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President G.D. Woods Briefs – 22nd Annual Meeting 1967
Latin America

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

G. D. Woods's Meetings

Latin America

Country	Date	Time
Brazil	Sept. 23	9:45-11:00
Argentina	Sept. 23	11:00-12:00
Mexico	Sept. 23	12:00-12:30

ARGENTINA

BOLIVIA

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

BOLIVIA

I. MEETING WITH DELEGATION

Date: Thursday, September 28, 1967 — Time: 10:30 - 11:00 a.m.

Attended by: — No meeting with Management

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Mr. Jose ROMERO LOZA (Governor-Fund)	Minister of Finance
Mr. Jorge JORDAN F. (Governor-Bank)	President, Banco Central de Bolivia
Cnl. Enrique VARGAS GUZMAN (Alternate-Bank)	President, Corporacion Boliviana de Fomento
Mr. Wenceslao ALBA (Alternate-Fund)	General Manager, Banco Central de Bolivia

ADVISERS

Mr. Gaston GUILLEN O.	Director General of Banking, Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

Purpose	Amount (US$ million)	Status	Tentative date of negotiations
Power (Santa Isabel)	$6.0 (IDA)	Appraisal awaiting completion of studies on hydro and thermal plants.	Second quarter 1968
Education	Unknown (IDA)	UNESCO's project identification report received and under study.	Open

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff Level

Power

We should reiterate that we will proceed with the examination of the Santa Isabel power project, in the hope that IDA may either be able to provide funds for its financing or to assist the Bolivian Government in arranging financing from other sources. In the meantime, we have amended the project description of Credit 61-BO to permit financing of additional studies which are required for the appraisal of the project. We are now awaiting the outcome of these studies.

Settlement of British Railway Claim

We should also indicate that we look forward to an early settlement of the dispute with the British former owners of the nationalized railways. (Negotiations with them were completed in May 1966 and an amount equivalent to $7.5 million was said to be agreed as compensation, but the Government has not yet ratified the agreement. However, in July Colonel Vargas told us the Government was thinking of joining the Centre for Settlement of Investment Disputes and submitting the dispute to it.) We might enquire whether the British have been made aware of the Government's thinking.

(b) No meeting scheduled with President or Vice-President

(c) Likely to be raised by Delegation

The Bolivian representatives may enquire about assistance for education, transport, and/or a gas pipeline, and, conceivably, might askkfor the formation of a consultative group.

(i) Education

UNESCO's project identification mission, which visited Bolivia in the latter part of 1966, has concluded its report and has presented it to the Government. We are doubtful that the report will serve as an adequate basis for the preparation of an education project.

(ii) Transportation.

Any suggestion that we finance transport projects should be met by a promise to consider once the Transport Survey now in progress is completed by mid-1968.

(iii) Possible Pipeline to Argentina

The delegation may enquire about the possibility of financing this project, which has been mentioned to us by the Gulf Oil Company. We should seek from the Bolivians further information.

(iv) Possible Consultative Group

At the last Annual Meeting and again in some of their recent visits, the Bolivians have raised the issue of the Bank forming a consultative group for Bolivia. Some AID officials have also suggested this. When this question has arisen in the past, the Bolivians have been told that it would be hard for the Bank to form a consultative group for Bolivia, before Bolivia was eligible for Bank lending. There is no reason to change our position.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

None

(b) IDA Credits as of July 31, 1967

(US$ million)

Credit No.	Year	Purpose	Amount less cancellations	Undisbursed Balance
61 BO	1964	Power (ENDE)	10.0	1.5
62 BO	1964	Power (BPC)	5.0	0.4
107 BO	1967	Livestock	2.0 1/	2.0 1/
			17.0	3.9

1/ not yet effective

(c) Technical Assistance Activities

In 1961/62 the Bank financed a railway study by Sofrerail.

The United Nations Development Programme has provided $834,800 to help finance a general transport study. The Bank is the Executive Agency. Work on the study, which is being performed by Daniel Mann, Johnson & Mendenhall, began in April, 1967, and is expected to take about one year. A mission to review progress visited Bolivia in June.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

$1.89 million. None released.

(f) IDA Subscription

$0.954 million. None released.

(g) Holding of Bank Bonds

$0.5 million.

(h) IFC

IFC has no investment in Bolivia, but was recently approached by Corporacion Boliviana de Fomento to consider investments in a cement project and a cement fabricating plant. The feasibility studies of these projects are expected to be completed late in September. Project sponsors approached IFC to invest about $600,000 in Iris Mines in Bolivia. Technical appraisal of the project by IFC has been completed but conclusion of the financial appraisal awaits submission by the Company of additional data. Also, settlement of the mining claims will be needed before IFC financing is finalized.

The situation in respect to the mining claims is very complex. Before nationalization of the private mines in 1952, some of the properties were owned by Bolivians and other by foreigners. In part, therefore, this is a domestic issue. Some compensation has been paid for the mines, but payments were suspended in 1961. Despite this fact, USAID, IADB and the German Government have continued to provide financing under the "Triangular Operation" to help rehabilitate COMIBOL, the state mining enterprise. Mr. Paterson discussed the matter with the Government in May, and found some sentiment in favor of Bolivia joining S.I.D. as a mechanism for settling these claims.

(i) Settlement of International Disputes

The Government has shown some interest in signing the Convention. (See IV (a) and V (h)).

VI. POLITICAL SITUATION

For a year, the Government of President Barrientos has managed the affairs of the country with considerable skill and prudence. Some communist-led guerrilla activities have developed in the south-eastern lowlands of the country; although the insurgents have not been able to gain any significant public support the Army has been somewhat inept at dealing with them. At the same time, the mine workers resumed agitation, which has led to Army take-over of some mines. Apparently to meet the criticism of this move by Congress, President Barrientos reschuffled his Cabinet in early August, moving the Foreign Affairs Minister to the Ministry of Defense, and replacing the Minister of Mines by the President of the Senate. The Minister of Finance, Romero Loza, an able businessman, retains his portfolio. President Barrientos is still in a fairly strong position, which he can be expected to hold if the guerrilla situation, or that of the mines, does not deteriorate substantially.

VII. ECONOMIC SITUATION

Population:	3.7 million
GNP per capita:	US$150
Foreign Exchange Reserves:	US$36 million (May 1967)

In 1966, GDP rose by a little over 5 percent or by about the same rate of increase as during 1965. Exports increased by 10 percent and foreign reserves continued to rise. These favorable developments were mainly caused by high world market prices for minerals, particularly for tin, which prevailed until the latter part of 1966. Since then, however, prices for tin have steadily declined and are putting considerable pressure on COMIBOL, the state mining enterprise, which is a high cost producer. Recently, miners' strikes have pushed up COMIBOL's per unit costs further which, coupled to the decreasing price for tin, have caused COMIBOL to be again an unprofitable producer. As a result of this critical situation, COMIBOL has informed the Government that it will not be able to make any royalty payments during 1967. The resumption of royalty payments in 1966 was a major factor in helping to bring to an end the current budget support that the Bolivian Government had been receiving from abroad. The discontinuity of these payments and the enlarged military outlays provoked by the guerrillas, have caused the public finances to deteriorate; a deficit of about b$ 110 million (US$13 million) is projected for the current year, despite reduced current spending and postponing some capital outlays, particularly for roads. The Government has approached Congress asking for new taxes.

Prices have been relatively stable so far in 1967 but there was a substantial credit expansion to the private sector in the first half of 1967. Some capital flight has been reported and in the first six months of 1967 foreign exchange holdings decreased by nearly US$5 million. An IMF mission is scheduled to visit Bolivia in September 1967 in connection with a proposed new stand-by.

In the private sector, there are important mining and oil investments which should lead to continued economic growth. The Gulf Oil Company began to export petroleum in 1966 and exports are expected to amount to US$15 million in 1967 and nearly US$40 million in 1970. There is also a possibility of natural gas exports to Argentina.

In the light of Bolivia's low per capita income, large resource gap, considerable debt burden and economic improvements, which have taken place up to last year, we have considered Bolivia an IDA country.

BRAZIL

ORIGINAL NOT YET RECEIVED, but you may wish to look over the attached.

Meeting Sep. 13 (Wed) - 12 noon.

S

9/11/67

Mr. George D. Woods (Through Mr. J.Burke Knapp) September 8, 1967

Gerald Alter

BRAZIL: Your proposed meeting of
September 13 with Mr. Antunes

1. Mr. Antunes wishes to speak with you about an iron ore project in Brazil which his group intends to develop in partnership with The Hanna Mining Company. The first contact between Bank/IFC staff and the sponsors about this project took place in late 1964, but only recently did the sponsors decide to go ahead with the project. The following is background information on Mr. Antunes and on the project.

Background Information

2. Mr. Augusto T. de Azevedo Antunes, 60, is a well-known Brazilian entreprenour. He is the President of the Antunes group of companies. A civil engineer, he started working for the Sao Paulo State Government. A few years later, he decided to leave his Government job and start iron ore mining operations in the State of Minas Gerais. Toward the end of World War II, he bought a manganese ore concession in the northern jungle. Turned down by Brazilian bankers, he came to the United States and found a willing partner in Bethlehem Steel. They formed a joint company (ICOMI) which is controlled by Antunes and whose ore shipments began in 1957 and have so far grossed about US$250 million.

3. Besides the iron ore and manganese operations, the Antunes group has a controlling interest in a steel mill producing special steels, in partnership with SKF and Bethlehem Steel; a substantial interest in a non-ferrous metals operation in partnership with Anaconda and Italian interests; and plywood manufacturing. The Antunes group has also accepted to make a modest contribution to the financing of the ALCOMINAS aluminum project.

4. In 1965 the Antunes group merged its iron ore reserves with those of St. John del Rey, a Hanna subsidiary. They formed a new company, Mineracoes Brasileiras Reunidas S.A. (MBR), which is controlled by ICOMI and therefore by Antunes (ICOMI: 51%; St. John del Rey: 49%). (Please see Exhibit I). This new company proposed a development scheme consisting of the construction of a new port for exporting up to 20 million tons of iron ore per annum and, ultimately, the construction of a 2 million ton steel mill, for a total cost of about $600 million. This vast scheme was officially endorsed by the preceding Government.

The Revised Project

5. The sponsors have now scaled down their original proposals. The revised project would consist of the construction of a new port at Sepetiba Bay (south of Rio), a mining operation in the State of Minas Gerais, the

construction of a railway link and the rehabilitation of a railway line. In the first phase, annual production and exports would be about 6 million tons of ore and the port would be able to handle up to 12 million tons. Production could later be increased up to 20 million tons with a corresponding extension of port facilities at relatively small incremental costs. The total investment for the first phase would be about $128 million exclusive of mining properties, but including a $38 million investment in the railways. The financing plan provides that the entire new investment would be financed with loan capital as follows:

		US$ million	
		Cost of new investment	Foreign exchange component
1. Mine and sea terminal:		90.0	50%
Loan capital	90.0		
Equity (mining properties only)	36.0		
Debt equity ratio	72:28		
2. Railways:		38.0	45%
Loan capital	38.0		

6. On September 5 and 8 we had meetings with representatives of the Antunes group and Hanna. It became quite apparent that the shortcomings of the project as presently conceived were, first, an excessive debt equity ratio and, second, the absence of an equity contribution in cash by the sponsors, resulting in the necessity of borrowing large amounts for local currency expenditures including those of the Federal railroads. (Attached is a memorandum from IFC on the September 5 and 8 meetings). We also have as yet no firm indication what the economic rate of return on the project would be.

7. The consensus among Bank and IFC staff is that this project might only become attractive to the Bank if, (a) the sponsors are willing to make a substantial equity contribution in cash and, (b) they are able to finance the remaining local currency expenditures from sources other than the Bank. In any case, the possibility of shipping the ore through the existing port of Tubarao (north of Rio) should be thoroughly investigated. This would result in scaling down the project considerably since it would eliminate the need to build a new port. It would, of course, require cooperative arrangements with the Government-controlled company (Companhia do Vale do Rio Doce) which presently mines iron ore in the same area and owns and operates the port of Tubarao and the connecting railway line.

Mr. George D. Woods September 8, 1967

Recommendation

8. I recommend that Mr. Antunes be told that the Bank would not be interested in this project unless the present financing plan is modified, and then only if it can be demonstrated that this project would yield higher benefits to the economy of Brazil than the Tubarao alternative. In any case, it would be useful to us if Mr. Antunes could keep the Bank posted on further developments.

Attachments.

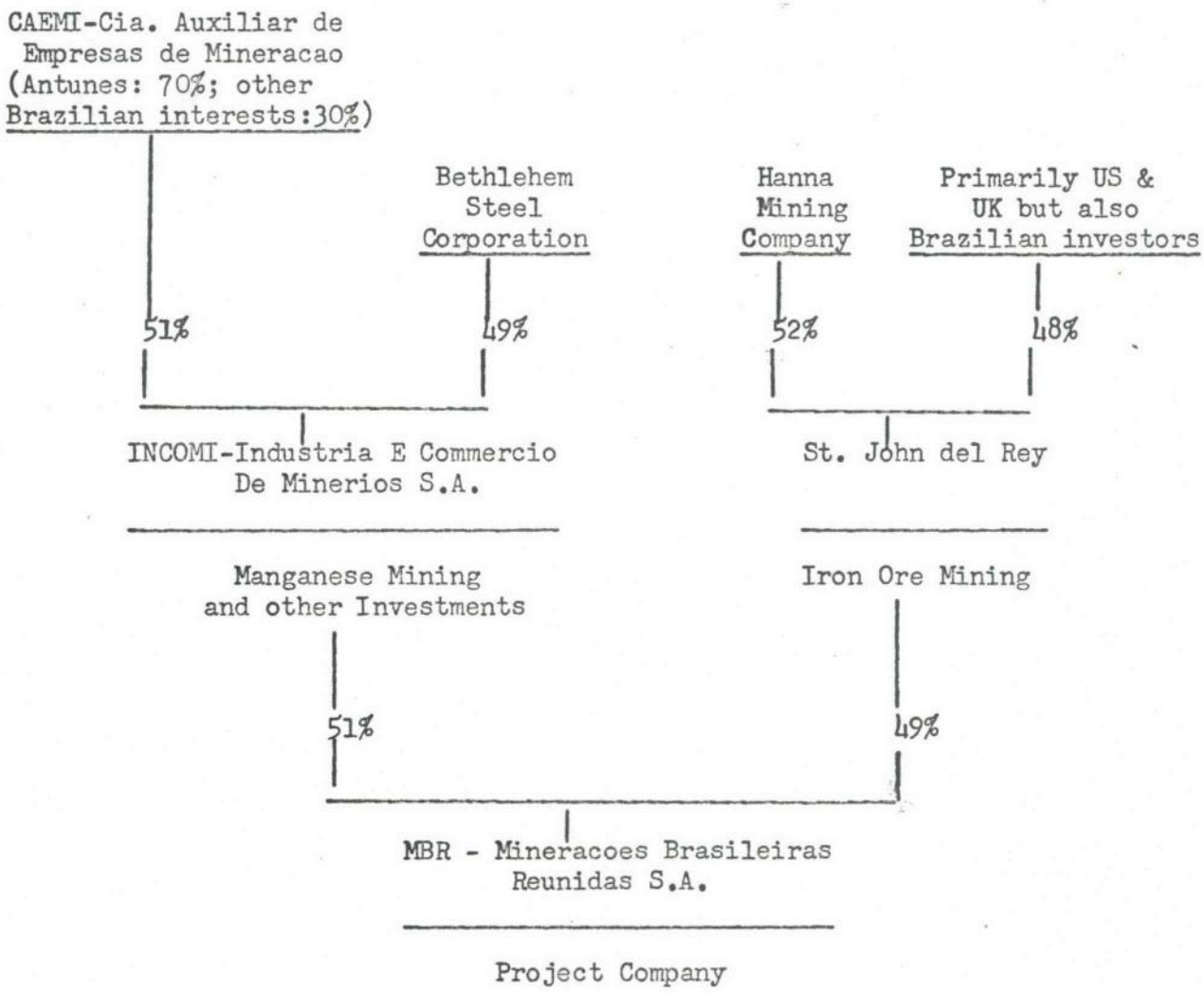
Cleared with & cc: Mr. Paterson.

cc: Mr. Knapp
Mr. Rosen
Mr. Alter
Mr. Chenafournier
Mr. Steckhan
Messrs. Lawson-Scribner/Phillips
Messrs. Wiese/Gué/DF.

ARGué:be

EXHIBIT I

HANNA/ANTUNES
Proposed Project Ownership



FORM No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Operational Files

DATE: September 8, 1967

FROM: Robert Bremner

SUBJECT: BRAZIL: Hanna-Antunes Iron Ore Project

On September 5, in Mr. Paterson's office, there was a background discussion with the sponsors of this project preliminary to the upcoming meeting between Dr. Antunes and Mr. Woods on September 13. Attending were Messrs. Sydenstricker, Litzinger and Kihl representing the Antunes group, Messrs. Buford and Bredvold of Hanna, Messrs. Alter, Wiese and Gue of IBRD and Messrs. Paterson and Bremner of IFC.

The first phase of the project is for the mining and export of 6.25 million tons per annum of high grade iron ore. The project cost, exclusive of a $36 million valuation assigned to the estimated 2.0 billion tons of mineral resources 1/ is estimated at $126 million. Major investments would be $34 million to prepare the mine and for crushing and screening facilities; $46 million for rehabilitation and minor additions to the existing 400 mile railroad linking the mine and the port, as well as additional rolling stock (of which $36 million would be financed by the railroad); $26 million for a terminal with appropriate loading and storage facilities for 7.5 million tons per year and the ability to handle ships of up to 150,000 dead-weight tons, and $20 million for pre-operating expenses, interest during construction and working capital.

Mr. Paterson opened the discussion by focusing on what he considered to be likely problem areas:

(a) Other than for the $36 million valuation for the mineral assets, 1/ at this point the sponsors are not thinking of putting in any new equity;

(b) Of $90 million of new investments for the project exclusive of the investments by the railroad, about half would be for local expenditures, but presently the financial plan included no local financing;

(c) As a result of borrowing the entire $90 million for the new expenditures, the proposed debt/equity gearing would be very high (the $36 million mineral resources would be 28% of $126 million total cost).

(d) The project includes substantial initial investments in the mine and port in order to provide for low cost expansion and the project's capital cost will bear heavily on the projected return at initial capacity;

1/ Includes existing mining facilities presently exporting up to 2.0 million tons/year of iron ore.

(e) Despite the high debt the sponsors indicated that long-term purchase contracts which would improve the security for the potential lenders were not presently thought possible due to recent price declines and uncertainty about future price trends;

With regard to new money from the sponsors, Mr. Buford mentioned privately to Mr. Paterson that some accommodation by the sponsors might be possible, but that this point would be covered further in the visit by Dr. Antunes and Mr. Buford did not want to preempt this point.

Regarding local sources of finance the sponsors indicated that they had not contacted BNDE or any of the financieras, but they emphasized that opportunities for local long-term debt financing appear to be limited and that local equity would probably want a quicker and larger return than this project would be able to offer in the initial stage.

In response to Mr. Paterson's suggestion about Brazilian Traction as a possible source of local finance the sponsors said that conversations with them had not been promising.

With regard to foreign finance of local expenditures, the sponsors had talked with AID. The possibility of using counterpart funds under a new scheme proposed by AID had been discussed, and the sponsors were optimistic that this would be a possible source for financing local expenditures. Mr. Paterson mentioned that obtaining local financing or additional equity from the sponsors was particularly important for the project with such substantial local expenditures.

With regard to providing adequate security to potential lenders in view of the substantial debt financing, the sponsors emphasized the difficulty in obtaining long-term contracts at a time of market uncertainty. Hanna, in its present contracts for its own iron ore production does not negotiate firm long-term contracts but enters into 5-year arrangements which provide for adjustment each year to reflect current world market prices.

Mr. Paterson summarized his reactions:

(i) Even if all other questions could be answered satisfactorily, there would be a limited amount of IBRD funds available for the total package (including all rail and port expenditures) and he emphasized the need for maximum use of other potential sources of funds;

(ii) The sponsors should show their faith in the project by contributing new funds, especially in view of the sizeable local expenditures;

(iii) Even if additional funds were to come from the sponsors there would have to be adequate security for the debt holders and this would probably mean securing some amount of long-term purchase contracts or an effective take-or-pay arrangement by the sponsors themselves.

Mr. Alter said that the economic considerations which would be of interest to IBRD would be the economic return to the project and the investments proposed for the Central railroad and the reasons for making the rail and port investments now when comparable facilities, belonging to CVRD, already exist. Regarding the economic return Mr. Buford said that all of this information was available and would be provided in due course and he would give IBRD some of this before the Antunes-Woods meeting. With regard to using CVRD facilities, Mr. Buford said that discussions had been held with CVRD about this possibility but that the rate proposed by CVRD for transporting these Hanna-Antunes ores was too high. This rate was very advantageous to CVRD and had been based on arrangements with two other groups now shipping ores over CVRD facilities. The possibility of negotiating a lower fee for Hanna-Antunes would also necessitate renegotiating the two existing arrangements and this appeared unlikely. The margins available to the sponsors if they were to use the CVRD facilities were considerably lower. In addition the Government priority and guarantees given to the project depended upon the increased traffic from the project to reduce the deficits of the Central Railroad and also on the construction of a modern port which would ultimately be used to handle imported coal.

Preliminary Profitability Information

In a subsequent meeting on September 8 the sponsors provided a preliminary estimate of the average return projected for the project. Assuming an investment of $126 million ($90 million of new investment and $36 million for mineral assets), a project life of 25 years at 6.25 million tons per year and sales prices about 10% lower than those presently existing for comparable Brazilian ore exports, the discounted return for the project is about 12%. The sponsors asked that we treat these figures as an order of magnitude, as although they had prepared detailed cost projections they did not think it appropriate to discuss them at this point. Also IFC has not yet evaluated these figures and their underlying assumptions.

RPBremner:mmf

cc: Messrs. Rosen, Raj, Paterson/Fuchs, Gue, Phillips, Lamson-Scribner

(Cleared with Messrs. Paterson and Fuchs)

Brazil Iron Ore Project
6,250,000 tons/yr. - Sales - 1st 15 years

Preliminary Financial Data - Conservative Ore Prices
$ millions

	Mining Co.	Port Terminal	Total
Proposed Capital Structure			
Equity	36.0	0	36.0
Debt (15 & 25 yr. Amort)	40.7	29.8	90.5
Total	96.7	29.8	126.5
Capital Investment			
Mine Facilities & Ore Prep.	34.3	-	34.3
Ore Cars	10.2	-	10.2
Marine Terminal	-	26.0	26.0
Working Capital	9.5	0.8	10.3
Interest dur. Const.	4.1	2.1	6.2
Preoperating expense	2.6	0.9	3.5
Total new investment	60.7	29.8	90.5
Ore properties & mine	36.0	-	36.0
Total Company Investment	96.7	29.8	126.5
Railroad investment			
Locomotives			17.5
New rail spur & improve.			20.0
Total Railraod Investment			37.5
Grand Total			$ 164.0
Net Sales	36.9	4.6	41.5
Less: Operating Costs	11.5	1.9	13.4
Rail Freight	11.3	-	11.3
Gross Cash Flow	14.1	2.7	16.8
Depreciation & Depletion	7.5	1.2	8.7
Average Interest (6%)	1.7	1.5	3.2
Profit before tax	4.9	-	4.9
Brazilian Income tax	1.6	-	1.6
Profit after tax	3.3	-	3.3
Average Debt Service			
Amortization	4.0	1.2	5.2
Average Interest	1.7	1.5	3.2
Total	5.7	2.7	8.4
Debt Service Coverage - Average	2.5	1.0	2.0
1st year	± 1.9	± 1.0	± 1.6
Company Returns before tax (D.C.F.)			
Return on total - 25 yr. life (after $1.0/yr. av. assets replenish)	13%	6%	12%
Return on incremental investment	21%	6%	17%
Return on Equity after tax	9%	-	9%

CHILE

CONFIDENTIAL

September 12, 1967

BRIEFING PAPER - 1967

CHILE

I. MEETING WITH DELEGATION

Date: September 28, 1967

Time: 11.00 a.m.

Attended by:

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Carlos Massad (B-F)	Vice President, Banco Central de Chile; Governor
Jorge Marshall (B-F)	Director, Department of Economic Studies, Banco Central de Chile; Alternate Governor

III. BANK/IDA PROSPECTIVE OPERATIONS

At present the following project is under active consideration:

Purpose	Amount ($ Million)	Status	Tentative Date for Negotiations
Road maintenance	10.0	Appraisal report being prepared	November 1967

In July 1966, we considered a lending level for Chile of $30 to $40 million per year for 1967 and 1968 to be reasonable targets. Because of the lack of adequately prepared projects, only the above loan request has been submitted by the Chilean Government for Bank financing. Meanwhile, the Bank, in cooperation with UNESCO and the FAO, is working closely with the Chilean Government to identify and prepare projects in priority fields apart from the road maintenance loan mentioned above. Possible projects are:

Education

On the basis of a UNESCO mission which visited Chile in January-February of 1967, a Bank Loan for the improvement of education at the secondary level including general, agricultural and possibly vocational education, as well as teacher training, seems feasible. The present schedule calls for discussions with the Government on the UNESCO report and the selection of projects suitable for Bank assistance prior to mid-October. Subsequently, assistance in project preparation may be requested by the Government. Bank appraisal of the project could conceivably materialize during the first part of 1968. The amount of a loan would be in the order of US$10 million.

Irrigation

An FAO/Bank mission visited Chile in August and part of September to identify one or two areas suitable for possible Bank financing. The project would possibly include on-farm irrigation as well as other aspects of agricultural development, such as agricultural credits. A loan amount of about $10 million is tentatively estimated. Since a certain amount of additional preparation is required, a project might not be ready for appraisal before the middle or later part of 1968.

Ports

Bank is at present reviewing studies and other information on ports in the central part of Chile. A Bank mission is tentatively scheduled to proceed to Chile in October in order to identify a possible project and to assess the need for organizational changes. It seems likely that the project might include port improvement at San Antonio, which is important to the projected

growth of copper exports; Valparaiso, which serves Santiago; and possibly at Ventanas, where a major copper refinery is located. A feasibility study will probably be required before Bank appraisal could be undertaken, tentatively estimated for the second half of 1968. A very preliminary estimate of a loan amount would be $15 million.

Roads

In October 1966, Mr. Knapp indicated to the Minister of Finance that the Bank would be prepared to consider a loan for roads in which emphasis would be given to roads required for transportation of increased copper output and for industrial purposes particularly related to the expansion of cellulose and other high priority fields. Subsequently, we stressed to the Chileans that we would wish to see a careful screening of priorities prior to preparation of the new road program. The Chilean Government proposes to undertake a feasibility study and/or final engineering for several hundred kilometers of priority roads, the construction of which would start at the beginning of 1969. The amount of a Bank loan might range between $20 and $25 million. Appraisal of the project could be envisaged for late 1968.

IV. TOPICS FOR DISCUSSION

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

(i) Bank lending position

We should indicate to the Chile Delegation that provided the Government follows sound monetary, fiscal and balance of payments policies designed to reduce inflation and stimulate growth, the Bank would be prepared to continue its assistance in financing projects in priority fields (see list in III, above). Meanwhile, the Bank proposes to invite negotiations before the end of 1967 for a second road maintenance loan.

(ii) Disbursement problems

We should inform the Chile Delegation that the performance on the US$19 million Livestock Development Loan seems to have improved significantly and that after a thorough review of progress in the field, the Bank would consider a request for a postponement of the present Closing Date, which is December 31, 1967.

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

No meeting scheduled.

(c) Likely to be raised by Chilean Delegation:

(i) Financing of local currency costs

The Chileans have raised the question of local procurement in the case of Loan 479-CH (Fifth Power Project) to permit the award of contracts to local suppliers (on the basis of international bidding) with a 15 percent margin of preference. If the Chile Delegation raises this question, we should state that it was agreed during negotiations, as reflected in the loan documents, to use the loan proceeds exclusively for the foreign exchange costs of imported goods. Locally manufactured items which could compete with imported goods were insignificant in amount and therefore no provision was made in the loan for such procurement. Since the loan was negotiated Bank policy on the financing of local procurement has become more restricted, and the case for inclusion of Chile among the countries where financing of local currency expenditures would be justified is more difficult to establish.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

Year	No.	Borrower	Purpose		Amount less Cancellations	Undisbursed Balance
		Loans fully disbursed			61.45	
1957	172	Lota-Schwager/CORFO	Coal Mining		12.20	0.13
1959	244	ENDESA/CORFO	Power		32.50	3.02
1961	287	Republic of Chile	Roads		6.00	0.05
1963	366	CORFO	Livestock		19.00	11.87
1963	367	CORFO	Meat and Milk Plants		3.72	3.31
1965	402	ENDESA/CORFO	Power		4.40	0.82
1965	431	CORFO	Vocational Training		2.75	2.17
1966	479	ENDESA/CORFO	Power		60.00	58.87
		Total			202.02	80.24
		of which has been repaid			41.34	
		Total now outstanding			160.68	
		Amount sold		6.35		
		of which has been repaid		4.67	1.68	
		Net amount now held by Bank			159.00	

(b) IDA Credits as of July 31, 1967

Year	No.	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1961	4	Republic of Chile	Road Construction	19.00	6.1

(c) Technical Assistance Activities

(i) 1962-64 resident mission (Havlik and Reitter).

(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 was stationed in Santiago from January 1963 through December 1966.

(iv) In July 1965, the Bank approved a US$210,000 technical assistance grant for a highway study to develop a coordinated highway program. The study has been completed and will be utilized for project identification for a possible second road loan in Chile (see III, above).

(v) In October 1965, a Bank specialist (Craig-Martin) to assist the Government in project preparation assumed his duties for a period of up to two years. The Bank terminated his assignment on October 15, 1966.

(vi) In October 1965, 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. On the basis of the aforementioned mission, the Bank will be the Executing Agency for a UNDP Railway Organization and Operation Project.

(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) I.F.C.

IFC's gross commitments in Chile amount to $10.3 million, of which about $5.0 million is held by the Corporation. Outstanding investments held by IFC at June 30, 1967 were in Fideos y Alimentos "Carozzi" S.A. ($700,200 loan and $153,846 equity), Cementos Bio-Bio S.A. ($960,000 loan and $100,000 equity), Cía. Manufacturera de Papeles y Cartones S.A. ($1,833,000 loan), and Empresa Minera de Mantos Blancos S.A. ($1,237,500 in equity). Several preliminary project discussions have recently taken place and specific project studies are awaited by IFC.

(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 over his most serious contender, Salvador Allende of the Popular Action Front (FRAP), 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 of 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-wing Conservative and Liberal Party as well as the Radicals, an anti-clerical, middle-of-the-road political 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. For example, the major new copper laws were approved by Congress after a fight which lasted over one year. Agrarian reform legislation was submitted to Congress late in 1965 but final approval was not obtained until mid-1967.

In the Municipal elections held in April 1967, President Frei's party suffered what was considered to be a moderate setback. While gaining a large number of seats in the municipal councils, the percentage of the total popular vote for the Christian Democratic Party dropped to 35.1 percent from 42.3 percent obtained in the congressional elections of 1965.

The Christian Democratic Party, and particularly Frei, have captured the imagination of the countries outside Chile as moderate and statesmanlike through their "revolution in liberty" aims and as champions of Latin American integration. As they approach the final third of their administration, however, Frei and his followers are faced with the possibility of a joining of forces between the Radical Party and FRAP, the leftist coalition of the Communist and Socialists. Meanwhile, the left wing of President Frei's party has gained control of that organization, and it remains to be seen how the final lines will be drawn for the presidential elections of 1970.

Should Frei be able to renew his earlier gains over the next two years - by stemming of inflation and by achieving a marked increase in living standards of the Chilean population - there would be a good chance for another Christian Democratic victory by regaining the support of political independents, as well as the conservative parties which are now in the opposition.

VII. ECONOMIC SITUATION

Population:	9.1 million (end 1966)
GNP per capita:	US$500 approximately
Foreign Exchange Reserves (Gross):	US$194 million (June 1967)

From the inception of the Frei administration in November 1964 until the end of 1966, with the help of rising copper prices, there was good progress toward achievement of the Government's major economic goals - more rapid economic growth, control of inflation, a redistribution of income, and a marked improvement in the country's balance of payments position. An important contribution toward the strengthening of Chile's external position in the future was the signing, early in 1967, of agreements with the large foreign copper companies for a major expansion of production over the next five years. However, in 1967, Chile's general economic performance appears somewhat less favorable than in the preceding years. Inflation has accelerated again, the Government is resorting to Central Bank financing of the budget to an increased degree, and the balance of payments is expected to show a deficit, although relatively minor, after the overall surpluses of the past two years.

Preliminary estimates indicate that in 1966 GDP rose by somewhat less than 7 percent in real terms, compared with an average annual increase of slightly over 4 percent during 1960-1965. However, too much faith should not be placed on these figures, since Chile's national income statistics are nortoriously unreliable. Increased exports, mainly reflecting record copper prices in 1966 and a rise in industrial production, accounted for much of the recorded growth in real income. The stabilization effort of the Government resulted in a reduction of the cost of living from 40 percent in 1964 to 26 percent in 1965 and to 17 percent last year, although this was achieved to some extent by price and other direct controls. In contrast to the favorable trend of the last two years, inflationary pressures have accelerated during the current year. The cost of living rose by almost 17 percent during the first 8 months, while the Government had set a limit of 12 percent for the entire year. The main causes for the price increases have been substantial wage and salary increases in both the public and private sectors since the end of 1966, a decline in liquidity preference and above average upward adjustments of prices for a broad range of consumer goods.

In 1966 the Government's fiscal position improved significantly, mainly because of a sharp increase in Government revenues resulting from record copper prices and new tax measures and the continued availability of substantial external assistance. Public sector investment again increased substantially, but housing and other social investment accounted for the major part of the increased outlays. The satisfactory level of public savings, together with the availability of substantial external assistance, made it possible for the Government to finance the increased investment program without any recourse to Central Bank financing. In

1967 the relatively favorable fiscal and public sector performance will not repeat itself. Government revenues have increased significantly less as a result of a retreat in copper prices from the very high 1966 levels. While the Government has been able to reduce current expenditures drastically, the sharp decline in available external assistance (in the absence of program loans from the U.S. Government) has resulted in the Government resorting to Central Bank financing on an increased scale. Because of heavy investments in the decentralized sector, public investment as a whole is again estimated to increase in the same proportion as in 1967. Although the Government has to a certain extent redirected its investment effort into industry and agriculture, and has cut back some public works expenditures, investment in the social sectors, particularly housing, still forms an inordinate part of public investment.

Chile's balance of payments position improved markedly in 1965 and 1966 with the sharp rise in copper prices during those years. The current account deficit was cut from about US$130 million in 1964 to about US$50 million in both 1965 and 1966. Despite the prevailing high copper prices in 1966, a very substantial increase in food imports to meet the growing deficit in domestic agricultural production, a relaxation of import restrictions, and growing investment income remitted abroad by the large copper companies, prevented an even further reduction of the current account deficit. However, a rising inflow of foreign loans in 1966 contributed to the most favorable overall balance of payments performance in many years. The net gold and foreign exchange position improved by US$55 million in 1965, and by a record of US$117 million in 1966. For 1967, a loss of external reserves of about US$20 million is expected (assuming a copper price of about 45¢ per lb.), on account of a further sharp decline in official foreign borrowing. During the current year the Government has continued with its exchange rate policy of the previous two years in terms of periodic devaluation of the currency, in line with the official cost of living increase. However, since the exchange rate was already over-valued at the time the Government initiated its policy, and given the fact that average price increases substantially exceeded the rise in the official cost-of-living index (the movement of which is heavily influenced by direct price controls on nearly all items included in the index), no significant progress in depreciating the exchange rate to a more realistic level than in the past has in fact been achieved.

The foreign debt of the public and private sectors amounted to more than US$1,800 million (including undisbursed) at the end of 1966 and debt service this year is estimated to exceed US$144 million, or about 20 percent of estimated gross foreign exchange earnings from exports minus the profit remittances of the large mining companies.

While the performance of the Chilean economy in the last 3 years has on the whole been moderately satisfactory, and while the setback in the Government's stabilization program and the less favorable fiscal situation during the current year are not of grave proportions,

the outlook for 1968 and subsequent years is rather uncertain. In order to stem inflation, government policy, even more than in previous years, would have to be directed towards restraining the growth of current expenditures, particularly by limiting wage and salary increases and subsidies to the public and private sectors. In the light of the deterioration of the political situation and in view of the fact that congressional elections will be held in May 1969, the task of limiting public expenditures will be incomparably more difficult than during the last years. For the same reasons, further efforts to improve the quality of public investment by shifting resources away from economic and social infrastructure to the more directly productive sectors, will be more difficult to achieve. However, provided the Government is able to make steady progress in these efforts, and at the same time provides an environment conducive to private investment in industry and agriculture (particularly with respect to the latter which has been the most serious problem during recent years), a substantial program of external borrowing would be justified to supplement domestic savings during the coming years. As long as most of the external assistance is on extended terms, and as long as sparing use is made of suppliers' credits, it should be possible, at the same time, to gradually reduce the present high debt service ratio.

COLOMBIA

CONFIDENTIAL

September 6, 1967

BRIEFING PAPER - 1967

COLOMBIA

I. MEETING WITH DELEGATION

Date: September 25, 1967

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

Attended by:

Management: Mr. Knapp

Staff: Mr. Alter
Mr. Weiner
Mr. Chadenet

II. MEMBERS OF DELEGATION

Abdon ESPINOSA VALDERRAMA	(B)	Minister of Finance
Eduardo ARIAS ROBLEDO	(F)	General Manager, Banco de la Republica
Rodrigo BOTERO	(B)	Secretary to the President
Arturo GOMEZ JARAMILLO	(F)	General Manager, National Coffee Federation
Jorge MEJIA SALAZAR		Adviser President, Banco de Bogota
Anibal FERNANDEZ		Adviser Superintendente de Bancos

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Loans presently under consideration:

The following loans could be ready for signing before June 30, 1968:

Purpose	Amount ($ million)	Status	Tentative date for Negotiations
Power Interconnection	16.0 1/	Manager for Interconnection Company appointed. Legal formation of Company near completion. We are awaiting financial forecasts promised for early October, to permit appraisal.	Second semester 1967
Bogota Power	15.0 1/	Appraisal Report in draft and issues being reviewed with Borrower; action dependent upon progress on Interconnection.	Second semester 1967
Bogota Water Supply	16.0 1/	Appraisal Report being drafted.	Second semester 1967
Railroad Rehabilitation Program	15.0	The Railways have met some but not all of the requirements for appraisal. Discussions were held with the Government and the Railways early in September 1967 regarding the remaining requirements for appraisal, and a formal reaction is expected in the near future.	First semester 1968
Highway Construction and Maintenance Program	20.0	Loan application being reviewed.	First semester 1968

1/ Assuming about $10 million becomes available from prospective partners in 50/50 joint financing.

Purpose	Amount ($ million)	Status	Tentative date for Negotiations
Secondary Education	6.0	The preparation of the project was assisted by Bank/UNESCO missions, and the presentation of the completed project by the Government is scheduled for October 1967.	First semester 1968
Financieras	10.0	Appraisal Report being drafted.	First semester 1968

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff and/or Vice Presidential Level

(i) Exchange Rate Policy - The Finance Minister should be congratulated on maintaining a flexible exchange rate policy, which we hope will be sufficiently successful to permit liberalization of the exchange system. This liberalization should include both imports of commodities and private capital transactions.

(ii) Petroleum Policy - We understand that the Government is engaged in active negotiations with the industry regarding the petroleum exchange rate, and trust that the outcome will be such as to encourage an increased amount of foreign investment in this sector.

(iii) Public Utility Tariff Regulations - Last June we made our first loan to a public utility in Colombia requiring the maintenance of a rate of return on assets revalued annually (this being the loan for TELECOM). We have three more loans in prospect (for Bogota Power, Bogota Water and Interconnection), for which we will be asking a similar condition in each case. In view of this, we feel it appropriate to raise again with the Colombians in a general way the question of putting their system of rate regulation on a rational basis (though we are not proposing to ask for this reform as a condition for the above-mentioned loans, because it would take too long). This will probably be initiated by Mr. Chadenet in Colombia in September, to be followed later this year by Mr. Knox and Mr. Frost at the time of the Interconnection mission.

(iv) Consultative Group - Colombia has received offers from Germany and France for the Private Investment Fund, and we understand that the amounts are US$6 million from Germany and US$3 million from France. However, the offers are only on 5-year repayment terms. In reply to the Government's queries as to whether they should accept these offers, we have pointed out that they are free to endeavour to negotiate longer terms. We should point out to the Colombian delegation that this financing for PIF is an important supplement to our proposed loan for the Financieras.

Regarding other bilateral financing, the Colombians have been considering which power projects to give to Eximbank and which to leave open for competitive offers from European suppliers. We may wish to inquire how far their plans have crystallized in this regard.

(b) Likely to be raised by Delegation

(i) Consultative Group - The Delegation may inquire about the status of joint financing.

(ii) New Financiera Loan - the Delegation may ask for a larger loan than US$10 million, in which case we should emphasize to them the importance of the other offers received for PIF (see above).

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967:

(US$ million)

Year	Loan/ Credit No.	Borrower	Purpose	Amount Bank	Amount IDA	Undisbursed
1949-60		Loans fully disbursed		178.6		
1961	295	Republic of Colombia	Roads	19.5		
1961	5	Republic of Colombia	Roads		19.5	1.5
1961	282	Emp. de Medellin	Power	22.0		0.4
1962	313	Emp. Electrica de Bogota	Power	50.0		0.7
1963	339	CVC and CHIDRAL	Power	8.8		
1963	347	Electribol	Power	5.0		0.4
1963	343	Ferrocarriles Nacionales	Railways	30.0		1.7
1963	345	Paz del Rio	Steel	30.0		10.9
1964	369	Emp. de Medellin	Power	45.0		33.7
1966	451	Banco de la Republica	Industry	25.0		22.3
1966	448	Republic of Colombia	Agriculture	16.7		16.6
1967	499	Emp. Nac. de Telecomunicaciones	Communications	16.0 1/		16.0
1967	502	INCORA	Irrigations	9.0 1/		9.0
Total (less cancellations)				455.6	19.5	
of which has been repaid				89.3		
Total now outstanding				366.3		
Amount sold			16.3			
of which has been repaid			13.6	2.7		
Total now held by Bank and IDA				338.6 2/	19.5	
Total undisbursed				111.7	1.5	113.2

1/ Agreements for these loans have been signed and they are expected to become effective prior to October 1967.

2/ Excludes $25.0 million of loans made but not yet effective.

(b) Technical Assistance Activities:

Resident Mission was discontinued in 1966. Resident highway engineer is continuing his assignment, which began in August 1964, to provide technical assistance to the Ministry of Public Works in respect of the administration of the highway program.

(c) Consultative Group:

A Consultative Group meeting was held in Paris on June 20 and 21, 1967 to review financing of the 1967 program and to consider a Project List in the amount of $381 million for the 12-months period ending June 1968. Group members were receptive to the Colombian presentation; follow-up on financing depends upon the Government and other borrowing institutions.

Members of the Consultative Group are:

Belgium	Japan	CIAP
Canada	Netherlands	IDB
Denmark	Spain	IMF
France	Switzerland	UNDP
Germany	United Kingdom	
Italy	United States	

Sweden attended this meeting for the first time, as an observer.

(d) Access to Private Capital Markets:

No prospects in foreseeable future.

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

Of the total 9% capital subscription amounting to US$8.4 million, the Government has released US$7.56 million up to June 1967, and the final payment of US$840,000 is due on January 1, 1968.

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

None released.

(g) Holdings of World Bank Bonds:

None.

(h) I.F.C.:

IFC's gross commitments in Colombia are about $15.3 million including $4.8 million in Development Banks.

Outstanding industrial investments held by IFC at June 30, 1967 totalling $5.7 million were in Laminas del Caribe Ltda. ($42,000 loan), Industrias Alimenticias Noel S.A., a food-processing company ($1,010,000 loan and $26,135 equity), Berry Selvey y Cia. S.A. ($131,000 loan), Compania Colombiana de Tejidos S.A. ($91,598 loan and $24,941 equity), Forjas de Colombia S.A., a metal-working company ($926,176 in equity), Almacenes Generales de Deposito Santa Fe S.A., "Almaviva", a grain storage company ($850,000 loan), Industria Ganadera Colombiana S.A., a livestock company ($1,000,000 loan and $614,262 equity), Enka de Colombia S.A., a synthetic-fibers firm ($923,988 in equity).

IFC has equity investments in three development banks, as follows:

Company	Amount Invested	Date Approved	Portion Sold (Cost)
Corporacion Financiera Colombiana (Bogota)	$2,023,730	August 29, 1961 and June 12,1962	-
Corporacion Financiera Nacional (Medellin)	2,042,000	August 29, 1961 and June 3, 1963	$843,807
Corporacion Financiera de Caldas (Manizales)	701,403	March 31, 1964	-

(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

President Carlos Lleras Restrepo (Liberal) took office on August 6, 1966, for a four-year term as President of the third National Front (coalition) administration. Since taking office, the Lleras administration has been engaged in a comprehensive effort to remove obstacles to decision-making which so badly hampered the development effort in recent years. The first and very significant result has taken the form of a constitutional change that substitutes for a period of two years a simple majority for the two-thirds vote formerly required for all economic and social legislation. The Legislature also authorized the Government, early in March 1967, to establish a new exchange system by decree.

The Government is also endeavoring to obtain special powers to undertake substantial administrative reforms and here they have been successful only with respect to powers to reform certain specific departments such as the Ministry of Public Works. Finally, the Government is endeavoring to obtain powers to reform the finance of lower levels of Government, and to control tax evasion, but it has only been successful with regard to the latter.

In view of its failure to obtain approval of much of its reform program from the Congress under the constitutional requirement for a two-thirds majority, alternatively to make a permanent change in this constitutional requirement, the Government has now taken steps to assure itself of a two-thirds majority by making an agreement with the former splinter Independent Liberal Party, which was outside the National Front coalition, to join the National Front. This should give the Government control of the Congress in respect of the passage of legislation.

VII. ECONOMIC SITUATION

Population:	18.7 million (1967)
Per capita income:	US$230-270
Gross Foreign Exchange Reserve:	US$155 million (April 22, 1967)

Colombia's growth reached 5 percent in 1961 and 1962, and 6 percent in 1964, but was little more than 3 percent in 1963 and 1965. In 1966 it was about 5 percent, and available economic indicators show that in 1967 the economy will grow at a rate between 5 and 6 percent. The recurrent problem affecting Colombia's past growth has been balance of payments difficulties which reflected poor exchange rate, fiscal and monetary policy.

In September 1965 the Government adopted a series of policy measures designed to correct these deficiencies. The fiscal policies have been quite successful in providing a basis for a higher level of public investment and even achieving and maintaining an overall fiscal surplus (partly through the introduction of a new gasoline and diesel oil tax). However, after a substantial initial adjustment in September 1965, exchange rate policy was insufficiently flexible to permit effective management of the balance of payments. But this, too, has now been corrected. The Colombian authorities have now accepted the importance of a flexible exchange rate policy, and said this publicly at the Consultative Group meeting in Paris in June, in order to develop sources of foreign exchange other than coffee exports and to maintain the cost of imports at a level consistent with the supply of foreign exchange. The new exchange system, established in March, makes the principal exchange rate a fluctuating one, and provides for the eventual unification of the still complicated system of multiple rates. To minimize in the public mind the association between adjustments in the exchange rate and in the cost of living, the Government is pursuing a policy of gradual devaluation at a pace that should produce a realistic exchange rate by the end of 1967. The increase in the cost of living was kept down to 4 percent in January - July 1967.

The new policies have improved considerably the short-term situation of Colombia's balance of payments. At the time they were introduced Colombia had commercial arrears in the amount of US$70 million; these have been now virtually repaid, while at the same time the reserve position has substantially improved. However, because of the continuing uncertainties in the international coffee market, any longer-term remedy to Colombia's balance of payments must come through the development of minor exports, for which the maintenance of a flexible exchange rate policy is crucial, and through the enlargement of the oil industry's contribution to the foreign exchange earnings of the country.

The policy package adopted by the Colombian Government on March 22, 1967, has served as the basis for an IMF stand-by loan of US$60 million (earlier in March the IMF had given to Colombia a compensatory commodity credit of US$18.9 million), and for a U.S. Government program loan of US$100 million. The Eximbank also agreed to extend credit guaranties in the amount of US$30 million, covering the program period April 1, 1967 - March 31, 1968.

It was also on the basis of this policy package that the Bank convened the June meeting of the Consultative Group, which concluded that Colombia was creditworthy for the US$380 million of new loan commitments that she is seeking under the Project List.

The debt service ratio is about 16 percent in 1967, declining to 10 percent in 1970. Taking account of new borrowing in prospect, this ratio would increase to 17 percent in 1967 and if, as is now expected, the new balance of payments policies are successful in stimulating the development of exports, this ratio would remain at about the same percentage by 1970.

Two issues remain outstanding at this time. The Colombians should (a) improve their petroleum policy to attract more investment and (b) accelerate import liberalization.

COSTA RICA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

COSTA RICA

I. MEETING WITH DELEGATION

Date: September 27, 1967

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

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Raul HESS (F)	Manager, Central Bank
Jenaro VALVERDE (B)	Director, Central Bank
Guillermo GONZALEZ TRUQUE (Temp.) (B)	Director, Department of Economic Studies, Central Bank
Roberto PICADO	Adviser, Central Bank

III. BANK/IDA PROSPECTIVE OPERATIONS

Projects presently under consideration:

	Purpose	Tentative amount (US$ million)	Status	Tentative Date of Negotiations
(a)	Agricultural Credit	3.0	Appraisal report being updated. Further discussions necessary with Government on revised project.	Partially negotiated.
(b)	Power Expansion Program	13.5	SOFRELEC has reviewed studies prepared by ICE. Loan application and feasibility studies expected before end of calendar 1967.	Early 1968
(c)	Telecommunications Expansion Program	6.0	ICE expects to complete feasibility report and submit it to the Bank in late 1967.	Mid-1968
(d)	Limon Highway (Siquirres-Limon)	10.0	Design work to be completed by Ministry of Transportation and loan application to be submitted before end of calendar 1967.	Mid-1968
(e)	Ports	To be determined	Consultants selected to prepare feasibility study; study is expected to be completed in 1968.	Undetermined
(f)	Roads: Plan Vial II	To be determined	Government deferred project until 1969 because of construction program already underway.	Undetermined
(g)	Education	To be determined	Consideration deferred pending approval of fiscal measures and information on progress made in teacher training.	Undetermined

IV. TOPICS FOR DISCUSSION

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

(i) Fiscal Problem

We should stress the importance of further fiscal measures before the end of 1967 to yield about 50 million colones in 1968 and thus assure generation of sufficient savings to carry out the prospective public investment program of the Government. The Bank is continuing to help in the preparation of projects on the assumption that the Government will have greater success in obtaining support for the necessary measures.

(ii) Delays in payments

Payments on the road loan and credit (Loan 299-CR and Credit 10-CR) have been consistently delayed in the past (see memorandum attached. Annex A). The point was raised with the Costa Rican delegation in last year's Annual Meeting and also with the Minister of Finance, Lic. Alvaro Hernández. In spite of it, payments due on November 1, 1966, were again delayed by a few days. Payments due May 1, 1967, were apparently ordered by the Government on April 29, but were not credited to the Bank's account until May 3. We should suggest to the Costa Rican delegation that future payments be made a few days ahead of time.

(iii) Capital goods imports

The Bank has received an application from the Central Bank for a loan of about $5.0 million to finance capital goods imports. Since IDB is already financing industrial credit through intermediaries we should inform the delegation that this project is being passed to it for consideration. We should also inform them that we propose to reach an agreement with IDB that while we would stay out of the industrial credit field in Costa Rica, we would expect it to leave the agricultural credit field to us.

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

No meeting scheduled.

(c) Likely to be raised by delegation:

(i) Given the tight situation of the Government's finances, the delegation may inquire about the maximum share of

project costs the Bank is willing to finance, especially with regard to road, port and education projects. The delegation may also ask whether the local contribution to such projects could be further reduced by having joint-financing with other agencies. We should say that the Bank is prepared to finance the foreign exchange costs of projects, but will consider financing local costs under only very special circumstances. If other agencies are willing to finance local costs, we would still insist that there be a significant Government contritubion to the financing of the project.

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

No.	Year	Borrower	Purpose	Amount (US$ million) Bank	IDA	Undisbursed
147	1956	Banco Central	Agric. and industrial imports	3.0		-
219	1959	Banco Central	Agric. and industrial imports	3.5		-
254	1960	Banco Central	Industrial imports	2.0		-
276	1961	ICE	Power (Rio Macho)	8.8		-
296	1961	Banco Central	Industrial imports	2.9		-
299	1961	Government)	Roads (Plan Vial I)	(5.5		0.3
10	1961	Government)		(	4.65	1.2
346	1963	ICE	Power (Cachi Dam) and Telecommunications	22.0		1.3
		Total (less cancellations)		47.7	4.65	2.8
		of which has been repaid		10.0		
		Total now outstanding		37.7		
		Amount sold	3.5			
		of which has been repaid	3.0	0.5		
		Total now held by Bank and IDA		37.2	4.65	
		Total undisbursed		1.6	1.2	2.8

(b) Technical Assistance Activities

(i) A UNDP financed study on Ports & Railways, for which the Bank acted as Executing Agency, was completed in 1964. Based on this study's recommendations, the Bank, in March 1967, made a $200,000 grant to assist in financing feasibility studies of a new port on the Atlantic and improvement of an existing port on the Pacific.

(ii) A request was sent by the Costa Rican Government to the UNDP in January, 1966 for assistance in an "Integral Transport Study for the Development of the Metropolitan Area of San José". The request was approved and the Bank has accepted to act as Executing Agency. Terms of reference are being drafted by the Bank now. Field work to start in January 1968.

(c) Bank 9% Capital Subscription

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

(d) IDA Subscription

90% subscription: $180,000. No releases.

(e) Holdings of Bank Bonds

None.

(f) IFC

IFC's gross commitments in Costa Rica amounted to $507,363. Outstanding investment held by IFC at June 30, 1967 was in Productos de Concreto, S.A. ($212,333 loan and $96,209 equity).

(g) 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.

VI. POLITICAL SITUATION

Elections were held in February 1966 and Professor José Joaquín 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). The National Unification Party does not control the country's 57-seat Legislative Assembly. So far cooperation between the National Liberation Party and the National Unification Party has been non-existent.

VII. ECONOMIC SITUATION

Population:	1.5 million
GDP per capita:	US$422
Gross foreign exchange reserves:	US$21.6 million

Costa Rica has the highest income per head of the five countries in the Central American Common Market and has good endowments for future development in terms of relatively high educational achievements of its population. Since the early 1950's the rate of population growth has accelerated, however, to reach 4 percent per year or more. As a result, very substantial increases in the GDP are needed for continued growth of per capita income. The technical and administrative resources substantially to step up public investment exist in Costa Rica, but the continued deterioration since 1961 in the fiscal position of the Central Government gives cause for serious concern. The deterioration in the public finances contributed to increasing disequilibrium in the balance of payments that led at the end of 1966 to exchange control in the form of a dual exchange rate system.

After several years of stagnating or falling per capita incomes, the growth of Costa Rica's GDP in 1962-65 accelerated to a rate of 8 percent annually. The main source of this acceleration has been an increase in export earnings by 30 percent over the period. Exports of coffee and bananas, the principal crops, failed to rise because of the effects of eruptions of the volcano Irazu in 1963/64. Exports to the Common Market, largely of manufactures, increased rapidly on the other hand, accounting for almost the whole of the increment in the total. The rate of export expansion is expected to decline over the next few years, however, from about 9 percent yearly over the period 1960-65 to about 7 percent through 1970, in response to adverse price movements in world markets and to the consequent slowdown in the Common Market generally. As a result, Costa Rica is likely to experience further severe deterioration in its balance of payments unless the Central Government budget issbrought under control.

The authorities were able to increase the level of direct public investment on high priority projects from US$20 million in 1962 to US$31 million in 1965, the major increase accounted for by power and telecommunications. Direct public investment could rise to about US$40-42 million by 1970, equivalent to about 5-6 percent of GDP. This is not an excessive level in terms of the country's size, needs, and capacities. However, it will require major fiscal reforms to provide the internal funds needed, if external lending agencies continue to finance some 55 percent of total investment outlays. Given the fiscal potential of the country, it is difficult to conceive that these proportions of project financing could be substantially increased. The authorities are aware of the problem and have begun to take measures to meet it: these measures, and others the authorities have

committed themselves to take, cleared the way in August for a USAID program loan and a new IMF stand-by agreement (see memorandum attached - Annex B). Limited public savings continue, nevertheless, as the primary obstacle to accelerated development.

Costa Rica's external debt reflects the fiscal difficulties experienced in recent years. The total in mid-1966 came to US$140 million. Of this amount, US$30 million were at terms of under five years of original maturity. Sixty percent of Costa Rica's outstanding disbursed external debt falls due in the period 1966-70. As a result, the service on present debt was as high as 18 percent of merchandise exports in 1966, but will fall to about 7 percent of projected export earnings in 1970. If new debt were restricted to the amounts needed to maintain the proportions of investment expenditures financed by external lending agencies mentioned above, and contracted on primarily conventional terms, debt service would amount to a little over 9 percent of projected export earnings in 1970, a manageable level, and decline thereafter. Any roll-over of present external debt would obviously increase the debt service ratios in 1970,

An economic mission is scheduled for early 1968 to re-examine these judgements.

ANNEX A

OFFICE MEMORANDUM

TO: Mr. Humayun Mirza

Date: July 10, 1967

FROM: Armin Rosé

SUBJECT: COSTA RICA - Highway Project (Loan 299-CR and Credit 10-CR) Delays in Payments to Bank/IDA

Please find below the information you requested on delays in servicing Loan 299-CR and Credit 10-CR since the first payment date of November 1, 1962:

Date Payment Due	Nature of Payment	Approximate Average[1] Delay
November 1, 1962	interest and charges	over 3 weeks[2]
May 1, 1963	" "	2 weeks
November 1, 1963	" "	over 3 weeks
May 1, 1964	" "	3 days
November 1, 1964	" "	3 weeks
May 1, 1965	interest, charges and principal	5 weeks[2]
November 1, 1965	" "	3 weeks
May 1, 1966	" "	4 weeks
November 1, 1966	" "	5 days
May 1, 1967	" "	4 days

1/ In most cases payments, usually due in different currencies on each payment date, are not received simultaneously.

2/ Delay brought to the attention of the Executive Directors.

ARosé:lm

Cleared with and cc: Mr. Topolsky

ANNEX B

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman Date: August 21, 1967

FROM: Gerald A. Alter

SUBJECT: Economic Measures in Costa Rica and Resumption of Lending

1. Recent measures by the Costa Rican authorities promise to restore sufficient balance in the accounts of the Government of Costa Rica to clear the way for presentation to the Board of a US$3 million agricultural loan to Costa Rica. This loan was originally negotiated for US$5 million in June 1966, but Board presentation was delayed pending "a clearer view of how the fiscal problem is to be resolved and debt service payments are to be met" (cables Alter to Finance Minister Hernández and Central Bank Manager Hess dated November 2, 1966). For project reasons the loan amount has since been reduced to US$3 million.

Background

2. As a condition for presenting the agricultural credit loan to the Board, the Costa Rican authorities were last year to implement a set of measures to meet fiscal targets for 1966 implicit in the Costa Rican letter of intent of February 1, 1966, on which the March 1, 1966-February 28, 1967 IMF stand-by agreement was based. The immediate targets were accepted by the Costa Rican authorities as feasible (memorandum Chaufournier to Friedman, dated June 8, 1966). For the longer run, the Costa Ricans expressed their intention "to achieve a substantial increase in current revenues as soon as possible", and to limit the growth of expenditures. In fact, however, Central Bank credits to the Government from August 26, 1966 exceeded limits set in the stand-by agreement. An IMF mission at the end of October therefore determined that Costa Rica was ineligible for the November drawing under the stand-by. In consequence, the USAID as well as the IBRD delayed lending operations pending clarification of fiscal prospects.

3. A sharp deterioration in foreign exchange reserves toward the end of the year next caused the Board of the Central Bank of Costa Rica to approve on December 27, 1966, interim measures to restrict the sale of official foreign exchange to imports classified as essential, recognized contractual obligations, and other payments as approved by the Central Bank Board. In addition, as required by the Central Bank's organic law whenever the Bank restricts sales of official exchange a parallel free exchange market was also authorized. Payments for imports from other member countries of the Central American Common Market were classed as essential on their insistence. The multiple exchange rates were to be temporary, pending solution of the Central Government's fiscal problems.

Recent Measures

4. The Costa Rican authorities have since the beginning of 1967 succeeded in introducing the following fiscal measures:

(i) the Central Government has raised rates on old, and imposed new consumption taxes at rates of 10-25%;

(ii) the Assembly has passed temporary 25% surcharges on income and property taxes, which are to lapse in 1968;

(iii) the Assembly has passed a 5% general sales tax, excepting certain classes of goods for which the rate is 25%.

With these measures in effect, the fiscal position of Costa Rica is expected by the IMF to develop about as follows:

in million colones	Standby Target 1966	Actuals (Prelim.) 1966	IMF Estimates 1967	IMF Estimates 1968
Current revenues	535	522	552	650
- of which from new measures:	-	-	(9)	(58)
Expenditures*	620	674	712	770
Deficit	-85	-152	-160	-120

* Including debt amortization, excluding expenditures financed from foreign development loans.

5. In the course of discussions in April/May 1967, the Washington agencies (IBRD, IMF, USAID) agreed tha the fiscal effort already made could serve as a basis for reopening discussions with the Costa Rican authorities with a view to:

(i) formulating a "mutually satisfactory program to provide disincentives to coffee production and incentives to agricultural diversification" before the second of two proposed USAID program loans is negotiated;

(ii) unifying the dual exchange market now in operation during the period a new proposed IMF stand-by is in effect;

(iii) ensuring that further fiscal measures are passed in due course to reach fiscal balance by the end of 1968 at the latest.

6. A new IMF stand-by of US$15.5 million and the first USAID program loan for US$4 million were then negotiated in early August on the basis of the following financing plan to cover the remaining 1967 and 1968 fiscal deficits:

in million colones	1967	1968
Deficit	-160	-120
Financing		
new tax measures	-	40
increased fees, incl. postage	5	10
faster import duty collections	3	-
roll-overs - foreign debt	36	22
roll-overs - internal debt	36	38
bonds - non-bank public	19	10
USAID program loans	26	20
Central Bank credit	25	-10
increase in floating debt	10	-10

By 1969 surcharges now in effect on income and property taxes will have lapsed and no further U.S. program lending is in prospect. Nevertheless, with additional tax measures (on income, property, or coffee) now required before the close of 1967, the Fund considers that any financing gap for 1969 will have been reduced to manageable proportions. The stand-by agreement meanwhile rules out any net increase in central bank lending to the private sector and any reduction in commercial bank reserve requirements.

7. Although the financial program for 1967 is clearly precarious, the program already adopted represents an improvement and the government now appears to be in a position to press for additional measures in 1968. We therefore propose to proceed with our US$3 million agricultural credit loan at this time, but intend to make future lending contingent on new tax measures required under the IMF stand-by by the end of 1967, and on a reappraisal of fiscal prospects at that time. The agricultural credit loan is scheduled for Board presentation in October; the reappraisal of economic prospects should follow in January.

cc: Messrs. Weiner, Mirza, Rosé, Guerra, Lari, Huber, Schmitt

DOMINICAN REPUBLIC

CONFIDENTIAL

September 7, 1967

BRIEFING PAPER - 1967

DOMINICAN REPUBLIC

I. MEETING WITH DELEGATION

Date: September 28, 1967 Time: 9:30 a.m.

Staff: Mr. Alter
Mr. Weiner

No meeting scheduled with President or Vice President.

II. MEMBERS OF DELEGATION

Not yet known.

III. BANK/IDA PROSPECTIVE OPERATIONS

No lending is immediately in prospect. The following projects may come up later:

(a) Irrigation in the Yaque del Norte Valley

As the main part of the UNDP study, a feasibility report is now expected from the Consultants in November 1967 on the rehabilitation of an area of approximately 26,000 ha. to be irrigated, without storage, downstream from Santiago de los Caballeros. The Bank is executing agency for this UNDP study, which calls for the preparation of a project for consideration by an external financial institution. There is, of course, no commitment that the Bank or IDA would finance the project.

(b) Falconbridge Mining and Smelting of Ferro-Nickel

This project, based on existing and further investments of Falconbridge (Canada), is likely to be submitted for Bank/IFC consideration. (The project would be the enclave type in which the foreign mother company would enter into some sort of arrangements having the effect of guarantee for Bank/IFC investment in addition to the Government guarantee.) The next step is for the company to submit proposals.

IV. TOPICS FOR DISCUSSION

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

None, unless some reference should be made to the economic mission, which is scheduled to arrive in the country on or around October 8, 1967.

(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:

Presumably will be limited to projects mentioned above under III although there may also be inquiries about prospects of Bank/IDA assistance in other fields.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

No loans have been made.

(b) IDA Credits as of July 31, 1967

No credits have been made.

(c) Technical Assistance Activities

The Plan of Operation for the Yaque Studies Program, signed February 25, 1965, and declared effective on October 18, 1965, was revised on December 10, 1966. It is to be completed by the end of 1967. Since its revision, the Plan of Operation has progressed better than before and is being intensively supervised by the Bank. Most of the field operations of the Consultant were completed in August 1967.

(d) Access to Private Capital Markets

Banking connections:

Canada -	Royal Bank of Canada	All have branches in the Dominican Republic
	Bank of Nova Scotia	
U.S.A. -	Chase Manhattan Bank	
	First National City Bank	

Banco Popular de Puerto Rico

(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

IFC has no active investments in the Dominican Republic but is in preliminary discussion with Falconbridge Nickel Mines Limited concerning a nickel project having a cost in excess of $100 million.

(i) Settlement of Investment Disputes

The Dominican Republic has not signed the Convention.

VI. POLITICAL SITUATION

President Joaquin Balaguer, elected by a large majority, has been in power since July 1, 1966. Under his administration, political stability improved and, while far from perfect, probably can be regarded as being better than during any time since 1959. The President himself is considered to be a man of integrity and moderation, well intentioned and hard working, with a good background in history and political science, but probably without much understanding of economic matters. His great handicap is a shortage of well-trained administrators. He has also lacked proper economic advisers although this is, possibly, being remedied now.

The Government is exposed to criticism from the extreme left and from the extreme right. Of these two, the left, split up among many individual groups would not seem to represent a very acute danger right now. There may be more danger from the extreme right, which though not particularly numerous in followers, disposes of considerable means and seems to influence at least some important sectors of the Armed Forces.

VII. ECONOMIC SITUATION

Population:	3.75 million
GNP per capita:	US$250
Foreign exchange reserves:	US$43 million

The economy of the Dominican Republic enjoyed a substantial recovery during 1966 from the depths to which it sank during the turbulent political events of the preceding year. It is estimated that fully one-half of the 20 percent decline in GNP during 1965 was restored in 1966. Indications are that the recovery is continuing this year, bolstered by the favorable influences of somewhat increasing private investment and expanded construction activity. The most promising recent developments for the future of the economy are the considerable reductions achieved in the cost of production of sugar and the improvement in the public finance situation through increased tax revenues. The balance of payments situation, however, remains critical and at this stage constitutes a most serious problem for the economy.

Central Government revenues amounted to RD$163 million in 1966, while its expenditures reached RD$194 million, of which RD$21 million were for public investments. The resulting deficit of RD$31 million was more than fully covered by the foreign loans and grants of RD$38 million received during the year. As a consequence, no bank financing was required for budgetary operations in 1966. During the first half of 1967, Central Government revenues increased to RD$86 million from RD$77 million in the same period last year. In spite of this favorable development, revenues failed to cover current expenditures and both the current account deficit as well as the investment expenditures were manageable only because of the inflow of substantial external loans and grants. The need to take measures to bolster public finances and to achieve positive public sector savings remains among the highest priorities of economic policy over the near-term.

The balance of payments appears to constitute a most serious problem over the near-term as a result of the failure to increase exports and the apparent incompressibility of imports. The current account deficit in 1966 amounted to US$68 million and the serious magnitude of the deficit has continued into 1967, in spite of some increased exports of sugar. These deficits have been only partially covered by external loans and grants with the result that commercial arrears reached a level of US$21 million at the end of 1966. Commercial arrears have continued at a high level - roughly equivalent to nine weeks of imports. With exports at a level of about US$140 million and import demand of US$160 million, it is difficult to visualize how the Government's recent establishment of import quotas can resolve

the problem. The immediate result of these measures has been to intensify the demand for black market foreign exchange and to increase the spread from 6 to 7 percent to 15 to 20 percent between the official and the parallel markets.

As a result of the precarious balance of payments position, a basic question currently exists regarding the Dominican Republic's qualifying for Bank loans at this time. Prospects are that eligibility will depend on whether appropriate and adequate measures are taken to bolster the external sector. With respect to IDA-type assistance, by the time funds for IDA are replenished, consideration will be given to what extent the performance of the Dominican Republic justifies this type of assistance. The Bank is planning to send a small economic mission to the Dominican Republic after the Annual Meeting whose report will provide a better basis for consideration of the Dominican Republic's Bank- and IDA-worthiness.

ECUADOR

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

ECUADOR

I. MEETING WITH DELEGATION

Date: September 28, 1967 — Time: 10:00 a.m.

Attended by: — Staff: Mr. Alter, Mr. Weiner

II. MEMBERS OF DELEGATION

Mr. Federico INTRIAGO ARRATA	(B)	Minister of Finance
Mr. Guillermo PEREZ CHIRIBOGA	(B)	
Mr. Eduardo LARREA	(F)	Deputy General Manager Banco Central del Ecuador
Mr. Alfonso ARCOS		Adviser Director of Economic Research Banco Central del Ecuador

III. BANK/IDA PROSPECTIVE OPERATIONS

Purpose	Approximate Amount ($ millions)	Status	Tentative date for Negotiations
Secondary Education Project *	4.0-6.0	Appraisal mission scheduled for September 29, 1967	February 1968
Fisheries Project	2.5-4.0	Project preparation report is being reviewed by the Bank	March/April 1968
Nayon Hydroelectric Project	4.0	Awaiting a formal submission of feasibility study from Empresa Electrica Quito	Uncertain
Pisayambo Hydroelectric Project *	To be determined	Awaiting a formal submission of feasibility study from the Government	Uncertain
Forestry Project	To be determined	FAO is recruiting a forestry expert to assist in the preparation of the project	Uncertain
Second Guayaquil Port Project	4.5	Port Authority is in process of selecting a consulting firm to undertake a feasibility study and detailed engineering.	Uncertain

* Projects which would probably require a substantial contribution from the general budget of the Central Government

IV. TOPICS FOR DISCUSSION

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

(i) To inquire about the maximum amount the Government is able to allocate as counterpart funds for the proposed Secondary Education Project annually starting in the second half of 1968 for a 4-year period (assuming a 50% Bank financing, the local counterpart funds requirements will be roughly US$0.75 million each in the 1st and the 4th years and US$1.75 million each in the 2nd and the 3rd years of the Project). In this connection, to inquire also about the content of the 1968 budget and when it is expected to be approved by the Constituent Assembly.

(ii) To inquire what specific steps the Government is undertaking or is planning to undertake to diversify its exports (see the last paragraph of Section VII).

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

No meeting scheduled.

(c) Likely to be raised by delegation:

(i) Possible Bank financing for the Nayon Hydroelectric Project (Empresa Electrica Quito). Suggested response: Bank is prepared to review the feasibility study as soon as it is formally submitted to the Bank.

(ii) Possible Bank financing for the Pisayambo Hydroelectric Project. Suggested response: Bank is prepared to review the feasibility study as soon as it is formally submitted to the Bank.

VI. POLITICAL SITUATION

Following the resignation in March 1966 of the Military Junta, which had held office since July 1963, an interim civilian Government was established under the leadership of Mr. Clemente Yerovi (Independent). His Government held an election in September 1966 for a Constituent Assembly which in turn nominated Mr. Otto Arosemena (Liberal) as an interim President in November 1966. The major efforts of his administration have been directed towards curbing expenditures, and increasing revenue collections, with significant success in both cases (see Section VII). A presidential election is scheduled for June 1968.

VII. ECONOMIC SITUATION

Population:	5.3 million (1966)
GDP per capita:	$217 (1966)
Foreign Exchange Reserves:	$50 million (August 1967)

After the boom period of 1960-1964 when an average growth of 4.4 percent per annum in GDP in real terms was recorded, the growth rate declined to 3.9 percent in 1965, giving a 1961-1965 average rate of 4.3 percent per annum. The growth rate increased to 4.7 percent during 1966, according to preliminary estimates, an implied per capita increase of 1.3 percent. The objectives of the Ten-Year Development Plan have not been achieved except in the fast-growing industrial sector. The Plan is being revised in consultation with the IDB in its capacity as Financial Agent and leader of the Consultative Group to reflect the new realities, and to relieve dependence on the volatile banana trade, the main export commodity, by means of an agricultural diversification program (though after two years of difficulty, banana exports revived in the latter half of 1966 and first half of 1967).

The modest rate of economic growth in 1966 noted above was achieved despite the restrictive measures which maintained fiscal and balance of payments equilibrium in 1966. The 1966 central Government budget was financed without resort to inflationary Central Bank financing, and net foreign exchange reserves recovered, standing at the satisfactory level of US$50 million in August 1967. It is possible however that the balance of payments will weaken somewhat in the latter part of this year, as banana exports may slacken while imports are expected to increase.

The 1967 fiscal performance has shown much improved administration in revenue collections and projections, as well as in control of expenditures. In addition, payments in arrears for salaries and to contractors, which were S/221 million (US$12.2 million) at the end of 1966, were all but eliminated by June of this year. The final form which the 1967 budget will take is still not completely determined. However, the prospects are for a smaller deficit than last year's.

The external debt outstanding at the end of December 1966 (including amounts committed but not disbursed) was $204.6 million, compared to $164.8 million at the end of 1965. Interest and amortization payments on existing debt were equivalent to about six and one-half percent of current account exchange earnings in 1966, and are projected to remain at about this level through 1972.

Ecuador's principal long-term problem is to increase exports from sources other than bananas. This was emphasized in the Econo-

mic Policy Memorandum of April 1966 which recommended that "every effort be made to develop new kinds of exports", and which further pointed 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

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

EL SALVADOR

I. MEETING WITH DELEGATION

Date: September 27, 1967 Time: 3:00 p.m. - 3:30 p.m.

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Alfonso MOISES BEATRIZ (F)	President, Central Bank
Edgardo SUAREZ C. (B)	Director, Central Bank
Roberto PALOMO, Jr. (F)	Director, Central Bank
Armando INTERIANO (B)	Director, Central Bank
Manuel Antonio ROBLES	Adviser, Central Bank

III. BANK/IDA PROSPECTIVE OPERATIONS

Projects presently under consideration:

Purpose	Tentative Amount (US$ Million)	Status	Tentative Date of Negotiations
Supplementary	2.8	Expected to be sumittted to Executive Directors in October.	Negotiated
Education	4.5	Appraisal report will be sent to Loan Committee after agreement on project is reached with new Government.	Second half 1967.
Irrigation (San Miguel, First Phase)	10.0	Feasibility report expected in late 1967	Mid-1968
Power Expansion	24.0	Feasibility report on the El Silencio hydroelectric project has recently been completed. However, a geothermal alternative is now being investigated and a decision on which alternative would comprise the next stage of expansion would be made in late 1968.	To be determined depending on alternative chosen.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff Level

(i) Since current revenues of the Central Government are expected to remain virtually constant in 1967 and 1968 at the 1966 level of $90-91 million, and current expenditures are expected to increase from $80 million in 1966 to $81 million and $86 million in 1967 and 1968 respectively, the authorities recognize that a significant domestic savings effort will have to be made in order to finance the prospective 1967-1968 public investments. In addition, a coffee surplus of about 200,000 to 300,000 bags is expected in 1968. A recent Bank mission was informed that the Government was awaiting the conclusion of the meeting of the International Coffee Organization being held in London, before deciding on what fiscal measures it intends to take to finance the coffee surplus and to generate sufficient savings to finance future public investments. We should enquire as to what decision the Government has made on the fiscal policy it plans to follow and indicate to the delegation that Bank lending for the education and irrigation projects would depend on our being satisfied with the reasonableness of plans to finance prospective public investments.

(ii) Secondary School Education Project

The appraisal report on this project has been prepared, but has not as yet been sent to the Loan Committee because we are not sure as to whether the Government is interested in the Bank financing this project. Although the Minister of Education wants the Bank to finance the Project Mr. Mr. Edgardo Suarez, Executive Secretary of the National Planning and Economic Coordination Council, feels that El Salvador should be able to get financing on better terms than those offered by the Bank. A recent Bank mission was informed that a final decision by the Government on whether or not it wants the Bank to finance this project, will be made by the time of the Annual Meeting. We should enquire about this decision and if it is positive, then we should inform the delegation that we would soon inform the Government of when the Bank can enter into negotiations for the proposed loan.

(iii) San Miguel Irrigation Project - First Phase

A recent Bank mission was informed that the feasibility report should be completed before the end of September. Although the Minister of Agriculture informed the mission

that he would like the Bank to finance this project as quickly as possible, Mr. Edgardo Suarez, Executive Secretary of the National Planning and Economic Coordination Council, was not certain as to whether he wanted to come to the Bank for financing as he felt that he might be able to get better terms than those being offered by the Bank. He promised the Bank mission that a decision would be made by the time of the Annual Meeting and that it would be conveyed to us at that time. If the decision is positive, then we should ask for the feasibility report so that it may be reviewed in the Bank. It should be recognized that we have been assisting the Government in the preparation of this project for the past two years or so.

(iv) 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. (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 or that these funds be applied to local expenditures financed under Bank loans, as for example in the education project. We then should indicate that a release with such limitations would be of little value to the Bank. Finally, we might observe that at the last three Annual Meetings, the Salvadorian delegation promised that the matter would be given full consideration. This was discussed with former President of the Central Bank (Dr. Guillermo Hidalgo) in December 1966 but we have received no advice from him on the subject.

(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 whether IDA funds will be made available to El Salvador. Our reply should be that we hope to make some IDA funds available in the future, but at this time we cannot say how much can be made available because of the shortage of IDA resources. We consider El Salvador to be a hard blend country and in the circumstances the major portion of our lending to El Salvador would be on conventional terms

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

No.	Year	Borrower	Purpose	Amount (US$ Million) Bank	IDA	Undisbursed
22	1949	Comisión del Rio Lempa	Power	12.5		-
104	1954	Republic of El Salvador	Roads	11.1		-
216	1959	Republic of El Salvador	Roads	5.0		-
221	1959	Comisión del Rio Lempa	Power	2.7		-
263	1960	Comisión del Rio Lempa	Power	3.4		-
31	1962	Republic of El Salvador	Roads		8.0	1.5
342	1963	Comisión del Rio Lempa	Power	6.0		-
358	1963	Administración Nacional de Telecommunicaciones	Telecommunications	9.5		1.0
		Total (less cancellations)		50.2	8.0	2.5
		of which has been repaid		20.1		
		Total now outstanding		30.1		
		Amount sold	3.6			
		of which has been repaid	2.4	1.2		
		Total now held by Bank and IDA		28.9	8.0	
		Total undisbursed		1.0	1.5	2.5

(b) Technical Assistance Activities

None since 1964.

(c) Bank 9% Capital Subscription

Total subscription $10.7 million. 9% of the subscription $963,000. $180,000 released and lent in dollars.

(d) IDA Subscription

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

(e) Holding of Bank Bonds

As of June 30, 1967, $1.0 million.

(f) IFC

IFC's gross commitment in El Salvador amounted to $140,000. The Corporation no longer holds any investments in El Salvador.

(g) 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

Presidential elections, held in March 1967, were won by the Government candidate, Col. Fidel Sanchez, who was a Minister under former President Rivera's Administration. The voters apparently rejected the transformation of the social and economic structure proposed by two other groups, the Christian Democratic Party, the major opposition party, and the Party of Renovating Action, this one pictured by the other parties as being communist-dominated. Both parties charged that there had been undue pressure on the peasantry to vote for the officially backed candidate. Col. Sanchez' victory in the elections was very substantial.

Elections for the National Assembly were held a year earlier, in March 1966. As things now stand, the government party controls 31 seats in the national legislature, the Christian Democrats 15, the Party of Renovating Action 4 and the Salvadorian Popular Party - a small rightist group - one. The Government, therefore, does not have the two-thirds majority in the Assembly required for the authorization of external loans. The next election for the National Assembly will be held in the spring of 1968.

VII. ECONOMIC SITUATION

Population:	3.04 million
GDP per capita:	US$280
Gross Foreign exchange reserves:	US$68 million

GDP growth in El Salvador averaged an impressive 7.5 percent annually between 1960-65. Although a few traditional export crops (coffee and cotton) continued to dominate the export picture, exports of manufactures to the Central American Common Market already accounted for almost half of incremental exports between 1961-65. In 1966 manufacturing accounted for some 18 percent of GDP against 14 percent in 1960. During 1966 the growth of GDP tapered off to 5 percent and prospects for the immediate future are for a further slowdown of economic activity. The reasons for the slowdown include an expected stagnation of coffee exports, after existing stocks were disposed of with exports above the quota in early 1967, and a decline of cotton exports due to both unfavorable supply and demand conditions only barely offset by further increase of manufactured exports to the Common Market. The prospects are particularly bleak for 1968, when exports earnings are expected to decline below the 1967 level. The resulting balance of payments pressures will require a substantial amount of monetary and fiscal restraint to reduce import growth, that averaged over 15% in the past five years, and maintain foreign exchange reserves at a bare minimum. The Central Bank is considering a package of emergency measures which includes some tightening of selective credit controls and travel abroad, a set of excises or import surcharges on "non-essentials" and some quantitative import restrictions. In the long run, however, it is recognized that only agricultured diversification and industrial restructuring together with a strong marketing effort outside the CACM countries can yield external equilibrium as well as satisfactory economic growth.

In order to strengthen the country's basis for future growth the contemplated step up of public investment expenditures over the next 3 to 4 years is of particular importance. Major emphasis is to be given to irrigation and credit programs for export diversification as well as to improving the education system. As a result of improved procedures for project preparation and execution the public sector appears to have the technical capacity to undertake the planned investments. Their levels are likely to cause sizeable fiscal deficits, however, given the present tax base and the prospects for GDP growth. Current revenues of the Central Government are stagnant, because of the fiscal exemptions in the industrial incentive program, of the duty exemptions on imports from other CACM countries and the sagging coffee prices to whose level coffee export taxes are linked. Current expenditures, on the contrary, continue to increase. Hence, El Salvador is faced with the

immediate issue of either having to undertake a substantial additional public saving effort or to cut the planned level of high priority investments. A Bank mission discussed the alternatives in August with the new government, installed in July. No key decisions have been made so far, but the authorities have already prepared draft legislation for a variety of possible tax measures, the most likely of which include a combination of sales taxes, licence fees and property taxes. It is, however, clear that public investments in 1967 would be below the level recommended by the Central American mission.

The external public debt of El Salvador at the end of 1966 totalled US$783 million. Debt service payments in 1966 amounted to US$8.5 million or 4.9 percent of export earnings. In addition to the sums available from undisbursed foreign loans, El Salvador may expect new commitments amounting to some US$110 million in 1967-70. Even if all additional debt were incurred on conventional terms the debt service ratio would not exceed 5.0 percent of projected export earnings in 1970, and 6.5 percent in 1975. While this debt service burden is still such as to allow substantial amounts of external debt to be incurred on conventional terms, in view of the long-term limitations imposed on a predominantly agricultural economy with limited land resources and rapid population growth, it would be appropriate for El Salvador to seek some part of the new external borrowing on concessionary terms. For the same reasons, El Salvador should be considered as in the past IDA-eligible.

GUATEMALA

CONFIDENTIAL

September 18, 1967

BRIEFING PAPER - 1967

GUATEMALA

I. MEETING WITH DELEGATION

Date: September 27, 1967

Time: 4.30 p.m. - 5.00 p.m.

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Alberto FUENTES MOHR (B-F)	Minister of Finance and Public Credit
J. Francisco FERNANDEZ RIVAS (F)	President, Banco de Guatemala
Roberto BARILLAS IZAGUIRRE (B)	Minister of Economy
Gilberto SECAIRA	Adviser Manager, Banco de Guatemala
Mario ASTURIAS	Adviser Member of the Monetary Board
Rolando RODRIGUEZ LEWIN	Adviser Ministry of Economy
Mrs. Maria Cristina SILVA	Secretary

III. BANK/IDA PROSPECTIVE OPERATIONS

The following projects are presently under consideration:

Purpose	Tentative Amount	Status	Tentative Date for Negotiations
Second stage power program	$8.0 million	Appraisal mission in field.	Early 1968
Education	$6.5 million	UNESCO project preparation mission has presented its report. Appraisal expected to be made before end 1967.	Mid-1968
Telecommunications	$7 million	Feasibility study under way.	Late 1968

IV. TOPICS FOR DISCUSSION

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

(i) Economic Policy Issues

Since the Commission set up by an act of Congress to recommend new tax reforms has asked for an extension of one year to complete its study, no new tax measures will be taken in 1967, as earlier expected. Current revenues are, therefore, expected to increase from $121 million in 1966 to only $129 million in 1967 and to $137 million in 1968. The Government has, however, made some cuts in current expenditures from the 1966 level and current account savings net of amortization are expected to be about $3 million in 1967 and about $8 million in 1968. The fiscal deficits would be about $17 million in 1967 and $10 million in 1968. These deficits are manageable, but since a coffee surplus of about 500,000 - 1,000,000 bags is expected in 1968, the actual 1968 deficit could be substantially larger and reach unmanageable proportions. We should press for additional tax measures to finance prospective public investments of about $45 million a year and also for a clear formulation of a coffee policy that would assure that no misallocations of available resources are made.

(ii) Education

A UNESCO project identification mission proposed an investment program designed to correct deficiencies in middle-level education, including general secondary, agricultural and industrial education, as well as secondary teacher training. Another UNESCO mission has helped the Government prepare a secondary schools project. We should inform the Government that once 50 percent of the sites for the new schools are acquired, an appraisal of the project would be made.

(iii) Pacific Port

This project would be a combined commercial and fishing port at San Jose to replace the 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 US Army Corps of Engineers is available. Subsequently the Government provided further economic information, which was considered by the Bank, but on the basis of which we arrived at a rate of return of only about 7 percent. We should inquire about the additional economic information requested by the Bank and make it clear that as of now, we have serious doubts about the economic justification of the project.

(iv) Bank 9% Subscription

We should inquire about the possibility of releasing the remaining $603,000 of the unreleased 9% subscription.

(v) IDA 90% Subscription

We should also inquire about the possibility of releasing the 90% subscription amouting to $360,000.

(b) To be raised by Bank at Meeting with President or Senior Officer:

No meeting scheduled.

(c) Likely to be raised by Delegation:

None.

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

No.	Year	Borrower	Purpose	Amount (US$ Million) Bank	IDA	Undisbursed
124	1955	Republic of Guatemala	Roads	18.2	-	-
487	1967	Instituto Nac. de Electrificación	Power	15.0	-	15.0
		Total (less cancellations)		33.2	-	15.0
		of which has been paid		11.83		
		Total now outstanding		21.37		
		Amount sold	2.23			
		of which has been repaid	2.11	0.12		
		Total now held by Bank and IDA		21.25	-	
		Total undisbursed		15.0	-	15.0

(b) Technical Assistance Activities

None.

(c) 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.

(d) IDA Subscription

90% subscription: $360,000. No release.

(e) Holdings of Bank Bonds

In October, 1966, Guatemala purchased US$250,000 of the Bank's Two-Year 6% bonds.

(f) IFC

IFC's gross commitments in Guatemala amounted to $200,000. The Corporation no longer holds any investments in Guatemala.

(g) 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.

VI. POLITICAL SITUATION

The elected Government of Mr. Mendez Montenegro, which took office on June 1, 1966 after a prolonged period of military rule, has been able to keep internal peace despite occasional problems with guerrilla activities in the countryside as well as in the capital. The Government, despite having a majority in the National Assembly, has had to steer a middle course, and only a few modest attempts were made at reforms, especially in the tax field. Nevertheless, there is a widespread willingness in the Executive Branch to innovate as far as politically possible.

The Cabinet is dominated by the highly intelligent and forceful personality of Dr. Fuentes Mohr, the Minister of Finance. Mendez Montenegro, who is relying very much on Fuentes Mohr's judgment, has not shown himself as an inspiring leader. In view of Guatemala's troubled history over the last ten years, Mendez Montenegro apparently thinks that at this stage stability and internal peace are the most important objectives of his Government.

VII. ECONOMIC SITUATION

Population	4.5 million
GDP per capita	US$330
Gross foreign exchange reserves:	US$62.3 million

Guatemala's medium-term prospects are much less bright than they have been in the recent past. Peak exports in 1966 were attained by (1) exporting half again as much coffee as Guatemala's quota under the International Coffee Agreement envisaged, most of which found its way to traditional markets, (2) by exporting a record cotton crop, and (3) by taking maximum advantage of the Central American Common Market which absorbed one third of the increment in total exports from 1962 to 1965. Guatemala is now committed, however, to cut back its exports of coffee to international quotas in the face of declining world prices. At the same time, cotton exports are shrinking, here as in other Central American countries, due to acreage reductions in response to rising costs and declining world prices. In consequence, the expansion of the regional market generally is also expected to slow down.

The slower growth of exports is likely to limit substantially the growth of import capacity. This limitation will require a much more restrictive monetary policy than has been in effect in the last few years. The credit restraint implies:

(i) A balancing of the Government budget, after taking account of disbursements on foreign loans, if the growth of credit to the private sector is not to be arrested altogether, and

(ii) An effective policy to control coffee production in order to avoid diverting scarce bank credit for storage of surpluses in excess of coffee quotas.

Aware of impending difficulties, the Guatemalan authorities have already, in early 1967, signed a stand-by agreement with the International Monetary Fund, reserving the right (i) to introduce selective import controls on a temporary basis should the need arise, and (2) to borrow abroad up to an additional US$3 million on short-term if necessary.

The new Government that took office in July 1966 is at the same time also embarking on the preparation for external financing of major public investment projects in high priority sectors, notably in power, roads and education. As a result, the level of public investment could reach an average of $45 million per year over the next few years, compared with a 1962-66 average of $27 million or 2.4 percent of GDP per year. Unfortunately, tax measures needed to finance such a program

have had to be deferred until 1969 because the commission set up by an act of Congress to recommend new tax measures has asked for a year's extension to present its report. With the existing tax structure, public savings after amortization of external debt have been sufficient to finance only about 40-45 percent of the low investment levels of recent years.

The total external debt of Guatemala came to $57.3 million in mid-1966, one seventh of it due the World Bank. The service on this debt amounted to $6.8 million in 1966, equivalent to 3.0 percent of export earnings. On the assumption that external loan funds will continue to finance some 55 percent of public investment as in the past, additional external borrowing for 1966-1970 will amount to about $140 million. If all of the additional debt is incurred on conventional terms, service payments will rise to about 5.5 percent of projected export earnings in 1970 and to 5 percent in 1975. While such a debt service burden is not heavy, Guatemala is unlikely to be able to attract significant additional external resources without (1) a parallel increase in its domestic savings effort, and (2) a coffee policy adequate to prevent serious misallocations of available resources.

An economic mission is planned before the close of 1967 to update these judgements.

GUYANA

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

GUYANA

I. MEETING WITH DELEGATION

Date: September 25, 1967

Time: 3:00 pm

Staff: Mr. Alter
Mr. Weiner

No meeting scheduled with President or Vice-President

II. MEMBERS OF DELEGATION

P.D. d'AGUIAR (B)	Minister of Finance
H. BOCKELMANN (F)	Governor, Bank of Guyana
H.O.E. BARKER (B)	Secretary to the Treasury
W.P. D'ANDRADE (F)	Deputy Governor, Bank of Guyana

III. BANK/IDA PROSPECTIVE OPERATIONS

Guyana became a member of the Bank in September 1966 and of IDA in March 1967. Project preparation work is under way on the following projects which may eventually be presented to the Bank/IDA for consideration.

(a) Education: A joint UNESCO/Bank mission visited Guyana in June 1967 and the Bank has confirmed its interest in the possibility of assisting in a project for the expansion of education comprising the construction and equipment of a teacher training college, a faculty of education, extensions to existing secondary schools and new multilateral secondary schools. It is proposed that a UNESCO project preparation mission be sent after the Government has taken the necessary policy decisions on the questions identified by the mission.

(b) Sea Defenses: During August a Bank mission visited Guyana for preliminary discussions. On the basis of its findings a letter was sent on August 18 setting forth additional information required before an appraisal mission could be sent. This information is now being awaited. The Government has also requested aid from the U.K. for emergency sea defense work and from the U.S. to finance "test sections" which would also help meet urgent needs.

IV. TOPICS FOR DISCUSSION:

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

(1) Economic matters: We might express our appreciation about the improving financial situation and the satisfactory performance under the stand-by arrangement with the IMF.

(2) 9% and 90% Release: We might explain the nature and objective of these releases and ask that the Government consider agreeing to the releases in due course.

(3) Project Preparation: We might inquire about the status of the policy decisions on the education project which are required before we could arrange for the visit of a UNESCO project preparation mission. We might also inquire about the status of the proposed U.K. and U.S. assistance for sea defenses.

(4) Aid Coordination Meeting: The representatives of the aid agencies, including the U.K., U.S.A., Canadian and German missions, and the UNDP, welcomed the idea of the Bank participating in meetings with other aid donors. The Prime Minister has proposed a meeting of aid donors this fall, the exact timing of which is expected to be agreed on shortly. We might inquire as to what preparations have been or are being made by the Government for the meeting.

(5) Reynolds' Proposal on Dredging of Berbice Bar: We might inform the delegation of the recent visit by representatives of the Reynolds Mining Corporation to discuss a revised proposal for the dredging of the Berbice Bar. We might indicate that the quantities and cost estimates used by Reynolds, particularly the latter, seemed to be extraordinarily low. There were also some questions on the technical aspects of the proposal. We had hence asked Reynolds for further clarification on these points.

(b) To be raised by Bank at meeting with President or Senior Officer:

No meeting scheduled with President or Senior Officer.

(c) Likely to be raised by delegation:

The delegation may raise the topics referred to in (4) and (5) of (a) above.

V. BACKGROUND INFORMATION:

(a) Bank Loans as of July 31, 1967

Loan	Year	Borrower		Purpose	Amount Less Cancellation (US$ millions)	Undisbursed Balance (US$ millions)
285-BG	1961	Guyana (guaranteed by the U.K)		Agriculture	0.9	0.0
		Total			0.9	
		of which has been repaid			0.5	
		Total outstanding			0.4	
		Amount sold	0.7			
		of which has been repaid	0.5		0.2	
		Net amount held by Bank			0.2	

(b) IDA Credits as of July 31, 1967

None

(c) Technical Assistance Activities

A project preparation mission under the Bank/UNESCO cooperative arrangement is expected to visit Guyana later this year to help prepare an education project.

(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

No release

(f) IDA Subscription

No release

(g) Holdings of Bank Bonds

None

(h) I.F.C.

Guyana became a member of IFC in March 1967. No IFC operations so far.

(i) Settlement of Investment Disputes

Not yet a member

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 East Indians remains. Next elections are due in 1968.

VII. ECONOMIC SITUATION

Population:	653,000 (1966)
GNP per capita:	about US$275 (1966)
Gross Foreign Exchange Reserves held by the banking system:	US$24.4 million (June 1967)

A Bank program appraisal mission visited Guyana at the end of 1966 to analyze the current situation and prospects of the Guyanese economy and to review the Government's development and investment program. Its report "An Appraisal of the Development Program of Guyana" was in all important respects endorsed by the Government and discussed in Washington by Bank staff and representatives of the Governments of the U.S., U.K. and Canada, Guyana's principal donors.

As for the immediate short-term problems, which primarily reflected the inflationary financing of rapidly expanding public expenditures in 1965 and 1966, leading to an alarming drain of Guyana's foreign exchange reserves, a financial program was agreed upon with the International Monetary Fund and incorporated into a Standby Agreement in February 1967. The 1967 budget aims to restrain the growth of current Government expenditures, including a reduction of subsidies, and provides for new revenue measures which should, together, create positive public savings in 1967 and make possible a satisfactory financing plan for the enlarged 1967 public investment effort. A Fund mission just visited Guyana to review the progress made under the Standby Agreement and concluded that these measures, together with appropriate monetary policies, have led to good fiscal and balance of payments performance under the Standby: Guyana remained well below the established credit ceilings and foreign exchange reserves have been rising steadily since the end of 1966. These policies are now planned to be supplemented by an appropriate incomes policy which the Bank mission recommended and legislation is being prepared for the establishment of an Industrial Court which would reduce the occurrence of strikes and provide for compulsory arbitration of labor disputes.

As for the future, continued effort will still be required for the Guyana Government both on the revenue as well as on the expenditure side to lay a solid basis for Guyana's economic development. Discussions will probably be held in October in Guyana between the Government and the official external lending agencies on the co-ordination of aid and the financing needed for Guyana's development program.

The Economic Committee agreed on April 5, 1967 that Guyana would be eligible for Bank/IDA financing on a soft blend basis, with a specific decision on the first operation to be taken in the light of the availability of IDA resources and the terms of assistance from other sources.

HAITI

CONFIDENTIAL

September 7, 1967

BRIEFING PAPER - 1967

HAITI

I. MEETING WITH DELEGATION

Date: Time:

Staff: Mr. Alter
Mr. Weiner

No meeting scheduled with President or Vice President.

II. MEMBERS OF DELEGATION

Not yet known.

III. BANK PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

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

There will be no point in raising any matters. In reply to the indication from the President of the BNRH (Andre) that Haiti might not be able to meet its service payments to the Bank due in January 1968, Mr. Alter answered that this matter could be discussed during the Annual Meeting. However, there seems to be no reason why we should take the initiative for such a conversation. If Mr. Andre will be present, he will, undoubtedly, raise the matter himself.

(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:

(1) Financial Assistance

If pressed for considering financial assistance for projects, we should reply briefly that our position is, in principle, the same as it was during the last years.

(i) Haiti's current financial position and immediate prospects, jointly with its considerable debts, which it has already difficulty to service, do not permit further loans on conventional terms.

(ii) The current lack of new, uncommitted IDA funds would make it unrealistic to speak at present of the possibility of IDA credits. Reference might then be made to IDA's criteria for eligibility, which consist not only of poverty of the country but also of general performance in which Haiti has been deficient. A question might then be raised regarding the steps being taken to carry out the recommendations (including those affecting general developmental policies) made in the Waterston report, which the Government had indicated a willingness to do.

(2) Service Payments

The next service payments are due to us: (a) with regard to Loan No. 141-HA on January 1, 1968, amounting to around $126,000 (principal and charges); (b) with regard to Credit 32-HA on February 15, 1968, amounting to $1,312 (charges only). During the last years service payments were made

with fair punctuality by the BNRH from the Special Fund for the National Debt to which accrue 10 percent of the regular budgetary revenues. We have indications that amounts paid into this Fund recently are not sufficient to cover all the payments due on the National Debt (external and internal). Information from the IMF (August 1967) indicates a reduction in the country's foreign exchange reserves, further weakened by certain transfers, supposedly consisting of advances to suppliers for development projects such as power from the Peligre dam.

If and when the Delegation should renew its request for rescheduling (for the third time) the service payments on Loan 141-HA, our answer should be as follows:

(i) We maintain our position that, legally, the Haitian Government's obligation to pay is based solely on its agreements with the Bank/IDA and is independent of the extent of availability of monies in the Special Fund for the National Debt, which is administered by the BNRH.

(ii) It would be difficult for the Management to request from the Executive Directors a rescheduling of the service payments from Haiti for a third time, considering the small size of the amounts involved and considering also that simultaneously with a shortage in the availabilities of the Special Fund there is a certain accumulation of funds for investment to match possible foreign loans for new projects. Some of the funds earmarked for investment could be used to service existing obligations. Among the latter, external debt should have priority over domestic debt. However, if the Delegation should insist on its inability to pay, the Bank, before making a final decision, may want to investigate the situation through a special mission, which, possibly, could visit Haiti simultaneously with one of the next periodical IMF visits.

(3) Development Adviser

Following the receipt of Mr. Waterston's aforementioned report, the Haitian Government asked the Bank in December 1966 for a further visit of Mr. Waterston accompanied, if necessary, by other staff. In its reply (February 17, 1967) the Bank suggested the strengthening of the Haitian planning organization by the stationing of a resident adviser to be supplied by CIAP. If necessary, this adviser would be installed and periodically advised by Mr. Waterston. This

suggestion, fully cleared with CIAP, has been accepted by the Government. No action has been taken as yet because of the difficulty of finding a suitable candidate. The Bank and CIAP have been collaborating in this matter. One candidate (Grassberg), acceptable to all parties concerned, is not willing to remain in Haiti on a full-time basis. At the time of this writing, the matter was still open.

If the Delegation should inquire, the above information may be given.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

(US$ millions)

Year	Borrower	Purpose	Amount less Cancellation	Undisbursed Balance
1956	Republic of Haiti	Road maintenance and rehabilitation	2.6	0.0
	Total		2.6	
	Of which has been repaid		1.7	
	Total now outstanding		0.9	
	Amount sold	0.386		
	Of which has been repaid	0.386	0.0	
	Net amount held by Bank		0.9	

(b) IDA Credits as of July 31, 1967

(US$ millions)

Date	Purpose	Amount less Cancellation	Undisbursed Balance
November 2, 1962	Interim Highway Project	0.35	0.0
	Total	0.35	

(c) Technical Assistance Activities

There have been no technical assistance activities during the last year and none are planned beyond the Bank's possible assistance in the matter of the CIAP development adviser, explained above under IV (c) (3).

(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) Holdings of Bank Bonds

None.

(h) IFC

IFC holds no investments in Haiti.

(i) Settlement of Investment Disputes

Haiti has not signed the Convention.

VI. POLITICAL SITUATION

The political situation climate continues to be oppressive. While no open political opposition would be tolerated, occasional arrests and executions indicate underground political opposition. Embassies of countries which are in the habit of granting asylum are full of refugees. Some groups have been trying to escape to the Bahamas, especially since recently improved relations with the neighboring Dominican Republic may have closed or reduced easier escape routes.

Friendly relations with the Dominican Republic, which started with the election of President Balaguer and were greatly enhanced since the latter acted as a spokesman for Haitian needs at the Punta del Este Conference, represent the only new development in Haiti's international position. There is even talk about economic "integration" between the two countries; possibilities of revising trade and traffic across the hitherto closed frontier were actively explored, with the help of a Dominican economist, during the recent visit of the Brazilian and Mexican CIAP representatives to Haiti.

VII. ECONOMIC SITUATION

Population:	4.8 million (end 1966)
GNP per capita:	about US$60-70
Gross Foreign Exchange Reserves:	US$2.9 million (April 1967)

Haiti's chronically difficult economic situation deteriorated further in 1966. Estimates of the gross domestic product for 1966 indicate a 4 percent decline in real per capita income, largely caused by a 30 percent drop in all-important coffee exports attributable to hurricane Inez which struck Haiti in September of last year. A balance of payments crisis was averted by deflationary policies designed to adjust the economy smoothly to dwindling foreign exchange receipts. The difficult external financial situation is presenting serious problems for the authorities to continue servicing the relatively large external debt and approaches have been made to the various official external lending agencies for a rescheduling of interest and amortization payments. So far, these approaches have not been favorably received.

In 1966 and during the first months of 1967, the fiscal situation appears to have worsened further because of a noticeable weakening in the tax collection machinery. As a result Haiti failed to meet the "fiscal revenue" targets as agreed upon with the International Monetary Fund and the ceiling imposed upon Central Bank credit to the public sector was substantially exceeded. Haiti is therefore ineligible to draw under the Stand-by. However, recently the Board of the International Monetary Fund approved Haiti's application to draw US$1.3 million under the Export Compensation Scheme. An IMF mission will be visiting Haiti shortly. Indications are that for the first time in about ten years a new Stand-by Agreement will not be entered into because of unsatisfactory financial policies.

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.

HONDURAS

CONFIDENTIAL

September 18, 1967

BRIEFING PAPER - 1967

HONDURAS

I. MEETING WITH DELEGATION

Date: September 27, 1967

Time: 5.00 p.m. - 5.30 p.m.

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Manuel ACOSTA BONILLA (B)	Minister of Economy and Finance
Roberto RAMIREZ (F)	President, Banco Central de Honduras
Guillermo BUESO (F)	Director, Department of Economic Studies, Banco Central de Honduras
Armando SAN MARTIN	Adviser
Gabriel A. MEJIA	Adviser
Porfirio ZAVALA	Adviser
Rolando SALGADO	Adviser

III. BANK/IDA PROSPECTIVE OPERATIONS

Projects presently under consideration:

Purpose	Tentative Amount (US$ million)	Status	Tentative Date of Negotiations
Power (Rio Lindo)	12.0	Appraisal scheduled for September 1967	Early 1968
Roads (Tegucigalpa-Juticalpa)	Undetermined	Feasibility study to start shortly	Late 1968 or early 1969

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff level

Traffic regulations

The Bank has made it a point in the last two road loans that traffic regulations be enforced and proper weight limits be enacted. A mobile highway patrol should be in operation by December 1968 and a first draft of the weight regulations proposed by the Government should be submitted to the Bank not later than December 1967. We should emphasize the importance the Bank attaches to the implementation of these measures, especially if new road loans have to be favorably considered.

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

No meeting scheduled.

(c) Likely to be raised by delegation

(i) Pacific Port (Gulf of Fonseca)

The loan for Puerto Cortes includes funds for other port studies (Puerto Castilla on the Atlantic and a new Pacific port on the Gulf of Fonseca). For the time being the Government is only proceeding with the preparation of a feasibility study of the Pacific port. The Delegation may ask whether the Bank would be willing to finance the resulting port project in the Gulf of Fonseca, should the feasibility report recommend it. Our position is that financing of the project depends upon its justification being clearly established by the study which should also take account of the regional implications of developing such a port.

(ii) Livestock Credit

The Delegation may ask whether the Bank is interested in financing agricultural and livestock credit in Honduras at the present time. We should say that due to shortage of funds we are exploring with USAID as to whether it can finance the project since it is already financing livestock development in Honduras.

(iii) Pulp and Paper Mill

This is a large industrial project (about $70 million) for which Honduras seems to be very well suited. As of now the project will be located in the vicinity of the city of Olanchito and exports will take place through the Caribbean port of La Ceiba. The Delegation may ask the Bank's financial assistance in developing this project. We should say that as pointed out by Mr. Alter in last year's meeting, the Bank is in principle interested in the related infrastructure projects (port, road), provided it is given assurances that the main project will go ahead.

(iv) IDA Credits

The Delegation may enquire whether IDA funds will be made available to Honduras. We should say that we consider Honduras a blend country but that, because of the shortage of IDA resources, a substantial portion of our future lending to Honduras would most likely be on conventional terms.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA Credits as of July 31, 1967:

No.	Year	Borrower	Purpose	Amount (US$ million) Bank	IDA	Undisbursed
135	1955	Republic of Honduras	Highway Maintenance	4.2		-
195	1958	Republic of Honduras	Highway Construction	5.5		-
226	1959	Empresa Nacional de Energia Electrica	Power (Interim Project)	1.4		-
261	1960	Empresa Nacional de Energia Electrica	Power (Canaveral Project)	8.8		-
1	1961	Republic of Honduras	Western Highway Extension		8.6	0.3
400	1965	Republic of Honduras)	North Road)	6.0		6.0
71	1965	Republic of Honduras)			3.5	2.8
463	1966	Empresa Nactional Portuaria	Port (Puerto Cortes)	4.8		4.6
495	1967	Republic of Honduras	Highway paving	(8.6)1/		-
		Total (less cancellations)		30.7	12.1	13.7
		of which has been repaid		6.9		
		Total now outstanding		23.8		
		Amount sold	2.2			
		of which has been repaid	1.7	0.5		
		Total now held by Bank and IDA		23.3	12.1	
		Total undisbursed		10.6	3.1	13.7

1/ This loan, signed May 26, 1967, has not yet become effective.

(b) Technical Assistance Activities

None since 1964.

(c) Bank 9% Capital Subscription

Total subscription: $8.0 million. 9% of the subscription $720,000. $540,000 released and lent in dollars.

(d) IDA Subscription

90% subscription $270,000. No releases.

(e) Holding of Bank Bonds

As of June 30, 1967, $250,000.

(f) IFC

IFC's gross commitments in Honduras amounted to $377,500. As at June 30, 1967 the Corporation held $255,750 in Empresa de Curtidos Centro Americana, S.A. ($189,000 loan and $66,750 equity). IFC also has joined Adela as financial managers for, and has under active consideration, a wood products project in the Olancho area having a total project cost of approximately $75 million.

(g) 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.

VI. POLITICAL SITUATION

Gen. Oswaldo Lopez Arellano who had been de facto 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 for a term that will expire on May 19, 1971. There are two main parties in Honduran politics, the Nationalist Party (the Government's party) and the Liberal Party (the opposition). The Nationalist Party has a clear majority in the unicameral Assembly. The domestic political situation is considered stable at the present time.

VII. ECONOMIC SITUATION

Population:	2.36 million
GDP per capita:	US$230
Gross Foreign Exchange Reserves:	US$28.5 million

With a gross domestic product per capita of approximately $230, Honduras remains the poorest of the Central American republics, and one of the poorest in the Western Hemisphere. The rate of economic expansion, which in 1960-65 averaged better than 6 percent per year, reached an impressive 10 percent in 1965 due to sharp gains in export earnings, principally bananas and coffee. However, growth is likely to level off at about 4 percent per year over the next few years because of substantial completion of expansion programs for bananas and of the uncertain prospects for coffee, two crops that account for about two-thirds of the country's export earnings.

The major focus for export diversification efforts will be the opening up of new areas in the northeastern part of the country, where the prospects for forest products and cattle appear favorable. In addition, a doubling of exports of manufactures since 1958 has already made an appreciable contribution to diversification, raising the proportion of industrial products in total exports from 12 to 20 percent. The major stimulus to this expansion has come from the Central American Common Market, even though deficiencies in infrastructure have thus far prevented Honduran manufacturers from taking advantage of the regional market to the same extent as their neighbors have done.

In spite of diminishing export prospects, the present outlook is for more than a doubling of public investment in the next few years, possibly to a level of US$35-40 million per year, primarily in roads, ports and power. Honduras should be able to finance a reasonable share even of this program. Public revenues have increased faster than expenditures over the last five years. This was the consequence of the business upturn and the consequent resumption of income tax payments by the banana companies, and also of tax reforms, including the first general sales tax in the region in 1963. As a result, and with some restraint on the future growth of current expenditures, public savings after debt amortization could still cover about 45 percent of the substantially stepped up public investment effort over the next few years.

The burden of Honduras' external public debt is not heavy. The total external public debt at the close of 1966 amounted to US$70 million, a little over half of it due to the World Bank. Debt service payments in 1966 were US$3.5 million, equivalent to 2.4 percent of export earnings. If foreseeable additional loans, of about US$85 million over the next four years, were all obtained on conventional terms, debt service would rise to an estimated 5 percent of export earnings in 1970 and 6.5 percent in 1975. This would be a substantial increase particularly in view of a relatively tight budgetary position, and the Honduran Government may therefore appropriately seek to borrow a portion of its needs on concessional terms.

An economic mission is planned before the end of 1967 to update these judgments.

JAMAICA

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

JAMAICA

I. MEETING WITH DELEGATION

Date: September 25, 1967

Time: 4:00 pm

Staff: Mr. Alter
Mr. Weiner

No meeting scheduled with President or Vice-President.

II. MEMBERS OF DELEGATION

E. SEAGA (B-F)	Minister of Finance
G.A. BROWN (B-F)	Governor, Bank of Jamaica

Advisers

H.G. BARBER	Acting Deputy Financial Secretary, Ministry of Finance and Planning
R.I. MASON	Acting Assistant Under-Secretary, Ministry of Finance and Planning
D.R. CLARKE	Assistant to the Governor, Bank of Jamaica, and Deputy Inspector of Banks
Miss Sybil E. CAMPBELL	Personal Assistant to the Minister of Finance

III. BANK PROSPECTIVE OPERATIONS

Project preparation work is underway on the following projects which may eventually be presented to the Bank for consideration:

(a) Private Development Finance Company: Since 1965 IFC has been providing technical assistance to a group of local businessmen for establishing a private development finance company. Since the previous annual Bank meeting, the Government had not approached the Bank/IFC until last July when the Finance Minister Mr. Seaga visited the Bank and inquired concerning the possibility of obtaining funds for a publicly-owned development finance company. Mr. Woods indicated a readiness to consider providing financing for a private development finance company but not for a public-owned company. Mr. Woods also indicated a readiness to consider a loan by the IFC for a private development finance company without a Government guarantee. Mr. Seaga later indicated to IFC that the Cabinet would find such a proposal difficult to support. If the Government should decide to assist a private company by equity contribution, junior ranking loans, and tax exemptions, it is likely that the company would seek part of its fund requirements, perhaps on the order of $2.0 - $3.0 million initially from the Bank.

(b) Agricultural Land Settlement: Assistance is being provided the Government under the Bank/FAO cooperative arrangement for preparation of an agricultural land settlement project in St. Mary Parish. Mr. Forbes, FAO consultant, visited in April 1967 to assist in the project preparation work and is expected to visit again later this year to help complete the project submission. The timing of the latter visit depends upon when the Government shall have completed the compilation of the necessary basic data. The total cost of this project may be on the order of $5.0 - $6.0 million.

A further land settlement project in Pedro Plains of St. Elizabeth parish is being developed by a UNDP mission carrying out a groundwater resource study in Jamaica. During his July visit to the Bank, the Finance Minister indicated that preparation of the project has been delayed and that it is expected to be ready in about a year.

(c) Fishery Development: The Government is, with Canadian assistance, working on a possible fishery development project. A reconnaisance mission from Canada visited Jamaica in March this year and has recommended a full scale feasibility study. We are being consulted on the terms of reference for this study. It is possible

that Canadian aid may be forthcoming for the project (if formulated) in which case Bank financing would not be sought.

(d) Kingston Water Supply and Sewerage: Studies are presently under way to determine the priorities among alternative sources for Kingston water supply, the results of which are expected within the next several months. These would identify the first priority on which a feasibility study should be undertaken. The Government had indicated earlier its intention to engage consultants for a long-term sewerage and stormwater drainage study for Kingston, possibly with U.K. aid. The present status of this latter study is not known.

(e) Overall Transport Study: The Canadian Government has agreed to help finance an overall transport study which is expected to identify high priority projects including the need for rehabilitation and improvement of the present highway system in Jamaica. The study is expected to require about nine months. Separate feasibility studies would need to be carried out for the high priority projects identified by the study. The Bank has been consulted on the terms of reference for the overall study and it is likely that Bank financing will be requested for projects resulting from the study.

IV. TOPICS FOR DISCUSSION

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

(1) Economic Situation: We might inquire about the state of preparation of the 1968-1973 development plan and indicate that we expect to schedule a Bank mission as soon as possible after sufficient progress has been made in the financing plan. We might also confirm our understanding that copies of relevant papers would be forwarded to the Bank as they become available.

(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, the first installment of which was released on July 15, 1967. We might express our appreciation of the Government's cooperation in this matter.

(3) Private Development Finance Company: We might enquire about any new developments or thinking regarding the possible establishment of a private development finance company.

(4) Telecommunications Loan: The Bank might inquire concerning the status of the possibility of the cancellation of the Bank's loan for the telephone project by the new owners, Continental Telephone. The Government representatives indicated in July that the company expected to obtain funds of possibly 25 years, compared with the 15-year term on the Bank loan.

(5) Project Preparation: We might inquire about the status of project preparation work in land settlement, fishery, water supply and sewerage, and highways.

(b) To be raised by Bank at meeting with President or Senior Officer:

No meeting scheduled with President or Senior Officer.

(c) Likely to be raised by delegation:

The delegation might inquire about present prospects for Bank lending for hotel projects in Jamaica. We might state that as we had indicated at the discussions at last year's Annual Meeting, we would be prepared to seek a policy decision on the matter if we received a loan request on a specific project.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

(US$ millions)

Loan	Year	Borrower	Purpose	Amount less Cancellation	Undisbursed balance
408-JM	1965	Jamaica	Highways	5.5	5.2
454-JM	1966	Jamaica Public Service Company	Power	22.0	14.1
468-JM	1966	Jamaica	Education	9.5	9.3
481-JM	1967	Jamaica Telephone Company	Telecommunications	11.2	11.2
		Total		48.2	39.8
		of which has been repaid		-	
		Total outstanding		48.2	
		Amount sold	1.1		
		of which has been repaid	0.0	1.1	
		Net amount held by Bank		47.1	

(b) IDA Credits as of July 31, 1967

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 was completed in May 1967.

(3) Assistance was provided in the latter half of 1965 under the Bank/UNESCO cooperative arrangement for preparation of an education project which led to the education loan listed above.

(4) Assistance is being provided under the Bank/FAO cooperative arrangement for preparation of a land settlement project.

(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
£ 3 million, London, October 1966, 7-3/4%, 13 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 a member of IDA

(g) Holdings of Bank Bonds

None

(h) I.F.C.

IFC's gross commitments in Jamaica amount to $224,000. As at June 30, 1967, the Corporation held a $150,000 loan in Jamaica Pre-Mix Ltd.

Major Issues

The proposal for establishing a private development finance company was formally submitted to the Government in March 1967 by the Steering Committee. The Government, while indicating their willingness to continue to pursue the possibility of a private DFC, felt that there is a need for a public institution. In July, we confirmed to the Minister of Finance and Planning and the Governor of the Bank of Jamaica that we were ready to look at the whole

situation again once we had some indication of the Government's position and attitude to the Steering Committee's proposal.

(j) 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 53 members. The Senate consists of 21 members, 13 nominated from the Government party and 8 from the opposition party.

The incumbent Jamaica Labor Party (JLP) headed by Mr. Donald Sangster won the elections in February 1967, the first elections since the pre-independence elections of April 1962. The JLP won 33 seats and the Opposition People's National Party 20 seats, although in total votes the two parties were about even, with a small margin in favor of JLP. In April Mr. Sangster suddenly deceased and Mr. Hugh Shearer became Prime Minister.

The Government follows a moderate policy and the political and social situation is stable.

VII. ECONOMIC SITUATION

Population	1.9 million (end 1966)
GNP per capita	about US$500 (1966)
Gross Foreign Exchange Reserves held by the Banking system	US$114.8 million (May 1967)

Jamaica's impressive show of economic growth and performance continued into 1966 and the first half of 1967. The high rate of economic growth (exceeding 5 percent in real terms) characteristic of Jamaica's economy during 1964-65 was again realized in 1966. There were solid advances in all important sectors of the economy, but the rapid development of agriculture was striking: against total agricultural growth of 8 percent, "domestic" agriculture increased by 12 percent, reflecting good weather conditions but also improved agricultural policies.

In June 1967 Jamaica's new Minister of Finance concluded the presentation of the budget for the fiscal year 1967-68. The main theme of the budget speech was the need for Jamaica to continue financial policies designed to preserve its record of sound financial management. The Minister called for increased domestic resource mobilization through the budget by raising taxation, improving tax administration and phasing out subsidies to a number of deficit public undertakings. In addition, private savings will be encouraged through the development of adequate financial institutions. The Minister also announced a stepping up of the development effort with more emphasis on agriculture and education.

The 1967-68 budget provides for a major increase in taxation of domestic consumption which is part and parcel of a policy to limit consumption increases (thereby reducing pressures on the balance of payments) and to raise further the level of public savings. Current public expenditures are planned to rise by somewhat more than 10 percent to finance new and expanding programs in the fields of agriculture, education and housing and to provide for increased debt service requirements. With an anticipated 8 percent vegetative growth of current revenues and additional revenue measures estimated to yield £3.7 million, current account savings are expected to rise to £7.8 million, equivalent to about 35 percent of public investment expenditures which are planned to be about 4 percent higher than last year. The remainder is to be covered by long-term internal borrowing (so that internal financing of 1967-68 public investment would amount to roughly 70 percent), a £3 million placement abroad and by a total of £2.7 million in drawings on loans from the external official lending agencies. In short, the authorities have come up with a satisfactory financing plan well suited to Jamaica's needs.

Management of the balance of payments has continued to be satisfactory. To be sure, despite a 5 percent rise in merchandise export

earnings and a 25 percent increase in tourist receipts, the 1966 current deficit widened to about £15 million. This was attributable to an 11 percent increase in merchandise imports, the bulk of which, however, consisted of capital goods and raw materials which reflected the high level of investment and industrial activity. The latter resulted in an encouraging development of Jamaica's exports of manufactures which rose from US$18.8 million in 1964 to US$23.8 million in 1966. With a record level of private capital inflows and increased official borrowing in London and New York, Jamaica's current account deficit was more than covered and external reserves rose by £4.8 million in 1966. A further increase in external reserves occurred during the first four months of 1967 and Jamaica's foreign reserves are now roughly equal to five months of imports.

The authorities have requested a Bank mission to visit Jamaica in November 1967 to study the draft financing plan of the 1968-1973 development plan now in preparation.

MEXICO

NICARAGUA

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

NICARAGUA

I. MEETING WITH DELEGATION

Date: September 27, 1967

Time: 3.30 p.m. - 4.00 p.m.

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Guillermo SEVILLA SACASA (B)	Ambassador of Nicaragua to the United States
Francisco J. LAINEZ (F)	President, Banco Central de Nicaragua
Arnoldo RAMIREZ EVA (B)	Minister of Economy
Roberto SOLORZANO MARIN (F)	President, Banco Nacional de Nicaragua

III. BANK/IDA PROSPECTIVE OPERATIONS

Projects presently under consideration:

Purpose	Tentative Amount	Status	Tentative Date for Negotiations
Education	$4.0 million	Expected to be submitted for Loan Committee approval in September.	October 1967
Managua Steam Plant 1/	$5.0 million)	Appraisal mission in the field.	Early 1968
Rio Tuma II Hydroelectric Plant 1/	$12.0 million)		Early 1968

1/ There is a possibility that both power projects might be financed by one loan.

IV. TOPICS FOR DISCUSSION

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

(i) Economic Policy Issues

In 1966, the private banks and the Banco Nacional adhered only partially to the credit restraint policy of the Government, with the result that such policy had very limited success. Imports rose by 14 percent over the previous year and foreign exchange reserves were severely depleted. We should press for more effective implementation of the credit restraint measures and/or for additional measures to control the expansion of domestic bank credit. We should also emphasize the importance of accelerating agricultural diversification and the development of export industries.

(ii) Tuma Viejo Irrigation Project

A preliminary study of the Tuma Viejo river basin, investigating both hydropower and irrigation possibilities, was completed in early 1967. The study concludes that an area of about 27,000 hectares could be irrigated on the north side of Lake Managua. The total project cost would be about $18 million. There would be no need for pumping as in Rivas. Terms of reference for a full feasibility study were prepared by the Bank and discussed in Nicaragua with various officials in February 1967. We should inquire about whether the Government intends to proceed with the study, which would take about two years and for which AID has agreed to finance the foreign exchange cost. We should also ask about the creation, long urged by the Bank, of an organization within the Government responsible for the study of irrigation projects.

(iii) 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:

(i) Development of the Atlantic Coast Region

President Somoza has given high priority to the development of the Atlantic Coast region of Nicaragua. This

development includes agricultural credit to farmers for development of banana plantations, construction of feeder roads, a lighterage port at El Bluff, port facilities upstream on the Escondido River and inland waterways on the Atlantic Coast. The delegation might request that the project be accelerated and may propose that as a first step the study of the Atlantic Port and Highway be taken to the final design stage and not limited to preliminary engineering as presently envisaged. Our reply to this is that before the final designs can be done, the location and facility layout of the proposed port will have to be determined. This cannot be done until extensive field work, which is about to start, has been completed. We expect the results to be available in about a year's time when a final determination on the location and facility layout of the port can be made and its feasibility established. It will only then be possible to proceed to final engineering. In regard to the agricultural credit necessary to develop this region, a project has not, as yet, been prepared. A recent Bank mission was given to understand that the Banco de Nicaragua is putting a project together and after this is done, a judgement on its feasibility would be made.

(ii) Rivas Irrigation Project

In March 1966, the Government requested, and the Bank agreed, to reduce the Rivas loan made in 1963 from $2.6 million to about $250,000 which amount would be used for a program of studies and experimentation, which is still in progress. Crop experimentation, especially with regard to bananas - which would be the backbone of the project - has been quite encouraging. Despite many difficulties encountered, the project in the past has been kept alive mainly due to the untiring efforts of the late Senator Luiz Somoza. It is quite possible that after Luis Somoza's death, there is considerably less enthusiasm in the Government for the project. However, if a question is raised about our interest in the project, we should inform the delegation that our views on the project would depend on the results of the crop experiments and the consultants' recommendations regarding the feasibility of the project.

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

(Amount US$Million)

No.	Year	Borrower	Purpose	Bank	IDA	Undis-bursed
		Loans fully disbursed		23.0		
259	1960	Empresa Nac. Luz y Fuerza	Power	12.5		-
26	1962	Republic of Nicaragua	Water supply		3.0	-
332	1963	Republic of Nicaragua	Irrigation	0.25 1/		0.14
470	1966	Empresa Nac. Luz y Fuerza	Power	5.0	—	1.74
		Total (less cancellations)		40.75	3.0	1.88
		of which has been repaid		16.74		
		Total now outstanding		24.01		
		Amount sold	3.15			
		of which has been repaid	2.24	0.91		
		Total now held by Bank and IDA		23.10	3.0	—
		Total undisbursed		1.88	0.0	1.88

1/ 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.

(b) Technical Assistance Activities

The Bank is Executing Agency for a United Nations Special Fund Highway and Ports Survey on the Southern Atlantic Coast. The study was initiated in June 1966 and phase I was completed in January 1967. Phase II, which might take up to eighteen months, will be initiated shortly.

In March 1967, the Bank made a $175,000 technical assistance grant to finance part II (engineering) of the feasibility study for the expansion of the Port of Corinto. The study is expected to be completed in 1968.

(c) Bank 9% Capital Subscription

Total subscription: $540,000. Beginning October 1, 1964, Nicaragua had started releasing its 9% subscription in 12 semi-annual instalments of $45,000.

(d) IDA Subscription

90% subscription: $270,000. No release.

(e) Holdings of Bank Bonds

None.

(f) IFC

IFC has no active investments in Nicaragua, but is presently studying, in association with Colombian and Nicaraguan sponsors, the possibility of an investment in a new textile plant which has a project cost of between $8-9 million.

(g) 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

A new Government headed by General Anastasio Somoza took office on May 1, 1967 for a 4-year term, thus assuring the continued rule of the Liberal Party. Elections had taken place on February 5, but they were preceded in January by serious riots in Managua as a result of an attempted coup by members of the Conservative Party. The coup was put down rather brutally, but the subsequent elections were relatively quiet.

General Somoza does not appear to have the intellectual stature of his brother Luis, who was President from 1959 to 1963. No important policy innovations in either the economic or social fields are expected, but the political and administrative decision-making process will in all probability turn out to be more efficient and decisive than under the previous Government. While not especially reform-minded, the Government is likely to put more emphasis on the social sectors, especially education, health and rural water supply which had been somewhat neglected in the past. According to all appearances General Somoza is going to show a positive attitude towards the Bank.

VII. ECONOMIC SITUATION

Population:	1.70 million
GDP per capita:	US$325
Gross foreign exchange reserves:	US$65.1 million

GDP in 1966 rose by 3.5 percent in constant prices, compared with an average 8.5 percent in the period 1960-65. The main factor responsible has been a decline in agricultural production for export, particularly of cotton and coffee, two commodities which still account for 40 and 15 percent of export earnings respectively. Drought and price declines combined to reduce cotton exports by 14 percent and coffee exports by 19 percent in 1966. Nevertheless, expansion over a broad range of other products kept the overall decline in exports to only 5.5 percent.

The Nicaraguan authorities sought to meet this reversal in the growth of major exports with a number of measures. To restrain imports, ceilings were placed in 1966 on bank credit to the private sector. Excess domestic reserves of the banking system were invested in Central Bank bonds, the proceeds being placed in a Fund for Development and channeled into an aggressive program of export diversification concentrating initially on rice, bananas and tobacco. Industrial policy was also recast with a view to improving the competitive position of Nicaragua in the Central American Common Market. Unfortunately the credit restraint policy was not fully implemented and domestic credit expanded by a further 25 percent in 1966, resulting in an expansion of imports by 14 percent, so that for the first time in 10 years the Nicaraguan balance of trade registered a deficit and net international reserves diminished by some 43 percent to US$16.1 million or little over one month imports equivalent (gross reserves remained however unchanged). Nicaragua's trade balance in the Central American market also continued to deteriorate.

To place the overall development of the Nicaraguan economy on a firmer basis, public investment about doubled in five years, to a total (in constant 1958 prices) of US$17 million or 3.3 percent of GDP in 1965 and US$20 million or 3.7 percent of GDP in 1966 - still a rather modest effort that the Nicaraguan authorities intend to step up rapidly. Current account savings by the public sector rose from US$8 million to US$29 million over the same period, due to income increases and a tax reform in 1962 that significantly improved income tax collections through a system of retentions from export earnings. The economic slowdown - combined with liberal tax and tariff exemptions to industry - severely reduced the growth of revenues, however, in 1966. As a result, current savings of the Central Government declined and the proportion of capital expenditures financed by them declined from 100 to 68 percent. First estimates for 1967 show a marked improvement in the fiscal situation, with current account savings estimated to finance a larger proportion of public investments.

The burden of Nicaragua's external debt is not heavy. Total external public debt at the end of 1966 came to about US$107 million. Service on it amounted to $8.4 million, or about 6 percent of export savings in 1966. Projects now in various stages of preparation may attract up to US$130 million in new foreign loans. If all were incurred on conventional terms, debt service payments would rise to an estimated 6.5 and 8 percent of export earnings in 1970 and 1975 respectively. This should be well within manageable limits in terms of foreign exchange availabilities, provided, however, that credit restraint of sufficient severity is assured to keep import growth below the ceiling dictated by prospective export earnings.

An economic mission is planned before the end of 1967 to update these judgments.

PANAMA

CONFIDENTIAL

September 15, 1967

BRIEFING PAPER - 1967

PANAMA

I. MEETING WITH DELEGATION

Date: September 27, 1967

Time: 5.00 p.m. - 5.30 p.m. (not yet confirmed)

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

Mr. Jorge T. VELASQUEZ (F)	General Manager, Banco Nacional de Panama
Carlos A. VELARDE (B)	General Manager, Desarrollo Industrial, S.A.
Jorge E. HALPHEN (Temp.)(F)	
Juan J. ILLUECA (Tem.)(F)	
Jose Guillermo AIZPU (Tem.)(F)	
Julio HARRIS G. (Tem.)(B)	

III. BANK/IDA PROSPECTIVE OPERATIONS

The following projects are under consideration:

Purpose	Tentative Amount	Status	Tentative Date for Negotiations
Road rehabilitation, maintenance and new construction	$6.4 million	Loan Committee authorized negotiations; awaiting clarification of local currency position.	Uncertain
Bayano hydro-electric project	$28 million	Awaiting cost estimate and determination of prospects for power sales	Mid-1968

IV. TOPICS FOR DISCUSSION

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

(i) New Highway Loan:

In November 1966, the Bank invited the Panamanian Government to negotiate a $6.4 million loan for a new highway construction, road rehabilitation and maintenance and various consulting services. Negotiations were then postponed at the Government's request since at that time there was still no authorization from the National Assembly to negotiate the loan. In February 1967, a Bank mission learned that the National Assembly, although having passed authorization to negotiate, had not authorized expenditures of up to $1 million equivalent to cover the local currency cost of the project in calendar year 1967. The Panamanians then told us that, starting May 1, 1967, there might be the possibility of an internal budget transfer. Despite repeated requests directly and through Dr. Machado, for clarification of the Panamanian position, we have still not received a reply. We should ask the delegation whether the Government is still interested in obtaining the road loan, and if so, when we may expect it to be ready to begin negotiations.

(ii) Bayano Hydroelectric Project:

The final design of the project is now proceeding and should be completed by about the end of 1967. Over the past 6 to 8 months, the power company (IRHE) has been mainly concerned with the Colon steam plant, financed through suppliers' credits. Regarding Bayano, the main outstanding problem is the definition of a price formula to be included subsequently in a contract or contracts for the sale of power by IRHE to the distributing companies. We should inquire about the status of the discussions between IRHE and the companies regarding power sales.

(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). This request was made last year also, but we have received no response.

(iv) IDA 90% Subscription:

$14,000 out of $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:

None.

(d) Bank 9% Capital Subscription:

Total subscription: $810,000. $36,000 corresponding to the original total subscription of $400,000 released and lent in dollars.

(e) IDA Subscription:

90% Subscription: $18,000. $14,000 released.

(f) Holdings of Bank Bonds:

None.

(g) IFC:

IFC has no investments in Panama.

(h) 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.

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

No.	Year	Borrower	Purpose		Amount (US$ million) Bank	IDA	Undisbursed
86	1953	Instituto de Fomento Economico	Agriculture		0.66	-	-
87	1953	Instituto de Fomento Economico	Grain silos		0.29	-	-
123	1955	Republic of Panama	Roads		5.90	-	-
264	1960	Republic of Panama	Roads		7.20	-	-
322	1962	Instituto de Recursos Hidraulicos y Electrificacion	Power		4.00	-	0.5
		Total (less cancellations)			18.05	-	-
		of which has been repaid			8.30		
		Total now outstanding			9.75		
		Amount sold		2.5			
		of which has been repaid		2.38	0.12		
		Total now held by Bank and IDA			9.63	-	-
		Total undisbursed			0.5	-	0.5

(b) Technical Assistance Activities

None.

(c) Access to Private Capital Markets

Panama has placed long-term bonds in the New York Market. Its access to the U.S. capital market was based entirely on the fact that service on these debts was secured by the U.S. Canal annuity payment of $1.93 million.

VI. POLITICAL SITUATION

The present Government of Marco A. Robles, which took office in October 1964, has made a number of commendable efforts, especially in the tax field and in rural development. Mr. Robles who, like his predecessor Chiari, is of the Liberal Party, is known for his integrity, strength of character and pro-US sentiments. In the overall, however, Robles does not seem to have provided a very forceful leadership for the country's development effort.

Negotiations with the U.S. on (a) the future of the present canal, (b) the stationing of U.S. troops in the canal zone, and (c) a new sea-level canal have been completed, but the texts of the agreements have not yet been made public.

Elections will take place in mid-1968, and new Government will take office in October 1968.

VII. ECONOMIC SITUATION

Population:	1.2 million
GNP per capita:	US$538
Gross foreign exchange reserves:	US$35.7 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 an average of 9-10 percent per year since 1960. 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 about 8 percent in 1965 and 1966. 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 some 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. Though public investment may have increased once more in 1966, an increase in current expenditures has once more wiped out any contribution by the Central Government to its financing.

Panama's economic prospects for the next decade or so nevertheless continue to be favorable. Exports are again expected to expand at about 9-10 percent annually, over the next few years, 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 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. Balance of payments developments are expected to remain manageable.

The external public debt outstanding at the end of 1966, including undisbursed, came to $102 million and was predominantly long-term. The IBRD accounted for 10 percent of the total, IDB for 2.5 percent and the U.S. Government for 57 percent. The debt service burden in 1966 came to $9.5 million, equivalent to 9.3 percent of export earnings. With present commitments, it will decline to $8.2 million in 1970, or to an estimated 6.0 percent of export earnings. Given Panama's favorable growth prospects, there remains, therefore, a substantial margin for additional borrowing on conventional terms.

No new economic mission is presently scheduled.

PARAGUAY

CONFIDENTIAL

September 6, 1967

BRIEFING PAPER - 1967

PARAGUAY

I. MEETING WITH DELEGATION

Date: Thursday, September 26 — Time: 11.30 a.m.

Attended by: — Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

General Cesar Barrientos (F)	Minister of Finance
Cesar Romeo Acosta (B)	President, Banco Central del Paraguay
Edgar F. Toboada (F)	Under Secretary of State for Finance
Oscar Stark Rivarola (B)	Manager, Banco Central del Paraguay

III. LOANS UNDER CONSIDERATION

P Purpose	Amount (in US$ Million)	Status	Tentative Date for Negotiations
Road Maintenance Equipment	5 - 8	Under the joint Bank/IDA operation for road construction and maintenance (Credit 12-PA and Loan 396-PA), funds are provided for Consultants' services to prepare a nation-wide Road Maintenance Study. This study has now been completed with the exception of the economic justification to support an investment of about US$8.0 million for the purchase of maintenance equipment. Further consideration of the proposed loan would be subject to the above economic justification for this investment and also to satisfactory implementation of the Consultant's recommendations regarding the reorganization of the Direccion de Vialidad and appropriate measures by Government for the provision of adequate local funds (see IV,ii).	First half 1968
Telecommunications	5	Under the auspices of the UNDP, a 20-year fundamental plan with emphasis on the first five-year period for Telecommunications Development in Paraguay has been prepared by the International Telecommunications Union (ITU). On the basis of this report, Paraguay's National Administration of Telecommunications (ANTELCO) has applied for a Bank loan to assist in the financing of this five-year program and a mission is visiting Paraguay at present to appraise this project.	Early 1968

IV. TOPICS FOR DISCUSSION

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

(i) Bank Lending Position. We should emphasize that continuation of Bank assistance for the financing of high priority projects in fields such as agriculture, livestock, telecommunications, education and transportation, would only be justified if the necessary measures are taken by the Government to increase public savings so as to assume a larger share in the financing of projects than in the past. The Government has, in principle, accepted the conclusions and recommendations of the Economic Memorandum which was prepared as a result of a Bank mission in March, and subsequently discussed with the Government in August. It was agreed that the Government would, in due course, inform the Bank about the concrete steps and measures it would take to increase revenues. We should raise with the delegation the question of when the Government's plan of action would be submitted to the Bank.

(ii) 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 3 or 5 years as indicated in our letter of November 5, 1965, and discussed during the 1966 Annual Meeting.

(iii) Shortage of Local Funds to Complete our Road Projects and to Implement the Road Maintenance Program. The construction costs of our First Road Project (Credit 12-PA) have increased from US$10.5 to US$12.8 million due mainly to severe flood damage which occurred in 1965/66. In addition, the local currency requirements for a 4-year maintenance program to be supported by prospective Bank loan are estimated to be US$7 million. The local costs of our road projects are estimated to be covered until the end of 1969 by the revenue from a 5% surcharge on imports. However, because of the increase in the Project costs, these funds could be insufficient to finance the maintenance operation as well. The Government has assured the Bank of continued provision of these revenues for our road projects after 1969, and that the necessary local funds to finance the Road Maintenance Program would be provided from other sources. We should stress the importance of prompt Governmental action in this regard as a prerequisite for a possible Bank loan.

(b) Likely to be raised by delegation:

(i) Request for a Supplementary Loan to Cover the Higher Foreign Exchange Costs of the First Road Project. The Government inquired earlier this year whether a Second Supplementary Loan to cover the higher costs of the First Road Project could be considered. The Bank communicated to the Government that there was no possibility for an additional loan, since one supplementary loan had already been made. Despite the Bank's position, the delegation might repeat this request, in which case we should confirm our previous position.

(ii) Request for Financing of Marketing Facilities. In connection with earlier discussions about possible new projects in Paraguay, the Government inquired whether the Bank would be interested in financing the construction of silos, storage and refrigeration facilities for agricultural products. It was pointed out to the Government that it would be difficult for the Bank to consider such projects in the absence of a coordinated approach to the problem of marketing in Paraguay in terms of a comprehensive marketing study covering both the investment requirements, as well as Government policies and marketing organization. The Government concurred in this approach and indicated its interest in obtaining Bank assistance to this effect.

The delegation may inquire whether the Bank would be prepared to send a suitable expert to Paraguay for a preliminary review so as to determine further necessary steps and the likely scope of such a study. We should indicate to the delegation that the matter is presently under consideration in the Bank.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 15, 1967

(In millions of US$)

Year	No.	Borrower	Purpose		Amount less Cancellations	Undisbursed Balance
1951	55	Republic of Paraguay	Agriculture and Transport		4.5	0.0
1964	396	Republic of Paraguay	Roads		2.2	2.2
1965	437	Republic of Paraguay	Ports		2.75	2.5
1965	443	Republic of Paraguay	Roads		2.1	2.0
Total (net of cancellations and refundings)					11.55	6.7
of which has been repaid					4.5	
Total now outstanding					7.05	
Amount sold				.29		
of which has been repaid				.10	.19	
Net amount held by Bank					6.86	

(b) IDA Credits as of August 15, 1967

(In millions of US$)

Year	No.	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1961	12	Republic of Paraguay	Highways	6.0	2.7
1963	47	Republic of Paraguay	Cattle Project	3.6	.0
1966	86	Republic of Paraguay	Cattle Project	7.5	5.6

(c) Technical Assistance Activities

1964-67 Executive Agency for UNSF Road Survey. Final report now being printed and expected shortly. On the basis of this report certain roads may be selected for further studies which would be financed by funds available for this purpose on Loan 443-PA.

(d) Access to private Capital Markets

None.

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

$126,000 released for purchases in Paraguay. See IV (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) I.F.C.

IFC has made no investments in Paraguay but is in preliminary discussions on two projects, the first one for barge transportation on the Paraguay river and the second for an investment in La Industrial Paraguaya S.A., an agro-industrial enterprise with interests in timber, plywood and other wood products, palmito canning and hierba mate, a tea-type drink.

(i) Settlement of Investment Disputes

No action expected from the Government in the foreseeable future.

VI. POLITICAL SITUATION

Since 1954 Paraguay has experienced political stability which accompanied by the Government's respect for private property and a continued effort for maintaining internal and external stability has created a climate of confidence in the country and its Government. President Stroessner enjoys wide popular support and a strong backing of his own Colorado Party. During the last years greater freedom of expression has been permitted and the Parties of the Opposition have participated more actively in the political life. During May 1967 elections for representatives to the National Constituent Assembly were held. Three political parties entered the contest and the Ruling Colorado Party won the majority of seats. At the request of the Government the assembly will modify the Constitution in order to permit the re-election of the President. There are strong indications that Stroessner will be returned to office in the next presidential election scheduled for February 1968.

VII. ECONOMIC SITUATION

Population	2.0 million
GNP per capita	US$200
Gross Foreign Exchange Reserves	US$14.1 million (end 1966)

The rate of economic growth declined from about 5 percent a year during 1961-65 to about 3 percent in 1966. The conjunction of heavy rains, floods, frost and falling export prices of some products in 1966 resulted in this lower rate of growth of the economy as well as in a decline in export earnings. The level of public investment increased in 1966, reflecting the construction activities on the Acaray hydroelectric project, purchases of industrial machinery and equipment and modernization of agricultural production. The financing of these investments was made possible by somewhat improved public savings and by an increase in the flow of external capital to the public sector. However, during the last years public savings have been inadequate to provide sufficient domestic funds to match external financing for priority projects, and this has resulted in delays in the execution of some projects. The monetary system continued to operate reasonably well in supplying the economy with the overall volume of money and credit necessary to support economic activities, and internal and external financial stability has been maintained.

The main issue in Paraguay is still the inadequate level of public savings to match available and prospective external resources. The estimated future savings of the public sector fall short of estimated requirements for internal financing. The additional financial needs could be met through new tax measures, economies in expenditures and increased charges for public services, and the Bank has been urging action on the Government with a view to increasing public savings in 1968-69 to a level at which they would be sufficient to finance about one-third of the public investment program.

Although the economic performance of Paraguay has been affected by the above-mentioned natural factors, the outlook for continued economic growth appears to be on the whole favorable. If the Government succeeds in carrying through its public investment program, the Paraguayan economy should be able to go on expanding at a rate of about 5 percent a year. A good deal of momentum has already been generated in the livestock sector and in some parts of the agricultural and industrial sectors.

The outstanding external public debt repayable in foreign exchange stood at the equivalent of US$97.9 million at the end of March 1967. In addition, there was an external public indebtedness repayable in local currency in the amount equivalent to US$39.1 million. The terms on which external loans have been granted have on the whole been favorable, and as a result the structure of foreign debt is satisfactory. If the presently still favorable average terms are to

be maintained, a very careful use will have to be made of future suppliers' credits. The service requirements on public debt repayable in foreign exchange were about 9 - 10 percent of current account earnings at the end of 1966 and with the new loan commitments in prospect will increase to about 12 percent in 1972. 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. Paraguay is marginally eligible for IDA assistance, and Bank loans may carry extended periods of grace. In the coming year, however, no new IDA operations are contemplated, Paraguay being considered an "enough for the time being" country.

PERU

CONFIDENTIAL

September 12, 1967

BRIEFING PAPER - 1967

PERU

I. MEETING WITH DELEGATION

Date: Monday, September 25, 1967 Time: 3:30 - 4:00 p.m.

To be attended by: Management: Mr. Knapp

Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION
(as reported up to September 5.)

Sr. Celso Pastor de la Torre (Governor Bank and Fund)	Ambassador of Peru to the United States
Sr. Tulio de Andrea (Alternate-Bank)	Formerly President, Banco Industrial; since September 7, Minister of Finance
Sr. Emilio Barreto (Alternate-Fund)	Director of Research Banco Central de Reserva del Peru

(This list was received before the recent Cabinet change. Mr. Tulio de Andrea, who is the new Minister of Finance, will lead the delegation.)

III. BANK/IDA PROSPECTIVE OPERATIONS

Purpose	Amount (US$ million)	Status	Tentative date of negotiations
Power Generation	17.5	Approved by Executive Directors on Sept. 7, 1967.	
Agricultural Credit	20	Appraisal mission preparing report.	Open
Education	7	In abeyance pending improvement in Government fiscal situation.	Open
Roads	20 (?)	Awaiting feasibility studies. New loan contingent upon increase in road user charges.	Open

IV. TOPICS FOR DISCUSSION

(a) To be raised by the Bank (in order of importance)

General Economic and Fiscal Performance

The economic mission that visited Peru early this year found a very serious fiscal situation which in the short run threatened to produce a balance of payments crisis and in the long run impeded the formation of satisfactory public savings. We decided, and informed the Government, that as long as this situation prevailed the Bank could not lend for projects that require a substantial contribution from public funds. However, we have been willing to process private projects which did not need public funds (e.g. Lima Light), as long as the balance of payments situation does not get out of hand in a way that would threaten foreign debt service. We are continuing our assistance in project preparation in the hope that the obstacles to lending will soon be removed.

Within the constraints imposed by a hostile Congress, President Belaunde's Government has attempted to improve the situation. Import duties were increased in May and gasoline and other new taxes were proposed to Congress in August. But foreign exchange losses were increasingly severe in August and led to the suspension of foreign exchange sales by the Central Reserve Bank on September 1. A fluctuating rate was introduced together with a tax amounting to 40 percent of the additional sol proceeds on exports. The impact of these new developments are not yet clear. An immediate consequence was a Cabinet change (including a change in the person of the Minister of Finance). The Minister of Finance should be told that we appreciate the Government's efforts in the exchange and fiscal field, and we hope that the proposed tax increases will be large enough to solve the budget problem, and will find support in Congress. But the Minister of Finance should have no doubt that a precondition for lending to the public sector is the adoption of a satisfactory fiscal program which restores public savings to adequate levels. Special concern should be expressed about the rise in external debt and the need to postpone new external borrowing by the public sector until a satisfactory fiscal program has been worked out. (Written on September 7, 1967, the day after the Cabinet change and at a time when the exchange rate was left moving freely from any intervention by the Central Reserve Bank.) If the tax measures

are satisfactory, we should be able, after an economic review, to move ahead fairly quickly on public sector loans. If this happened we should also be able to respond favorably if the Peruvians asked us to revive the Consultative Group.

Past Operations

The status of past Bank operations in Peru is satisfactory except for (i) the Peruvian Corporation and (ii) San Lorenzo.

(i) Peruvian Corporation

The Corporation expects to be able to make its October 1 payment to the Eximbank from the further sale of assets, but does not apparently yet know where the money to meet the Bank's December 1 maturity is coming from. In July we sent an analysis of the situation to Mr. Tulio de Andrea (who had been Government representative in the Corporation), with some suggestions for corrective steps to put the Corporation on its feet, and we proposed that the Government set up a special high level commission to consider what should be done. Our letter has been acknowledged but not answered. We have heard recently from the Corporation that they have had an increasing number of management resignations; this could also be a grave problem. We should urge de Andrea to give high priority to a resolution of the railway problems.

(ii) San Lorenzo

The 1965 loan project has been slow to get under way, chiefly because of lack of continuity in management. Water availability is likely to be less than forecast, and the Government now proposes to reduce the area of the project. We are studying these proposals. In all probability there will have to be a reduction in the amount of the loan corresponding to the reduction in area.

(b) Likely to be raised by the Delegation

New Lending

(i) Agricultural Credit

Appraisal mission now preparing report. However, in all likelihood project will require public funds

so that we may have difficulty to negotiate a loan until budget situation has been clarified.

(ii) Education

Project in abeyance pending improvement in budgetary situation. Financial control and planning in the education sector are weak, but several measures of reorganization of the Ministry of Education are under way. As part of the negotiations of the loan for the Education Project, we would discuss with the Peruvian authorities a program of future action to speed up the progress in that direction.

(iii) Roads

Further lending for roads to Peru is contingent upon an increase of road user charges. A consultant's study of road user charges is expected shortly, but on the basis of the first two drafts we expect a poor report. The Government has just proposed to Congress an increase in the gasoline tax. It would be interesting to know the prospects for passage.

(iv) Olmos Irrigation Project

The feasibility study of the Olmos Irrigation Project has been received in the Bank, and preliminary (and quite negative) comments by FAO. We are awaiting the final FAO evaluation of it, but in the meantime are making a preliminary desk review of the study ourselves, in order to determine whether the project is "in the ball park."

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

Loan No.	Year	Borrower	Purpose	Amount (US$ million)	Undisbursed (US$ million)
	Loans fully disbursed			115.4	
208 PE	1958	Callao Port Authority	Port	6.6	0.5
334 PE	1963	Peruvian Corporation	Railways	13.2	0.4
373 PE	1964	Republic of Peru	Port	3.1	0.2
418 PE	1965	Republic of Peru	Irrigation	11.0	9.0
425 PE	1965	Republic of Peru	Roads	33.0	27.6
446 PE	1966	Republic of Peru	Port	9.1	7.1
464 PE	1966	Empresas Electricas Asociadas	Power	10.0	5.6
		Total (less cancellations)		201.4	
		of which has been repaid		38.1	
		Total now outstanding		163.3	
		Amount sold	16.8		
		of which has been repaid	11.3	5.5	
		Total now held by Bank		157.8	
		Total undisbursed			50.4

(b) IDA Credits as of May 31, 1967

None

(c) Technical Assistance Activities

	Approved	Completed	Allocation	Revised Est. Cost
Highway Program Studies	May 1961	Oct.1961	$175,000	-
Roads	Oct.1964	-	$300,000	201,458.47

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.

In October 1966, Mr. Paul Craig-Martin was seconded for one year to the Government to serve as an adviser on project preparation.

(d) Access to Private Capital Markets

In December 1966 the Peruvian Government made a private placement of a long-term bonds issue for $12.5 million with a group led by Kuhn, Loeb and Co. Discussions have taken place recently with a New York group on a $15-20 million public offering of long-term bonds in the U.S., but prospects are uncertain. In late 1965 the Banco de la Nacion obtained - on behalf of the Government - a credit of $40 million from New York banks repayable in three years. In October 1966, after half had been repaid, this credit was refinanced and a new $40 million credit was obtained. In the first quarter of 1967 the Banco de la Nacion - again on behalf of the Central Government - obtained a $12 million five year credit from the Bank of Nova Scotia. Finally, in July 1967 the Government obtained directly a $40 million loan from a consortium of New York banks, led by Manufacturers Hannover, $30 million of which was used to retire short-term credit which had been made available by the banks.

(e) Bank 9% Capital Subscription

US$3.15 million. Entire amount paid and lent in dollars. The ED have authorized the increase of Peru's subscription from $35 million to $63.5 million; release of the 9% on the pending increase, $2,565,000 will be subject to discussion as soon as legal documentation is completed and increase becomes effective.

(f) IDA Subscriptions

US$1,593 million. No release.

(g) Holdings of Bank Bonds

None. Also there are no holdings in Peru of Borrowers' obligations.

(h) IFC

IFC's gross commitments in Peru amount to $8.9 million, of which $3.8 million is held by the Corporation. Outstanding investments held by the Corporation at June 30, 1967 are in Cemento Andino ($2,119,253 loan and $200,000 equity), Cemento Pacasmayo S.A. ($126,551 loan and $170,000 equity), Fertilizantes Sinteticos S.A. ($1,094,290 loan) and Luren S.A. and Ladrillos Calcareos S.A. ($115,000 loan). New commitments by IFC during 1967 amounted to $66,651. IFC is at present considering a proposal on tourist development, sponsored primarily by Braniff, Houston Hotels International and five local banks.

IFC is considering an application for an equity investment of about $4.5 million in Quinor, a new company being organized to build and operate a nitrogen fertilizer complex in Peru with proposed capacities of 600 ST/day ammonia and 650 ST/day urea. The estimated total project cost is $49.5 million.

(i) Settlement of Investment Disputes

Peru has not signed the Convention and so far has shown no interest in doing so.

VI. POLITICAL SITUATION

The Belaunde Administration is in its fourth year. It still faces a Congress, the majority of which is hostile. It faced a serious crisis in May 1967 when Congress rejected a proposal to give the Government sweeping power to increase taxes immediately. However, pressure from the military establishment led the Government and the opposition into a compromise consisting of an increase in customs duties and budget economies. The Government continues to have serious difficulties with Congress; during August, Congress was not able to meet because of the failure to elect a President of the Senate. Early in September, as a result of renewed pressure on foreign exchange reserves leading to devaluation of the sol, Belaunde's Cabinet resigned and was replaced by a new Cabinet headed by Soane, who was formerly Vice-President and is a leading contender for the succession to Belaunde as President in 1969.

In spite of the disparities existing in Peru among social classes, President Belaunde continues to project the image of Peru as a country united in an effort to improve its conditions. Preparations for the Presidential election in 1969 are beginning. President Belaunde cannot succeed himself and the activities of presidential candidates, within and without the Government Coalition Parties, is likely to decrease the effectiveness of the Administration in the next two years.

VII. ECONOMIC SITUATION

Population:	12.1 million
GNP per capita:	US$415
Foreign Exchange held by Central Reserve Bank:	US$72 million (August 31,1967)

The vigorous expansion of the economy has continued in 1966 (5.5 percent GNP increase) and into mid-1967. Export earnings grew by 15 percent in 1966. Real investment rose by close to 20 percent and there was a sharp increase in public and private consumption. Import demand increased even faster, and there was a further widening of the current account deficit in the balance of payments. This was financed by a sharp increase in external borrowing of both development loans and medium and long-term credits from foreign banks and suppliers. Moreover, official external reserves during 1966 declined after seven years of accumulation.

The worsening of the balance of payments reflected strong inflationary pressures caused mainly by the rising public deficit. The cost of living rose by 8 percent during 1966 (after a 15 percent jump in 1965) and by close to 6 percent during the first half of 1967. Fiscal performance during 1966 was poor. As Congress - controlled by opposition parties - did not vote the taxes required to meet sharply rising public expenditure, there was a growing budget deficit. Net public sector savings during 1966 probably were slightly negative; around one half of public investment was financed from net external borrowing, the other half from domestic borrowing. The poor fiscal performance in 1966 demonstrated weaknesses in budget preparation and expenditure controls. At the request of the Peruvian Government, the IMF in July 1967 sent a team to Peru to provide technical assistance in these fields.

To meet the increasingly serious fiscal problems, the Government in December 1966 obtained from Congress approval for a freeze of remuneration of the civilian personnel of the public administration. But a government proposal for a tax reform, also submitted to Congress in December 1966 failed to get support. As expenditures continued to exceed revenues by a large margin into 1967, the Minister of Finance announced in mid-May a budget deficit for 1967 of more than S/. 5 billion. To meet this situation, the government asked for sweeping powers for new taxes. After a major political struggle a compromise law was passed in late May authorizing expenditure cuts and significant increases in import duties, as well as the elimination of exemptions under the industrial promotion law. This still leaves a substantial budget deficit for 1967. At the end of August the Government sent its budget message for 1968 to Congress. The message contains proposals for substantial tax reforms as well as for a gasoline tax. If these were enacted, prospects for public finances in 1968 would appear reasonably good.

The Government's frank disclosure of the fiscal realities in May led to capital flight and to severe pressures on the exchange rate. In spite of the approval of a stand-by arrangement for Peru for US$42.5 million by the IMF Board on August 18, 1967 (the amount of Peru's first credit tranche), these pressures increased during late August. On August 31, Central Reserve Bank gross reserves stood at $72 million, while the official banking system had lost over US$140 million since the beginning of the year. On September 1 the Central Reserve Bank stopped its sale of foreign exchange and permitted the rate to move. At the same time the Government introduced a 40 percent interim export tax on the difference between the old and the new rate. It is too early to evaluate the full impact of these measures on the exchange and fiscal fronts; in part they still require Congressional approval. But as result of these recent developments there is probably a better chance for Peru to move away from the financial imbalances which have plagued the economy for some time.

Peru's external public debt, including undisbursed commitments, has risen sharply from $580 million at the end of 1964 to about US$900 million by the end of 1966. Additional borrowing has been undertaken during 1967, including a $40 million five-year loan from U.S. banks. Debt service in 1966 absorbed 10 percent of current account earnings net of profit remittances by major foreign mining companies; during the remainder of the 1960's this ratio is projected, on the basis of existing debt, to increase to close to 14 percent. If gross new borrowing of up to $150 million a year is undertaken at reasonably long-term, the debt service ratio on public and publicly guaranteed debt would increase to 15-16 percent of projected net current account receipts by 1970 and 1975. This is a heavy burden and could be sustained only if substantial progress were made toward finding a solution for the fiscal and balance of payments problems within a reasonably short period. But lending on IDA terms is not proposed since the long-term export prospects are good and debt service on existing debt is scheduled to fall sharply after 1971.

TRINIDAD & TOBAGO

CONFIDENTIAL

September 19, 1967

BRIEFING PAPER - 1967

TRINIDAD AND TOBAGO

I. MEETING WITH DELEGATION

Date: September 25, 1967 Time: 4:30 pm

Staff: Mr. Alter
Mr. Weiner

No meeting scheduled with President or Vice-President.

II. MEMBERS OF DELEGATION

F.C. PREVATT (B-F)	Minister of State for Finance
W.G. DEMAS (B)	Permanent Secretary, Ministry of Planning and Development
D.H.N. ALLEYNE (F)	Permanent Secretary, Ministry of Finance

Advisers

A.N. McLEOD	Governor, Central Bank of Trinidad and Tobago
V. BRUCE	Deputy Governor, Central Bank of Trinidad and Tobago
Mrs. K. SUN-CHEONG	Secretary to the Delegation

III. BANK PROSPECTIVE OPERATIONS

(a) The only project under advanced consideration by the Bank at this time is an education project. A UNESCO project preparation mission visited Trinidad and Tobago during June - July 1967 to help prepare the project. This would comprise secondary school expansion and teacher training colleges and the cost of the project has been tentatively estimated at $31.8 million over a four-year period. The Government and the Bank have agreed that the project would need to be rephased over a longer period and that there may be some possibility of reduction in cost. We are awaiting a Government proposal on these points before scheduling the visit of an appraisal mission.

(b) The Government has approached the IDB for assistance in the water supply and agricultural credit projects and has consequently withdrawn its earlier request to the Bank for assistance in them. In place of said projects the Government has asked whether the Bank could assist in possible tourist development projects and a citrus processing project. The Government has also confirmed its desire to seek, in due course, Bank financing for subsequent stages of its highway development program.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level

(1) Economic Matters: We might convey to the authorities our concern about the 1967 financial developments and the troublesome financial outlook for 1968. We might confirm to the authorities that Bank lending to Trinidad and Tobago would be contingent upon a satisfactory program of measures designed to raise the level of public savings and protect the balance of payments.

(2) 9% Release: Trinidad and Tobago had indicated earlier that it was prepared to release its 9% capital subscription of $2.4 million over a period of five years but has not yet made the release. We might express our hope that it was still the Government's intention to make the release and state that we would appreciate the matter being given serious consideration.

(3) IDA Membership: Trinidad and Tobago applied for membership in IDA in June 1964 but has not proceeded to fulfill the requirements for membership.

(b) To be raised by Bank at meeting with President or Senior Officer:

No meeting scheduled with President or Senior Officer.

(c) Topics likely to be raised by delegation:

The delegation might raise the topic referred to in (a) (1) above.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

(US$ millions)

Loan Year	Borrower	Purpose		Amount less Cancellations	Undisbursed Balance
293-TR 1961	Trindad and Tobago	Electric Power		23.5	4.0
486-TR 1967	Trinidad and Tobago	Agriculture		5.0	5.0
497-TR 1967	Trinidad and Tobago	Highways		8.6	8.6
	Total			37.1	17.6
	of which has been repaid			1.9	
	Total outstanding			35.2	
	Amount sold		16.1		
	of which has been repaid		1.9	14.2	
	Net amount held by Bank			21.0	

(b) IDA Credits as of July 31, 1967

Not yet member of IDA.

(c) Technical Assistance Activities

(1) 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 was signed in March 1967.

(2) Assistance was provided to the Government under the Bank/UNESCO cooperative arrangement in the preparation of an education project, mainly for secondary education. The project report was completed in August 1967.

(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 National City Bank

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

US$2.4 million. The Government earlier indicated its preparedness to make a release over a five year period but has not yet agreed to do so.

(f) IDA Subscription

Not yet a member of IDA

(g) Holdings of Bank Bonds

None

(h) I.F.C.

IFC has no investments in Trinidad and Tobago but has had preliminary discussions with respect to a hotel on Tobago. Trinidad and Tobago is not yet a member of IFC.

(i) Settlement of Investment Disputes

Government has signed and ratified the Convention.

VI. POLITICAL SITUATION

Dr. Eric Williams assumed his office of Prime Minister after the elections of 1956. He is head of the People's National Movement (PNM), which he led to victory in the election of December 1961 and again in the election of November 1966. The PNM 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.

VII. ECONOMIC SITUATION

Population:	1 million (1966)
GNP per capita:	US$670 (1966)
Gross Foreign Exchange Reserves held by the banking system:	US$27.5 million (April 1967)

The Government took a series of measure in 1966, and additional measures are being planned for 1967 to restrain the growth of consumer demand and mobilize public savings through revenue actions and limits on the growth of public current expenditures. This is being done in an attempt to relieve balance of payments pressures and to finance an expanded investment program needed for diversification of the economy. The Government has been borrowing quite heavily this year from the banking system, and if deficit financing continues on the recent scale, the country could soon run into a balance of payments crisis.

A new Finance Act was passed last fall increasing taxes on corporate and shareholders' income, and double taxation agreements were concluded with the U.S., U.K. and Canada. Legislation relating to investment in Trinidad and Tobago of insurance company assets was also encacted which improves the prospects for public borrowing. The Government has also requested Public Utility Commission approval of substantial increases in charges for water and sewerage, bus fares (which were raised by 30 percent) and power rates. Progress is already being achieved in reducing the operating deficits of the public undertakings through the laying off of redundant workers and improving efficiency. The Government has also decided to cover the operating deficits of the public undertakings in the form of loans rather than grants as an additional step in obtaining their financial viability at maximum speed. Plans are well advanced for the establishment of a national lottery and a social security scheme, which would generate additional savings. An Industrial Court, established over a year ago, has considerably reduced the earlier problem of insupportable wage increases and labor instability, and major wage settlements in 1966 were in line with government policy of limiting real wage increases to one percent per year over the next three years. These measures are planned to be supplemented by monetary policies directed at regulating consumption-type commercial bank credit and hire-purchase financing.

Statements made by the Trinidad and Tobago delegation at the CIAP meeting held from September 11 to 15, 1967, indicated that the fiscal and balance of payments outlook for 1968 and 1969 pointed toward substantial gaps even with the fiscal and other measures at present being contemplated. It is the announced policy of the Government to raise in 1968 TT$16 million in additional revenues. But the growth of current expenditures will all but nullify this, leaving on the basis of the official projections very little public savings to finance the TT$76.5 public investment program. Therefore, if the authorities

wish to go ahead with this very high level of public investment, a substantial additional fiscal effort is called for. Next year's Budget is due to be introduced in December. With the elections just past, this is the time when the Government should be in the strongest position to take unpopular measures. At the CIAP meeting it was made clear that if the situation were to be such that public savings would finance less than one-quarter of 1968 public investments the Bank would find it very difficult to continue financing loans for Trinidad and Tobago's development effort.

It may well be that the fiscal prospects for 1968 are better than the authorities see them (primarily because of a pessimistic forecast of current revenues)but still the financing gap could remain very substantial. To help in covering the gap the authorities are counting upon a £3 million issue to be placed in London in 1968, but this too is uncertain.(The Government was unsuccessful in its efforts to secure a private placement in New York this year).

A fresh review of the Government's fiscal performance will be called for early in 1968, and we would expect to send an economic mission to Trinidad in February or March.

UK CARIBBEAN TERRITORIES

CONFIDENTIAL

September 7, 1967

BRIEFING PAPER - 1967

U.K. CARIBBEAN TERRITORIES

I. MEMBERSHIP

Barbados became independent on November 30, 1966 but has not yet applied for membership in either the Fund or the Bank. (No observers have been invited to the Annual Meeting).

All of the Windward and Leeward Islands, except for Montserrat, early this year became "associate states" of the United Kingdom. However, as external affairs are still handled by the U.K. the said islands cannot become members of the Fund or the Bank in their own right.

Montserrat and British Honduras will remain for the time being as dependent territories of the U.K.

II. ECONOMIC SITUATION

(a) Barbados: Barbados' per capita income appears to be in the region of US$400 a year, while its balance of payments position is fairly favorable. Barbados therefore, if it joins the Bank and Fund, would probably be ineligible for IDA assistance under both the poverty and creditworthiness criteria.

(b) Windward and Leeward Islands: The present per capita income of the islands is probably around US$250 a year, and all are dependent on the United Kingdom for budgetary support. They might therefore be considered eligible for IDA assistance on grounds both of poverty and lack of creditworthiness. We have no basis at present on which to assess their performance.

IV. OPERATIONAL MATTERS

(1) Caribbean Development Bank: The UNDP Preparatory Mission completed its report on the proposed Caribbean Development Bank. The mission concluded that there is ample justification for the establishment of such an institution and reported that all of the regional countries and territories strongly support the proposal and are prepared to subscribe to 60 percent of the Bank's equity capital. The Governments of the U.S., U.K. and Canada continue to be interested in supporting the proposed Bank. An intergovernmental conference to consider its report, recommended by the mission, is scheduled to be held in mid-October in Barbados.

(2) St. Kitts/Nevis/Anguilla: The Bank has under review a request from the state of St. Kitts/Nevis/Anguilla for assistance in the financing of an airport project (estimated at a total cost of US$4.0 million) and a port improvement project (estimated at a total cost of US$2.0 million). Projects Department is now reviewing the information received from the State. The populace of Anguilla revolted against St. Kitts in June this year; so far the outstanding issues have not been resolved. Since the proposed projects are both on the island of St. Kitts, however, this situation is not likely to affect them in a significant way.

URUGUAY

CONFIDENTIAL

September 6, 1967

BRIEFING PAPER - 1967

URUGUAY

I. MEETING WITH DELEGATION

Date: Thursday, September 26 Time: 12.00 noon

Attended by: Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

III. BANK/IDA PROSPECTIVE OPERATIONS

Loans presently under consideration:

Uruguay's present unsatisfactory economic situation and policies make it unlikely that Bank lending to Uruguay can be resumed at an early stage.

If, however, Uruguay adopts economic policy measures satisfactory to the Bank the following operations whose status is outlined below would be appropriate for consideration:

Purpose	Amount (in US$ million)	Status	Tentative Date for Negotiations
Power	To be determined	A Loan application from UTE for power expansion has been under consideration by the Bank since 1964. The Bank made it a requirement before considering a loan that appropriate power tariff legislation would have to be introduced. Initial indications were that the Government was prepared to take this measure. However, recently the new Government informed us that Congress was unwilling to pass the agreed-upon Tariff Law. In lieu of this law an executive decree was issued which provides for a substantial increase in power tariffs. In the meantime, UTE contracted the fabrication of the equipment with a consortium of European firms, some of which has already been delivered, but on account of the Bank's policy on disbursements for past expenditures, the financing of the original project has been ruled out. A Bank mission was scheduled to visit Uruguay by mid-August 1967 to update information on the power sector. In view of staff unavailability and of Uruguay's unsatisfactory economic situation, this mission has been postponed.	Uncertain

Purpose	Amount (in US$ million)	Status	Tentative Date for Negotiations
Livestock	15 - 20	Because of the rapid utilization of the first two livestock development loans and particularly since the total amount of the second loan is expected to be fully disbursed by March 1968, the Uruguayans are expected to request a third livestock development loan in an approximate amount of US$15 - 20 million to be effective by mid-1968.	First half 1968

IV. TOPICS FOR DISCUSSION

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

(i) Bank Position on Lending. The delegation should be informed that with Uruguay's present economic and financial policies (see Section VII on Economic Situation) there is no basis for further Bank lending to Uruguay. Resumption of lending will require a fundamental redirection of economic policies which should include a financial program designed to restore the bases of Uruguay's economic viability and growth.

(ii) 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 due Ur$3,749,164.49 (US$506,643.85), following devaluation of the peso in October 1960 to Ur$7.40 = US$1.00. A note for the above amount was deposited in January 1966 but the Bank requires a certificate from the Government certifying to the validity of the note before it can be approved. The Bank has requested this certificate on various dates. By letter dated April 27, 1967, the Minister of Finance advised that the certificate was being prepared. It has not been received at this date. The Bank's Legal Department agreed that as at June 30, 1967 for Balance Sheet presentation, the above-mentioned note could be shown as payment received. The note will be officially approved when a certificate has been submitted. We should inquire when the certificate will be submitted to the Bank.

(iii) 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. Payment of the first of the next five semi-annual installments is to be made on September 30, 1967. In a letter dated August 21, 1967 to the Minister of Finance, the Bank requested confirmation of the resumption of this release. No reply has been received and we should inquire as to the status of the release.

(iv) Extension of the Closing Date of Loan 324-UR. A number of difficulties caused a late initiation of this Project for which a Loan was signed in 1962. In December 1966, the Government requested an extension of the Closing Date until June 1969. In view of the progress made during 1966, the Bank agreed on an initial one-year extension until December 1967, with the understanding that an additional extension through June 1969 would depend on satisfactory progress on construction and on the implementation of the Consultants' recommendations on Highway Planning and Maintenance. We should stress the importance of fulfillment of the above conditions for continuing with disbursements beyond the present Closing Date.

(b) Likely to be Raised by Delegation:

UTE - Bank mission to update information on power sector. The Uruguayan delegation may inquire about the timing of this mission which had originally been scheduled for mid-August. We should indicate that scheduling of such a mission would depend on sufficient evidence of improved economic conditions so as to warrant consideration of possible Bank lending.

Request by the Government for Technical Assistance in preparing an Agricultural and Livestock Development Program. In May 1967, the Government requested Bank technical assistance for the definition of an overall agricultural policy, the formulation of specific programs and the preparation of a Third Livestock Development Loan. We should reiterate to the delegation that apart from the difficulty of finding a suitable expert for this assignment, which may involve two or three months, it would hardly appear feasible to define agricultural policies in this sector in the absence of an overall framework of economic policies designed to overcome Uruguay's present economic difficulties, and to assure resumption of economic growth.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 15, 1967:

(In millions of US$)

Year Year	No. No.	Borrower	Purpose		Amount less Cancellations	Undisbursed Balance
1950	30	UTE	Power Development and telephones		33.0	00.0
1955	132	UTE	Power development		5.5	00.0
1956	152	UTE	Power development		25.5	00.0
1959	245	Republica Oriental del Uruguay	Livestock improvement		7.0	00.0
1962	324	Republica Oriental del Uruguay	Highways		18.5	9.1
1965	407	Republica Oriental del Uruguay	Livestock development		12.7	6.3
		Total			102.2	15.4
		of which has been repaid			31.5	
		Total outstanding			70.7	
		Amount sold		3.3		
		of which has been repaid		3.2	.1	
		Net amount held by Bank			70.6	

(b) IDA credits as of August 15, 1967:

None. Uruguay is not a member.

(c) Technical Assistance Activities:

A request has been received for Technical Assistance for the definition of overall policies in the agricultural and livestock sectors and for the preparation of a Third Livestock Development Program. [See IV(b)]

(d) Access to Private Capital Markets:

None.

(e) Bank 9% of 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

Since 1952, Uruguay has been ruled by a Council system of Government under which the executive power was exercised collectively by majority vote with the chairmanship being rotated among the council members from the majority party.

In November 1966, the Uruguayans voted for a major reform in the constitution which substituted for the council system a single executive presidency. At the same time, presidential and congressional elections were held. Oscar Gestido, a retired airforce general, was elected President of Uruguay by majority vote and his Colorado Party gained a slim majority in Congress.

The new Government took office on March 1, 1967, and placed highest priority on ending Uruguay's decade of economic stagnation and more recent spiraling inflation. In order to enable the Executive Power to deal effectively with the country's pressing economic and financial problems, the Government drafted the so-called "Emergency Law" designed to give it far-reaching powers in the fields of fiscal, monetary, incomes and foreign trade policies. The law was presented to Congress on June 2, 1967. However, a number of Congressional amendments designed to take the strength out of the law have been proposed and the Government's intended freedom of action in economic policy matters therefore remains uncertain and especially since the present Gestido Government does not command the loyal support of the various parties composing the Colorado Government. After the Cabinet crisis in June which saw the resignation of the key Ministers of Finance and of Industry and Commerce, the Government has lost effective majority in Congress.

VII. ECONOMIC SITUATION

Population	2.7 million (1966)
GNP per capita	About US$575 (1966)
Gross Foreign Exchange Reserves	US$177.7 million (May 1967)

Uruguay's economic performance during the past decade has been poor. Per capita income during this period declined from US$650 to US$575, due in part to circumstances beyond Uruguay's control, such as weather vicissitudes and declining wool prices, but for the most part occasioned by unsatisfactory fiscal, monetary and balance of payments policies. A spiraling inflation (90 percent in 1965) culminated into a financial crisis of major proportion in that year and led the authorities to adopt a stabilization program which in 1966 was supported by the International Monetary Fund which concluded a Standby Agreement with the Uruguayan Government in June of that year. While during the first months of the stabilization program some degree of financial stability was attained, by the end of 1966 the financial program collapsed and Uruguay became ineligible to draw on the Fund's resources.

A mission from the International Monetary Fund - to which a Bank staff member was attached - visited Uruguay in June/July 1967 for Article XIV consultations and to negotiate a new stand-by agreement. The principal objectives of a financial program which the mission sought to negotiate were a sharp deceleration in the presently very high rate of inflation, and to secure a balance of payments performance consistent with Uruguay's obligation to liquidate a sizeable portion of its short-term foreign debt this year and next.

Confronting a situation in which the fiscal deficit has assumed nearly astronomical dimensions (and with a Congress in no mood to authorize additional revenue measures) and taking into account the need to achieve a large external payments surplus, the mission recommended a massive devaluation, involving nearly a doubling of the present rate of Ur$88 per US dollar. The authorities, however, while recognizing the immediate fiscal and balance of payments benefits of such an exchange rate policy, feared that a very large devaluation would spark massive wage adjustments in both the private and the public sector. During the mission's stay in Uruguay a cabinet crisis of substantial importance occurred, reflecting differences of opinion within the Government with respect to the type of economic policy needed to confront the present difficult financial situation. The new Minister of Finance, therefore, requested to postpone further talks until he is fully acquainted with the whole range of Uruguay's financial problems.

Information that has recently become available indicates that the authorities have decided upon a set of policies substantially different from those recommended by the International Monetary

Fund. In particular, import and exchange controls have been introduced and the earlier problem of a dual exchange rate has re-emerged. These measures - together with a recent grossly insufficient 12 percent devaluation of the peso - indicate that the authorities are unable to design a sensible financial program. The Governor of Uruguay's Central Bank recently tendered his resignation which, however, was not accepted by President Gestido.

It is clear that an agreement with the International Monetary Fund is out of the question. The prospects are now for Uruguay to continue with thoroughly inadequate fiscal, monetary and balance of payments policies. Consequently, there is no basis for considering further lending to Uruguay at this time. To permit resumption of lending to Uruguay would require a fundamental redirection of economic policy which should consist of a financial program agreed upon with the IMF and other policies designed to restore the bases of Uruguay's economic viability and growth.

VENEZUELA

CONFIDENTIAL

September 6, 1967

BRIEFING PAPER - 1967

VENEZUELA

I. MEETING WITH DELEGATION

Date: Tuesday, September 26, 1967 Time: 5:30 p.m.

Attended by: Staff: Mr. Alter
Mr. Weiner

II. MEMBERS OF DELEGATION

General Rafael Alfonzo 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. Isaac Chocron (B)	Adviser, Corporacion Venezolana de Fomento.
Mr. Alfredo Machado Gomez (F)	Governor of Fund for Venezuela; President, Banco Central de Venezuela.

Mr. Carlos Gonzalez Naranjo (F)	Temporary Alternate Governor of Fund for Venezuela; Director General, Ministry of Finance.
Mr. Ernesto Peltzer (F)	Financial Adviser, Banco Central de Venezuela.
Mr. Samuel Rieber (F)	Assistant to the President, Banco Central de Venezuela.
Mr. Marcos Sandoval (F)	Chief, Economic Research Department, Banco Central de Venezuela.
Mr. Robert Guarnieri (F)	Adviser, Economic Research Dept., Banco Central de Venezuela.

III. BANK/IDA PROSPECTIVE OPERATIONS

Loans presently under consideration:

Purpose	Amount ($ Million)	Status	Tentative Date for Negotiations
1. Third Highway Loan	20.0	Appraisal report completed; awaiting authorizing legislation	November 1967
2. Port Expansion and Improvement (Puerto Cabello)	3.0 - 5.0	Awaiting Government proposal for port administration and organization prior to sending supplemental appraisal mission	Mid-1968

In January 1966, the Loan Committee approved a proposed Bank lending program in the order of $200 million on the conditions that (a) the Venezuelan Government adopt revenue measures along the lines discussed with the 1965 Bank economic mission, and (b) the Government's 1965-1968 public investment program proceed satisfactorily. Although some important tax measures were adopted in December 1966, the level of public investment fell considerably short of targets in 1965 and 1966, chiefly because of the postponement of and delays in preparation of projects. Thus far in 1967, there has been some improvement in project readiness but the gap between actual public investment levels and targets has continued. Consequently, financing requirements of the public sector have been, and still remain, between 20-25% lower than originally estimated; correspondingly there has been a smaller need for foreign financing.

When a lending program for Venezuela was considered in January 1966, the Loan Committee decided that under conditions of reduced Bank lending to Venezuela, it would be appropriate to concentrate on sectors where help was needed and in which influence could be exerted to generate institutional improvements. Accordingly, the Bank has been discussing with the Venezuelan Government the following projects in the field of agriculture which are in various stages of preparation:

Project	Probable Amount of Loan Request ($ Million)	Tentative Date for Appraisal
1. Orinoco Agriculture	10.0	Early 1969
2. Agricultural Credit	10.0	Mid-1968
3. Fourth Highway Loan (Rural feeder roads)	10.0	Mid-1968
4. Zulia Drainage and Livestock Development	10.0	Late 1968

IV. TOPICS FOR DISCUSSION

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

(i) Bank lending position

The Bank's present position with respect to lending should be reiterated to the Venezuelan Delegation. We should indicate that in view of Venezuela's favorable economic position, and the uncertainties concerning the availability of Bank resources, we do not propose to consider lending at the level and in the composition discussed early in 1966 with the Venezuelan Government. However, we would wish to concentrate our reduced lending in sectors - mainly agriculture - where help is needed and institutional building required.

(ii) Problem Project - Metropolitan Water Supply Project (Loan 444-VE)

The Venezuelan Delegation should be informed that the rate covenant and the Borrower's other commitments concerning financial targets are not being met for 1967, and it is quite clear that the corresponding commitments to achieve the results for 1968 (to become effective January 1, 1968) will not be met. The failure to meet the commitment can be attributed to mounting operating costs and a still unsatisfactory rate structure. We should indicate to the Venezuelan Delegation that the Bank will review rates with the Borrower at the end of September, as called for in the loan documents; but unless the Borrower undertakes a program of clear-cut measures to meet the financial targets specified in the loan documents, it will be difficult not to suspend disbursements.

(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 some measures to speed up the processing of withdrawal applications, delays in disbursements have continued. We should reiterate to the Venezuelan Delegation our earlier requests that action should be taken to ensure that the Loan Accounts will more accurately reflect the progress in execution of these projects.

(iv) IDA MEmbership

We should again take the opportunity to discuss Venezuela's membership in IDA. 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 $7.06 million, including $706,000 in gold and foreign exchange).

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

No meeting scheduled.

(c) Likely to be raised by Delegation:

(i) Revised Zulia Agricultural Project

The Venezuelan Delegation can be expected to reiterate the Government's request for a revised project for drainage works and livestock development in the western state of Zulia. We should refer to our suggestion (letter of July 27, 1967, from Mr. Reitter to the Director of CORDIPLAN) for a Bank pre-appraisal mission to ensure clear definition and scope of the project and to arrange for project preparation.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

US$ Millions)

Year	No.	Borrower	Purpose		Amount less Cancellations	Undisbursed Balance
1961	306-VE	Republic of Venezuela	Express Highways		45.0	0.9
1963	353-VE	EDELCA	Electric Power		85.0	36.7
1964	390-VE	Republic of Venezuela	Highways		30.0	17.6
1964	391-VE	CADAFE	Power Transmission		14.0	0.9
1965	435-VE	CANTV	Telecommunications		37.0	23.5
1966	444-VE	INOS	Water Supply		21.3	10.4
1967	482-VE	EDELCA	Power Transmission		15.0	12.9
	Total				247.3	102.9
	of which has been repaid				3.5	
	Total now outstanding				243.8	
	Amount sold			13.5		
	of which has been repaid			3.3	10.2	
	Net amount now held by Bank				233.6	

(b) IDA Credits as of May 31, 1967

None.

(c) Technical Assistance Activities

None pending at present.

(d) Access to Private Capital Markets

Of a total of $28 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. The foregoing firms have been requested by the Venezuelan Government to explore the possibilities of a second bond issue abroad (probably in the order of $15-20 million). It is unlikely, however, 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: $16,803,000

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 amount outstanding on Bank loans is being released in U.S. dollars upon repayment by borrowers (equivalent of $1,890,000). The Government has agreed also to release, in U.S. dollars, the 9% paid-in portion (equivalent of $4,203,000) of its latest increase in its capital subscription over a period of three years. We are awaiting a reply from the Government that they will make the first payment during 1967.

(f) IDA Subscription

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

(g) Holdings of World Bank Bonds

The Central Bank purchased $10 million of the 2-year special issue of March 1967. The Venezuelan Government and representatives of the Central Bank should be reminded of the next issue of this type with a view toward their again becoming a subscriber. We should reiterate this point to the Venezuelan Delegation.

(h) I.F.C.

(i) Investment Department

IFC's gross commitments in Venezuela amount to US$4.2 million. At June 30, 1967, the Corporation held a loan of US$430,200 in Domínguez y Cía. Two previous IFC industrial investments in Venezuela have been retired and no further projects are under active consideration.

(ii) Development Banks

IFC's Investment in CAVENDES

Form	Amount	Date Approved	Portion Sold (Cost)
Common shares	$1,336,183	Oct. 15, 1963	-
Loan 1/	7,500,000	Aug. 10, 1967	-

1/ Option: Right to subscribe at par, until February 1, 1984, up to 112,500 shares of common stock of Bs. 100 par value each. At present rate of exchange this is equivalent to one-third of the loan ($2.5 million).

IFC is represented on the Board of Directors of CAVENDES by Mr. A. G. Arango.

Major Issue

The loan has not been signed (as of August 25) because of disagreements between CAVENDES and Venezuelan authorities about the corporate action needed to safeguard the option agreed to be granted to IFC.

(i) Convention on the Settlement of Investment Disputes

Venezuela, like 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.

The AD party, which obtained only 32.8 percent of the popular vote in the 1963 presidential election, rules through a fairly weak coalition with the third largest political party - the Union Republicana Democratica (URD). Although the Government still commands a slight majority in the Congress, political opposition to the administration 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 year as the lines are drawn for the presidential election of December 1968.

The present Government is continuing ex-President Betancourt's policies for raising the country's rate of growth and reducing unemployment. During 1967, President Leoni's efforts to interest private enterprise in participating with the Government in investing in the petrochemical industry has met with some success. In other fields of industry the Government has also successfully continued the policy of welcoming investment from abroad and joint private enterprises of foreign and domestic firms.

VII. ECONOMIC SITUATION

Population (1966):	9 million
GNP per capita (1965):	US$860
Foreign Exchange Reserves (May 31, 1967):	US$800 million

From 1962 to 1965 the Venezuelan economy expanded at the high average rate of almost 7 percent 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. Overall expansion of the economy for 1966 was estimated at about 4 percent.

Before the outbreak of the recent war in the Middle East, Venezuela was facing steadily increasing competition from Middle Eastern and North African oil producers, and the output for the first quarter was still below the level for the corresponding period in 1966. Recent developments in the international market, however, indicate prospects for a greater increase in oil production and exports over the medium term than expected earlier.

The general upswing in the non-petroleum sectors of the economy has been supported by some increase in public works, especially road-building, by a revival of private construction, until 1966, 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 percent per year without the support of major new investments. Private consumption and savings, both private and public, have increased substantially, unemployment has diminished, and prices have risen only by about 3-1/2 percent annually over the past few years. While investment in the public sector has risen less than envisaged when the last economic report was prepared, the Venezuelan Government has taken action to raise additional revenues to help finance its development program in the coming years. The Government now expects to finance its revised public sector investment program in 1967 with less borrowing than envisaged in its 1965-1968 development program.

The recovery of production since 1962 has proceeded simultaneously with the continued strengthening of the balance of payments. Foreign exchange reserves have increased substantially and have remained at a high level of $800 million at the end of May 1967. 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, 1966, amounted to $454 million (including undisbursed).

Venezuela's debt service ratio was estimated to be less than 3 percent for 1966. In the report of the Bank mission of 1965, it was estimated that Venezuela's foreign debt service at the end of the Government's 1965-1968 development plan period would be between 3 and 4 percent of export earnings. In view of the slower pace of public sector investment than originally forecast and the consequent need for less external borrowing, it now appears the foreign debt service will be somewhat lower. In the light of present prospects for the economy, there will remain a significant margin for additional borrowing on conventional terms, for which Venezuela continues to be creditworthy.

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