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Washington, D.C.

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McNamara Papers

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Archives



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Contacts with member countries: Nicaragua - Correspondence 01

Folder 104

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WBG Archives

NICARAGUA

NICARAGUA

- 6/21/68 Luis de Bayle, President, Nicaragua Light and Power Company,
and Ambassador Sevilla Sacasa
- 12/12/68 Arnaldo Ramierez-Eva, Minister of Finance
1. 11/22/71 Afonso Callejas Deshon, Vice President and Minister of Public Works
Mr. Palazio, member of the Board of Corinto Port Authority
Dr. Gustavo Escoto-Goenaga, Minister Counselor for Economic Affairs, Embassy
- 11/6-7/75 Gen. Gustavo Montiel, Minister of Finance and Public Credit
Juan J. Martinez, Minister of Economy, Industry and Commerce
(San Jose) Dr. Carlos G. Muniz, Manager, Banco Central de Nicaragua
2. 6/2/80 Mr. Arturo Cruz, Member of Government Junta
Miguel d'Escoto (Foreign Minister)
Amb. Rafael Solis
Mr. Mayobre, Executive Director
Mr. Mayorga=Cortes, Alt. ED
Mr. Foncerrada, Adviser
3. 12/11/80 Mr. Frank Vendana, member of Opposition party

CONFERENCE REPORT

1

Pain

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: November 26, 1971

FROM: E. Peter Wright *EPW*SUBJECT: Visit of Vice-President of Nicaragua

1. Mr. Alfonso Callejas Deshon, Vice President of the Republic of Nicaragua and Minister of Public Works, called on Mr. McNamara at 2:30 p.m. on Monday, November 22, 1971. He was accompanied by Mr. Palazio, member of the Board of the Corinto Port Authority and Mr. Escoto, Economic Counselor at the Nicaragua Embassy. I was present.

2. Mr. Callejas said that his visit was in the nature of a courtesy call. At the same time, he wanted to bring to Mr. McNamara's attention the interest of the Nicaraguan Government in raising the level of its borrowing from the World Bank, and more particularly in obtaining Bank financing for the development of African palm oil plantations on the Atlantic coast. Mr. McNamara referred to the previously unsatisfactory fiscal performance of Nicaragua and emphasized that the Bank's readiness to help a country depended on the efforts that country made to mobilize its own resources for development. The Bank had noted the measures that the Nicaraguan Government had taken to improve public finances and to strengthen the machinery for economic planning, and these improvements would be taken into account in formulating the Bank's lending program for Nicaragua. With respect to African palm oil, Mr. McNamara wondered whether Nicaragua was likely to be competitive in this field, particularly in view of the very special conditions required for cultivation. It was agreed, however, that the economics of African palm oil production could be explored by a coming FAO mission, and the Bank would be ready to consider the matter on its merits.

cc: Messrs. Christoffersen, Knapp, Chenery, Gutierrez, Evans, Lari

EPWright:vr

Brief for Meeting at 2:30 with Vice President Afonso Callejas Deshon

Mr. Afonso Callejas Deshon is Vice President of the Republic and Minister of Public Works in the Nicaraguan Government. He is also President of the Port Authority in Corinto.

Mr. Callejas is an engineer and private businessman. He is considered a serious and dedicated public servant and enjoys great prestige in Nicaragua.

Mr. Callejas' visit should be basically a courtesy call, but he is also expected to express the desire of his Government for an increased assistance from the Bank. He might indicate the Government's intention to put emphasis on productive projects, including an African palm oil project which the FAO intends to consider amongst others, during the IBRD/FAO scheduled mission in February 1972. Attached is a Country Note on Nicaragua, including the currently proposed lending program.

Mr. Callejas is accompanied by Mr. Palazio, member of the Board of the Corinto Port Authority and Mr. Escoto, Economic Counselor at the Nicaragua Embassy.

CAC
November 22, 1971

President has seen

Faint, illegible text, possibly bleed-through from the reverse side of the page.

2

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 4, 1980

FROM: Eugenio F. Lari, Director LAC I

SUBJECT: NICARAGUA - Meeting of Nicaraguan Delegation with Mr. McNamara.

1. A Nicaraguan delegation composed by Messrs. Arturo Cruz (Member of the Nicaraguan Junta of National Reconstruction), Miguel d'Escoto (Foreign Minister), Rafael Solis (Ambassador) met with Mr. McNamara on June 2. Also present were Messrs. Mayobre, Mayorga-Cortes and Foncerrada, respectively Executive Director, Alternate Executive Director and Advisor, and Messrs. Stern, Ardito Barletta, Koch-Weser and Lari.
2. Mr. Cruz, after expressing appreciation for the assistance received by the Bank so far and hope for future operations, outlined the economic and political developments and prospects in Nicaragua. He sounded an optimistic note as far as recovery in agriculture is concerned, although he admitted that land under cotton this year could be as much as 40% below normal levels (about 140,000 manzanas against 225,000 manzanas). He was especially hopeful for a good coffee crop and an increase in sesame production. Regarding industry, however, he admitted that private entrepreneurs had been hesitant to invest and this could result in the sector lagging substantially behind the levels of output of the pre-1979 years (industrial output in 1980 could be less than 60% of the industrial output in 1978).
3. He went on to state the Government's intention to keep the public sector deficit at a manageable level by resorting to new revenue measures and by cutting expenditures to the bone. He then expressed serious concern for the substantial trade deficits with the rest of Central America and with other trade partners in Latin America.
4. Mr. Cruz indicated that the political mini-crisis provoked by the resignation of Alfonso Robelo from the Junta had been resolved and that the private sector had been reassured that it could have an important role to play in the economic recovery and development of Nicaragua, in the context of a mixed economy system. He felt confident that private investors were about to initiate new activities, thus laying the basis for a sustained higher rate of growth of employment and output.
5. Mr. d'Escoto described the gradual process towards a return to parliamentary democracy, starting with the coalition Government and proceeding to a broadly based council of state, municipal elections in about two years, a Constituent Assembly and, in four-five years, direct election of the President. He stressed Nicaragua's desire to have diplomatic relations with all countries, and particularly good relations with the rest of Central America and with the US. He felt it important, for such a small country like Nicaragua, not to become overdependent on any one country alone, to avoid the risk to be blackmailed and strangled in case of political or other disagreements.

June 4, 1980

6. Mr. McNamara thanked the Nicaraguans for their frankness, but expressed surprise and disappointment at the low recovery of the economy, especially in industry. He concluded the meeting by confirming the Bank's willingness to assist Nicaragua in the difficult period ahead and expressing the hope that the forthcoming Bank programming mission will make it possible to identify priority sectors for Bank assistance.

EFLari:nsp

Cleared with and cc: Mr. Ardito Barletta

cc: Mr. Stern
Mr. van der Meer, LCP
Mr. Flood, LAC I
Mr. Meo, LAC I

840

FORM NO. 75
(9-78)

THE WORLD BANK

ROUTING SLIP		DATE:
		May 30, 1980
NAME		ROOM NO.
Mr. Robert S. McNamara		E 1227
(through Mr. Ernest Stern)		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS:		
<p>Mr. Arturo Cruz, the recently appointed member of the Government Junta in Nicaragua, is calling on you Monday, June 2 at 6:30 p.m. A briefing note is attached.</p> <p style="text-align: right;"><u>We cannot promise any more IOA beyond the \$5 million programmed.</u></p>		
FROM:	ROOM NO.:	EXTENSION:
N. Ardito Barletta	A 907	75901

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MAY 08 2013

WBG ARCHIVES

BRIEFING FOR VISIT OF MR. ARTURO CRUZ

WITH

MR MCNAMARA ON JUNE 2 AT 6:30

Mr. Arturo Cruz, who was appointed member of the Nicaraguan Junta of National Reconstruction earlier this month, is 56 years old, married and has seven children. His daughter Consuelo is working as a Research Assistant in the Economic Analysis and Projections Department.

Mr. Cruz graduated from the Nicaraguan Military Academy in 1944. He left almost immediately after graduation to attend the Foreign Service School at Georgetown University. After completing his studies in 1947, he spent a brief period with the IMF and then returned to Nicaragua. A few months later he was thrown into jail and dismissed from the military on the grounds that he was a member of a group of young officers supporting a political opponent of Gen. Somoza Garcia (father of the recently deposed President of Nicaragua). He was jailed again in 1954, after being accused of participating in a plot to assassinate Gen. Somoza.

During the 1950s and 1960s, Mr. Cruz worked in various positions in private banking and commerce in Nicaragua and served at one point as Director of the Chamber of Industry. He also worked in the Central American Bank for a short period in the '60s. From 1969 until last July, Mr. Cruz worked at the Inter-American Development Bank, his last position being Deputy Chief of the Investment and Financial Markets Division.

Formerly a member of the opposition Conservative Party, Mr. Cruz in 1977 joined with a number of other prominent anti-Somoza Nicaraguan exiles to form the "Group of Twelve", which became one of the first groups (other than the Sandinista guerrillas) to call for the ouster of Gen. Somoza. Many of the Group's members were known to have ties with the Sandinistas (Mr. Cruz' nephew is a member of the nine-man Sandinista Directorate) and, as the opposition to Gen. Somoza intensified during 1968 and 1969, the Group of Twelve came to serve as a bridge between the Sandinistas and more conservative opposition groups.

When the new Government assumed power in July of 1979, Mr. Cruz was named President of the Central Bank. Mr. Cruz was always very open and cooperative with Bank staff during his time as Central Bank President. It was also apparent, however, that he was not a member

of the inner circle of the Sandinista movement. It also seemed clear that he did not want to be. A political moderate, he expressed concern to Bank staff members as early as last September at what he felt was an excessively leftist drift of the Government. There was talk for a number of months that he would resign and return to the IDB. When the two non-Sandinista members of the Government Junta resigned in April, it caused considerable concern in the private sector which was already becoming increasingly vocal in its complaints about the Government's not defining its position clearly enough on the role of the private sector in the economy. While Mr. Cruz does not have strong ties to the local business establishment, his appointment to the Junta (as well as that of a former Supreme Court Justice) is widely regarded as a move to reassure the private sector. At about the same time as the appointment of the new Junta members the Government announced (1) the end of martial law, (2) that no further properties would be expropriated and (3) that elections would be held (without specifying when).

Bank Lending Program

In December the Executive Directors approved emergency operations for Nicaragua totalling US\$52 million (US\$32 million IDA). US\$22 million was for urban reconstruction, and US\$30 million was for agricultural and industrial rehabilitation. Reports of the first supervision missions on these projects indicate that the overall progress of the urban and agricultural operations is good. Implementation of the urban component is proceeding close to schedule, and the agricultural component is likely to be fully committed to approved subloans by the end of next month. The industrial component, however, is moving slowly, which is in line with evidence that the recovery process in this sector is moving very slowly and that investor confidence remains low.

As far as future operations are concerned, a US\$5 million IDA credit is planned for a recently created preinvestment fund. Appraisal should take place in July. The prospects for further lending for Nicaragua for the next two to three years are not yet clear. The Government appears interested in working with the Bank in a number of sectors but (1) it is preoccupied with short-term problems and has yet to develop much in the way of an investment program and (2) it has been giving priority attention to other external sources (e.g., IDB) which have been offering funds on highly concessionary terms. In the meantime we maintain a close dialogue with Government officials, and have been asked to schedule tentatively a programming mission for around September of this year. At that time we also expect to update our information on the economic situation. (Attached as Annex A is the economic section from the President's Report on the emergency operations.)

Issues

We have no major operational issues at this time. The Government complied very punctually with its undertaking to bring outstanding obligations to the Bank up to date by April 1. You may wish to congratulate Mr. Cruz on his appointment as Member of the Junta, to express our overall satisfaction at the way in which the emergency operations are being implemented and to thank him for the expeditious way in which he, as President of the Central Bank, assured that overdue payments to the Bank were brought up to date. You may wish to ask his views on the progress of the economic recovery program, his assessment of the ability of the public sector to manage its greatly expanded role in the economy and what role he foresees for the private sector in the recovery process.

We expect Mr. Cruz to request the Bank to be generous in its support of the Government economic recovery program and to request that we provide as much IDA funds as possible. On the IDA question, you may wish to say that we were very pleased to be able to provide substantial IDA funds for the recently approved emergency projects. This was only possible because of the extraordinarily difficult economic situation facing Nicaragua following the war. It is still too early to tell whether and how much additional IDA financing can be provided (beyond the US\$5 million planned for this year for the proposed preinvestment credit). It should be noted, however, that as the economic recovery proceeds, Nicaragua's GNP per capita should rise rather quickly above the IDA cut-off point. (The estimated GNP per capita for 1979 is US\$570.) You may wish to assure Mr. Cruz, however, that we stand ready to cooperate with a substantial Bank lending program in support of their recovery and development effort.

GFFlood:bc

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OFFICE OF THE PRESIDENT

Meeting with Mr. Falk Vendana, December 11, 1980

Present: Messrs. McNamara, Vendana, Barletta

Mr. Vendana first offered his appreciation to Mr. McNamara for affording him the opportunity for a meeting. He explained that he had had a meeting yesterday with Congressman Alexander. He explained that recently there was the assassination of one of the main leaders in Nicaragua, a Mr. Alfonso Salazar, the Vice President of the Association of Private Enterprises. He indicated that the representatives of the free enterprise system were intent on continuing their work in spite of the increasingly difficult relationships with the Government. He said that this group is looking at means by which funds could be channeled more directly to the private sector. In particular, he mentioned that they are looking at possibilities for establishing credit facilities for small farmers whose annual output is worth less than \$8,000. Mr. McNamara explained that the Bank can lend only to governments. However, he said, and Mr. Barletta agreed, that he thought there should be possible ways to ensure that part of the Bank financing to the Government could be channeled more directly to the private sector. He further said that, if this were possible in the case of agriculture, then the Bank would clearly be in favor of such action. Mr. Vendana said that it was not the intention of the group which he represents to compete with the Government. Their main intention is to avoid political interference by the Government in their actions. Mr. McNamara reaffirmed that the Bank has a policy that the credits extended to governments should not be used for political purposes. Mr. Barletta enquired whether the systems established under the first loan of \$5 million for coffee production was working. Mr. Vendana replied that it is working reasonably well, but the Association which he represents had to do a police job. He explained that it is precisely this police job which they do not want to do. He also enquired whether there would be any possibility of financing small businesses and services along the same sort of line. Mr. Barletta explained that there is indeed a line of credit for the financing of small businesses. Mr. Vendana explained that the request of his Association is that there be at least one representative from the private sector on the various credit committees in order to ensure the continuation of the private enterprise system.

Mr. McNamara told Mr. Vendana that the Bank is extremely anxious to help Nicaragua. Mr. Vendana explained that the Government is increasingly in the hands of extreme leftists and that the only alternative for his Association is to demonstrate clearly that their free enterprise system works better. Mr. Barletta concluded the meeting telling Mr. McNamara that Mr. Vendana is the representative of a group of young entrepreneurs who are extremely courageous in defending what they believe in, in front of a very adverse situation.

cc:1 Mr. Barletta

OL
December 19, 1980

December 11, 1980

Frank Vendana, PhD., from the U.S. University, Horticulture,
President of Coffee Growers Association; member of opposition party;
excellent mid-size coffee farmer; university professor; has sub-loan
from Fondo Especial de Desarrollo under Bank financed reconstruction
program. Long term, respected, public figure.

N I C A R A G U A

Background

1. The revolution which culminated on July 19, 1979 with the ouster of the Somoza regime, left Nicaragua financially insolvent and with a highly damaged production apparatus. Manufacturing production declined by nearly one-third in 1979. Private investment shrunk to a minimum and construction nearly stopped. Agricultural production was also seriously affected and dropped by about a third. Urban unemployment and underemployment reached more than 30%. Real GDP dropped by 27% in 1979 in addition to a decline of about 9% in 1978. Income foregone in 1978 through 1980 will surpass \$1 billion. A very significant loss for the economy was the drop in export proceeds, which dropped by about 5% in 1979 and another 25% in 1980.

2. On balance the new Government has weathered a very difficult first year. The policy followed in practice has been one of satisfying the basic needs of the population, restocking inventories, trying to restore real consumption levels (but consumption in 1980 is likely to be still below 1978 levels), providing employment or at least marginal work for the urban unemployed through the rapid expansion of commercial activities and the doubling of the Government sector.

Recent Developments and Prospects

3. Prospects for 1981 are overshadowed by continuing suspicion of the new Government in the private sector, which still represents 60% of the economy (down from about 85%). The climate of uncertainty climaxed in May 1980 when the private sector representatives, Alfonso Robello and Mrs. Chamorro (widow of P. J. Chamorro, editor of La Prensa, assassinated under Somoza) resigned from the Junta. The Government made an effort to reassure the private sector by stating there would be no further expropriations, that the private sector is essential for recovery of the economy and that it would receive support. The Government also appointed to the Junta in May -- to replace Robello and Mrs. Chamorro -- Arturo Cruz, who was head of the Central Bank and Mr. Cordova Rivas, a Supreme Court judge, both representatives of the private sector and well regarded. More recently, in the second half of November Mr. Alfonso Salazar, Vicepresident of COSEP, (Association of Private Enterprises) was killed by security forces while allegedly engaging in anti-Government activities. This has further weakened the already strained relations between the private sector and Government.

4. Prospects for increasing production in the private sector for 1981 are only fair. Investments in the agricultural sector are increasing, in industry they continue to be sluggish. In the agricultural sector basic grain production appears to be rising. Probability is good that domestic consumption needs can be satisfied largely. Prospects for agricultural

commodities exports are also good. Exports in 1981 are projected to be more than 40% higher than in 1980. It is estimated that the 1980-81 coffee crop may be at record levels, in part because of the success of the coffee renovation program which was started in 1977 and which is currently being supported by about \$5 million included in the Agr/Ind. Rehabilitation Loan/Credit which became effective on January 25, 1980. Sugar exports are favored by high world prices and the shrimp and lobster catch is high. Beef production will remain depressed, because of depletion of herds during the civil war. Cotton area planted, a crucial variable in the country's economic recovery process, will be about 140,000 Manzanas (about 98,000 ha.) including 21,000 Manzanas now owned by the Government. This is nearly a tripling in the area planted in 1979, but considerably short of the 250,000 Manzanas average of the 1972-78.

External Debt

5. Nicaragua has benefitted from substantial aid flows. An important determinant of the net flow of capital will be the arrangements that have been reached by the Government with respect to external debt. A satisfactory agreement has been concluded earlier in the year with the foreign private banks (amount rescheduled: \$582 million at this time). In October, a meeting of the Paris Club took place during which discussions of rescheduling bilateral official or officially guaranteed debts were started, but not concluded: the main creditor countries involved in this exercise are Germany, Spain, and the United States (amount to be rescheduled: about \$270 million). Even with further debt rescheduling Nicaragua's external position is expected to become very difficult in 1985-1990.

Bank Assistance

6. Bank assistance to Nicaragua since the civil war has consisted of restructuring old projects with substantial undisbursed balances to make them more responsive to the emergency needs. This was supplemented with an emergency loan/credit package for agriculture and industrial rehabilitation (\$30 million) and for urban reconstruction (\$22 million). Implementation of restructured projects and emergency projects is good. Because of the Government's preoccupation with emergency reconstruction requirements, we have only recently begun discussion of a longer-term program of assistance. This includes a first comprehensive analysis of the economic situation, undertaken by an economic mission which has been (and still is) in Nicaragua for the last three weeks. The mission was well received and on the basis of preliminary findings we believe we have general agreement both on the analysis of Nicaragua's economic problems as well as on the remedial policies required.

The areas for which the Government has requested assistance from the Bank Group (a) preinvestment activities (a Preinvestment Fund Project (\$5 m) is up for Board presentation on December 16); (b) rural primary education, including adult basic education; (c) follow-up financing for agricultural and industrial rehabilitation (included here is continued assistance for the coffee renovation program); (d) development of water supply; (e) electric power (Geothermal Energy); (f) road upgrading and maintenance; and (g) urban improvements, including housing.

CHURCH-STATE TIES SOUR IN NICARAGUA

Clergy, Too, Is Split as Hierarchy
Accuses Sandinist Regime of
Promoting 'Class Hatred'

By ALAN RIDING

Special to The New York Times

MANAGUA, Nicaragua — During the Sandinist-led insurrection against the Somoza regime last year, the Roman Catholic Church in Nicaragua endorsed the rebellion and priests and nuns helped organize resistance to the dictatorship among the urban poor. After the revolution, several priests were named to key posts in the new Government.

Not only did a leftist regime pledge to guarantee religious freedom, but the Catholic Church was identified with a process that promised a radical transformation of society.

But in recent weeks, relations between the Sandinist leadership and the Catholic hierarchy have begun to sour, provoking a bitter split in the church between those clergy who openly support the revolution and those who are increasingly critical of it.

Trying to avert an open break with the church, the Sandinists issued a long statement in mid-October reiterating their commitment to religious freedom, but the country's seven bishops responded with an unusually harsh document charging the regime with "manipulating" religious sentiments and promoting "class hatred." The dispute worsened when numerous priests accused the bishops of defending "class privileges."

Bishops Assert Authority

The Bishops' Conference has now decided to assert its authority by ordering all priests out of top Government posts by the end of December. Informally, the bishops have indicated that priests who disobey the order will be suspended.

Numerous priests are participating in different aspects of the revolution, often at the grass-roots level, but the order is apparently directed specifically at the Rev. Miguel d'Escoto, a Maryknoll priest serving as Foreign Minister, the Rev. Ernesto Cardenal, a Trappist monk who is Minister of Culture, the Rev. Edgar Parrales, a parish priest who is Minister of Social Welfare, and the Rev. Alvaro Argüello, a Jesuit who represents the Association of Clergy on a 47-member Council of State.

"In principle, I'm not going to resign and nor are the others," Father Parrales said in an interview. "At this moment, the people need me in the role I'm playing. I know there is a clash between authority and conscience, but the most important argument is conscience."

Father Argüello dismissed the bishops' argument that some priests were "tools" of the Government. "We don't support the Sandinists unconditionally," he argued.

At the heart of the dispute, however, is not the involvement of priests in the Government but rather the attitude of the church toward the entire revolution.

As political differences between the Government and business and political opposition groups have sharpened, the church hierarchy has become increasingly identified with critics who complain that the regime is moving too far and too fast to the left.

"The problem is not whether the church is for or against the revolution," said the Rev. Pietro Sambí, the acting papal nuncio here. "The church as a whole is with the revolution, but it wants to indicate what kind of revolution and the methods of carrying it out."

The bishops' statements seemed to reflect a concern for the growing class struggle here, for the absence of religious education in public schools and for supposed official efforts to erode the religious character of some festivals.

Father Parrales, on the other hand, argued that the bishops' main concern was political rather than theological.