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Contacts
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Contacts with member countries: Panama - Correspondence 01

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WBG Archives

PANAMA

PANAMA

1. 9/25/69
(River Club,
NYC)
General Omar Torrijos, Commander in Chief, National Guard
(No. 1 man in Panama)
Mr. Moreno, Comptroller General
Nicolas Ardito Barletta, Director of Planning
Mr. Lakas, General Director of Social Security
Mr. Ayala, Ministry of Government and Justice
Mr. Glicksberg, Consultant to the Government

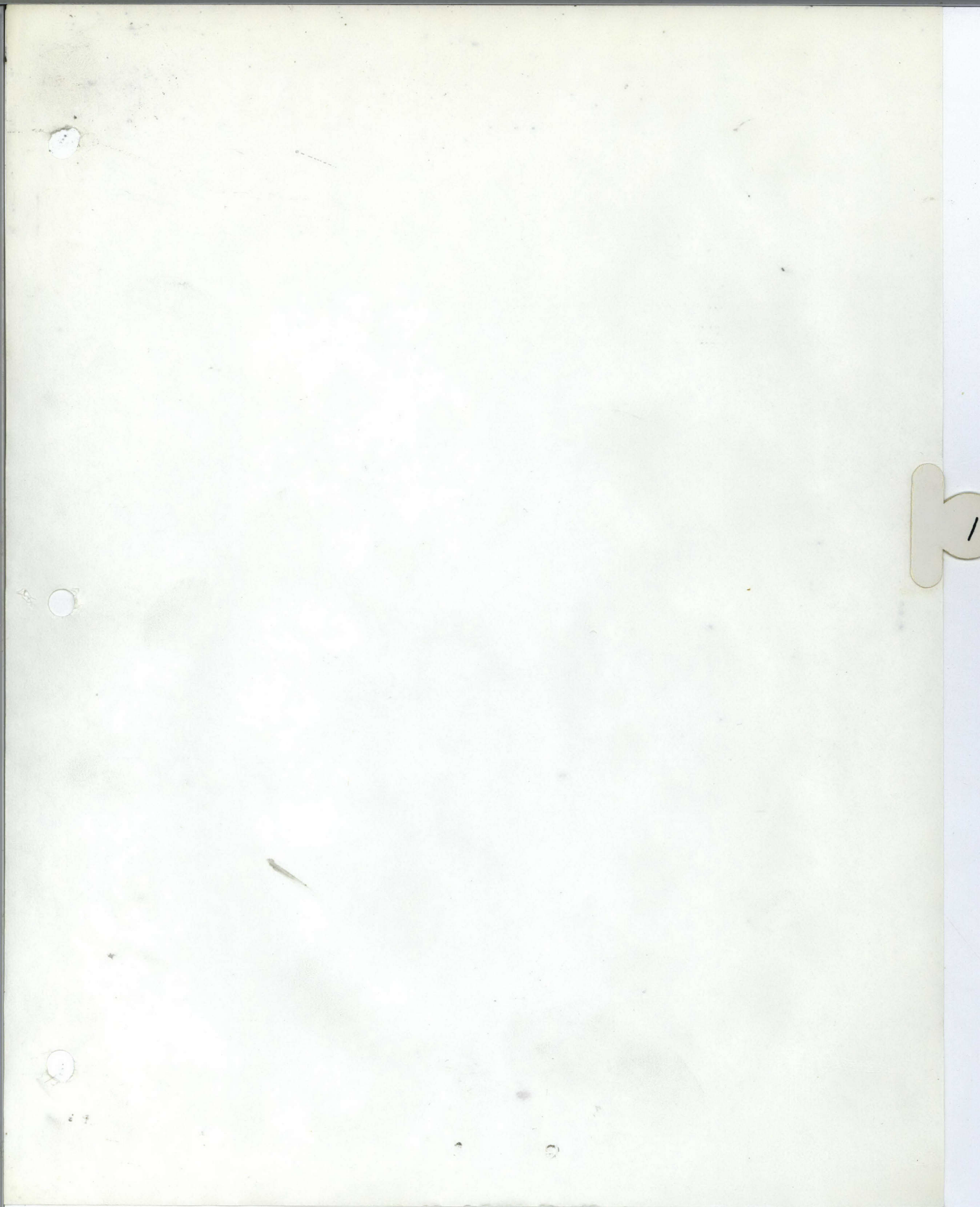
2. 9/30/76
Dr. Gabriel Castro, Minister of Finance and Treasury
Mr. Carlos Valencia, Director General for Planning

- 11/6-7/75
(San Jose)
Nicholas Ardito-Barletta, Minister of Planning and Economic Policy

- 1/6-10/76
(Dev.Cte.,
Kingston)
Nicholas Ardito Barletta, Minister of Planning and Economic Policy

3. 10/6/76
(Manila)
Nicholas Ardito Barletta, Minister of Planning and Economic Policy

- 5/11/78
Nicholas Ardito Barletta, former Minister of Planning



OFFICE MEMORANDUM

Sept. 25

TO: Mr. Robert S. McNamara

FROM: Gerald Alter *GA*

SUBJECT: PANAMA - Your Meeting with General Torrijos

DATE: September 22, 1969

Personalities and Politics

1. We understand that General Torrijos, Chief of the National Guard in Panama, has asked for this meeting primarily in order to emphasize the importance which he attaches to Panama's relations with the Bank. His principal concern at the moment in this connection is the Bayano power project, of which more below. General Torrijos is generally regarded as the strong man of the present de facto military Government in Panama, which is nominally headed by a two-man Junta (Colonels Pinilla and Urrutia who wrote to you last January asking the Bank to help in financing Panama's development). This Government, which has been recognized by all members of the OAS, depends on the support of the National Guard and appears to be in effective control of the country, in spite of sporadic guerrilla activity. However, the National Guard itself has undergone a series of shake-ups during the past twelve months, most recently in February, when General Torrijos ousted his principal rival, Colonel Martinez, and forcibly removed him to Miami, where he is now operating a gas station.
2. In spite of its rather unattractive image, the provisional Government has been making a real effort to reform the public administration, to clean up some of the corruption which was rampant under preceding Governments and to strengthen the agencies responsible for economic development. Constant political interference with the activities of these agencies was one of the biggest problems which the Bank encountered in its previous operations in Panama. So far as we can tell, General Torrijos supports - and is supported by - the able and energetic head of the National Planning Office, Dr. Barletta, a young technocrat who has been the principal contact with the new administration and will probably be present at your meeting (General Torrijos does not speak English, but Dr. Barletta does so fluently).
3. This is the first time that the Panamanian Constitution, dating back to the creation of the State in 1903, has been formally suspended, or rather suspended in part (especially that part relating to the functions of the National Assembly, which has been dismissed). The provisional Government has stated that it expects negotiations on a new Panama Canal Treaty with the United States to be concluded in accordance with the constitutional procedures of both countries, and since international treaties have to be ratified by the National Assembly, this is assumed to rule out for the time being any resumption of the negotiations on the Canal Treaty, which have

President has seen

been suspended since June 1967. However, there does not appear to be any comparable constitutional bar to the de facto Government entering into loan agreements with international agencies. Meanwhile, the United States Government has gone ahead with lending to the new regime, and the IDB is also in business.

4. The present Government, soon after assuming power, announced its intention of holding new elections during the first half of 1970. It has since backed away from this undertaking, and in a recent TV interview General Torrijos stated that the Government would not relinquish power until it had achieved the goals of the revolution. It now seems unlikely that elections will be held in 1970 so long as the present Government retains control over the situation; if elections were to be permitted, and a new Government was elected which was unacceptable to the National Guard, it would probably be deposed again as President Arias was a year ago.

Economic Situation

5. Panama has had one of the highest growth rates in Latin America during the past decade, averaging 4-5 per cent a year in real terms on a per capita basis, with brief interruptions in 1964 and 1968 because of political instability. (The latest economic data sheet is attached for reference.) The economy is, of course, very closely linked with activities in the Canal Zone, and the steady increase in US expenditures there and related commercial activity have contributed largely to the growth of the economy. Domestic prices have been fairly stable, the balance of payments is strong, and the external debt service ratio is a modest 3 or 4 per cent. If and when negotiations are concluded on a new Canal Treaty, there will be a further substantial increase in foreign exchange receipts and government revenues.

6. We had an economic mission in Panama this summer - the first for some years - and the mission is now preparing its report. There does appear to be some risk that, in its enthusiasm to get development moving in the public sector (power, roads, social services), the Government will overtax its administrative and financial capabilities, and this is something which we shall need to watch, particularly in relation to the mobilization of domestic resources for the Bayano project. Otherwise we foresee no serious problems arising in the near future with respect to economic performance or creditworthiness. The Government has indicated its concern over the rapid increase in population and has told us that it intends to take a more active role in family planning.

Bank Relations with Panama

7. Between 1955 and 1962 the Bank made five loans to Panama, totalling \$18 million net of cancellations. Two of these loans were for roads, two for agriculture and one for power. No loan has been made since 1962. IFC has not yet done anything in Panama, but a proposal for IFC participation in the financing of a new hotel is under advanced consideration.

8. The Bank seconded an advisor (Mr. Habib, now with IFC) to work with the authorities in Panama in 1962-63. Panama has also made good use of the training facilities provided by the Bank, and seven Panamanians are now Fellows of the EDI. Panama does not have a central bank and has not subscribed to any of the Bank's two-year bond issues.

9. Prior to the military coup last October, we had been trying for five or six years to develop further projects in power (Bayano) and roads (rehabilitation and maintenance), but although we got as far as inviting negotiations for another road project late in 1966, we never succeeded in reaching agreement with the Government on the institutional reforms we considered necessary for the execution of either project. The military Government took prompt action to remedy this situation and has already reorganized the power agency (Instituto de Recursos Hidraulicos y Electrificacion) along the lines proposed by the Bank. Improvements have also been made in the highway agency (previously known as Comision de Caminos, Aeropuertos y Muelles), but more will need to be done here, and the Government is proposing to undertake a reorganization of CAM in the context of a general overhaul of the machinery of government, on which they have hired a firm of US consultants to advise them.

Possible Future Lending

10. We do not yet have a Five-Year Lending Program for Panama because we had barely established relations with the new Government when the last programming exercise took place. However, the Government has shown a keen interest in obtaining Bank financing not only for Bayano, but also for highways, education and possibly other projects as well (for example, tourism and fisheries). Dr. Barletta visited the Bank in February to explore the possibilities, and we have since had a number of reconnaissance missions in Panama to help in developing a lending program, which is being concerted with the preparation of the economic report and should be ready for review with you in December. We had tentatively included \$6½ million for a road project for FY1970, in addition to Bayano, but this is now very uncertain since part of the project has been pre-empted by the IDB, and there is doubtfully room at this stage for the IBRD as well (we are currently in touch with the IDB about this).

The Bayano Project

11. The Bayano power project is the prestige project in Panama and one to which the military Government attaches the highest priority. The project, which is included in our lending program for FY1970, was appraised by a Bank mission in July, and the appraisal report is now nearly completed; there appears to be no doubt about the project's economic justification. According to our latest timetable, the loan should be ready for consideration by Executive Directors in January 1970, though it may slip by a month or two. The first stage of the project consists of the installation of two 50 MW hydro units and one 40 MW steam plant, with related transmission and distribution, for a total cost estimated at \$58.4 million, excluding interest during construction. The foreign exchange cost would be about \$42 million, again excluding interest during construction. We are presently reviewing within the Bank the pros and cons of the Bank financing the whole foreign exchange cost or alternatively working out arrangements for sharing these costs with other lenders through some system of parallel financing. Apart from this issue, there may also be a problem of power rates, which is complicated by the fact that power generated at Bayano by IRHE will be sold in bulk to a private distribution company, which is a subsidiary of American and Foreign Power. The Bank will want to be assured that IRHE attains an adequate return on its investment, and this will probably require some increase in the price charged for bulk sales to the distribution company. What is not yet clear is whether this increase can be absorbed by the company without raising the rates charged to final consumers, which are already rather high (and were recently reduced at the insistence of the Government). It would be useful if you could alert General Torrijos to the Bank's interest in this question, since it could lead to delay in finalization of the proposed loan, and power rates are a politically sensitive issue in Panama.

The Darien Gap

12. As you may be aware, proposals have recently been submitted to the President of the United States with regard to the completion of the missing link in the Pan American Highway, known as the Darien Gap, which lies between the Panama Canal and some point as yet undetermined in Colombia. According to very preliminary estimates prepared by a sub-committee of the Pan American Highway Congresses, the cost of constructing this link might lie between \$150 million and \$265 million, of which about \$90 million would be in Panama and the rest in Colombia (varying according to the routes chosen on the Colombian side of the border). There has never been any question of the Bank getting involved in this project, and I understand there is a fairly sharp division of opinion within the United States Administration on the merits of going ahead with it, as the US would have to bear most of the cost. It is unlikely that General Torrijos will raise this subject with you, but just in case I am attaching a background note for reference.

cc: Messrs. Knapp, Aldewereld, Friedman, Broches

Attachments

5 - YEAR ECONOMIC DEVELOPMENT PROGRAM

Panama

			Actual Data				Projected Data					Period Growth Rates			
			1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1963-67
Population - growth rate	%	1													
birth rate	per 1000	2	40.5	39.9	39.4	38.4	38.4	38.8						3.3	3.6
Price Change - c.o.l. index	%	3	0.5	2.4	0.5	0.2	1.4	1.7							
exchange rate (balboa)	per US\$	4	1.0	1.0	1.0	1.0	1.0	1.0	1.0					1.0	
Means of Payment - change/a	%	5	27.4	-5.3	19.0	19.6	21.2								
GNP at factor cost; 1964 prices - Total	\$ mil.	6	504	529	575	628	679	678	726	776	831	889	951	1,018	15.8
per capita	\$	7	432	439	461	488	511	495							4.5
GNP at constant market prices - real growth rate	%	8	9.9	4.6	9.2	9.5	6.7	-0.2	7.1	6.9	7.1	7.0	7.0	7.0	8.0
GDP at current market prices - Total	\$ mil.	9	503	529	598	659	728	721							7.0
Production Growth (real) - agriculture	%	10	3.8	6.4	9.9	8.3	6.5								
food per capita	%	11		1.0	10.6										
manufacturing	%	12		5.7	7.2	10.2	11.0								
GDP by Branch - agriculture	%	13	21.8	22.2	22.3	22.1	22.1								
mining	%	14	0.4	0.4	0.4	0.3	0.3								
manufacturing	%	15	17.4	17.6	17.2	17.3	18.0								
construction	%	16	6.0	5.4	5.8	6.1	6.0								
transport & communication	%	17	6.2	6.3	7.2	7.4	6.6								
public admn. & defense	%	18	3.0	2.7	2.8	2.7	3.0								
other branches	%	19	45.1	45.4	44.4	44.1	44.0								
Resource Gap	% of GDP	20	13.3	11.6	10.9	11.6	11.0	12.6	12.5	12.4	12.2	12.2	12.0	11.9	
Net Factor Payments	% of GDP	21	-8.2	-8.1	-5.5	-5.9	-6.0	-7.1	-6.7	-6.5	-6.1	-5.7	-5.5	-5.2	
National Saving - private	% of GDP	22	13.8	13.4	10.4	15.2	15.0								
public	% of GDP	23	2.7	2.2	3.3	2.6	3.0								
Total	% of GDP	24	16.5	15.6	13.7	17.8	18.0	17.3	17.2	17.2	16.8	16.5	16.5	16.3	
Marginal Saving Rate		25													.18
Consumption - private	% of GDP	26	78.3	80.2	79.6	74.8	74.1	72.0							.14
public	% of GDP	27	13.3	12.3	12.0	13.2	14.1	17.7							
Total	% of GDP	28	91.6	92.5	91.6	88.0	88.2	89.7	89.6	89.3	89.2	89.2	89.0	88.8	
Exports of Goods and Services	\$ mil.	29	143.1	153.4	177.1	193.9	206.2	214.0	231.0	250.0	270.0	291.0	314.0	340.0	8.4/d
Imports of Goods and Services	\$ mil.	30	209.5	214.1	241.8	270.3	286.2	305.3	328.0	352.0	378.0	406.0	436.0	468.0	7.8/d
Net Goods and Services	\$ mil.	31	-66.4	-60.7	-64.7	-76.4	-80.0	-91.3	-97.0	-102.0	-108.0	-115.0	-122.0	-128.0	7.4
Interest on Public Debt, Gross: Outflow (-)	\$ mil.	32	-2.3	-2.9	-2.9	-2.9	-3.1	-3.4	-4.6	-5.9	-8.9	-11.0	-13.5	-16.5	
Other Investment Income, Net: Outflow (-)	\$ mil.	33	43.1	45.3	35.7	41.7	47.3	54.5	57.0	60.0	63.0	65.0	69.0	72.0	
Net Investment Income: Outflow (-)	\$ mil.	34	40.8	42.4	32.8	38.8	44.2	51.1	52.4	54.1	54.1	54.0	55.5	55.5	
CURRENT SURPLUS(+) DEFICIT(-)	\$ mil.	35	-25.6	-18.2	-31.9	-37.6	-35.8	-40.2	-44.6	-47.9	-54.8	-61.0	-66.5	-72.5	
Long Term Private Capital, Net inflow	\$ mil.	36	9.7	2.4	27.3	25.7	37.9	37.3	28.3	25.0	26.8	29.5	29.8	28.0	
Long Term Public Capital, Gross inflow	\$ mil.	37	22.3	8.4	8.0	8.8	7.0	5.0	21.0	27.0	33.0	39.0	48.0	57.0	
less: amortisation	\$ mil.	38	-1.2	-2.4	-4.5	-3.1	-2.9	-4.5	-4.7	-4.9	-5.0	-7.5	-11.3	-12.5	
Net long term pub. cap. inflow	\$ mil.	39	21.1	6.0	3.5	5.7	4.1	0.5	16.3	22.9	28.0	31.5	36.7	44.5	
Short Term Capital, Net inflow	\$ mil.	40	-1.7	-0.2	-3.5	-3.1	-3.0	-0.5							
Other Capital, Net Inflow (incl. errors & om.)	\$ mil.	41	-3.5	10.0	4.6	9.3	-3.2	2.9							
NET BALANCE	\$ mil.	42													
IMF Drawings(+) Repayments(-)	\$ mil.	43													
Foreign Exchange Reserves, Inc.(+) Dec.(-)	\$ mil.	44													
Foreign Exchange Reserves, Net - Total	\$ mil.	45													
Foreign Exch. Reserves, Gross - govt. entities	\$ mil.	46													
comm. banks	\$ mil.	47	45.6	29.9	43.7	81.4	68.0	74.9/e							
Total	\$ mil.	48													
External Debt	\$ mil.	49	82.8	102.6	109.1	102.4	113.1	113.9	142.2	185.3	195.3	241.8	305.5	332.0	
Debt Service Ratio	%	50	2.4	3.5	4.2	3.1	2.9	3.7	4.0	4.3	5.2	6.4	7.9	8.5	
Export Price Index	%	51													
Central Government - Current revenue	% of GDP	52	14.1	14.3	14.5	15.1	15.3	16.7							
Current expenditure	% of GDP	53	13.4	14.0	13.1	14.5	14.3								
Saving/f	% of GDP	54	2.7	2.2	3.3	2.6	3.0								
Capital revenue	% of GDP	55													
Capital expenditure/g	% of GDP	56	9.0	6.2	5.7	5.1	7.8								
Surplus(+) Deficit(-)/f	% of GDP	57	-6.3	-4.0	-2.4	-2.5	-4.8								
Military expenditure	% of GDP	58													
Education - expenditure (general government)/g	% of GDP	59	3.9	3.9	3.6	3.7	3.8	3.9							
school enrol., primary & second.	%	60		72											
literacy rate, adult/h	%	61		73											
Tax Revenue (general government)/g	% of GDP	62	11.1	11.2	11.4	12.0	12.2	12.8							
Public Saving (% of public fixed investment)/i	%	63	49.6	44.2	88.6	82.4	76.6								
Gross Investment - private fixed	% of GDP	64	13.9	11.7	13.0	18.5	17.0	17.1	18.5	17.6	16.8	16.1	15.1	14.2	
public fixed	% of GDP	65	5.4	4.9	3.7	3.2	4.0	3.9	4.5	5.4	6.2	6.9	7.9	8.8	
increase in stocks	% of GDP	66	2.4	2.5	2.4	1.8	1.9	1.9							
Total/j	% of GDP	67	21.7	19.1	19.1	23.5	22.9	22.9	23.0	23.0	23.0	23.0	23.0	23.0	
Finance of Investment - National saving	%	68	76.4	81.9	72.0	75.8	78.5	75.6	74.8	74.8	73.0	71.9	71.5	70.9	
Foreign capital	%	69													
private	%	70	7.5	14.5	25.1	20.7	19.3	24.4	16.0	13.1	13.2	13.6	12.7	11.2	
public	%	71	16.1	3.6	2.9	3.5	2.2	--	9.2	12.1	13.8	14.5	15.8	17.9	
Total	%	72	23.6	18.1	28.0	24.2	21.5	24.4	25.2	25.2	27.0	28.1	28.5	29.1	
Change in reserves	%	73													
Public Investment by Sector - agriculture	%	74	1.1	0.8	0.9	1.5	2.0								
industry	%	75													
power	%	76	5.4	6.9	6.9	12.9	11.8								
housing	%	77	22.7	28.4	9.1	13.4	9.1								
transportation	%	78	36.0	32.6	27.7	13.4	17.2								
telecommun.	%	79													
education	%	80	3.2	5.0	9.5	10.0	11.1								
health	%	81	19.1	14.6	20.8	23.9	20.9								
other	%	82	12.6	11.9	25.1	24.9	27.9								

/a Deposit and quasi-money. /b GDP at factor cost. /c Based on GDP at constant market prices. /d 1964-68. /e As of September 1968. /f Public sector.
 /g Central Government only. /h 1962. /i Savings of major autonomous entities are included. /j Including change in stock from 1969 on.

FILES

June 24, 1969

Hubert P. Havlik

Pan American Highway - The Darien Gap in Panama and Colombia

1. The Subcommittee of the Pan American Highway Congresses, which was established in 1955 in order to carry out studies of the Darien Gap in the Pan American Highway, completed its report "Final Conclusions and Recommendations on the Darien Gap" (including location, design and construction) in November 1968. The letter of transmittal from the Chairman of the Subcommittee states that the report "provides sound engineering recommendations justifying construction funding" and that "detailed design plans and specifications are now ready for initiation of construction" and expresses the hope that funding soon will be provided. I am forwarding this to Mr. A. Van Dijk, pursuant to conversations with him and Mr. Hardy, together with additional relevant documents listed in Attachment A to this memorandum, for examination and comment.
2. The Darien Subcommittee submitted two alternatives but the report was not distributed by the Secretary General of the OAS until June 5, 1969, evidently after the Colombian Government accepted the shorter of the two routes studied. Both alternatives include a highway in Panama from Tocumen to Palo de las Letras at the Colombian border. Thence the chosen short route runs across the Atrato River and swamps to connect near Guapa with the existing Port of Turbo-Medellin highway. The deferred route - long preferred by the Colombians - runs through the Department of Choco, bordering the Pacific coast of Colombia, to Bahia de Solano and thence to Las Animas (south of Quibdo). At Las Animas, it would connect with projected and existing roads to Manisales and Bogota. The Choco route (together with the connection to Manisales and Bogota) had been declared by the Colombian Congress in 1959 (when Virgilio Barco was Public Works Minister) to be the Colombian Sector of Pan-American Highway. More recently, however, Bernardo Garces, Colombian member of the Subcommittee, agreed to the Atrato route after new studies concluded that it would be technically feasible to construct a road through that swampy region. Nevertheless, the Choco route remains of interest to Colombia; Mr. Hernandez of the OAS advises me that Colombia has set aside a fund of \$55,000 which has been matched equally by funds from the Darien Subcommittee, to finance costs of completing the studies of the Choco route by La Vialidad, Ltda. (The previous studies had covered only the southern portion of the route).
3. The Subcommittee's estimates of costs and length of the alternate routes are summarized below: these pertain to an all-weather asphalt paved road 6.1 meters wide, which was preferred to a gravel surfaced road or a concrete paved road (for which estimates were also presented).

<u>Atrato Route</u>		
	<u>Length</u> (km)	<u>Estimated Cost</u> U.S.\$ Million
Colombia	81	60.1
Panama	<u>320</u>	<u>89.2</u>
Total	401	149.3
<u>Choco Route</u>		
Colombia	421	175.8
Panama	<u>320</u>	<u>89.2</u>
Total	741	265.0

The report estimates that it will take ten years to complete construction (including final engineering). So far as I could see, no estimates of maintenance costs for the short route have been made. The Subcommittee emphasizes the importance of adequate maintenance, recognizes that such expense will be considerable and suggests agreements between the two countries and OAS to define the maintenance responsibilities. It takes the view that the vast benefits gained by the local governments by virtue of the highway will make such expense a matter of small concern (Technical and Economic Factors, p. 39).

4. Reading of the documents does not disclose any solid economic justification for the project. In fact practically the only discussions relating to economic development effects of the highway concern part of the Panama route near the Gulf of San Miguel (on the Pacific) and the southern portion of the Choco route. No attempts are made to forecast traffic volumes, although figures are cited on the rapid growth of traffic after construction of the Inter-American Highway in Panama, (p. 67, Technical and Economic Factors). The benefit-cost ratio on the South Choco sections, based on local developmental benefits and tourism, not including road user savings, are estimated by consultants at 0.88. No attempt appears to have been made to estimate benefits for the Atrato route. While numerous references are made to developmental possibilities and effects, the following quotation from the report seems to summarize the case for the project:

"The importance of the project lies in the fact that it will forge the last link in the hemispheric chain of the Pan American Highway System, and thus establish an unbroken line of overland communications for motor vehicles from Alaska to the far reaches of South America. Implicit in its importance is the economic and social development of a large part of Latin America, with eventual benefits to the entire Western Hemisphere" (p. 5, Technical and Economic Factors in the Darien).

The Technical and Economic report refers to the studies of the U.S. Atlantic-Pacific Interoceanic Canal Study Commission of several possible routes for a new sea level canal, with completion dates ranging from 1980 to 2000. Either of two of the several possible routes would bisect the Darien (one in Eastern Panama and one in Northwestern Colombia). Construction of either would not require any material change in the approved route of the highway but would have a "vast" impact on activity in all of the northern portion of Darien.

5. References are made in the report to the need for providing feeder roads and the desirability of setting aside lands for settlement. While benefits are said to include the possibilities of livestock development, one problem which merits further attention is that with the removal of the present natural barrier of the Darien, and the construction of a main highway, control programs will have to be developed before the completion of construction to prevent transmission of foot and mouth disease among cattle to Panama and Central America which are now free of such diseases.

6. The "Final Conclusions and Recommendations" makes no reference to a financing plan. The earlier document on "Technical and Economic Factors (1967)", does refer (page 49) to the various possible foreign and international sources of finance, and suggests a possible cost sharing pattern (following that used for contributions to the earlier \$3 million Special Fund for the studies of the Subcommittee), as follows:

United States	2/3
Colombia	1/9
Panama	1/9
Other OAS countries	1/9

It also suggested that CIAP might be able to play an essential role in developing arrangements for carrying out the Darien Project. The possibility of an imposing toll charge for use of the highway is ruled out since there would be no alternative roads and because U.S. donations for portions of the Pan-American Highway cannot be made if tolls are charged. In discussions with staff of the Subcommittee (Mr. Kelly) late in 1966 and early 1967, Orvis Schmidt (after commenting on the need for more information in the reports on economic aspects, the probable desirability of the shorter Atrato route in Colombia as a first phase, the possible use of CIAP in developing a financing plan) had made some suggestions on cost-sharing. He thought that, in view of the fact that the principal justification generally made by the Latin American countries for constructing this road has been its importance to all of Latin America, and particularly to the Caribbean countries, there was ground for the Subcommittee

to suggest that all the Caribbean countries participate in financing by sharing the burden of repaying any amounts borrowed to finance its construction. Assuming the U.S. Government would donate two-thirds (as it had on the Inter-American Highway project in Central America), the remaining one-third (totalling \$50 million) might be allocated roughly as follows: Colombia 30%, Mexico 30%, Venezuela 20%, Panama 10%, Central America 10%. In fact, the Schmidt "formula" would mean a burden of \$15 million for Colombia as compared with \$20 million under a normal 1/3 Pan American Highway financing pattern, not a major change. The major shift from the Schmidt "formula" would fall on Panama: an increase from \$5 million to \$25 million (as her normal 1/3 share on Inter-American highways).

7. So far as I have been able to discover, a burden-sharing formula on the lines suggested by Mr. Schmidt has not been actively discussed; in fact, Mr. Schmidt was told later that the Panamanian and Colombian representatives participating in drafting the Technical and Economic Report did not wish to mention the name of any other Latin American country so that only a vague reference was made in that report. I have been told by Mr. Hernandez of OAS that the Permanent Executive Committee of the Pan American Highway Congress passed a Resolution in 1964 to the effect that the commitment of the countries other than Panama, Colombia and the United States ended with their contributions to the Special Fund for studies of the project. But this would not prevent a new initiative in the OAS to have other Latin American countries relieve Panama of some of the burden of construction costs. In the absence of CIAP secretariat at the recent meeting of IA-ECOSOC in Port of Spain, I have not been able to learn whether they have considered the financing problem. It does appear that any proposal for participation of other countries is in the minds of people on the U.S. side (Mr. Ghiglioni of the Bureau of Public Roads and Mr. Winder of the State Department); they consider that it would take years to develop an acceptable formula and get the money and regard the earlier suggestion that even 1/9 of the cost be borne by other Latin American countries as impracticable. Thus, a question to be considered is whether a \$25 million debt (assuming Panama would want to and could borrow her 1/3 share abroad, possibly in tranches) would materially affect the extent to which she might borrow for other projects. If borrowing were not feasible, there would be a considerable budgetary burden for some years and the pattern of her investment program would be affected. In Panama, the construction schedule for the first three sections (in years 1-4) would require commitment of funds (excluding the U.S. contribution) totalling some \$7 million and an additional \$13 million commitment would be required in the third and fourth year to begin four other sections (leaving the last four sections to be funded for construction beginning in the seventh year). In Colombia, the first two sections and the Atrato Bridge would have to be started in years 1 and 2, requiring commitments (1/3 share) totalling about \$8 million. Thus, Colombia and Panama would need substantial funds (aside from the presumed U.S. two-thirds share) even in the first few years of the project. The report does not indicate whether any substantial additional investment (other than now planned)

would be required by Colombia on the Turbo-Medellin connecting road. Some of this route apparently is being constructed as an all-weather road.

8. On June 10, 1969, a Bill (H.R. 12014) was introduced in the U.S. House of Representatives, by Congressman Clausen, which was referred to the Committee on Public Works, to authorize the U.S. to cooperate with the Governments of Panama and Colombia in the construction of about 250 miles of highway in those countries to close the Darien Gap and to authorize the appropriation of not more than U.S.\$100 million for that purpose. The terms, conditions and agreements would be the same as those for the Inter-American Highway (to which the Bill is an amendment), mainly: authorizing payment of up to 2/3 of the cost on a matching basis; requiring procurement of materials, supplies and equipment in those countries or the U.S. so far as possible; competitive bidding for construction contracts which are to be approved by the Secretary of Transportation; and supervision by the Secretary. The length of the road and the amount of funds to be authorized correspond to the cost estimates for the asphalt paved road on the Atrato route. Thus, if either or both countries wanted a concrete paving (as Panama did in the David-Tocumen section) presumably they would have to cover the additional costs. I was unable to ascertain whether the U.S. Executive Branch inspired the Bill; in fact, when I asked responsible officers of the U.S. Department of State (Mr. Joseph Winder), whether the Executive Branch would support the Clausen Bill, I was told that a position paper is being prepared, for clearance by other U.S. agencies involved, on the question of support; and that they were leaning in favor of the Bill. This paper should be ready in about a week. It is not clear whether, if the authorization Bill passes, an appropriation measure could or would be included in the Fiscal Year 1970 Budget now before the Congress. I also heard that the subject of the Darien Project had figured in the discussions between President Lleras of Colombia and President Nixon (during the former's visit here earlier in June). An IDB summary of an AP dispatch (June 19) reports that, on his return to Colombia, President Lleras announced that President Nixon had promised him that the Pan American Highway, uniting the whole continent, would be finished during the present U.S. Administration. I also understand that the Government of Panama, in its discussions with the Rockefeller Mission, gave the Darien Project a high priority.

9. I talked recently with Jose Cardenas, Integration Advisor of the Inter-American Development Bank, to see whether there was any foundation to rumors that IDB had offered assistance in financing the Darien Project. Cardenas said that late in 1966, on the occasion of the Ninth meeting of the Permanent Executive Committee of the Pan-American Highway Congress in Washington, he had been present at a meeting between President Herrera and Romulo O'Farrill (Special Commissioner of the Darien Project), at which O'Farrill asked about the possibility of IDB loans to Colombia, Panama and possibly other Latin American countries for financing a Choco route project costing \$270 million (The Permanent Committee had authorized

O'Farrill to conduct negotiations with the Governments and international credit organizations to obtain the funds required for construction of the Darien project). Cardenas stated that Mr. Herrera expressed interest in principle but no specific assurances were given. Cardenas asked whether we had been approached. I replied that so far as I could tell we had not. My initial reaction was that I could not see how, even if it were possible to identify individual sections which had adequate economic justification and high priority, our financing of such sections on our normal terms and practices could be better than the two-thirds U.S. grant and one-third local contribution (possibly financed abroad) which would apply to the Inter-American Highway; this aside from the problems of procurement and other procedures involved in a U.S. tied and controlled project.

Conclusion

10. At this stage it would be worthwhile for the Bank to look over the several documents to form an impression of the reasonableness of the cost estimates and the soundness of other technical aspects. It will need to take account of the implications of the building of the project, if it goes forward as it only can with United States assistance, on the investment and borrowing programs of the two countries concerned, and its relationship to any projects or programs in which we may have a direct interest (e.g., the Bayano hydro-electric project, livestock development and the prevention of the spread of foot and mouth disease into Central and North America. While the Atrato route has won out as the immediate link in the Pan-American Highway, and the Choco route evidently is not covered by the Clausen Bill, the Colombians want to carry on studies so as to keep it alive as a possible project for later development. Subject to the comments of Western Hemisphere Divisions and of Transportation Projects, I will try to continue to keep abreast of developments on the Darien Project, and have briefed Messrs. Frost, Lehbort and Flood (re Colombia) and Messrs. Wyss and Gonella (re Panama) on the foregoing, so that they could have it in mind on their current visits to Colombia and Panama.

Attachment

HFHavlik/ts

cc: Messrs. Alter, Wright, Wiese, Hardy, Van Dyck, Frost, Lehbort/Flood, Wyss, Gonella, Stoops.

Attachment A

- a) Final Conclusions and Recommendations Regarding Location, Design and Construction of the Pan American Highway through the Darien Gap in the Republic of Panama and Colombia (Report by the Subcommittee, 1968).
- b) Technical and Economic Factors in the Darien (Report of the Subcommittee, April 1967).
- c) Evaluation of Subsurface Conditions - Rio Atrato Route, Colombia (Prepared by George F. Sowers, Consultant for the U.S. Bureau of Public Roads, 1968).
- d) Report of Geophysical Studies - Rio Atrato Swamp, Colombia (Prepared by the U.S. Bureau of Public Roads, October 1968).
- e) Report on Survey and Design of the Section of the Pan American Highway, Las Animas - Palo de Letras, Department of Choco, Colombia (prepared by Brown and Root, Overseas Inc. - La Vialidad Limitada, December 1966).
- f) Report on Survey and Design, Santa Fe to Palo de Las Letras, Panama (Brown and Root Overseas, Inc. and H. Clare Jr. and Associates, July 1966).
- g) Chronology of the Pan American Highway Project (OAS, Document 32, October 31, 1967) (copies of these

(Copies of these reports also sent to Research Files)

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: September 30, 1970

FROM: E. Peter Wright *EPW*SUBJECT: Meeting of Mr. McNamara with the Finance Minister and
Director General for Planning of Panama, on September 30, 1970

1. Dr. Gabriel Castro, Minister of Finance and Treasury in the Government of Panama, and Lic. Carlos Valencia, Director General for Planning, called on Mr. McNamara at 9 a.m. on September 30, 1970, to extend an invitation from General Torrijos, already conveyed by letter, to participate in a seminar which the General hoped to convene in Panama at a date as yet unspecified to discuss the type of new political institutions that might be suited to Latin American countries involved in a process of rapid social change.

2. Mr. Valencia, who did most of the talking, explained the thinking behind the proposed seminar and said that General Torrijos was very anxious to secure Mr. McNamara's attendance, along with that of prominent figures in Latin America such as Carlos Lleras Restrepo, Raul Prebisch and Radomir Tomic. Mr. McNamara said that he was flattered by the invitation, but did not feel himself qualified for the role in which General Torrijos had cast him. He was anyhow seldom able to accept invitations of this kind since he had a lot of traveling to do and had to keep his program flexible in order to fit in visits to member countries which were usually arranged at fairly short notice.

3. Mr. McNamara said that he was nevertheless very interested in the subject proposed for discussion, though public debate on the political issues involved might create some problems. If there was any help that the Bank could give unofficially (e.g. in suggesting speakers), the Panamanians should let us know. As an example of the kind of person in the United States who might make a useful contribution to discussion of the subject, Mr. McNamara mentioned Alexander Herd, Chancellor of Vanderbilt University.

cc: Mr. Gutierrez o/r
Mr. Wyss

President has seen

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OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 18, 1976

FROM: Adalbert Krieger, RVP, LAC *AK*

SUBJECT: PANAMA - Meeting in Manila with Delegation

1. On October 6, 1976, the Minister of Planning and Economic Policy of Panama, Nicolas Barletta, met briefly with Mr. McNamara. Messrs. Krieger and Holsen (reporter) also attended on behalf of the Bank.

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2. Mr. Barletta wished to bring Mr. McNamara up to date on the effort to create a new bank in Panama which would specialize in financing the exports of Latin American countries. The matter had been discussed by the central bankers concerned at their meeting in San Francisco just prior to coming to Manila. The institution would provide short-term (up to 360 days) export credits and, in the case of capital goods exports, some medium term credit. The institution's capital would come from Latin American commercial banks, Latin American governments, international commercial banks and, it was hoped, the IFC. The plan was to start modestly with an equity of \$10 to \$15 million. Central banks would contribute by making deposits in the institution. Each Latin American government would be asked to guarantee the paper of their national enterprises.

3. Mr. McNamara said he would like to see the proposal work out; it seemed like the sort of thing IFC would like to do.

JAHolsen/ddm

cc: Mr. McNamara's Office

cc: Messrs. von Hoffmann, IFC

Lerdau, LAC

Fernandez, LAC