Identification Mission which UNESCO will send to Paraguay in September.

V. BACKGROUND INFORMATION(a) Bank loans as of July 31, 1966

| Year  | Borrower             | Purpose                      | Amount less<br>Cancellations<br>(in millions of US\$) | Undisbursed<br>Balance |
|---|----------------------|------------------------------|---|------------------------|
| 1951  | Republic of Paraguay | Agriculture and<br>Transport | 4.5   | 0.0                    |
| 1964  | Republic of Paraguay | Roads                        | 2.2   | 2.2                    |
| 1965  | Republic of Paraguay | Ports                        | 2.75  | 2.75                   |
| 1966  | Republic of Paraguay | Roads                        | <u>2.1</u>  | <u>2.1</u>             |
| Total (net of cancellations and refundings) |                      |                              | 11.55   | 7.05                   |
| of which has been repaid                    |                      |                              | <u>4.5</u>  |                        |
| Total now outstanding                       |                      |                              | 7.05  |                        |
| Amount sold                                 |                      | .29                          |   |                        |
| of which has been repaid                    |                      |                              | <u>.19</u>  |                        |
| Net amount held by Bank                     |                      | .10                          | <u>6.86</u>   |                        |

(b) IDA Credits as of July 31, 1966

| Date       | Purpose        | Amount less<br>Cancellations<br>(in millions of US\$) | Undisbursed<br>Balance |
|------------|----------------|---|------------------------|
| Oct. 26/61 | Highways       | 6.0   | 4.1                    |
| Dec. 26/63 | Cattle Project | 3.6   | 0.9                    |
| Apr. 4/66  | Cattle Project | 7.5   | 7.5                    |



(c) Technical Assistance Activities

- (i) 1964-66 Executing Agency for UNSF Road Survey. Draft final report received in early August and currently being reviewed in the Bank.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription (\$0.54 million)

\$126,000 released for purchases in Paraguay.  
See III (a).

(f) IDA 90% Subscription (\$0.27 million)

No release.

(g) Holdings of World Bank Bonds

The Central Bank of Paraguay has bought \$250,000 worth of two-year bonds issued in September 1965.

(h) IFC

Member.

IFC has no investments in Paraguay and no applications are pending.

(i) Settlement of Investment Disputes

No action expected from the Government in the foreseeable future.

VI. POLITICAL SITUATION

President Stroessner has been in office 12 years. His popularity in Paraguay has increased through a program of public works and economic stabilization, which has both fostered agricultural production and held the cost of living down. During the last years greater freedom of expression has been permitted and in slow steps an opposition party is being strengthened. The respect for the Stroessner regime has also increased abroad and prominent people have made complimentary statements about it. Stroessner's term will expire in August, 1968. Political stability should continue to be firm.

VII. ECONOMIC SITUATION

|                            |                              |
|----------------------------|------------------------------|
| Population:                | 1.9 million (mid-1965)       |
| GNP per capita:            | US\$200                      |
| Foreign exchange reserves: | US\$11.4 million (July 1966) |

For the third year in succession GDP is estimated to have increased by some 5 percent during 1965. This increase was in large measure induced by a favorable export market. According to preliminary indications, the increased output contributed to a rising level of investment. The development efforts and policies of the public authorities, as exemplified by heavy investments in infrastructure, the maintenance of relative monetary and price stability and the encouragement of the development of the livestock sector, have all contributed to the improvement of the economic situation in recent years.

The increased level of economic activity had its salutary repercussions on public finances. Tax revenues increased by nearly one-third over 1964, and the improved management of public finances made its contribution to the maintenance of a relatively stable price level. Public sector investments have, on the whole, been well directed. The private sector, particularly in livestock where IDA credits are contributing to increased production, continued to flourish. The latest IDA credit for livestock of US\$7.5 million will further improve the output of this sector. New government policies aim at increased foreign private participation in most sectors of economic activity and offer favorable treatment and facilities. This new attitude should encourage foreign firms to bring in much needed private capital and know-how and help raise industrial output and productivity.

The balance of payments performance in 1965 was quite satisfactory. Export earnings increased by some 30 percent in 1965 as a result of a rising volume of exports and of more favorable terms of trade. Gross foreign exchange reserves of the Central Bank increased by US\$4.9 million in 1965 and stood at US\$11.4 million in December 1965.

Although the overall economic situation continues to be favorable, some deterioration has resulted in 1966 from heavy floods and a decline in the price of meat extracts. Nevertheless, the prospects of continuing growth this year in line with recent experience appears to be good. The Paraguayan authorities have entered into a stand-by agreement with IMF for US\$7.5 million which should enable Paraguay to eliminate external commercial payments arrears accumulated this year because of the slowness of exports. Under this stand-by, Paraguay undertakes to continue to manage satisfactorily its monetary, fiscal and foreign exchange affairs. While legislation seeking improvement of tax administration and reduction of tax evasion is now pending, which should help further improve the fiscal outlook, the need to raise the level of public sector savings continues, and external lending agencies should maintain pressure in this direction.



The outstanding external public debt repayable in foreign exchange stood at the equivalent of US\$61.4 million at the end of December 1965. In addition, there was an external public indebtedness repayable in local currency in an amount equivalent to US\$30 million. The service requirements on public debt payable in foreign exchange were about 10 percent of current export earnings and with new loan commitments in prospect will increase to 12.5 percent in 1970. Debt service is not inordinately burdensome on the balance of payments, but is absorbing about half of the savings of the public sector. Given the shortage of domestic resources for financing public investment, external financing for new projects should avoid adding burdening debt service over the next several years. As a consequence, Paraguay should be regarded as eligible for IDA assistance, and Bank loans should carry extended periods of grace. In the coming year no new IDA operations are contemplated, Paraguay being considered an "enough for the time being" country.

PERU

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September 21, 1966

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WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: Thursday, September 29, 1966 Time: 4.30 p.m.

Attended by: Mr. Knapp

Staff: Mr. Alter  
Mr. Chauffournier  
Mr. Weiner  
Mr. Knox  
Mr. Wyss

II. MEMBERS OF DELEGATION

Sandro MARIATEGUI

Finance Minister

Celso PASTOR

Ambassador to Washington  
(Governor of IBRD)

Tulio de ANDREA

President of Industrial Bank  
(Alternate Governor of IBRD)

ADVISERS

Emilio G. BARRETO

Director of Economic Studies, Banco  
Central de Reserva del Peru  
(Alternate Governor of Fund)

Fernando SCHWALB

President, Banco Central de Reserva  
del Peru

Javier OTERO

General Manager, Banco Central de  
Reserva del Peru

Federico RUIZ HUIDOBRO

Superintendent of Banks

German de la MELENA

Banco Central de Reserva del Peru

Max GAMARRA

Director of Public Credit,  
Ministry of Finance

Alfonso GRADOS

Carlos GIBSON

Minister Counselor for Finance,  
Embassy of Peru, Washington



III. BANK/IDA PROSPECTIVE OPERATIONS

The following projects are under consideration:

| Purpose   | Amount<br>(US\$ million) | Status  | Tentative<br>date of<br>negotiations |
|---|--------------------------|---|--------------------------------------|
| Education   | 6                        | Appraisal Report being prepared                                     | October 31                           |
| Port expansion<br>(supplementary loan<br>for Callao Port) | 2.5                      | Appraisal Report being prepared                                     | Jan-Feb 1967                         |
| Power Generation  | 15                       | Loan application expected shortly                                   | Open                                 |
| Livestock Development                                     | 3.5                      | FAO project identification report under consideration by Government | Open                                 |
| Roads   | 20                       | To be appraised   | Open                                 |
| Olmos Irrigation  | up to 60                 | To be appraised   | Open                                 |

IV. TOPICS FOR DISCUSSION(a) To be raised by Bank at staff level

We were very pleased with the decision taken by various countries and agencies in July to establish a Consultative Group for Peru. But we have been disturbed by two developments since then. The first is a sharp deterioration in the fiscal situation and we should impress on the Peruvian Delegation the need for corrective action both through the emergency program for 1966 and by raising additional revenue in 1967 through new taxes (see Section VII). The second is the information which has reached us from other agencies about their receiving loan applications for projects outside the Peruvian borrowing program presented to the Consultative Group. We should stress the need for adequate machinery in Peru for coordinating loan applications and for arranging orderly and agreed changes in the borrowing program.

The San Lorenzo Project (Loan 418 PE) is moving ahead more slowly than expected because of a change of management. We should express the hope to the Government that there will be no further delays.

The road user charges study agreed to in Loan 425 PE (which will be ready by the end of 1966) will contain recommendations to be used as the basis for a revision of the road users taxation structure. But even without the study, it is plain that some taxes, such as that on gasoline, should be raised. The Bank will not proceed with major road loans before substantial action is taken in increasing the road users charges. We would like to know the Peruvian Government's plans on this subject.

The Bank has made clear to the Peruvians that it is prepared to consider financing the first stage of the Olmos irrigation project. The consultants' feasibility report is expected to be ready in October 1966 and will be immediately sent to the Bank for review. In the meantime, the Peruvians have called for bids - with financing - for the construction of the water tunnel which is part of the first stage. The bids are due in September. The Bank, supported by some participants of the Consultative Group, has expressed grave doubt about the wisdom of arranging finance for a tunnel before a full feasibility report is available and with no firm finance in sight for the rest of the project. In order for the Bank to finance the project it would be necessary to have the feasibility report and to consider the first stage as a whole. Bank financing would then be conditional upon satisfactory appraisal of the project and on reaching agreement with the Peruvians on a total irrigation program in keeping with the country's capacities instead of the present plan to start three large irrigation projects at the same time. It will also be necessary to reach agreement with Peru on a timetable for making the administrative and financial arrangements for settling the newly irrigated lands.

- (b) No meeting scheduled with President or Vice President
- (c) Likely to be raised by the delegation

The Peruvian Corporation has requested a US\$3 million loan from the Bank and one of US\$2.4 million from Eximbank to purchase new rolling stock and locomotives. We have indicated that a second Bank loan to the Corporation is unlikely since the Corporation is insolvent and the prospects for an improvement in its financial position are slight. We have pointed out to the Government that it bears an important responsibility in this matter since the Corporation's financial position has been substantially influenced by wage awards and by the low taxation of road users.



V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966 (US\$ million)

| Year                     | Borrower                         | Purpose     | Amount<br>less<br>Cancellations | Undis-<br>bursed<br>Balance |
|--------------------------|----------------------------------|-------------|---------------------------------|-----------------------------|
| Loans fully disbursed    |                                  |             | 69.9                            |                             |
| 1958                     | Callao Port Authority            | Port        | 6.6                             | 1.3                         |
| 1960                     | Republic of Peru                 | Roads       | 5.5                             | 0.6                         |
| 1961                     | Republic of Peru                 | Roads       | 10.0                            | --                          |
| 1963                     | Empresas Electricas<br>Asociadas | Power       | 15.0                            | 0.7                         |
| 1963                     | Peruvian Corporation             | Railways    | 13.3                            | 2.1                         |
| 1964                     | Republic of Peru                 | Port        | 3.1                             | 1.1                         |
| 1965                     | Republic of Peru                 | Irrigation  | 11.0                            | 10.5                        |
| 1965                     | Republic of Peru                 | Roads       | 33.0                            | 32.9                        |
| 1965                     | Banco Agropecuario               | Agriculture | 15.0                            | 6.5                         |
| 1966                     | Republic of Peru                 | Port        | <u>9.1</u>                      | 9.1                         |
| Total                    |                                  |             | 191.4                           |                             |
| of which has been repaid |                                  |             | <u>23.9</u>                     |                             |
| Total now outstanding    |                                  |             | 167.5                           |                             |
| Amount sold              |                                  | 15.2        |                                 |                             |
| of which has been repaid |                                  | <u>9.2</u>  | <u>6.0</u>                      |                             |
| Net amount held by Bank  |                                  |             | 161.5                           |                             |
| Total undisbursed        |                                  |             |                                 | <u>64.9</u>                 |

(b) IDA Credits as of July 31, 1966

None

(c) Technical Assistance Activities

|                         | <u>Approved</u> | <u>Completed</u> | <u>Allocation</u> | <u>Revised<br/>Est. Cost</u> |
|-------------------------|-----------------|------------------|-------------------|------------------------------|
| Highway Program Studies | May 1961        | Oct. 1961        | \$175,000         | \$134,268                    |
| Roads                   | Oct 1964        | -                | \$300,000         | In progress                  |

Because of delays by the Peruvian authorities in signing the Agreement and in meeting legal requirements for effectiveness, the grant

for roads became effective only in August 1965. The studies are now in an advanced stage of preparation and should serve as a basis for the next Bank loan for road construction.

(d) Access to Private Capital Markets

The Peruvian Government in 1965 contacted several New York investment companies to arrange the flotation of a long-term bond issue - possibly 15 years - in the amount of \$10-15 million. Negotiations have been very slow and present prospects are uncertain in view of the condition of the U.S. capital market. Banco de la Nacion established late in 1965 a credit for \$40 million from N.Y. banks repayable in three years. Approximately half of this has now been repaid and the Government is attempting to obtain net new credits of some \$20 million.

(e) Bank 9% Capital Subscription

U.S. \$3.15 million. Entire amount paid in dollars.

(f) IDA Subscriptions

U.S. \$1.593 million. No release.

(g) Holdings of Bank Bonds

None. But there are holdings in Peru of Borrowers' obligations totalling \$120,000 as of July 31, 1966.

(h) IFC

IFC's gross commitments amount to \$8.9 million of which \$4.3 million is held by the Corporation. Outstanding investments are in two cement companies, Cemento Andino \$2.4 million and Cemento Pacasmayo \$1.6 million; a fertilizer producer, Fertilizantes Sinteticos approximately \$4 million, and a brick manufacturing company Luren & Ladrillos \$280,000. Presently under consideration is a project for the expansion of Cemento Andino and a possible investment in another cement company located in Lima.

IFC was first approached by Inversiones Abancay, a Peruvian finance company, in 1962 in general terms. In late 1965 IFC was requested to consider a convertible dollar loan in the amount of \$748,000. The proposal was dropped from IFC list due to the difficulties IFC has experienced with FERTISA, which is related to the same group of investors. The possibility of IFC making an investment in Abancay is still an issue.

(i) Settlement of Investment Disputes

Peru has not signed the Convention and so far has shown little interest in doing so.

VI. POLITICAL SITUATION

The Belaunde Administration has continued to provide Peru with progressive but prudent leadership. In spite of the lack of a majority in Congress, the Government has carried out important legislative work and a large public investment program. President Belaunde has shown great ability in providing suitable conditions for de facto cooperation between the Government and the Opposition Parties and in deploying the latent energies of the country to increase income and employment. Although grave disparities remain among different classes of citizens and different areas, the Government policies are effectively reducing them. Recent attempts to infiltrate the sierras with communist guerrilla units have been fairly easily crushed by the Government with the full and powerful support of the Army. Recent increases in power tariffs and railroad fares have been received without major protest and land invasions by sharecroppers have ceased. The climate for private investment has remained favorable.



VII. ECONOMIC SITUATION

|                            |                             |
|----------------------------|-----------------------------|
| Population:                | 11.6 million                |
| GNP per capita:            | US\$360                     |
| Foreign Exchange Reserves: | US\$146 million (June 1966) |

In 1965 the economy continued its vigorous expansion. GDP grew by 4.5 percent. Real investment rose by close to 30 percent and imports by over one-fourth. Since exports remained unchanged during this period, the balance of payments would have come under strong pressures had there not been a sharp increase in capital inflows, particularly into the public sector.

During 1965 the economy was characterized by strong inflationary pressures, reflected in a 15 percent price increase. The Government became aware of the dangers of these developments during the second half of the year, and action was taken to restrain the monetary demand. By the end of the year restraints in the fiscal sector were also introduced. As a result inflationary pressures slowed down considerably in early 1966. Prices during the first five months of 1966 rose by 3 percent, as against 12 percent during the same period in 1965. However, by mid-1966 a substantial fiscal deficit emerged threatening again the progress made toward financial stability. For closing the fiscal gap during the remainder of 1966 without additional borrowing from the banking system, an emergency program was instituted in August 1966 in agreement with an IMF mission. This program consists of (a) specific measures to speed up revenue collection, mainly on back taxes, (b) specific new expenditure cuts, and (c) borrowing of some US\$20 million from New York banks which would consist of rolling over of payments already made on a US\$40 million credit obtained on three year terms at the beginning of 1965. This program offers a realistic prospect for Peru to maintain the recent progress toward financial stability.

Over the past two years or so, the Government has been successful in tackling some of the underlying problems of unequal income and property distribution. This has been achieved essentially through the spread of benefits to most of the country as a result of the rapid economic growth which has been led mainly by a dynamic private sector having confidence in the Belaunde administration. In the interior the Government has been increasingly active through road building which accelerates the opening up of new lands on the eastern slopes of the Andes. Civic action programs and the beginning of a land reform have supplemented these infrastructure activities.

In July 1966 the Government submitted a 1966-67 borrowing program of \$550 million to a meeting at which a Consultative Group was formed. It is hoped that the Group will assist Peru to obtain foreign finance on suitable terms and, at the same time, provide a stimulus to the Peruvian authorities to strengthen their efforts to prepare a coordinated investment program. The preparation of the \$550 million

borrowing program already has helped in this direction. Moreover, a four-year development program for 1967-70 has been completed. But further efforts are still needed to strengthen the investment planning mechanism in Peru.

In view of the foreseeable increase in public investment and the fiscal weaknesses emerging in mid-1966 the Government has recognized that public sector savings will have to be raised substantially. It is planned that a tax reform bill will be brought before Congress before the 1967 budget is passed. New taxes of some 2 billion soles will be needed for maintaining the momentum in public sector investments. Enactment of these taxes by Congress will be a big determinant of Peru's capacity to borrow the large amounts of external resources foreseen in the program submitted to the CG.

Scheduled service payments on external public (and publicly guaranteed private) debt amounted to close to 11 percent of export earnings in 1965. The borrowing program submitted to the Consultative Group will add significantly to the total external debt. Provided the Peruvian authorities are able to obtain this new finance on reasonably long terms, the debt service ratio should not rise above 16 percent in 1970. This is a heavy burden; but - as agreed by the Economic Committee in December 1965 - lending on IDA terms is not proposed for Peru since the long-term export prospects are very good and the service on presently outstanding debt falls sharply after 1970. The export prospects and Peru's creditworthiness have recently been further strengthened by additional large-scale investments which are now foreseeable in the mining sector, particularly in copper.



TRINIDAD AND TOBAGO



CONFIDENTIAL

September 21, 1966

BRIEFING PAPER - 1966

TRINIDAD AND TOBAGO

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**JUL 19 2016**

**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 28, 1966

Time: 9:30 - 10:00 am

Staff: Mr. Alter  
Mr. Chaufournier  
Mr. Wright  
Mr. Nelson  
Mr. Kuriyama  
Mr. van der Heijden  
Mr. Agnew

No meeting scheduled with President or Vice-President.

II. MEMBERS OF DELEGATION

A.N.R. ROBINSON (F-B)

Minister of Finance

Mrs. Patricia R. ROBINSON (B)

Head, Finance and Economics  
Division, Ministry of Finance

Alex.N. McLEOD (F)

Governor, Central Bank of  
Trinidad and Tobago

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Advisers

Leonard WILLIAMS

Adviser, Senior Economist,  
Ministry of Finance

William DEMAS

Basil COZIER

III. BANK PROSPECTIVE OPERATIONS

The following projects are presently under consideration:

| <u>Purpose</u>          | <u>Amount<br/>(\$ million)</u> | <u>Status</u>                      | <u>Tentative<br/>date for<br/>negotiation</u> |
|-------------------------|--------------------------------|------------------------------------|---|
| Southern Highway        | 8.0                            | Appraisal report being prepared    | November 1966                                 |
| Crown Lands Development | 5.7                            | Appraisal report being considered. | October 1966                                  |

Apart from the above listed projects, the following projects may eventually be presented to the Bank for consideration:

(a) Education Project: The Government is presently preparing a project submission for educational development which may include the expansion of secondary schools, vocational schools, teacher training institutions and the Eastern Caribbean Farm Institute.

(b) Fishery Project: A project for the construction of a fishing harbor and market and the equipping of a fishing fleet is currently being prepared by the Government for possible Bank financing.

(c) Port Project: The Government has abandoned an earlier project for the expansion of the port at Port-of-Spain in light of the unexpected return of two piers at the U.S. naval base at Chaguaramas. It is, however, studying an alternative project to relieve the congestion in cargo handling at the port which is not affected by the return of the U.S. base. The Government has indicated its intention to seek Bank assistance in said project if found feasible.

(d) Water Supply Project: The Government is seeking U.K. assistance for engineering studies on the Chickland Dam water supply project and hopes to approach the Bank in due course for the financing of the project. The Bank has been in communication with the Government regarding the terms of reference for said engineering studies.

(e) Agricultural Credit Project: The Government has under way a study on the credit needs of the agricultural sector with a view to possibly seeking Bank financing for an agricultural credit project.



IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

(1) Economic matters: We might inquire about the Government's plans to undertake a program of corrective fiscal action in 1967 and 1968 (see Section VIII, Economic Situation).

The Government intends to approach the London and/or New York capital market for the placement of a bond issue totalling probably about US\$8.5 million. We might inquire about the status of this issue.

(2) 9% Release: Trinidad and Tobago has indicated that it is prepared to release its 9% capital subscription of \$2.4 million over a period of five years but has not yet made the release, ostensibly on procedural grounds. We might express our appreciation of the Government's intention to make the release and inquire about means of expediting the matter.

(e) IDA membership: Trinidad and Tobago applied for membership in IDA in June 1964 but has not proceeded to fulfill the requirement for membership. We should urge its membership pointing out the importance we attach to international cooperation in this field.

(4) Convention on Settlement of Investment Disputes: Trinidad and Tobago has not yet signed this Convention, although it has indicated its intention to do so. We might ask whether this matter could be expedited.

(5) Project Preparation: We might inquire about the status of the project preparation work under way by the Government for education, fishery, port expansion, water supply and agricultural credit.

(6) Electric Power: We might ask whether a decision has been taken on the increase in power rates proposed to be made effective from January 1967. We might also ask whether the financing of T & TEC's new generating plant by suppliers' credit has become definite.

(b) To be raised by Bank at meeting with President or Vice-President:

No meeting scheduled with President or Vice-President.

(c) Topics likely to be raised by delegation:

None, except possibly an expression of concern regarding the slow rate of progress in completing arrangements for Bank loans to Trinidad and Tobago. In response we might mention that this has in part been due to problems of getting the material needed to complete an appraisal (e.g. highways) and a decision by Trinidad and Tobago to withdraw the port project after the appraisal had been made. Major emphasis in the response can, however, most usefully be put on our readiness to help speed the project preparation process and to considering how key projects can be expedited - such as education.

V. BACKGROUND INFORMATION(a) Bank Loans as of July 31, 1966

| (US \$ millions) |                          |                |                                 |                        |
|------------------|--------------------------|----------------|---------------------------------|------------------------|
| Year             | Borrower                 | Purpose        | Amount<br>less<br>Cancellations | Undisbursed<br>balance |
| 1961             | Trinidad and Tobago      | Electric power | <u>23.5</u>                     | <u>5.4</u>             |
|                  | Total                    |                | 23.5                            |                        |
|                  | of which has been repaid |                | <u>0.9</u>                      |                        |
|                  | Total outstanding        |                | 22.6                            |                        |
|                  | Amount sold              | 15.4           |                                 |                        |
|                  | of which has been repaid | 0.9            | <u>14.5</u>                     |                        |
|                  | Net amount held by Bank  |                | <u>8.1</u>                      |                        |

(b) IDA Credits as of July 31, 1966

Not yet member of IDA.

(c) Technical Assistance Activities

Assistance was provided to the Government under the Bank/FAO cooperative arrangement in the preparation of a project for the development of Crown Lands. A Bank loan for the project is expected to be negotiated in October 1966.

(d) Access to Private Capital Markets

Banking connections: U.K. - Barclays Bank D.C.O.  
Canada - Royal Bank of Canada  
Bank of Nova Scotia  
Canadian Imperial Bank of Commerce

U.S. - Chase Manhattan  
First Boston Corporation.

Investment - U.K. - Crown Agents  
U.S. - Paribas Corporation

Bond Issues - U.S. \$10.0 million New York, May 1964;  
15 years, 6-5/8%. No issue in London  
since 1954.



(e) Bank 9% of Capital Subscription

U.S. \$2.4 million. The Government is expected to agree in the near future to a release over a five year period.

(f) IDA Subscription

Not yet a member of IDA

(g) Holdings of Bank Bonds

None

(h) I.F.C.

On the basis of the findings of an IFC mission in May, the Government was informed that a DFC would not be viable under present circumstances, but that if a basis could be found for establishing one jointly with neighboring countries, IFC would look more favorably on the proposal.

(i) Settlement of Investment Disputes

Government has not signed Convention yet, but reaction is favorable.

VI. POLITICAL SITUATION

Dr. Eric Williams assumed his office of Prime Minister after the elections of December 1961. He belongs to the People's National Movement (PNM), which derives its support mainly from the urban population of Negro and mixed origins. The Democratic Labour Party (DLP), the opposition, derives its support principally from the rural East Indian population. The Government follows moderate policies and the political and social conditions under the present Government have been calm. Next elections are due between now and the end of 1966.

VII. ECONOMIC SITUATION

|   |                             |
|---|-----------------------------|
| Population:   | 980,000 (est. 1965)         |
| GNP per capita:   | US\$640 (1965)              |
| Gross foreign exchange reserves<br>(excluding Government holdings): | US\$86.8 million (May 1966) |

Trinidad and Tobago is facing a difficult problem of economic readjustment consequent upon the slowing down of expansion in the all-important petroleum sector. Although in the early months of 1966 crude oil production increased by over 10 percent, the petroleum industry no longer provides the country with an assured source of rising income. The Government, therefore, is focusing on policies designed to develop alternative sources of income to support the relatively high standard of living which Trinidad and Tobago now enjoys. Accordingly, the basic aim of the now revised development plan 1964-1968, is to diversify the economy.

The Government recognizes that, to preserve internal and external financial stability and to develop a substitute for the oil sector as the source of continuing growth, the rapid growth in consumption expenditures which took place in recent years, has to be restrained so that a larger share of the resources available can be used for investment. In this connection fairly drastic fiscal action is being planned for implementation immediately after the elections to be held before the end of 1966. The Government recognizes that if such measures are not taken, there is serious danger of inflationary pressures disrupting the process of orderly expansion by upsetting the balance of payments and leading indirectly to unplanned cuts in both investment and consumption.

The 1966 budget does not contemplate any new increase in taxation, primarily because 1966 is an election year. As a result, the Government current account surplus is likely to be virtually eliminated. At the same time, the rise in personal disposable income during 1966 resulting mainly from recent wage and salary increases in the public and private sectors could well turn out to be larger than has been allowed for in the Government's calculations. However, though there is reluctance to contemplate new fiscal measures before the elections, the Government may have to take supplementary fiscal measures this year to restrain the demand for imports if an unexpectedly serious deterioration in the financial situation so required.

Government officials stated in March to the Bank mission that it would be a major objective of policy in 1967 and 1968 to mobilize additional savings through the Budget and to slow down the growth of private consumption. (The present Government has two-thirds of the seats in Parliament and is expected to be re-elected.) They stated that the Government's goal would be to achieve budget surpluses of at least TT\$10 million in 1967 and TT\$12 million in 1968, and that it is aware that additional revenue measures



might prove necessary to achieve this end. Depending on how oil revenues develop over the next three years, and with the rise in Government current expenditures limited to 5 percent this could require a program of fiscal action yielding anything from TT\$15-20 million a year in the way of additional revenues. In addition, measures already taken or under consideration are expected to increase the gross savings of the public utilities (electricity, telephones and the port) from TT\$3.5 million in 1966 to over TT\$8.5 million in 1967 and TT\$12 million in 1968.

If all these measures were taken, the growth in private consumption during the 1967-1968 period would be limited to 3.5 percent per year. Larger increases than this would put excessive pressures on the balance of payments, the outlook of which, in any event, is clouded with uncertainty. With such measures, at least half of the public investment program in 1967 and 1968 would be financed from domestic sources.

Given the relatively low level of external debt charges, Trinidad and Tobago is creditworthy for the Bank loans, totaling about US\$14 million, under consideration for 1966. The Government has been told that the country's creditworthiness for additional Bank lending is dependent on the maintenance of economic growth and financial stability, which will require mobilizing additional domestic resources for high priority investment mainly through curbing the rapid growth of consumption which has occurred in recent years.

URUGUAY

CONFIDENTIAL

September 22, 1966

BRIEFING PAPER - 1966

URUGUAY

**DECLASSIFIED**  
**JUL 19 2016**  
**WBG ARCHIVES**

I. MEETING WITH DELEGATION

Date: September 28, 1966

Time: 10:30-11:00

Attended by:

Staff: Mr. Alter  
Mr. Chauffournier  
Mr. Weiner  
Mr. Calisto  
Mr. Wyss  
Mr. Eory

II. MEMBERS OF DELEGATION

Raul YBARRA SAN MARTIN

(F) Accountant-General

Hector Lorenzo RIOS

(B) Under-Secretary,  
Ministry of Finance

Alfredo CASTELLI

(F) Issues Manager, Central  
Bank

Walter LUSIARDO AZNAREZ

(B) Adviser, International  
Organization Division,  
Ministry of Finance



III. BANK/IDA PROSPECTIVE OPERATIONS

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| Purpose | Amount<br>(in US\$ million) | Status   | Tentative Date<br>for Negotiations |
|---------|-----------------------------|--|------------------------------------|
| Power   | 25.0                        | Awaiting consideration of the economic report. Also awaiting a reply from UTE, regarding the acceptability to the Board of Directors and to the Government, of the Bank's recommendations on the tariff law. | First half<br>1967.                |

---

## (a) To be raised by Bank at staff level:

Capital Subscription. The Government has made the contribution to the capital of the Bank required by the quota increases. Payment on account of maintenance of value by deposit of a note is in process.

9% Capital Subscription on original quota. (\$1,890,000). \$1.89 million to be paid and lent in dollars in semi-annual installments of \$189,000. Five installments have been paid. The next five semi-annual installments will begin on September 30, 1967. The capital has now been increased and the Uruguayans have not yet agreed to its release.

Delays in Starting the Highway Planning Study Financed by Loan 324-UR. As a result of constant urging by the Bank, the MOP has now requested a second consultant (INGERROUTE) to price their proposal to undertake the Highway Planning Study. Some further delays might cause at least temporary discontinuation of disbursements for the highway maintenance equipment. We should stress the need of having a contract signed at the earliest possible date. In addition, this study will establish priorities which will be most helpful for considerations on future lending for road projects in Uruguay. The physical progress of the project is also substantially delayed. Disbursements will not be completed by the closing date, December 31, 1966. The MOP should present sound justifications for this delay, if an extension of the closing date is to be obtained.

Slow pace of lending to farmers on Loan 407-UR. Because of the credit restrictions imposed by the Banco de la Republica and because of low demand resulting from recent improvements in the financial situation of the farming community, lending operations from the proceeds of the livestock development counterpart funds have considerably decreased. We are now considering what arrangements should be made by the Banco de la Republica and the Comision Honoraria to correct this situation.

## (b) Likely to be raised by delegation:

Power Project - UTE. The delegation might ask when the Bank will arrive at a decision regarding UTE's request for financial assistance. We should answer that UTE has been informed of the modifications to the tariffs regulation considered essential by the Bank. Before we proceed with negotiations, we expect that mutually-agreed regulations will be presented to Congress. In regard to the timing and the size of a loan to UTE, we should say that we expect the earliest date we could present a loan recommendation to the Board would be next March or April. While Uruguay has been making very satisfactory progress under the stabilization program, a final recommendation next spring will depend on continued satisfactory progress in the stabilization effort. [Position on Uruguay is being cleared with the Economic Committee.]

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1966:

| Year | Borrower                          | Purpose                             | Amount less<br>Cancellations<br>(in millions of US\$) | Undisbursed<br>Balance |
|------|-----------------------------------|-------------------------------------|---|------------------------|
| 1950 | UTE                               | Power development and<br>telephones | 33.0  | 00.0                   |
| 1955 | UTE                               | Power development                   | 5.5   | 00.0                   |
| 1956 | UTE                               | Power development                   | 25.5  | 00.0                   |
| 1959 | Republica Oriental<br>del Uruguay | Livestock improvement               | 7.0   | 00.0                   |
| 1962 | Republica Oriental<br>del Uruguay | Highways                            | 18.5  | 15.4                   |
| 1965 | Republica Oriental<br>del Uruguay | Livestock development               | <u>12.7</u>   | <u>9.3</u>             |
|      | Total                             |                                     | 102.2   | 24.7                   |
|      | of which has been repaid          |                                     | <u>27.0</u>   |                        |
|      | Total outstanding                 |                                     | 75.2  |                        |
|      | Amount sold                       | 3.3                                 |   |                        |
|      | of which has been repaid          | <u>2.8</u>                          | <u>.5</u>   |                        |
|      | Net amount held by Bank           |                                     | <u>74.7</u>   |                        |

(b) IDA credits as of July 31, 1966:

None. Uruguay is not a member.

(c) Technical Assistance Activities:

None.

(d) Access to Private Capital Markets:

None



- (e) Bank 9% Capital Subscription. (\$2.52 million).

[ See IV (a) ]

- (f) IDA Subscription

Not a member. The Executive Power sent to Parliament a bill which included the request for Parliamentary authorization for IDA membership. Parliament deleted the pertinent clause from the proposed bill.

- (g) Holdings of Bank Bonds

None.

- (h) IFC

Not a member. The Executive Power sent to Parliament a bill which included the request for Parliamentary authorization for IFC membership. Parliament deleted the pertinent clause from the proposed bill.

- (i) Settlement of Investment Disputes

No action expected from the Government in the foreseeable future.

VI. POLITICAL SITUATION

After 15 years of experimenting with the system of government by council, the majority of Uruguayans have come to realize that this system is operating poorly. Most leaders have publicly expressed the need to return to the single presidential system, and proposed a plebiscite for a new constitution in November 1966 when general elections both for Congress and the executive are to take place. At the end of August, each individual proposal presented by the different parties was rejected by the Congress and a combined proposal prepared by the Blanco and Colorado parties was accepted. This proposal with the backing of the two major parties has a better chance of being approved by the referendum in November 1966 (an approval of 35 percent of the registered voters is required). Should the referendum reject the proposal, the Executive or the Legislative Power can still reconvene the Constitutional Assembly and draft a new constitution and submit it again to a referendum. The new Government is scheduled to take office in March 1967.

VII. ECONOMIC SITUATION

|                            |                 |
|----------------------------|-----------------|
| Population:                | 2.7 million     |
| GNP per capita:            | US\$550         |
| Foreign exchange reserves: | US\$226 million |

Real GDP in 1965 was no higher than in 1955, and per capita income during the same period declined by 14 percent; stagnation continued into 1966. Agriculture, providing more than 90 percent of exports, declined in the late fifties under the combined impact of a drop in world market prices, catastrophic floods and a drought, discontinued crop support prices and an overvalued exchange rate. But recovery took place after 1959/60; since then export prices have greatly improved, and livestock production has been intensified with some help from the IBRD. Over-protected industries, construction and services have continued to stagnate in recent years because much of the additional income has been spent abroad. Investments since 1961 have declined from 15 percent of GDP to probably 11 percent.

Economic stagnation has been associated with an accelerated inflation, reaching some 90 percent in 1965. This was the result of unrestricted credit expansion to the private sector, and since 1962 of large fiscal deficits, combined with accelerated wage and other income claims. The economy has had to carry the cost of lavish social services and a grossly inflated bureaucracy. Attempts to maintain low-cost imports through an overvalued exchange rate have weakened the balance of payments and eroded confidence resulting in large-scale flight of capital abroad since 1962. After the second largest private bank collapsed in April 1965, the Bank of the Republic - also shaken by an administrative crisis - defaulted on its large foreign exchange obligations to banks abroad and in Montevideo.

The financial crisis has forced Uruguay to take some long overdue decisions. After arrangements were made with the Bank of the Republic's main creditors, a stabilization program was started in October 1965 and subsequently strengthened to provide a basis for a stand-by with the IMF covering the period through May 1967. Under this program (i) a unified and fluctuating exchange rate was established (in effect since May 1966) and targets were set for US\$21 million increase in net official foreign assets between March 1966 and June 1967; (ii) a 600 million peso limit was set for bank financing of the fiscal deficit during 1966 (compared with 1.8 billion pesos in 1965; (iii) overall credit expansion of the Bank of the Republic cannot exceed 1.3 billion pesos in 1966, and reserve requirements for private banks have been raised - and will be raised further by December 1966 - with a view to keeping increase in supply of money and quasi-money down to about 30 percent.



Progress made so far under the program has been impressive. Uruguay has stayed well within the agreed targets. However, price increases - though greatly slowing down in recent months - will probably exceed 40 percent in 1966, and the wage index for the manufacturing sector has already risen by over 40 percent through mid-1966. Unless the increases in wages and prices can be slowed down further during the next six months, inflation could easily pick up again in 1967. The budget for 1967 will provide a critical test of fiscal policy. The danger is that the new Congress, to be elected in November 1966 and convened in March 1967, might undermine the Government's efforts to keep expenditures under control.

The balance of payments prospects are good if the present exchange rate policy is maintained; the current account is likely to remain in surplus during the years ahead on the basis of export prospects and import needs. Even with heavy repayments on the Bank of the Republic's debt in the next few years, service on present debts may amount to 16 percent in 1966 and gradually decline to 6 percent of projected current account earnings by 1974. Though the recovery from the recent crisis is proceeding well, the success of the stabilization program is not yet fully assured. Uruguay's growth prospects are also uncertain because the resumption of economic growth will require other difficult decisions, not now in the stabilization program, to reduce the burden of massive income transfers which have so inhibited economic activity in the past. Present subsidies, prices of services, export taxes, import surcharges and industrial protection will all have to come under critical review if the presently distorted structure of costs and benefits is to be corrected. New lending commitments should therefore be subjected to continuing review in the light of Uruguayan performance in reestablishing sound bases for future growth.

VENEZUELA

CONFIDENTIAL

September 22, 1966

BRIEFING PAPER - 1966

VENEZUELA

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JUL 19 2016

WBG ARCHIVES

I. MEETING WITH DELEGATION

Date: September 28, 1966

Time: 10:00-10:30 am.

Staff: Mr. Alter  
Mr. Wright  
Mr. Nelson  
Mr. Zinman  
Mr. Lerdau

No meeting scheduled with President or Vice President.

II. MEMBERS OF DELEGATION

|                                   |  |
|-----------------------------------|--|
| General Rafael Alfonso RAVARD (B) | Governor of Bank for Venezuela; President, Corporacion Venezolana de Guayana           |
| Mr. Francisco MENDOZA (B)         | Alternate Governor of Bank for Venezuela; President, Corporacion Venezolana de Fomento |
| Mr. Alfredo Machado GOMEZ (F)     | Governor of the Fund for Venezuela; President, Banco Central de Venezuela              |
| Mr. Benito Raul LOSADO (F)        | Alternate Governor of the Fund for Venezuela; Director, Banco Central de Venezuela     |
| Mr. Ernesto PELTZER (F)           | Economic Adviser, Banco Central de Venezuela   |
| Mr. Samuel Rieber WOLF (F)        | Chief, International Organizations Section, Banco Central de Venezuela                 |
| Mr. Marcos SANDOVAL (F)           | Assistant to the Director, Economic Research Department, Banco Central de Venezuela    |
| Mr. Guillermo PIMENTEL (F)        | Superintendent of Banks, Ministry of Finance   |



### III. BANK/IDA PROSPECTIVE OPERATIONS

Loans presently under consideration:

| Purpose   | Amount<br>(\$ Million) | Status   | Tentative<br>Date for<br>Negotiations |
|---|------------------------|--|---------------------------------------|
| 1. Third Highway Loan                               | 45.0 - 50.0            | Appraisal report in preparation  | December 1966                         |
| 2. Zulia Flood Control and Agricultural Development | 10.0                   | Appraisal report in preparation  | December 1966                         |
| 3. Port Expansion and Improvement (Puerto Cabello)  | 3.0 - 5.0              | Appraisal mission visited Venezuela in February 1966. Awaiting reaction of Government to Bank suggestion for revised project | Early 1967                            |

In addition, the Bank is discussing with the Government the following projects in the Venezuelan 1965-1968 development program which are in various states of preparation:

| Project  | Probable Amount<br>of Loan Request<br>(\$ Million) | Tentative<br>Date for<br>Appraisal |
|--|--|------------------------------------|
| Caracas Water Supply (Source Development)      | 15.0   | Late 1966                          |
| EHV Power Transmission                         | 12.0   | Late 1966                          |
| Agricultural Credit                            | 15.0   | Mid-1967                           |
| Fourth Highway Loan                            | 35.0   | Mid-1967                           |
| Guri Hydroelectric Project (3rd and 4th Units) | 13.0   | Late 1967                          |
| Orinoco Agriculture                            | 10.0   | Late 1967                          |
| Rural Feeder Roads                             | 10.0   | Late 1967                          |

More recently the Venezuelan Government has requested that the Bank consider assisting in the financing of construction of a 230 km. gas pipeline from Anaco, in the northeastern part of the country, to the developing Guayana region. The estimated total cost of the project would be \$14.4 million, of which \$9.5 million would be required to cover foreign exchange costs. A Bank pre-appraisal mission concluded that the proposed project appears to be feasible. The proposed gas pipeline would be an important infrastructure facility which, at a relatively low capital cost, could permit investments for new private industries in the region totalling \$100 million, including a proposed ammonia plant and possibilities for the construction of additional fertilizer plants. Before the project could be appraised, there would have to be satisfactory assurances of the demand for the gas.

## IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:(i) Proposed Bank lending program

We should inform the Venezuelan delegation that early in 1967 the Bank proposes to review the progress of the Venezuelan Government's 1965-1968 development program and the revenue measures that emerge from the Venezuelan Congress, which is considering the Government's tax reform program. On the basis of this review, the Bank would wish to discuss a revised lending program for Venezuela.

(ii) IDA Membership

We should again 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. Given the country's good economic condition and the fact that the Bank is the largest external lender to Venezuela, the Government may well be more receptive now to become a member of IDA (Venezuela's total contribution to IDA would be \$7.07 million, including \$706,000 in gold and foreign exchange).

(iii) Slow Disbursements

Submittal of Withdrawal Applications has been slow relative to physical progress on the road projects (Loans 306-VE and 390-VE). Although the Venezuelan Government has taken measures to speed up the processing of Withdrawal Applications, recent delays in disbursements have been caused by failure of the Ministry of Public Works to comply with the commitments of the Supplementary Letters on Procurement (mainly lack of competitive bidding, consultant's opinion on contract awards, and generally incomplete documentation). We should reiterate to the Venezuelan Delegation our earlier requests that the agreed-upon procurement procedures be complied with and that continued action should be taken to ensure that the Loan Accounts will more accurately reflect the progress in execution of these projects.

(iv) Joint Financing

Prior to negotiations of the Loan for the Telecommunications project (Loan 435-VE), the Bank staff attempted to interest the Venezuelan Government in joint financing of some of the equipment to be purchased. Government officials were



opposed to such arrangements, partly because the interest cost would be higher than in the case of a straight Bank loan. The Venezuelan representatives also pointed out that the legislation authorizing a Government guarantee for the Bank loan specified that the interest rate was to be limited to 6% per annum, and that it was not intended to cover supplier credits or similar financing, but authorized a Government guarantee of a "credito exterior", i.e., from an official foreign financing institution. Subsequently, the Bank staff suggested to representatives of the Venezuelan Government that, in preparing such proposed laws in the future, they allow for the possibility of joint financing in Bank loans to Venezuela. We should therefore reiterate the purposes of joint financing, and urge the Venezuelan delegation to follow up this suggestion with the Government.

- (b) To be raised by Bank at meeting with President or Vice President:

No meeting scheduled.

- (c) Likely to be raised by Delegation:

- (i) Proposed loan request for 400 KV power transmission line

The Governor of the Bank for Venezuela will probably wish to discuss the timing of a Bank loan to the power subsidiary of Corporacion Venezolana de Guyana (of which he is President) to assist in financing a new power transmission line to complement the Bank-financed Guri Hydroelectric project.

We should indicate that we are ready to proceed with timely consideration of the project, as demonstrated by the fact that an appraisal mission is currently in the field. We should mention however that the timing of the need for the new facilities will depend on two major factors. One is the market for power, which will be particularly affected by the actual progress of converting the Caracas system to 60 cycles as contemplated when loan 353-VE was made and the plans of CADAPE for purchasing Guri power in view of its recent acquisition of substantial gas turbine capacity. The other factor is the timing of completion of Guri. We should reiterate to the delegation that the Bank's final consideration of this project will also depend upon the results of the proposed Bank mission mentioned in IV (a) (i), above.

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It should also be pointed out to the delegation that, in view of the delay in completion of the Guri Hydroelectric Project, a Bank commitment would, in any event, not be necessary before mid-1967.

V. BACKGROUND INFORMATION(a) Bank Loans as of August 31, 1966

| (US\$ Millions) |                       |                             |                                 |                             |
|-----------------|-----------------------|-----------------------------|---------------------------------|-----------------------------|
| Year            | Borrower              | Purpose                     | Amount<br>less<br>Cancellations | Undis-<br>bursed<br>Balance |
| 1961            | Republic of Venezuela | Express Highways            | 45.0                            | 9.0                         |
| 1963            | EDELCA                | Electric Power              | 85.0                            | 51.0                        |
| 1964            | Republic of Venezuela | Highways                    | 30.0                            | 23.8                        |
| 1964            | CADAFE                | Power Transmission          | 14.0                            | 2.7                         |
| 1965            | CANTV                 | Telecommunications          | 37.0                            | 30.4                        |
| 1966            | INOS                  | Water Supply                | <u>21.3</u>                     | 18.7                        |
|                 |                       | Total                       | 232.3                           |                             |
|                 |                       | of which has been repaid    | <u>1.7</u>                      |                             |
|                 |                       | Total now outstanding       | 230.6                           |                             |
|                 |                       | Amount sold                 | 12.2                            |                             |
|                 |                       | of which has been repaid    | <u>1.7</u>                      | <u>10.5</u>                 |
|                 |                       | Net Amount now held by Bank | <u>220.1</u>                    |                             |

(b) IDA Credits as of July 31, 1966

None.

(c) Technical Assistance Activities

None pending at present.

(d) Access to Private Capital Markets

Of a total of \$25 million authorized in external borrowing from the private market, Venezuela raised \$15 million by the sale of Government bonds in April 1965, through a syndicate headed by the First Boston Corporation and Kuhn, Loeb and Company. About 18% of this issue was placed in Europe. In view of the continued stringency of the market, it is unlikely that Venezuela - a relatively untried country in the international bond market - could successfully raise funds abroad in the substantial amounts required for its development financing program during the next two or three years.



(e) 9% Capital Subscription: \$12,600,000

The Venezuelan Government has agreed to release all of the 9% capital subscription in U.S. dollars. The amount corresponding to the 1961 special increase (\$10,710,000) is being released over five years. The remaining amount (equivalent of \$1,890,000) outstanding on Bank loans is being released, in U.S. dollars, upon repayment by borrowers.

(f) IDA Subscription

Not a member. See IV (a) (ii), above.

(g) Holdings of World Bank Bonds

None.

(h) I.F.C.

An IFC investment of Bs 6 million (\$1,336,000) has been made in CAVENDES in the form of ordinary shares of Bs 100 par value. Mr. Arango represents IFC on the Board. A question currently exists regarding the possibility of CAVENDES obtaining a Government Guarantee for a Bank loan.

(i) Convention on the Settlement of Investment Disputes

Venezuela, like all of the other Latin American countries, has given no indication that it intends to sign the Convention on the Settlement of Investment Disputes. In addition, Venezuela's constitution has a provision which makes accession to the Convention more difficult than in other countries.

VI. POLITICAL SITUATION

The political situation has been relatively stable since President Raul Leoni, of the Accion Democratica (AD), 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. In the spring of 1966, a minority party of the ruling coalition withdrew from the Executive Branch of the Government.

Although the Government still commands a majority in the Congress, political opposition to the administration's tax reform program of mid-1966 has reduced the Government's ability to succeed with its legislative proposals. This opposition can be expected to increase on other measures over the next two and one-half years as the lines are drawn for the Presidential election of December 1968.

The present Government is continuing Betancourt's policies for raising the country's rate of growth and reducing unemployment. President Leoni's efforts to interest private enterprise to participate with the Government in investing in the petrochemical and other industries has not met with success. The Government has, however, successfully continued the policy of welcoming investment from abroad and joint private enterprises by foreign and domestic firms.

VII. ECONOMIC SITUATION

|   |                 |
|---|-----------------|
| Population (mid-1965):                        | 8.7 million     |
| GNP per capita (1964):                        | US\$830         |
| Foreign Exchange Reserves<br>(July 31, 1966): | US\$853 million |

From 1962 to 1965 the economy expanded at the high average rate of almost 7% annually, after several years of recession. This high level of activity was accomplished in spite of a slowdown in the rate of growth of the hitherto leading oil sector in 1965, and its first production decline in several years during 1966. The general upswing has been supported by some increase in public works, especially road-building, by a revival of private construction, and by good agricultural crops. Because of the large excess capacity in manufacturing industry, production in this field has been able to expand by about 10% per year without the support of major new investments. Private consumption and savings, both private and public, have increased substantially, and unemployment has diminished.

With increasing demands on the Government for development, the public sector position has changed from an overall surplus to deficits in 1965 and thus far in 1966. Financing of a substantial amount of development projects on an anti-inflationary basis is intended.

Economic growth is now proceeding in a setting significantly different from that of recent years. Excess capacity in manufacturing and construction has greatly diminished, and the scarcity of skilled manpower is making itself increasingly felt.

The sharp recovery of production since 1962 has proceeded simultaneously with the continued strengthening of the balance of payments, and until 1965 without internal price increases. Foreign exchange reserves have increased substantially and were at the high level of \$853 million at the end of July 1966. Short-term foreign debts have largely been paid up, while the utilization of long-term foreign credits has remained at a low level. Venezuela's external public debt, as of December 31, 1965, amounted to \$418 million (including undisbursed). The Bank development program appraisal mission estimated that even with substantial amounts of increased borrowing, the debt service ratio would remain below 4% of exchange earnings at the end of 1968, as compared with a present debt service ratio of less than 2%. Venezuela is therefore creditworthy for a considerable amount of new foreign borrowing.



CENTRAL AMERICA

CAUCAS