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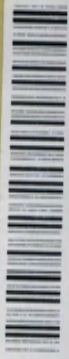
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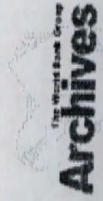
McNamara copy

Travel brief - United Kingdom, Switzerland
and Spain, Apr-21 - May 1, 1971 (Spain)

Folder 3 of 3



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Travel Briefings: United Kingdom, Switzerland, and Spain - Travel briefs, Spain

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WBG Archives

Mr. McNamara's visit to Spain

April 27 - May 1, 1971

Briefing Book

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Mr. McNamara's visit to Spain

Itinerary

<u>Date and Time</u>	<u>Place</u>	<u>Meeting</u>	<u>Remarks</u>
<u>Tuesday April 27</u>			
20:00	Madrid		
20:00	Arrival Airport	Sr. Monreal Minister of Finance	
20:15	"	-	Statement
20:45	Departure to Hotel Ritz		
21:15	Hotel Ritz		
21:45	"	Free dinner	
<u>Wednesday April 28</u>			
<u>Madrid</u>			
10:00 10:30	Pardo Palace	General Franco	Accompanied by <i>Velez</i> Minister of Finance <i>on bank world-</i>
	<i>long-term pol. developments - long period of stability with during past 16 yrs - in some ways, an economic functioning of state apparatus; & planning toward West. Euro-</i>		
11:00 11:15	Zarzuela Palace	Juan Carlos Prince of Spain	ditto
	<i>mid-term pol. outlook pol. liberalization modern industrial</i>		
12:00	Presidence of Government	Admiral Carrero Blanco Vice President of Government	ditto
<i>And would</i>	<i>long-term pol. devel. comp. of Spain's economic pres. with general pres. with France, Spain & Turkey & EEC</i>		
13:00	Ministry of Finance	Sr. Monreal	
14:00	"	"	Private lunch
16:00 19:00	Presidence of Government	Sr. López Rodó <i>López Rodó</i>	<i>PLANNING</i>
17:00 16:00	"	Minister of Education	Sr. Villar Palasi
18:00 18:15	"	Minister of Agriculture	Sr. Tomás Allende <i>Honoring</i>
19:00 17:00	Presidence of Government	Minister of Public Works RENFE	Sr. F. de la Mora Sr. Lozano (RENFE)
	<i>Plan to chin. deficit - yrs?</i>		
20:00 21:00		Free dinner	

*our role as catalyst
for reform
we need to know their
fin. plan: total bank &
private inv. by sector
& source of funds -
bank. assets how (152 or 3029 BNP
for rest of fund) - what
are their plans for raising taxes
what are their plans for long-term
fin. abroad.*

<u>Date and Time</u>	<u>Place</u>	<u>Meeting</u>	<u>Remarks</u>
<u>Thursday April 29</u>	<u>Sevilla</u>		
08:00	Departure by plane for Sevilla		Accompanied by Minister of Agriculture
09:00	Arrival Sevilla		<i>mtb</i>
09:30	Agency for Livestock Development (Loan 633 SP)	Sr. del Pozo Director	Briefing on project
10:15	"	Livestock breeders	
11:15	Visit to farms and city of Sevilla		
13:00 <i>12:30</i>	Departure by plane to Barcelona - Lunch on plane		Accompanied by Minister of Finance
<i>14:00</i>	<i>lunch at Alberca Pelicote</i>		
<i>14:30</i>	<u>Barcelona</u>		
15:00	Arrival Barcelona		
15:30	University	Rector and Professors	Dr. J. Sarda (economist)
<i>16:30</i>	<i>mtg with business men</i>		
17:00	Chamber of Commerce	Industrialists	Sres. -Ribera-Rovira (Pres. Chamber of Commerce) -Durán (Maquinista Terrestre de Porcioles IMPACSA) -Trias-Fargas (Textiles) -Sanchez-Cortes (SEAT)
<i>18:30</i> 19:30	Visit of Picasso Museum		
21:00		Free dinner	
--	Hotel Avenida Palace		

<u>Date and Time</u>	<u>Place</u>	<u>Meeting</u>	<u>Remarks</u>
<u>Friday April 30</u>	<u>Madrid</u>		
08:00	Departure from Barcelona		
08:45	Arrival Madrid		
09:15 09:15	University of Madrid	Rector and Professors	
10:30	CAMPESA	Sr. Silva Muñoz, President of CAMPESA	
11:30	Superior Council of Chambers of Commerce	Industrialists	Representatives of Steel industry Shipbuilding Metallurgy Chemicals
14:00		Lunch	-Sr. López de Letona (Minister of In- dustry) -Sr. Boada (President INI)
17:00	Bank of Spain	Bankers	Sres. -Aguirre Gozalo (BANESTO) -Tejero (Hispano-Americano) -Reign (Banco Central) -Collar (Banco de Bilbao) -de Careaga (Banco de Viscaya) -Camacho Banos (Banco Popular) -Botin-Sanz (Banco de San- tander) -Fierro (Banco Ibérico)
19:00	-	Sr. Coronel de Palma (Governor)	
21:00	-	Official dinner <i>BA of Spain</i>	Black-tie

<u>Date and Time</u>	<u>Place</u>	<u>Meeting</u>	<u>Remarks</u>
<u>Saturday May 1</u>	<u>Madrid</u>		
08:00	Hotel Ritz	Separate meetings with two prominent non-Government personalities	
09:00 10:00	Prado Museum	Special Visit	
12:30/1330	Departure Madrid airport	IB 951	
15:10	Arrival New York		

Visit to Spain

of

Mr. and Mrs. MCNAMARA

MADAM: YOUR PROGRAM

Wednesday April 28

- 11:30 - Touristic visit to Toledo.
- 13:00 - Lunch at "El Cigarral", Cerro del Palo.
- 15:00 - Sightseeing of Toledo
- 17:30 - Return to Madrid.
- 18:30 - Arrival to Madrid.

Thursday April 29

- 8:00 - Departure by special plane for Sevilla.
- 9:00 - Arrival Sevilla, Tablada Airport.
- 9:30 - Visit to the "Parque de María Luisa", "Barrio de Santa Cruz" and to the Cathedral.
- 11:30 - Rest and Cocktail at the Bank of Spain, in Sevilla.
- 12:30 - Departure by plane, San Pablo Airport, Sevilla, to Barcelona.
- 14:00 - Arrival Barcelona, Prat Airport.
- 14:30 - Lunch at Albeniz Palacete with local authorities.
- 16:30 - Visit to the "Pueblo Español" and "Barrio Gótico".
- 18:30 - Visit to Picasso Museum
- 21:00 - Hotel Avenida Palace. Free dinner.

Friday April 30

- 10:30 - Visit to the "Palacio Real"
- 12:30 - Visit to the "Convento de las Descalzas Reales".
- 13:30 - Lunch at JOCKEY CLUB, offered by Mrs. Monreal Luque.
- 16:00 - Visit to two Educational Institutions.
- 21:00 - Official dinner at the Bank of Spain offered by the Minister of Finance (long dress)

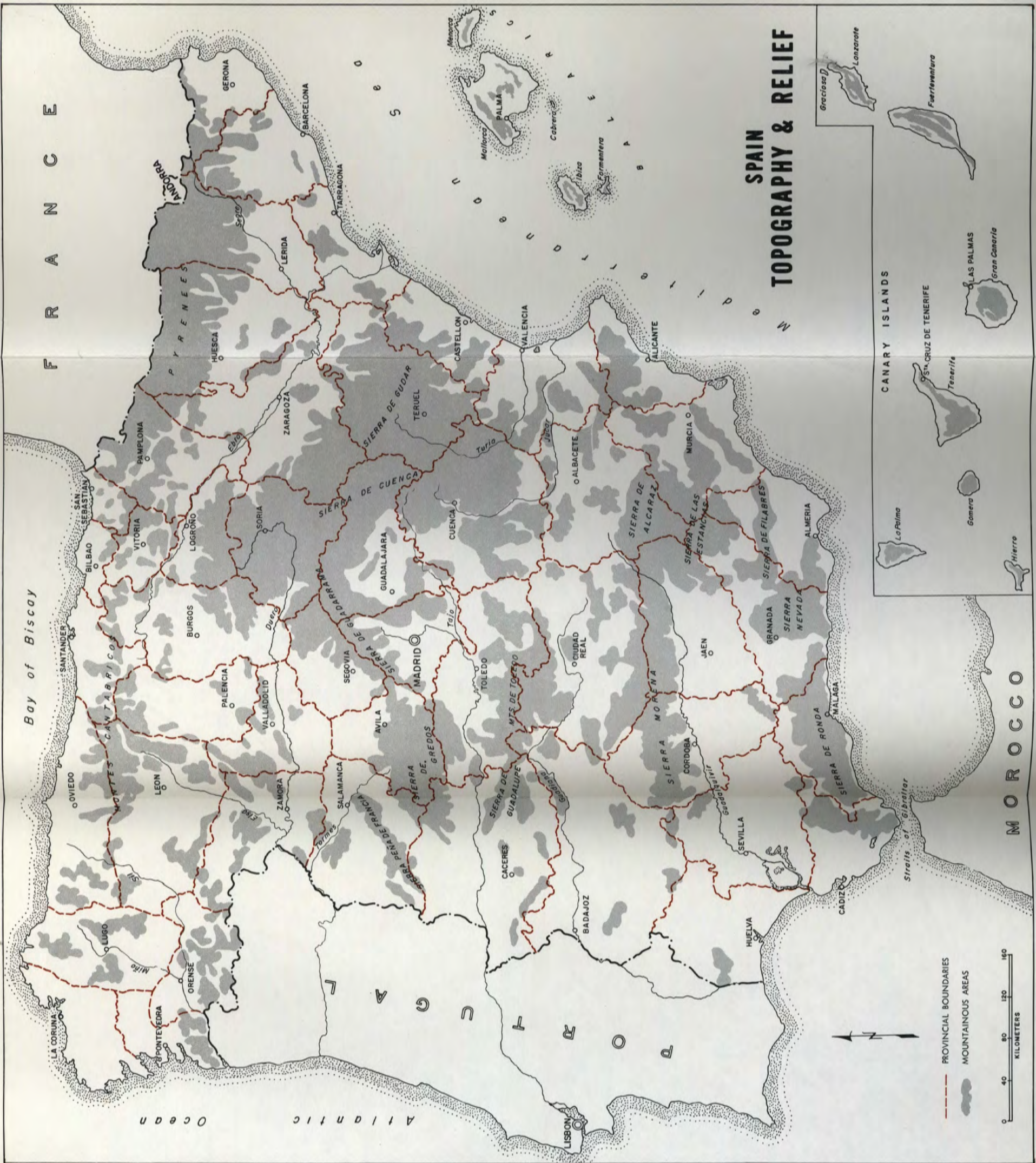
Saturday May 1

9:00 - Special visit to Prado Museum

13:15 - Arrival to Barajas Airport.

13:30 - Departure for Washington.

...



April 27, 1971

Remarks at Madrid Airport on Arrival in Spain

I am delighted to be here in Spain. I have come at the invitation of the Spanish Government -- extended through the Minister of Finance and Spanish Governor in the World Bank Group -- so that I might have an opportunity to learn at first hand more about your plans for social and economic advance.

The World Bank is, of course, a rather specialized institution. It is not a bank in the simple, conventional sense -- but a development agency. World Bank loans are loans, made at concessional rates, of very scarce development capital. We are a Bank of last resort for those nations that cannot raise enough money in the private capital market. It is a mark of Spain's economic progress that the country has now reached the point where her eligibility for World Bank loans is only marginal. Therefore, our lending in Spain is directed to contributing specifically to those sectors and projects in which the nation wishes to undertake institutional reform: reform that will accelerate the quality of life for all.

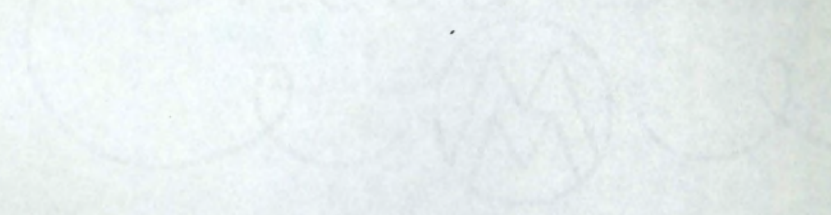
The Bank's relationship with Spain is not a new one. At the request of the Government, we first sent a mission here in 1961. Its report laid the foundation for the preparation of Spain's First Economic and Social Development Plan. Growing out of our survey, Bank lending in Spain started in 1963. Loans totaling \$225 million -- for roads, railroads and ports, and for agriculture and education -- have over the years helped finance projects which, in turn, have encouraged and entailed structural reforms and change: change in procedures, change in techniques, change involving new approaches to complex problems. Our goal has always been to shape our assistance so that it could be of maximum effectiveness and benefit for the Spanish people.

Our assistance to projects in the fields of education and livestock development are significant examples of what Spain and the World Bank, working together, have sought to do. The education project is helping the first stage of a fundamental and far-reaching reform of the educational system. It is our plan to continue working together with the Government in this field in the coming years. The livestock project arose out of a Bank study of Spain's agricultural sector, in cooperation with the Government and the Food and Agricultural Organization of the United Nations. The purpose of this loan was to help Spain to adapt her agricultural output to changing demand, and to give effect to new policies. This loan will be followed by a project for agricultural research, which will be the first Bank Group operation wholly concerned with this important subject. And looking further ahead, we expect to be of assistance in assessing Spain's position and prospects for industrial development, as well as to continue our aid in the transport sector.

As Spain has grown and moved ahead, she in turn has contributed to the World Bank Group's efforts to give greater assistance to those less advantaged member countries. As a contributor to the International Development Association, Spain has shown that she is willing and able to give as well as to receive. This strengthens our determination to work together with your Government and your people to intensify and accelerate that social and economic development that is the common concern of men of reason and good will everywhere.

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Mead Paper



U.S.A.

S P A I N

A. HISTORICAL AND POLITICAL BACKGROUND

Introduction

1. The major feature of today's Spain is certainly the stability and closed nature of its political and social system. The Franco regime, which can be characterized as a pragmatic authoritarian system, has been in power for more than 30 years, a nearly unmatched record of stability. Because of its origins and enduring features, it has long been kept away from the international political scene; lately however, its diplomatic status has improved, along with the cautious moves towards liberalization and the opening to the outside which took place in the past decade. This situation has deeply influenced the life of the country. Spanish society aspires in part to be modern, and even progressive, but is still dominated by old rigidities and a conservative way of life based on strong religious and family traditions.

Historical Background

2. From the 8th to the 11th century Spain was dominated by the Moors and it is not until 1492 that the last Moorish kingdom, Granada, fell under the pressure of the Reconquest. The Southern part of Spain still retains the imprint of the long Moorish domination in architecture as well as in the physical features of its people.

3. The following three centuries saw a considerable expansion of Spain's power both in Continental Europe and overseas under the Hapsburg dynasty and later the Bourbons. After the Napoleonic wars in the early 19th century, Spain entered a period of internal political difficulties marked by rivalries between branches of the dynasty claiming the throne and by revolutions. Weakened by internal instability, Spain was not able to retain its American colonies most of which gained independence in the first half of the nineteenth century. After the Spanish-American war in 1898, Spain lost Cuba, Puerto Rico and the Philippines.

4. Continued political confusion beset the ailing Spanish monarchy in the first decades of this century. Although still formally a realm, the country was ruled by a dictator, Primo de Rivera in 1923-1930. The dictatorship ended up in 1931 with a revolution which prompted the abdication of the King Alfonso XIII and established the Republic. The new regime did not prove able to overcome the strife between political parties and had to face a revolt of the high military command in 1936 when General Franco led his troops from Morocco into Spain. This action started a long and bloody civil war which left Spain exhausted and deeply split when the Republic eventually fell and General Franco became Chief of State in 1939.

Political Background

5. Politically, Spain remains a Monarchy without a king. The succession Law of 1947 made Franco Chief of State and Head of the Government for life and provided for restoration of the Monarchy after his death or in the event of his incapacity. In December 1966, a new Constitutional Law was approved by referendum; its provisions include a separation of the functions of Chief of State and Head of the Government, an increase in the number of delegates to the National Assembly (Cortes), and elections on a more representative basis. While the provisions concerning the Cortes were implemented through elections in October 1967, no Head of the Government has still been nominated.

6. Franco's regime is a system without very clear-cut ideological boundaries. As a result, and unlike most other authoritarian governments, it lacks a major political organization on which to base leadership and mobilize support. The nominal state party, the Falange has never been in a dominant position in the Spanish state. Its genuinely fascist aspects became an increasing embarrassment after 1945 and led to its progressive downgrading. Its name was changed to that of National Movement (Movimiento), its membership dwindled and it has been a conspicuous loser in its recent struggles to regain some influence.

7. A more important element in the governmental system is the state-organized syndicates, each representing a sector of the economy and with membership of employers and workers. The syndicates have an important voice in economic and social matters and are directly involved in problems like wage negotiations, social security and vocational training. Politically, the syndicates have provided about one-third of the membership of the Cortes.

8. In the past 45 years, attention has increasingly been drawn to a new element in Spain's political life, the Opus Dei. This lay association was founded in 1928 by an Aragonese priest, José Maria Escrivá de Balaguer, but only began to grow significantly after the Civil War. It is devoted to the advancement of the Catholic religion, especially in the secular society; this in turn leads to emphasis on achievement by members in practical affairs. Opus Dei has become very influential in Spain, but it is very difficult to measure the size and scope of this influence. The association operates the only private university in Spain and some of its members have become particularly prominent in Spanish Government, education and finance. In fact, since 1957, a special political elite associated with the Opus Dei has become the strongest single sector in the Spanish Government. In the Cabinet that took over after the October 1969 reshuffle most ministers are either members or

supporters of the Opus; prominent among them is Minister of Planning, Don Laureano López-Rodó. Moreover, the Vice-President of the Government and Chief Counsellor to Franco, Admiral Carrero Blanco, is strongly sympathetic to Opus, although not a member.

9. Opposition in Spain remains very fractionalized. There is first a pseudo-opposition including dissident tendencies of those movements which participate in the Government, such as the most liberal wing of the Opus Dei, and a few groups that have been earlier associated with the regime or still have some ties with it. Most important among the latter is the Christian Democracy which has capable leaders such as Ruiz-Gimenez and Silva-Muñoz and is supported by influential elements in the financial community and aristocracy. The true, i.e. illegal, opposition remains weak. It consists primarily of small and numerous working class revolutionary groups which remain firmly repressed. These groups are not well organized, tend to split in multiple tendencies and, as a consequence, are not in position to exert effective pressure on the regime. More important is certainly the intellectual, university-type opposition which creates a cultural climate conducive to change although it has had only little direct success, if any. The best organized, most important and successful sector of the true opposition is certainly the Workers' Commissions. These are representative organizations which have developed independently from the state syndical system. They include a variety of political tendencies and at present, pursue strictly economic goals. They have often proved so effective that employers have preferred to deal with them rather than with official syndicates. They constitute potentially a considerable power but remain handicapped by their semi-clandestine status and lack of national organization.

10. The major problem for Spain's present regime is that of Franco's succession. Formally, this question has been solved in July 1969 when Prince Juan Carlos was designated as future Head of State, to become King after the death or retirement of Franco. However, since Franco has always relied on a careful balance of diverse forces, no structure of power has been organized and recognized that could take over the Government if the succession problem were to present itself in the near future. Very much, therefore, will depend on the selection either by Franco or by the Prince himself, after assuming power, of a Prime Minister to head the Government, and there is no concrete indication that Franco intends to nominate a Prime Minister soon. On the whole, due to the slow but continued adaptation of the Spanish Government to changing conditions, the outlook is for continuity rather than any marked change, at least in the immediately foreseeable future.

B. THE ECONOMY

Economic setting

1. Civil War (1936-39) and political isolation in and following World War II left Spain with little economic contact with the world; Spain understandably adopted autarkic policies. Economic growth has been low over this period, averaging only 3.5 percent per year during 1942-53. Following the US military bases agreement of 1953, international contacts widened as Spain joined the United Nations (1955), the Fund and Bank (1958) and the OECD (1959). The changed attitude in Spanish policies induced more dynamic economic development, with GNP growing in real terms by 4.8 percent annually during 1954-59. But growth was accompanied by strong inflationary pressures and a rapid deterioration of the balance of payments, leading to the Stabilization Program of 1959-60. This Program, followed by the World Bank survey mission in 1961, the application to the EEC for an association in 1962, and the adoption of Development Plans since 1964, marked a new orientation of Spanish economic policies.

2. Economic policies in the 1950's and the 1960's brought about a gradual relaxation of government controls over internal and external economic relations. The economy was opened to foreign goods, technology and capital, while the domestic private sector was encouraged to increase output and investment. Sustained by the inflow of foreign technology and capital, the fast rise in tourism, and the remittances of Spanish workers employed abroad, total output grew by 7.5 percent per year in real terms during 1961-70. Because of the low population growth (less than 1 percent p.a.), GNP per head, expressed in current dollars, rose from \$374 in 1960 to almost \$850 in 1970. Growth was accompanied by change in Spain's socio-economic structure. There was large-scale migration of labor from the land to employment in urban areas in Spain and other European countries; the agricultural labor force, 4.9 million in 1960, declined by about 1.1 million during the 1960's, roughly half of whom found employment in Spain and the other half abroad. In Spain, the process of urbanization accelerated, leading to problems of congestion and pollution. Despite the rapid exodus from rural areas, Spain has been highly successful in keeping open unemployment to a very low level. Unemployment among wage earners remained at less than 2 percent of the active population.

3. Growth in the 1960's was mainly in industry and the service sectors. The average growth of industrial production was close to 10 percent annually during 1960-69, while services expanded 7 percent annually. Agriculture increased by only 2.8 percent a year during 1960-69, with large annual fluctuations. On the demand side, there was a rapid rise in private consumption, on average by 6.2 percent a year in real terms,

with a corresponding improvement in average living standards. Gross fixed capital formation increased even faster, by 10.7 percent annually, and in 1969 it was by volume 2.5 times as large as in 1960. There was a spectacular increase in industrial investment, particularly between 1961-66 when government controls of investment were gradually relaxed and foreign capital responded to external liberalization measures and investment opportunities. As a result, the share of manufacturing in total fixed investment rose from 23 percent in 1960 to well over 30 percent in 1969. Investment in agriculture rose in line with total fixed investment, remaining at about 10 percent of the total over the 1960's. Total gross domestic investment increased from 19 percent of GNP in 1960 to over 26 percent in 1965-66 and has been around 24 percent since then. Domestic savings were high, well over 20 percent of GNP over the period.

4. During 1960-64, the savings ratio averaged almost 24 percent of GNP, and gross savings covered Spain's investment needs. Since 1965, however, the savings ratio declined to about 22 percent leaving a resource gap of about 2 percent. In the corporate sector, profit margins were reduced by strong increases in labor costs, thereby limiting the capacity for self-financing.

5. Despite the impressive growth record of the 1960's, striking regional inequalities in income distribution persist. Income per head in the highest income regions (Madrid, Barcelona, Basques) is probably about 2.5 times that of the lowest income regions (Inner Galicia, Extremadura and Western Andalusia). Their effects in terms of welfare have been mitigated to some extent by the emigration of agricultural labor.

Recent Economic Developments

6. Following the gradual reduction of external and internal controls after the 1959-60 Stabilization Program, the Spanish economy grew through 1966 at the high rate of 8.5 percent per year in real terms. Growth was accompanied by a rapid rise in investment and in average living standards, and until 1963 by relative price stability and a strengthening of the external reserves position. In 1964-66 inflationary pressures reappeared while economic growth remained high. Measures taken in 1966 to reduce inflation resulted in 1967 in a deceleration of the rate of economic growth to about 4 percent, although the strong rise in private and public consumption continued. Falling external reserves, reduced international competitiveness, and rising unemployment led the Government to devalue the peseta by 14.3 percent in November 1967, in line with sterling. Stabilization measures which accompanied the devaluation, including a price and wage freeze, resulted in an improvement of the balance of payments in 1968.

Reactivation of the economy started in the latter part of the year and the real growth of GNP approached 6 percent in 1968.

7. Sustained by expansionary monetary and fiscal policies, Spain was again in a phase of rapid expansion in 1969. Real GNP grew by almost 8 percent. However, rising domestic demand led to a large balance of payments deficit. During the year external reserves dropped by over \$260 million to \$833 million. In December 1969, restrictive monetary and fiscal measures were introduced. Growth of real GNP probably slowed down to about 6 percent in 1970, and the growth rate of investment remained below 7 percent compared with 14 percent in 1969. However, the balance of payments improved rapidly, with a marked rise in earnings from exports and tourism. External reserves more than doubled to \$1,730 million at the end of 1970.

8. In order to induce an increase in investment and to stimulate economic activity, the Government decided in January 1971 to relax monetary policies somewhat. The basic rediscount rate of the Bank of Spain, which had been raised twice in 1969-70 to 6.5 percent, was reduced twice to 6 percent. Conditions for hire-purchase credit were eased and extended special rediscount lines for capital goods industries and for export credits were approved. There is, however, an obvious danger that inflationary pressures may again become too strong. Consumer price increases accelerated from 3.5 percent in 1969 to 6.8 percent in 1970, due only partly to a relaxation of price controls and the elimination of subsidies introduced with the 1967 devaluation of the peseta; wage increases, amounting to 12 percent in 1969 and probably to over 14 percent in 1970, were well in excess of official guidelines.

Balance of payments

9. Spain's balance of payments has been marked since 1965 by high commodity trade deficits averaging \$1.8 billion a year. A large part of these deficits has been covered by income from services and transfers, mainly tourism and remittances by workers abroad, keeping deficits on current account down to an average level of \$0.4 billion during 1965-70. The new inflow of long-term capital averaged \$465 million per annum during 1965-70. It has been more than sufficient over the period to offset the deficits on current account. Most of the new inflow was directed to the private sector, on average some \$430 million a year during 1965-70. Long-term borrowing by the public sector was relatively small and irregular. This contrasts to the 1950's, when the Government was the principal borrower of long-term foreign capital.

10. Supported by rising earnings from exports and tourism, higher remittances by workers abroad, and the inflow of short-term capital, net external reserves rose during 1970 to \$1,730 million. This was equivalent to about 4 1/2 months' imports.

11. The future development of Spain's balance of payments will essentially depend on the success in expanding commodity exports. Higher exports, particularly of manufactures, are necessary to assure a continued growth of current imports, since tourism earnings and workers' remittances, which in the past permitted imports to rise rapidly, are not expected to continue to increase at the high rate of the 1960's.

12. Total external public debt outstanding at the end of 1969 was \$1,454 million, of which \$400 million was undisbursed. In 1970, some \$140 million of external public debt was newly committed, against repayments of \$92 million in the same year. Service on outstanding debt as of the end of 1969, including service on the undisbursed portion would amount to \$278 million in 1971 or equal to about 5.6 percent of total current foreign exchange receipts in 1970. The projected debt service would remain moderate and would be probably about 5 percent in 1976. The debt servicing record is very good.

Industry

13. Industry became the most dynamic sector, expanding by close to 10 percent annually over the 1960's. By 1969 manufacturing alone provided about 27 percent of GDP, and combined exports of industrial equipment and consumer goods exceeded agricultural exports for the first time. Except in a few subsectors, industry still requires structural reforms and a shift in its basic orientation from domestic to foreign markets. This is becoming more urgent since the coming into force of the preferential trade agreement with the EEC.

14. Industrial structure and policies are marked by a considerable number of carry-overs from Spain's autarkic orientation in and following World War II. For example, INI, created in 1941 as a Government holding to stimulate and finance industrial enterprises, was still controlling 74 enterprises in 1969 total output still amounted to 50 percent in coal mining, 58 percent in the production of iron, 60 percent in aluminum, 77 percent in shipbuilding (launchings) and about 60 percent for cars, heavy trucks and autobuses. INI enterprises employ close to 200,000 people.

15. The financial situation of the INI group worsened in recent years, with increasing loses of some enterprises and a strong rise in interest and amortization payments due to maturing of debts. The direct subsidies paid by the Spanish Treasury to the INI group was about 20 percent of INI's expenditures and amounted to more than \$200 million. In line with the continued economic liberalization, INI's special role and privileged access to funds have been increasingly criticized and an economic and financial evaluation of its investments and an adequate information on its financial results became more and more necessary. INI's autonomy has been somewhat reduced in 1968 when it was placed under the Ministry of Industry. Other policy changes, are also under way although slowly. INI is planning to close-down a number of subsidized enterprises and is selling shares of some of its enterprises to private companies.

Agriculture

16. Spain's rapid economic growth has been accompanied by a decline of agriculture's relative position in the economy. Agriculture's contribution to GDP now is about 15 percent compared with 24 percent at the beginning of the 1960's. The share of agricultural products in total exports declined from well over 50 percent in the early 1960's to about one-third. Production has not closely followed the changing demand pattern, resulting in surplus production in a number of price-supported commodities, like wheat, rice, wine, and in an insufficient supply of meat, feed grains and oilseeds. By changing the relationship between support prices, authorities have now succeeded in reducing the acreage of surplus crops, while the acreage of more needed crops like corn has expanded. A number of measures were taken to promote livestock production, which are now showing encouraging results.

Tourism

17. Attracted by Spain's climate and natural and historical assets, its proximity to the main tourist-generating countries and its comparatively low price level, foreign visitors totalled 22 million in 1969 and probably more than 23 million in 1970. This compares with 7.5 million in 1961. Gross foreign exchange earnings from tourism, at \$1.3 billion in 1969, were about 34 percent of total foreign exchange receipts in goods and services. Tourism in Spain is characterized by its mass nature and strong seasonality, which led in recent years to local overcrowding and to a slight decline in the quality of facilities and services.

Public Finance

18. Public sector savings (excluding State enterprises and marketing agencies) during 1964-69 have averaged about 5 percent per annum of GDP and have been sufficient to finance a moderate level of fixed investment (about 3 percent of GDP); capital transfers (about 1.5 percent of GDP); and to provide a small surplus for financial investment. There has been a marked decline in the over-all public sector savings ratio from 28 percent of revenues in 1964 to 22 percent in 1969, due to the failure of current revenues to keep pace with current expenditures.

19. More than 80 percent of public sector savings have been generated by the Central Government while the remainder came from the social security system. The autonomous agencies and the local government sectors are both dissavers. Although the social security system in the last three years has produced substantial savings, little has been invested and most accumulated in cash balances.

20. Public sector borrowing (excluding State Enterprises and marketing agencies) from the Bank of Spain has been small and

completely offset by increases in the sector's cash balances. The public sector, narrowly defined, has borrowed very little abroad, although State enterprises (e.g. RENFE) have borrowed substantial sums abroad.

Development Planning

21. Since 1964, the official statement of development policies has been the Development Plan. Spain is now in the last year of its Second Development Plan (1968-71). Planning in Spain is, as in France, intended to be binding for the public sector and indicative for the private sector. It includes the setting up of macro-economic targets, public investment programs, and projections for all major economic sectors with numerous policy-suggestions.

22. Key development objectives of both the First and the Second Plan were rapid economic growth, mitigation of inequalities in income distribution, and prevention of substantial open unemployment. In the Second Plan greater emphasis was also placed on internal and external stability, because during the First Plan growth was accompanied by sizeable inflation and external deficits. Moreover, a number of new instruments and measures were introduced in the Second Plan. The most important were the inclusion, for the first time, of the state enterprises sector in the development plan, beginning of a public sector financial plan and the introduction of a system of statistical indicators, or warning lights, intended to signal major deviations of current economic trends from planned targets.

23. Actual growth surpassed the Plan targets. However, gradual external and internal liberalization, rather than the Government's active role in public investment, were the chief causes of growth. The First Plan aimed at a real 6 percent growth rate of GNP. Actual growth was 6.4 percent, despite the 1967 deceleration in economic expansion. In the Second Plan, the target annual GNP growth rate was reduced from 6 to 5.5 percent, after the 1967 devaluation of the peseta, but actual growth during 1968-70 reached an average 6.5 percent a year, due to private domestic and foreign investment.

24. Gross fixed investment during the Second Plan was expected to increase in real terms by 6.9 percent annually and to reach a total of Ptas. 1,670 billion, of which Ptas. 548.4 billion (about one-third) is projected for the public sector (Ptas. 458.4 billion direct and Ptas. 90 billion financial investment). Of direct public investment 63 percent is allocated to four sectors: transport (25 percent), education (13 percent), urban development (13 percent), and housing (12 percent).

25. Total realized public investment under the Second Plan up to September 1970 was Ptas. 279 billion and may have reached Ptas. 320 billion over the whole 1968-70 period. This would

correspond to about 83 percent of the public sector investment target for 1968-70. Major shortfalls in the 1968-70 period were in housing and in investment allocated to regional development. However, actual investment for urban development surpassed the original estimates.

26. Spanish Planning has been useful in presenting consistent objectives and emphasizing key problems. But in practice it has been indicative rather than operational, even for the public sector. There is no effective mechanism for implementation, and decisions are frequently made on the basis of ad hoc agreements between the Planning Commission and other authorities concerned. Moreover, public investment has not been based on a coherent overall financing plan, particularly for external financing. Development policy has also lacked clearly defined criteria and priorities for the application of government incentives on the sectoral level and for preparing projects.

27. The Third Plan (1972-75) is in the early drafting stage, and plan targets are still under discussion. Preparatory work in the Planning Commission and the working parties is based on general guidelines, prepared early in 1971. These guidelines indicate some important changes in the orientation of development planning. First, the Third Plan will direct greater attention to the improvement of social conditions, even at the cost of somewhat lower over-all growth. Second, the allocation of resources would be improved by "giving more weight to market forces and applying more vigorously selective criteria in evaluating policies and projects". Third, particular attention would be devoted to sub-sectors which have or could have comparative international advantage. New features of the Third Plan will be the inclusion of urban centers in regional planning and the promotion of research in industry through joint programs of the government and enterprises. According to the guidelines of the Planning Commission, the core of public investment can be expected in industries and transport and in education and professional training.

Prospects

28. Over the past decade, Spain's economy has successfully emerged from its previous relative isolation from world markets, and more influence has been given to market forces in the allocation of resources. Foreign capital and technology contributed essentially to improve the utilization of Spain's natural and human resources, and, in terms of growth and productivity, the economy advanced from a less developed position to one which is closer to the developed countries. But social investment has been largely neglected in this period of rapid growth, and education and research are no longer adequate to meet the needs of

the changed economic conditions. Moreover, environmental problems emerged, since atmospheric and riverine pollution is increasing in industrial areas and some urban nuclei are becoming congested. In key economic sectors, mainly in manufacturing and agriculture structural weaknesses persist partly because they have been marked by booming economic development. But, in view of the preferential trade agreement with the EEC, it is now crucial to preserve the trend towards liberalization and external trade, and to remove structural weaknesses which hamper this evolution.

29. The need to increase the allocation of resources to education and other social fields and of structural reforms in key economic sectors could mean slower growth in the medium term, but such steps are essential for maintaining a satisfactory rate of growth in the long run. Hence, the last Bank economic mission expects the Spanish economy to grow in real terms by not more than 6 percent annually during the next five years, that is slightly lower than in the 1960's. The period of "easy" and rapid growth is likely to come to an end soon because in the years to come the opportunities for foreign and domestic investors to establish new industries or tourism facilities or expand older ones will be less obvious than in the last decade.

30. With gross domestic investment standing at over 24 percent of GNP in 1969, and a resource gap of about 2 percent of GNP in that year, Spain's problem is less one of mobilizing resources, than of their allocation and administration. This is why institutional improvements at the sector level, and proper fiscal and financial policies are important. Selective and clearly defined criteria for public investments and the application of government incentives on the sectoral level binding for the public sector, are needed. Past government actions in the industrial sector have frequently contributed to perpetuate ailing activities rather than to promote healthy new ones. By minimizing such misallocations of resources funds would be freed for priority social investments. However, much will depend on the extent to which the traditional lack of coordination in the administration, both in the central government and between it and local authorities, can be overcome. Closer and continuing coordination among the various authorities is a prerequisite for improvements in Spanish planning, and policy formation, as well as in plan implementation and economic management.

31. Unless substantial improvement is effected in revenues, there is likely to be a serious shortfall in government savings, because recently introduced legislation will lead over the next few years to rapid increases in current government spending for education, social security and defense.

32. In Spain, as elsewhere, inflation could imperil and distort the mobilization and allocation of resources. There is

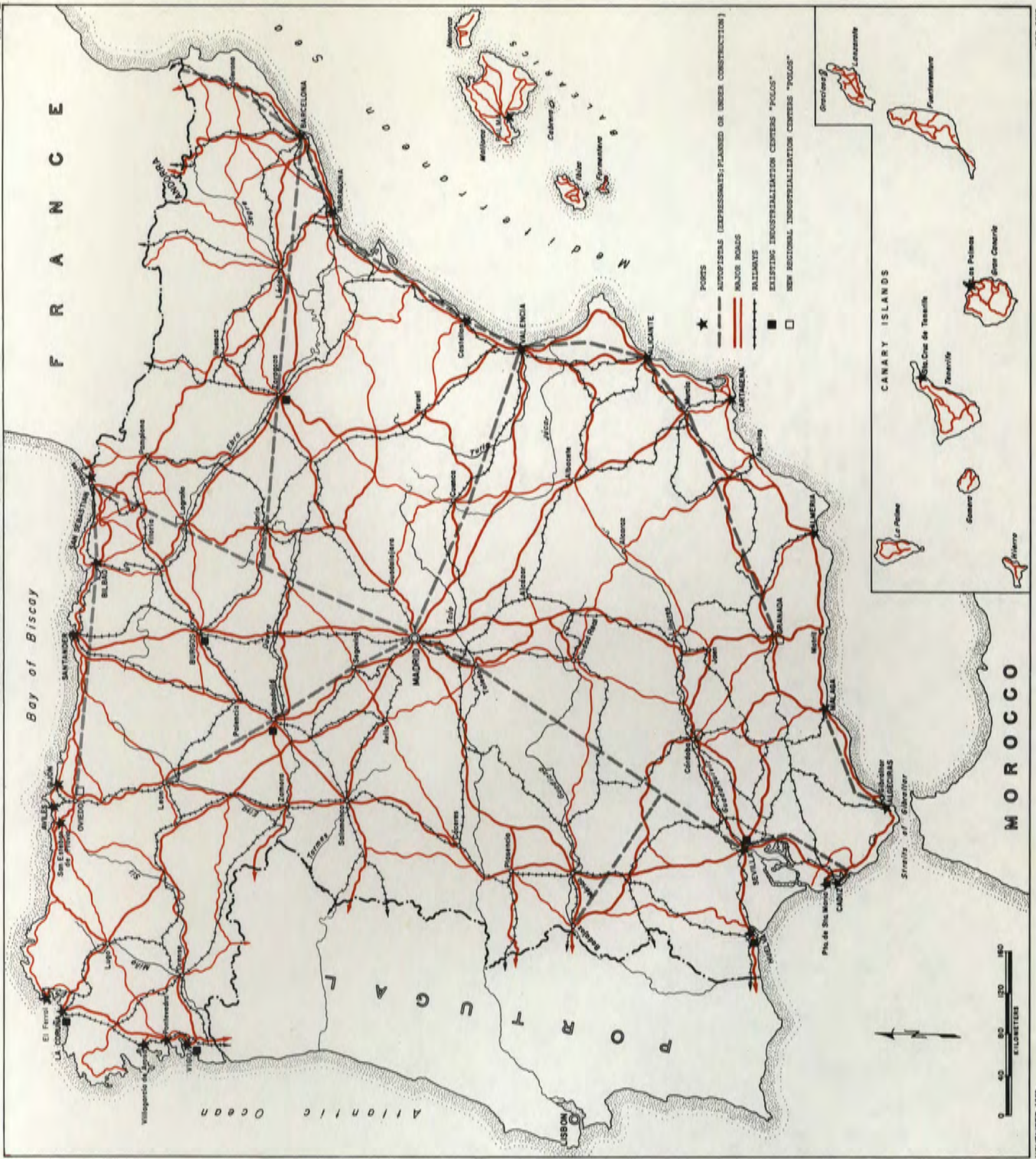
a potential danger of increasing inflationary pressure. Since 1970, growing labor conflicts arising out of demands pressing for higher wages and fringe benefits, have become a new political factor and there is a danger that further wage increases may be in advance of productivity. Moreover, budget and credit policies are likely to become expansionary again in 1971. However, Spanish cost-price behaviour over the next few years may not be much out of line with that of other European countries.

33. The deficits of the balance of payments in current account are likely to widen in the next few years. The demand for commodity imports would continue to increase rapidly, by about 12 percent annually over the next five years, since the import-output elasticity is expected to be at least 2. Increasing emphasis will, therefore, need to be devoted to the promotion of commodity exports, particularly exports of manufacturers, to keep the increase of the deficit on current account in limits and to assure a continued growth of current imports. An export growth of 15 percent annually over the next five years seems possible provided resolute government action and if cost and price increases in excess of those in other European countries are avoided. Higher export earnings are necessary because earnings from tourism and workers' remittances are not expected to continue to increase at the high rate of the 1960's.

34. Since Spain has a good potential for further economic growth, in particular through gains in productivity, the major part of external capital requirements will continue to be covered by private long-term capital, given continuing confidence in the private sector. However, the need for capital from official sources will increase in view of the envisaged investment outlays in social infrastructure and probably in connection with structural reforms in various sectors.

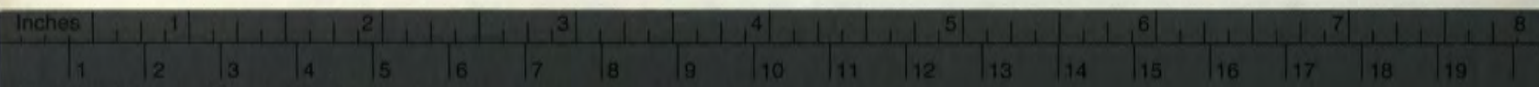
SPAIN TRANSPORTATION NETWORK & INDUSTRIAL CENTERS (POLOS)

MAP 2



1880-1883

NOVEMBER 1980



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SPAIN

BACKGROUND NOTES

Population: 34 million (1970 est.)
Capital: Madrid

Spanish territory comprises the mainland of Spain, the Balearic Islands, the Canary Islands, the presidios of Ceuta and Melilla and three other enclaves under Spanish sovereignty on the Mediterranean coast of Africa, and the African Province of Spanish Sahara.

The area of metropolitan Spain, which includes the Balearic and the Canary Islands, is 195,988 square miles, approximately equal to that of Arizona and Utah combined.

Spain's most striking topographical features are its high plateaus and its internal compartmentalization by mountain and river barriers. The Spanish landmass rises sharply from the sea with only a narrow coastal plain except in the Andalusian lowlands. The greater part of the peninsula is a high plateau divided by mountains and broad, shallow depressions. There are few bays, virtually no coastal islands, and a scarcity of natural harbors.

Nearly three-quarters of Spain is arid, with less than 20 inches of rainfall annually. Northwestern Spain, however, resembles England in climate, with slight variations in temperature and plentiful rainfall, while the coastal regions in the east and south enjoy a typically Mediterranean climate, with long dry spells and warmer temperatures.

Spain's flag is comprised of two red horizontal bands separated by a wider yellow band; the national coat of arms, centered on the flag, shows an eagle flanked by the Pillars of Hercules.

THE PEOPLE

Spain's population is estimated at 34 million. The population density (about 162 per square mile) is roughly equivalent to that of New England and is lower than that of most European countries. Spain is a Roman Catholic country with about .1 percent of the population practicing other religions.

Madrid, the capital city, is located almost in the center of the Iberian peninsula, at a level of 2,150 feet, on a large plateau surrounded by the mountain peaks of the high Sierras of Guadarrama and Gredos and the mountains of Toledo. A cosmopolitan and modern city, it has a population of more than 2.5 million.

HISTORY

For centuries before it became a unified nation, the Spanish peninsula was a battleground of invasion and resistance. From the Mediterranean came the Phoenicians, the Greeks, the Carthaginians, and the Moors. From the European Continent came the Celts, whose influence in northern Spain has been considerable, followed by the most important invasion of all, the Roman, and later the Visigoth. Present Spanish language, religion, and law stem from the Roman invasion. In the 8th century A.D., the Moors defeated the Visigoths and overran all but a narrow strip along northern Spain. Efforts to drive the Moors out of Spain, known as the Reconquest, lasted for more than 700 years and resulted in Spain becoming a unified nation in 1492, the same year that Columbus discovered the New World.

Spain was the leading European power from 1492 until 1588, when England defeated Spain's powerful Armada. For another century Spain retained a strong position on the continent. After 1700, however, much of its wealth, manpower, and resources were dissipated. The French ruled Spain between 1808 and 1814. A Spanish king, Ferdinand VII, was restored to the throne in 1814, but when he died in 1833 the ensuing contest for the throne led to a series of civil wars. The last King of Spain was Alfonso XIII, who fled the country in 1931 when the Second Republic was established. During the latter years of the Republic there was widespread civil strife, which culminated in the outbreak of a brutal civil war in July 1936.

The Spanish Civil War (1936-39) brought General Francisco Franco to power in Spain. Shortly after the war began he became Chief of State and Commander in Chief of the Armed Forces.

GOVERNMENT

By law and in practice, Gen. Franco has controlled the processes and institutions of Government. He is Chief of State, Head of Government, Commander in Chief of the Armed Forces, and head of the National Movement (the only legal political organization in Spain).

Spain officially became a monarchy in 1947, although no king has been placed on the throne. In



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accordance with the 1947 Law of Succession, however, Gen. Franco designated, in July 1969, Prince Juan Carlos de Borbón to succeed him as Chief of State. The Prince, who holds the title Prince of Spain, will be sworn in as Chief of State and crowned as king upon the retirement, incapacitation, or death of Gen. Franco.

As Head of Government, Gen. Franco appoints and presides over the Council of Ministers (cabinet). This body meets regularly to consult on matters of general policy. The membership of the unicameral Cortes (parliament) consists of approximately 595 deputies, some elected and some appointed. Although the Executive has veto power over legislation which the Cortes may consider, the parliamentary body has, in practice, emerged in recent years as a more outspoken and independent branch of government than it had been in the past.

Under the Organic Law approved in a popular referendum in December 1966, the separate position of Prime Minister (*Presidente del Gobierno*) was created. This official, if and when appointed by the Chief of State, will be selected from a panel of three nominees submitted by the Council of the Realm, an advisory body. This law permits General Franco to retain his position as Chief of State, but to lighten his load, if he chooses, by appointing a Prime Minister. The 1947 Law of Succession pertaining to the office of Chief of State remains essentially unchanged, but the Organic Law adds some procedural details on the selection of the king or regent to succeed Franco in that position.

Another important innovation in the Organic Law is the provision for direct election by heads of families and married women of 104 members of the Cortes—two from each of Spain's 52 Provinces.

Some competition for the Cortes seats, as in local syndicate elections, is expected once the election system is implemented. The Law makes the Council of the Realm, mentioned above, more representative and more powerful. Also, the Law implies fundamental future changes in the syndicate system and, together with implementing legislation approved by the Council of Ministers in February 1967, grants religious liberty to non-Catholics in Spain. Along with the March 1966 press law, which lifted some of the restrictions on the press, the Organic Law is likely to set the stage for further political evolution in Spain.

POLITICAL CONDITIONS

The political stability since 1939 is unique in recent Spanish history, which had been marked by great turbulence. The principal elements of support for the present Spanish Government since it first assumed power have been the armed forces; the Catholic Church; commercial, financial, and landed interests; and the National Movement. Most elements of the highly fragmented opposition to General Franco presently do not seek a complete change of regime, but rather gradual adjustment toward change in a climate of progress and responsibility in the post-Franco era.

General Franco's designation of Prince Juan Carlos has resolved part of the problem facing Spain as to who will succeed General Franco. As the Prince will succeed only as Chief of State, however, the choice of successor as Head of Government remains important to Spain's political future.

ECONOMY

Since 1959, when an economic reform removed many of the controls which had existed on trade and investment, the Spanish economy has made rapid growth. Industry has grown particularly rapidly and now contributes more to the gross national product (GNP) than does agriculture. Important industries are textiles, footwear, electrical machinery, chemicals, and shipbuilding. The "boom" of the past decade has exercised a strong attraction on foreign investment. The United States is the leading foreign investor in Spain, with a cumulative total of U.S. \$608 million at the end of 1969, primarily in manufacturing and oil refining. Spain's GNP totaled \$28.7 billion in 1969—a real increase of 7.7 percent over the previous year. Per capita GNP was \$867.

Spain's rapid economic growth has caused imports to rise more rapidly than exports. In recent years Spain has been importing more than twice as much as it exports. The trade deficit is roughly counterbalanced, however, by net earnings from tourism (which exceed \$1 billion per year), the net inflow of foreign capital (which is about \$500 million annually), and by remittances from Spanish workers abroad. The United States is Spain's leading trading partner for both imports and exports, followed by West Germany, France, and the United

Kingdom. Spain's imports from the United States in 1969 totaled \$728 million, while exports to the United States amounted to only \$285 million. Leading imports from the United States are machinery, soybeans, chemicals, aircraft, and corn. The main exports to the United States are shoes, olives, clothing, machinery, and chemicals.

Since the devaluation of November 1967 the Spanish peseta (now valued at 70=\$1.00) has been a stable currency. The peseta is virtually convertible for foreign trade purposes, and foreign investors are granted freedom to repatriate earnings and principal. Spain's gold and foreign exchange reserves totaled \$1.6 billion on October 31, 1970, the equivalent of about 3 months' imports, and the burden of servicing Spain's foreign debt has been kept at a completely manageable level.

FOREIGN RELATIONS

During the Spanish Civil War and World War II, the Spanish Government emphasized a strong anti-Communist orientation. At times during this period there were important links with Fascist Italy and Nazi Germany. These links resulted in Spain's virtual isolation from the Western Allies in the late 1940's when most Western governments withdrew their ambassadors from Madrid pursuant to a U.N. recommendation.

A fundamental goal in Spain's foreign policy has been to restore Spain's international prestige. To a considerable degree this goal has been achieved, although there are important groups in many countries which remain ideologically opposed to the Spanish Government.

Spain is a member of most international organizations. It plays an active role in the United Nations. It is not a member of the North Atlantic Treaty Organization (NATO) or the European Economic Community (Common Market), but the Spanish Government has declared the full integration of Spain into Europe to be a prime foreign policy objective. The most important step in this direction was the signing on June 29, 1970, of a preferential trade agreement between Spain and the Common Market, which is intended to represent the first stage in a movement leading eventually to Spain's full economic integration into that organization.

In international affairs, Spain is interested in close ties with Western Europe and the United States and in furthering its ties with Latin America, the Arab world, and Africa. During the past few years Spain has established relations on the consular and commercial level with several East European countries.

U. S. POLICY

Spain and the United States have a long history of official relations. The United States was first linked with Spain in a joint defense agreement signed in September 1953 and extended in

September 1963. Under the terms of the agreement, the United States reaffirmed its recognition of the importance of Spain to the security, well-being, and development of the Atlantic and Mediterranean areas, and both countries agreed to cooperate closely in security matters.

A new 5-year Agreement of Friendship and Cooperation was signed between the two countries on August 6, 1970, which completely replaced the 1953 agreement. In addition to continuing the bilateral defense relationship, the new agreement contains chapters on the various nonmilitary areas of cooperation which have come to be important during recent years, such as education, science, atomic energy, and space. There are space-tracking facilities in Spain, for instance, in which U.S. and Spanish scientists and technicians work side by side. The facilities have been important in the Apollo flights, including the Moon landings.

The United States maintains important military facilities on Spanish bases, which include three air bases and a naval base at Rota.

President Nixon visited Madrid on October 2-3, 1970, underlining the importance the United States regards its relations with Spain and U.S. satisfaction with the new Agreement of Friendship and Cooperation.

PRINCIPAL GOVERNMENT OFFICIALS

Chief of State and President of the Government—Gen. Francisco FRANCO Bahamonde
Vice President; Minister-Under Secretary of the Presidency— Adm. Luis CARRERO BLANCO
Minister of Agriculture—Tomas ALLENDE y Garcia-Baxter
Minister of Air—Gen. Julio SALVADOR Diaz-Benjumea
Minister of Army—Lt. Gen. Juan CASTANON DE MENA
Minister of Commerce—Enrique FONTANA Codina
Minister of Education and Science—José Luis VILLAR PALASI
Minister of Finance—Alberto MONREAL Luque
Minister of Foreign Affairs—Gregorio LOPEZ BRAVO de Castro
Minister of Housing—Vicente MORTES Alfonso
Minister of Industry—José Ma. LOPEZ LETONA y Nunez Pino
Minister of Information and Tourism—Alfredo SANCHEZ BELLA
Minister of Interior—Tomas GARICANO Goni
Minister of Justice—Antonio Maria ORIOL y Urquijo

Minister of Labor—Licinio FUENTE y de la Fuente
Minister of Navy—Adm. Adolfo BATURONE Colombo
Minister of Public Works—Gonzalo FERNANDEZ Mora Mon
Minister; Secretary General of the Movement—Torcuato FERNANDEZ-MIRANDA y Hevia
Minister Without Portfolio (Development Plan)—Laureano LOPEZ RODO
Minister Without Portfolio (Syndicate Organization)— Enrique GARCIA-RAMAL Cellalbo
Ambassador to the U.S.—Jaime ARGUELLES y Armada
Ambassador to the U.N.—Jaime de PINIES

The Spanish Government maintains an Embassy in the United States at 2700 15th Street, N.W., Washington, D.C. 20009.

PRINCIPAL U. S. OFFICIALS

Ambassador—Robert C. Hill
Deputy Chief of Mission—Joseph J. Montllor
Chief, Joint U.S. Military Group (JUSMG) and Military Assistance Advisory Group (MAAG)—Lt. Gen. Sanford Moats
Consul General, Barcelona—Robert W. Zimmerman
Consul General, Seville—Charles C. Carson
Consul, Bilbao—Joseph L. Smith

The American Embassy is located at Serrano 75, Madrid; Consulate General, Barcelona, at Via Layetana 33; Consulate General, Bilbao, at Ibanez de Bilbao, 2; Consulate General, Seville, at Paseo das Delicias.

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WBG ARCHIVES

SPAIN - COUNTRY PROGRAM PAPER

1970 Population: 33.3 million
1969 Per Capita GNP: US\$ 804
Current Population Growth Rate: 1.0%
Current Exchange Rate: \$1 = Ptas. 70

Bank Lending Program (\$ million)

	<u>1964-68</u>	<u>1969-73</u>	<u>1972-76</u>
	188 + 502	280	380
Operations Program		315	440
	<u>Annual average per capita (\$)</u>		
	1.2	1.8	2.5

A. Country Objectives

1. Political Situation. Spain faces the problem of transition to a new regime when that of General Franco, now in power for over 30 years, comes to an end. In December 1966, a new constitutional law, changing that of 1947, was approved by referendum. Its provisions include a separation of the functions of Head of State and Head of Government, an increase in the number of delegates to the Cortes (National Assembly), and elections on a more representative basis. The provisions concerning the Cortes were implemented through elections in October 1967; that concerning the appointment of a Prime Minister has not yet been implemented and so far General Franco himself has fulfilled the roles of Head of State and Head of Government. In July 1969, Prince Juan Carlos was designated to become the future king and Head of State after the death or retirement of General Franco.

2. The present Cabinet came to power in October 1969; it is by far the most liberal and also the most technocratic Spain has ever had. Most of the Ministers are members of, or associated with the Opus Dei (a lay catholic organization). The Government has been quite successful in the field of foreign policy and has secured or improved relations all over the world. In domestic affairs, it continued the conscious effort towards liberalization, accompanied by a deliberate downgrading of that element of the National Movement (the Falange) which is still attached to the authoritarian ideology of the Civil War.

3. With the trial in Burgos of Basque separatists in November-December 1970, the regime suffered a major political crisis. Like the Matesa scandal in 1969 (a misuse of official export credits by a private firm implicating some high Government officials), the Burgos trial was utilized by conservatives to try and regain some influence in political affairs by advocating more nationalistic and less liberal attitudes. At the same time, it was an occasion, for another part of public opinion, for attacking certain aspects

of the regime. The crisis eventually resulted in a victory for the Cabinet in power and the Opus Dei, which shows that there is no intention at present of slowing down liberalization or the trend toward closer links with Europe. Some disturbing features, however, have emerged in respect of the transition to a new regime after that of General Franco. The Burgos crisis revealed serious splits within the power structure and within the army, which raise doubts as to the ability of the regime to steer the nation smoothly towards new institutions. A broader role in international public relations is now given to Prince Juan Carlos. However, no structure of power has been organized, and recognized, that could take over the government if the succession problem were to present itself in the near future. Very much therefore will depend on the selection, either by Franco or by the Prince himself after assuming power, of a Prime Minister. There is no concrete indication at present that Franco intends to nominate a Prime Minister soon. However, due to the slow but continued adaptation of the regime to changing conditions the present outlook is for continuity of the present trend rather than for any marked change, at least for the immediately foreseeable future.

4. Economic Orientation and Development Objectives. The Civil War (1936-39) and the political isolation in World War II left Spain with little economic contact with the world and forced autarkic policies upon her, with the comforting myth that they were self-chosen. The first significant link with the outside world was the US military bases agreement of 1953. International contacts widened as Spain joined the United Nations (1955), the Fund and Bank (1958) and the OECD (1959). The Stabilization Program of 1959-60, followed by the World Bank mission in 1961 to survey her development policies, the application to the EEC for an association in 1962, and the adoption of Development Plans since 1964, signalled a new orientation of Spanish economic policies.

5. The new policies brought about a gradual relaxation of government controls over internal and external economic relations. The economy was opened to foreign goods, technology and capital, while the domestic private sector was encouraged to increase output and investment. Growth became for the first time a key development objective. Sustained by the inflow of foreign technology and capital, the fast rise in tourism, and the remittances of Spanish workers employed abroad, total output grew by 7.5 percent per year in real terms during 1961-70. Because of the low population growth (less than 1 percent p.a.), GNP per head, expressed in current dollars, rose from \$374 in 1960 to about \$850 in 1970.

6. The outward orientation of Spanish economic policies is reflected by the resolute approach to extending penetration in foreign markets, particularly in the European Economic Community. After protracted negotiations with the EEC, a preferential trade agreement was finally concluded and went into effect on October 1, 1970 for a period of at least six years. The EEC will gradually reduce its common external tariffs for Spanish industrial products by 60 percent by 1973, with provision for a further cut of 10 percent in 1974. For agricultural products, envisaged EEC tariff reductions would average about 27 percent. Spain, for its part, will reduce its tariffs for imports from the EEC by an average of 27 percent by 1977, and will increase its EEC import quotas by 13 percent a year.

*Opus Dei
favor EEC
Fidei against*

7. Spain also concluded in 1970 a five-year extension of the military bases agreement with the USA. Spain is to receive \$68 million in military aid and \$120 million in Export-Import Bank credit for the purchase of military hardware over five years.
8. The official statement of development policies is since 1964 the Development Plan. After a First Plan (1964-67), Spain is now in the last year of its Second Plan (1968-71). Planning in Spain is intended to be binding for the public sector and indicative for the private sector. It includes the setting up of macro-economic targets, public investment programs, and projections for all major economic sectors, with numerous policy suggestions.
9. Key development objectives of both the First and the Second Plans were rapid economic growth, mitigation of inequalities in income distribution, and prevention of substantial open unemployment. In the Second Plan greater emphasis was placed also on internal and external stability, a consequence of the experiences made during the First Plan, when growth was accompanied by sizeable inflation and external deficits.
10. Actual growth surpassed the targets in the development plans. However, gradual external and internal liberalization rather than the Government's active role in public investment, was decisive for growth. The First Plan aimed at a real 6 percent growth rate of GNP. The actual growth was 6.4 percent. In the Second Plan, the target annual GNP growth rate was reduced from 6 to 5.5 percent, after the 1967 devaluation of the peseta, but actual growth during 1968-70 reached an average 6.5 percent a year. Gross fixed investment during the Second Plan is expected to reach \$23.9 billion, of which \$7.8 billion is projected for the public sectors (\$6.5 billion direct and \$1.3 billion financial). Total realized public investment during 1968-70 was approximately \$4 billion, equivalent to less than 80 percent of the public investment target for the same period. Major shortfalls were in housing and in investment allocated to regional development.
11. Spain has been highly successful in keeping open unemployment to a very low level, despite the rapid exodus from rural areas, which reduced the total agricultural labor force of 4.9 million in 1960 by about 1.1 million during the 1960's. The situation has been eased by the relatively moderate birth rate and the large-scale immigration of workers abroad.
12. In spite of the impressive growth, striking regional inequalities in income distribution persist. Income per head in the highest income regions, (Madrid, Barcelona, Basques) is probably about 2.5 times that of the lowest income regions (Inner Galicia, Extremadura and Western Andalucia). Their effects, in terms of welfare, have been mitigated to some extent by the emigration of agricultural labor. The authorities are endeavoring to reduce regional disparities by the promotion of seven industrial growth centers (see para. 30) and, more recently, by the development of livestock. Plans are also being made to improve surface transportation to the neglected regions.

13. Satisfaction with the statistically recorded macro-economic performance may be diminished also by its social costs. Atmospheric and riverine pollution is increasing in industrial areas, and some urban areas are becoming congested. The Spanish government attempted to relieve the worsening situation by the creation of smaller industrial centers in nearby regions (poligonos de descongestion). However, inducements offered to enterprises have not been adequate, and the success has been minimal. These environmental problems are just being recognized in Spain. Some corrective policies based on incentives to municipalities as well as enterprises are being considered for implementation during the Third Plan.

14. Medium-term Macro-economic Targets. The Third Plan (1972-75) is in the early drafting stage, and Plan targets are still under discussion. The targets presented below, while reflecting current thinking in the Spanish planning bureaucracy, are therefore only illustrative.

15. In the following summary table it has been assumed that the economy will grow at about 6 percent annually during 1971-76. Projected growth is lower than that achieved in the 1960's, which may be explained by the need of increasing the allocation of resources towards education and research and of structural reforms in manufacturing and agriculture. The assumptions imply that growth rates of tourism and emigrant remittances will be substantially lower than in the 1960's. It has also been assumed that gross fixed investment (at constant prices) will gradually rise to 23.6 percent of GNP by 1976, against 22 percent in 1969, to sustain the projected growth in output.

Macro-Economic Objectives (1976)

	Unit	Current	Bank Projection	
		Level 1969	Absolute 1976	Rate of Growth 1969-76 (% p.a.)
GNP (1969 prices)	\$ bln.	28.7	43.3	6.0
Population	mil.	32.9	35.3	1.0
GNP per capita (1969 prices)	\$	804	1,131	5.0
Gross fixed investment (1969 prices)	\$ bln.	6.3	10.2	7.1
Exports of goods	\$ mil.	1,994	5,766	16.4
Exports of services	\$ mil.	1,913	4,067	11.4
Imports of goods	\$ mil.	3,865	8,620	12.2
Imports of services	\$ mil.	1,003	3,300	18.6
Private transfers receipts (net)	\$ mil.	533	1,086	10.7
Current balance	\$ mil.	-428	-1,001	-

16. If the economy grows, as assumed, at an annual rate of 6 percent during 1971-76, the balance of payments constraint is likely to be more severe than in the past. Since the import-output elasticity is expected to be at least 2, imports would continue to increase rapidly. Although the export growth rate is likely to be higher than that of imports, the physical trade deficit would further widen, because imports are almost twice as large as commodity exports. The rise in the trade deficit would be only partly compensated by the increase in net receipts from tourism and workers' remittances.

17. Constraints Affecting the Development Targets. A general constraint affecting seriously any decision-making in Spain is the traditional lack of coordination in the administration, both in the central government and between the latter and local authorities. In the central government the distribution of responsibilities among the different ministries and agencies is often obscure and not clear to all concerned. Moreover, salary scales are frequently lower in the public than in the private sector, often leading to loss of qualified government staff or to "moonlighting" and to a reserved personal attitude toward public responsibility. This explains partially why Spanish planning, although useful in presenting consistent objectives and emphasizing key problems, has been in practice indicative rather than operational, even for the public sector. Development policy lacks also clearly defined criteria for the application of government incentives on the sectoral level and for preparing projects. Public investment is not based on a coherent overall financing plan, and resource allocation at the sector level is in great need of improvement.

18. The government budget, which is prepared for two-year periods, is subject to frequent changes and ad hoc amendments during its two-year life and is in practice an inadequate instrument of fiscal management. Public sector accounting is another handicap, due to the inadequacy of its coverage and the delays with which information on public sector performance becomes available.

19. Because of the low degree of self-financing and the rudimentary capital market, growth in output and investment of the corporate sector is heavily dependent on finance from banking institutions, which makes the authorities reluctant to apply the credit brake quickly or strongly. Monetary policy measures tend to affect economic sectors unequally, since certain industries and activities have access to either direct credit of the Bank of Spain (especially agricultural marketing agencies, power, transport and state-owned industrial enterprises) or to credit at preferential interest rates extended by the official credit institutions. In recent years, there has also been an increasing tendency to grant automatic rediscount facilities for the financing of exports and for domestic sales of heavy equipment and ships. The latter privileges are likely to be abolished during 1971, which would remove an important source of inflationary pressure. The obligation of the commercial and savings banks to invest a relatively high percentage of deposits in low-interest public bonds is, in effect, subsidizing ailing state enterprises and drawing funds from relatively poorer regions.

20. Overall public savings have been declining in recent years due to the failure of revenues to keep pace with increases in current expenditures. This has resulted in increased borrowing on the domestic capital market. Recently introduced legislation will lead over the next few years to rapid increases in current government spending for education, social security and defense which, unless substantial improvement is effected in revenues, will perpetuate the shortfall in government savings. The overall level of the public sector tax burden, including social security taxes, is about 21 percent of GDP and could be increased. But there are problems of distribution and composition arising from an excessive dependence on indirect taxation and inflexibility in the direct tax structure.

21. There is also a potential danger of increasing inflationary pressure. Growing labor conflicts in 1970, arising out of demands pressing for higher wages and fringe benefits, have become a new political factor in Spain. Wage increases in 1970 were of the order of 12 percent, well above official guidelines. Wage policy is likely therefore to be more difficult than in the past. This would leave budget and credit policies as the major tools of demand management.

22. These various shortcomings in budgetary, monetary and financial policies have to be seen in perspective. They did not prevent a rapid expansion of the economy in the 1960's, but they may make it difficult to continue a steady rate of expansion. It is realistic to assume that progress in solving these problems will remain slow, in part because of the social and political implications.

B. Economic Sectors

23. In the 1960's industry became the major economic activity, both in terms of output and employment; by 1969 manufacturing alone provided about 27 percent of GDP. Also in that year combined exports of industrial equipment and consumer goods exceeded agricultural exports for the first time. However, agriculture remains very important. In the service sector, tourism is especially significant for the balance of payments. Transport and education are also receiving high priority in public investments.

24. Agriculture. In the latter part of the 1960's the place of agriculture in the economy continued to diminish, but not nearly as much as in the early half of the decade. Agriculture's contribution to GDP is now about 15 percent and a quarter of the active population is still in farming. While agricultural exports still account for over a third of total exports, the agricultural trade balance has been in deficit for the past several years. In spite of its relative decline, the agricultural sector has made a considerable contribution to Spain's rapid economic growth. Labor productivity in farming has been growing faster than in the rest of the economy. The sector has released a considerable part of its labor force, while maintaining its growth performance. The released labor has found employment in other sectors or abroad.

25. Overall growth has been quite rapid, but as a result of slow policy changes, production has not closely followed the changing demand pattern. This has led to price increases for some products and growing imports of meat, feed grains and oil seeds. On the other hand, supply of a number of price-supported commodities (among others wheat, wine and rice) increased faster than demand and had to be exported at a loss. Lately, imports have stabilized somewhat and so have food prices, but support measures need revision. Subsidies, both on farm inputs and outputs, have grown very rapidly, as have other financial aid to farmers. Yet, subsidies do not always benefit the neediest categories of farmers.

26. Overall domestic demand is likely to continue to increase, but at a slower rate; further shifts towards high quality goods, such as beef, veal, fruit and vegetables, can be expected in particular if market structures improve. For these products, and also for feed grains and oil seeds, additional domestic demand still exists. The prospects for foreign demand depend largely on the future relationship with the EEC.

27. Capital needs for on-farm investment and for investment in processing and marketing facilities have been increasing rapidly and will continue to do so. To facilitate their financing further improvements in the agricultural credit system are desirable. Public investments represent over a third of the total investment effort in agriculture, of which most is in irrigation. There is still some room for further expansion of the irrigated areas. On the other hand, future emphasis will likely be more on the development of the rainfed areas, especially along the northern coast and in Galicia which are suited for cattle raising.

28. Industry. Increasing emphasis will need to be devoted in the years ahead to the promotion of commodity exports, particularly exports of manufactures to assure a continued growth of current imports. This becomes necessary because tourism and workers' remittances, which in the past permitted imports to rise rapidly, are not expected to continue to increase at the high rate of the 1960's. However, industries have considerable shortcomings in both structure and management. Although there is a growing awareness on the part of Spanish authorities of the need for a restructuring and reorganization of Spanish industry with a greater orientation toward foreign markets, sufficiently vigorous policies are still lacking. It will be necessary for future government action to focus on those industries which have, or could have, comparative international advantages.

29. The rapid expansion of industrial output in the 1960's was accompanied by changes in its composition; newer industries such as metal transformation, chemicals, automobiles and machinery increased, whereas traditional industries such as mining, textiles, wood and food processing stayed behind. Growth was supported by a strong rise in private foreign investment associated with more updated technology, mainly from the US and EEC countries, and a favorable manpower situation. Exports of manufactures, mainly clothing, machinery and transport equipment have grown substantially. Industry, never-

theless, still requires, except in a few sectors, structural reforms and a shift in its basic orientation from domestic to foreign markets. Problems of modernization and consolidation exist in the important coal, iron ore and steel complexes and in the sectors of textiles, chemicals, pulp and paper and food processing. The Second Plan emphasized increased modernization and restructuring of the various sectors and called for improved public assistance to this end. Government assistance is provided mainly by financial (especially official credit) and fiscal support for export promotion and restructuring, but also through continued protection (mainly by import quotas) in some sectors. Present policies have not always resulted in the required changes; prospects in the export field seem reasonably good but the objectives of restructuring through mergers or modernization have only been partly met. Government intervention has contributed to perpetuating ailing activities rather than promoting healthy new ones, and financial difficulties continue to surround some of the public enterprises owned by the Government's holding company, INI. The need for appropriate action, in particular in the management and credit fields in order to remedy the deficient financial structures of industrial enterprises, is becoming more urgent after the recent announcement of an agreement with the EEC, which will increase the competition for local manufacturers.

30. An important instrument in promoting regional development was the establishment of seven industrial growth centers under the First Plan. Cash grants, official credits at preferential interest rates and tax concessions are granted to companies that established production facilities in any one of these centers. During 1964-69, actual industrial investments in the growth centers amounted to nearly Ptas. 39 billion or about 6 percent of total industrial investment in those years. About 55 percent of approved investment did not materialize, however. Difficulties in providing sites and the necessary infrastructure and in recent years delays in granting public credits were the most important factors contributing to this. The particular weakness of the growth center scheme is that the Government is offering the same incentives indiscriminately to all industries willing to invest in a growth center.

31. Transport. Fast-growing traffic needs have outpaced the quality and capacity of existing roads. A large-scale program for improvement of major roads with high traffic (over 6,000 vehicles per day), to be implemented during the Second Plan, is under satisfactory progress. Construction of 500 km of toll highways financed by private domestic and foreign interests (from Germany and Switzerland) is under way; a tentative program for highway plans for construction of additional 2,500 km covers 1970-80.

32. The railroad network consists mainly of the RENFE system. Confronted with a poor financial position partly due to obsolete equipment, RENFE has been implementing successfully a modernization program with Bank assistance involving investments of \$500 million during the Second Plan. As a result, RENFE is now better equipped and has become more efficient. Further efforts, however, remain necessary for RENFE to achieve financial viability and to recapture its economic role. In view of the progress achieved, the Bank is envisaging continuing participation in RENFE's 1971-75 investment program. The Government is moving towards a more commercial operation of RENFE; it is, in particular considering granting RENFE autonomy within limits to adjust its rates allowing it more flexibility to adjust to the increasing competition from road, and future wage and other cost increases.

33. Other modernization programs exist for the major ports and the merchant fleet. Many port facilities are obsolete and need to be replaced or expanded; ports have also suffered from an overcentralized administration and lack of economic and financial expertise. Autonomy was granted to the port of Huelva and could be to the other ports, dependent on Huelva's success. The great seasonality of accelerating traffic in airports will generate congestion in the major airports and additional investments are projected for construction of new or extensions of existing airports.

34. The major problem in transport is the lack of a coordinating authority (like a Minister of Transport), given the large investments made in this sector by the various government agencies. These have largely ignored both the comparison of alternatives (for example, rail versus road) and have seldom included economic criteria in the evaluation of the projects.

35. Tourism. The boom experienced in Spain's tourism since 1960 was largely spontaneous and resulted from private domestic and foreign initiative. Government's policy played only a limited role, and the marginal contribution of public investment and public credit for hotel construction and infrastructure development did not avoid uneven regional development. The "mass" nature and strong seasonality of tourism has brought a number of problems; the major ones are local seasonal congestion, difficulties in the hotel industry, and local uncontrolled urbanization. There is still a substantial potential for further growth (e.g. important parts of the long coastline are still undeveloped), and the Government has been taking measures for more orderly future development. The creation of zones of national tourist interest is intended to coordinate urbanization and infrastructure investments at the regional level, and promotion of winter tourism (sea and ski) aims at reducing seasonality and diversifying tourists' origins.

36. Education. A fundamental education reform law was adopted by Parliament in June 1970, to replace the outmoded education system. It lengthens the duration of basic education common to all from 4 to 8 years, introduces pre-vocational options at secondary education level, attempts to rationalize the higher education structure, and provides for vocational training opportunities, in short, intensive courses, at all educational levels. The Government is also reorganizing the administrative structure of the Ministry of Education to improve its efficiency. A Bank loan of \$12 million was made in June 1970, to finance implementation of the initial phase of the government program, which consists of the demonstration of the general education reform principles throughout the nation, through construction and operation of schools at the general basic and secondary levels. Major emphasis is also given to secondary teacher training.

37. The Government is now preparing detailed reform proposals for technical/vocational education, which involves collaboration with the Ministries of Labor and Agriculture. The Government has already indicated its interest in continued Bank assistance for education.

C. External Aid

38. The net inflow of long-term capital has averaged some \$530 million per annum during the last four years. As shown in the table below, the three major sources of long-term foreign capital are direct investment, private loans to enterprises and real estate purchases. Loans to enterprises have become relatively important since 1967; they include some large operations in the iron and steel, chemical, mechanical and, more recently, construction industries. Long-term borrowing by the public sector was relatively small and irregular, averaging some \$40 million a year during 1966-70.

Net Inflow of Long- and Medium-Term Foreign Capital

(\$ million)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u> /1
Direct investment	128	180	143	187	
Portfolio investment	55	50	34	10	
Real estate purchases	53	52	91	106	
Eximbank loans	27	61	57	36	
Other private capital /2	<u>39</u>	<u>161</u>	<u>111</u>	<u>143</u>	—
Total private sector	302	504	436	482	550
Total public sector	<u>41</u>	<u>33</u>	<u>145</u>	<u>24</u>	<u>-30</u>
Total capital inflow (net)	343	537	581	506	520
Bank's net disbursements /3	24	44	26	36	16

/1 Estimate

/2 Mainly private loans to enterprises

/3 Fiscal years.

39. Borrowing in international capital markets became substantial only in recent years. Autopistas Concesionaria (a privately-owned company) borrowed \$75 million during 1967-69 and \$30 million in 1970 for the construction of tollways. These issues, internationally placed and traded, were guaranteed by the Spanish Government. State enterprises (INI group) raised \$45 million in the Eurodollar market in 1967, but have not reappeared in international capital markets since then. The central government borrowed in 1968 \$60 million in the Eurodollar market and in January 1971 \$200 million through a consortium of American banks. Maturities of these loans were only 6 and 7 years, respectively. Part of the \$200 million loan will probably be used to "roll-over" maturities totalling over \$104 million due in 1971 to European and US financial institutions.

40. Net disbursements from Bank loans averaged \$30 million per year during 1966-70, or about 6 percent of total net capital inflows. Other major sources of official capital were the US Export-Import Bank, the French Credit National, and the German Kreditanstalt. Spain has received little technical assistance, although UNDP has undertaken several studies on water resources and has been asked to help set up a research center for the electrical industry and to study problems of air pollution in Northern Spain.

41. On the basis of the assumptions given in paras. 15-16, Spain's external net capital requirements will be in the order of \$4,000 million during 1972-76, increasing from around \$600 million in 1972 to about \$1,000 million in 1976. The future mobilization of foreign capital by the private sector is uncertain, and will depend on the political and economic climate in Spain over the coming years, as well as the response of domestic and foreign enterprises to the agreement with the EEC. But it cannot be expected that gross capital flows to the private sector will continue to grow at the same rate as in 1960-70 (on average 16 percent p.a.), because there will be less opportunities for foreign enterprises in tourism and in "pioneer" industries. Taking this into account and considering that repayments on private external debts and the repatriation of foreign capital are expected to increase over the next years, the net inflow to the private sector is unlikely to exceed \$3,400 million. Taking into account scheduled repayments on public external debt (about \$700 million) and also lags in disbursement, the volume of new (gross) commitments needed by the public sector would be in the order of \$1.4 billion to prevent a net outflow of public external capital with corresponding drain on public savings. The Spanish Government ought to be able to raise at least \$600 million from foreign private sources, mainly from international capital markets, which would leave about \$800 million to be provided from official sources. The amount of Bank lending deemed necessary to stimulate policy reforms in key sectors would cover a considerable part of this requirement.

4
4,000 m
was 7,500 m
in 1970
5 yrs.

42. Spain is creditworthy for substantial amounts of additional Bank lending. The debt servicing record is very good and debt service is low. Total external public debt outstanding at the end of 1969 was \$1,484 million, of which \$420 million was undisbursed. Some \$140 million of external public debt was newly committed in 1970, against repayments of \$92 million in the same year. Service on outstanding debt as of the end of 1969, including service on the undisbursed portion, will equal about 5.6 percent of total foreign exchange receipts in 1971. The projected debt service ratio in 1976 would be about 5 percent. The Bank's share in total public debt outstanding (including undisbursed) would rise from 14 percent in 1969 to about 26 percent in 1976, but net Bank disbursements would contribute only 7 percent of Spain's external capital requirements in that year, while the net transfer of resources from the Bank would total only \$171 million during 1972-76.

D. Bank Strategy

43. The Bank's basic strategy in Spain is to assist in overcoming the constraints discussed in paras. 17-22 by general advice and by support to structural and policy reforms. Because of the large size of the economy, the necessary leverage can only be obtained by substantial loans to selected sectors; the program has therefore been concentrated on improvements in transport, agriculture, education and industry. These are the sectors through which the Bank is likely to contribute most to economic and institutional change.

44. In addition to the sectoral reforms mentioned above, there is a great need to overcome important regional income disparities. An approach to this problem has been reflected by the addition, in the 1972-76 lending program, of a project for a highway to the Northwest region (Galicia). The deterioration of environment is also creating increasing problems for the future; two projects designed to provide experience in this field have been added to the program, a reforestation-rehabilitation project in mountainous areas and an urbanization project, still unidentified. Technical assistance to the Madrid development authority, which has been initiated during the past year, should have some effect over the longer term on environmental conditions in that urban area. The breaking of institutional and production bottlenecks in the industrial sector is another objective of the program. Therefore an industrial credit operation has been tentatively added to the two industrial projects which were included in last year's program.

45. The reforms the Bank has been trying to achieve are those which the Government and its agencies want but do not have the competence or cohesion to push through alone. The Bank, therefore, acts as a catalyst. The greatest difficulty has been experienced not in obtaining Government agreement to the measures recommended, but rather in getting the Government to implement them without undue delays.

46. The proposed operations program for FY 1972-76 totals \$440 million. The sectoral composition of the program has remained approximately the same. Equal emphasis is given to agriculture, transport and industry, but the amount allocated to education has been increased substantially; the only additions to the previous program are the projects mentioned in para. 44 above.

47. The lending program for 1972-76 is estimated at only \$380 million, nearly the same as the November 1969 program (\$362 million). This reflects uncertainties about the preparation of the agricultural and industrial projects scheduled for FY 1972 through FY 1974. Postponement due to inadequate preparation has been a recurrent problem in Spain and has recently affected the second ports and livestock projects. Government officials are often not aware of the time, effort and coordination required for project preparation; moreover they are reluctant to designate sectors for Bank assistance sufficiently in advance to allow preparation efforts because of the lack of a coherent development policy and because of the fact that the Third

Plan is still under preparation. Also, by its very nature, the reform-orientation of the Bank's lending policy towards Spain, by emphasizing institutional change, introduces elements of uncertainty which often cause delay. These factors, taken together, may even force reductions in the Lending Program unless special project preparation efforts are made both by the Bank and the Spanish Government.

48. Some amount of Bank financing for local currency costs in the agriculture and education sectors is justified because the projects in these two sectors are of the highest priority, but their foreign exchange component is too small to warrant Bank financing confined to foreign costs. Moreover, if the Bank lending in these sectors were to be restricted to the foreign costs, its influence would be insufficient to support the necessary sectoral reforms, and it is probable that Spain would then prefer not to have the Bank involved in these sectors. Although projects might be found with higher foreign exchange components, but of lesser priority, in other sectors, the limitation of its lending to the foreign exchange costs of such projects would reduce the Bank's ability to deal with the highest priority projects first and carry through much-needed reforms.

49. Historically, transportation provided the first opportunity in Spain for the Bank to stimulate development based on structural change and policy reforms. In the early 1960's the transportation system was outdated, inadequate and inefficient; Bank lending and technical advice since have helped to improve road maintenance and the service given by the railways to agriculture and industry. It is hoped to bring the railways to the point where they are an example to other public enterprises in Spain. The Bank is also helping to modernize and increase the efficiency of the ports, and to bring about coordination of transport. It is highly desirable that the momentum gained in this sector should be kept up. Bank assistance has already achieved some substantial results, although these have been uneven and have come more slowly than anticipated.

50. Up to now, RENFE operated with substantial Government subsidies to offset losses in operating revenues due to artificially low tariffs; it also suffered from too frequent changes in management. In view of the progress in equipment, productivity and management achieved over the years with the Bank's assistance, the object of the third railway project scheduled for FY 1971 is to help RENFE and the Government to take the immediate and longer-term measures required to ensure RENFE's economic and financial viability. This third loan should permit us to promote the necessary legislative and policy changes. This goal achieved, our role in financing the railways will no longer have the same priority. As a consequence, the 1972-76 program contains no provision for a fourth RENFE loan. This position should, of course, be reviewed in the light of the results of the third project.

51. The second port project is expected to be ready for appraisal within a few months; it was originally included in FY 1971. We are awaiting soon information on its priority and economic justification. Although work under the first ports loan has encountered substantial delays, a deferment of the second project on this ground would adversely affect the momentum of legislative and financial reforms initiated under the first project. ✓

52. The Spanish Government recently requested the Bank to consider a project for a highway between Madrid and the Northwest of Spain which is already included in the national highway development plan. The lack of a direct link with Northwestern Galicia despite the high economic potential of this region would seem to make such a project suitable for Bank financing. The project is still in an early stage of preparation and a Bank mission will be mounted to review it as soon as staff become available. At present scheduled for FY 1974 this project might be ready for consideration earlier. In such a case it might be interchanged with the industry project scheduled for FY 1973 if warranted. ✓

53. Generally, the Bank should continue to advise on the improvement of transport for there is still a long way to go in transport coordination. The numerous studies sponsored by the Bank have brought about significant policy and regulatory changes, such as the closing of uneconomic railway lines, coordination of passenger services and improvement of investment criteria. However, the absence of a coordinating agency, such as a Ministry of Transport, still hinders the formulation of overall transport policy. We intend to include further coordination measures as conditions in our next railway loan.

54. In agriculture the Bank's first loan was made in FY 1970 for livestock development. Changes in legislation providing better incentives to livestock producers are specified in the loan documents. Most of them have already been effected by the Government ahead of schedule; they will lead to improvements in agricultural credit, and in interest, price and marketing policies. Additional livestock projects are scheduled for FY 1973 and FY 1976. The FY 1973 project may include measures for a widespread program for improvement of animal health and standardization of meat products. ✓

55. The Bank is now considering an agricultural research project which would be the first of its kind for the Bank to support. It is designed to increase agricultural productivity by providing farmers with information on improved techniques and by seeking solutions to the problem of changes in demand. The basic element of the project is the creation of decentralized and specialized research centers designed to meet national development requirements for the most important agricultural commodities. The project also contains a substantial technical assistance element. ✓

56. We are still awaiting the feasibility study of a drainage/irrigation project in the Ebro Delta, which would involve converting ricefields to the production of other (largely horticultural) commodities. Total cost of this project might be \$40 million. The project has been under consideration by the Government for quite a long time, and may be ready for consideration in FY 1972. There are, however, risks of slippage if the preparation is unsatisfactory and if the project has to be reworked. Some problems may arise related to the project's relatively high costs and the area's land tenure pattern. Although there has been a tendency towards surplus production of several horticultural products, the rapidly growing market of nearby Barcelona would facilitate the marketing of the new crops.

57. Finally, the Government has presented a reforestation-rehabilitation project in a mountainous area, which has been scheduled for consideration in FY 1974. This project may require the combination of agricultural, touristic, industrial and ecological elements to be economically justified.

58. The Spanish education system needs restructuring to provide basic general training and to enhance overall productivity. The expansion of intermediate education and of the range of courses offered at the secondary and higher levels are essential if Spain is to become competitive with the rest of Europe. The formal adoption last year by the Government of a far-reaching program for educational reform and of the consequential legislation provided a suitable framework for a first Bank loan of \$12 million in FY 1970. The planned reforms are under implementation and we are contemplating a second project for FY 1972. The project under preparation includes higher technical education, vocational and technical (secondary level) education, research laboratory equipment and general primary and secondary education. The total estimated cost is \$120 million, for which the Government is requesting a \$60 million loan. The provision in the lending program amounts to \$40 million because we do not intend to finance further primary education and because some of the other components may not be fully prepared in time; this, however, may be subject to revision after the information on the project expected in late spring has been received.

59. The modernization of industry, so that Spain can compete with other European countries, is also of very high priority. Technical progress and shifts in demand have turned some long-established enterprises and sub-sectors into marginal activities. Heavy Government intervention, which is often directed towards perpetuating ailing activities rather than promoting healthy new ones is a carry-over from the autarkic policies of the past. In recognition of these problems we are in the process of defining the general objectives of a sector study as a step towards Bank lending.

60. Survey and project identification missions will be visiting Spain later this year. Two loans for the modernization and development of specific industrial sectors have been tentatively scheduled for FY 1973 and FY 1975. We have also tentatively included in the program an industrial credit operation intended to channel long-term funds to medium-sized enterprises whose development capacity is seriously hampered by the dearth of proper investment finance.

61. At present, the Bank has no particular plans for joint financing operations. However, in view of the need for Spain to increase its external borrowing from sources other than the Bank, there might be prospects for a joint Bank/market operation in the industrial field. This should be explored in due course with the Government.

62. In 1962-1967 IFC made investments in FEMSA, a company producing automotive electrical equipment (about \$3.36 million original amount) and BANDESCO, a development financing institution (approximately \$585,000). These amounts have been fully disbursed. IFC's present holding in Spain totals about \$1.5 million. Over the past 8-10 months IFC has been approached about possible financing for a number of industrial projects. Several of these are under preliminary consideration. The most advanced is a proposed investment in IMPACSA, a \$25 million pulp and paper project, in which IFC is requested to consider an investment of about \$7 million.

Attachments

Europe, Middle East and North Africa Department
March 11, 1971

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SPAIN -- COUNTRY PROGRAM PAPER

Postscript

63. The CPP review meeting was held in Mr. McNamara's office on March 31, 1971.

64. In respect to stage of development and per capita income, Spain is closer to Latin American countries such as Argentina, Colombia and Mexico than to most other Western European countries. However, the long and independent history of Spain, as Mr. McNamara pointed out, makes this a difficult country to deal with. This is particularly true because of the "stop-go" relationship between the Bank and Spain over the last 8-10 years, the reform orientation of the program and its relatively small size in relation to Spain's capital requirements.

65. The total amount of the five-year operations program was approved. However, there was general agreement that the allocations to industry should be increased substantially. At least \$50 million should be programmed each year FY 1973-76, and an industrial credit project should be introduced as early as possible. The projects for highways (FY 1974) and urbanization (FY 1976) were deleted from the program. Highways are not likely to yield the reform element of other transport projects and staff constraints militate against urbanization projects. Doubt was cast upon the inclusion of the Ebro Delta drainage project and subsequent agricultural projects other than livestock. However, Mr. McNamara said he was prepared to reconsider this if further review should indicate that the Ebro Delta project should be pursued. Mr. McNamara suggested that the amounts allocated to individual projects in all sectors might be increased in order to maintain the operations program at its full level. A revised copy of the Proposed Lending Program (Attachment I) is attached.

Attachment

Europe, Middle East and North Africa Department
April 9, 1971

Population: 33.3 million

GNP Per Cap: \$804

SPAIN - ACTUAL AND PROPOSED LENDING PROGRAM THROUGH FY 1976

Attachment 1

(\$ million)

		Fiscal Years													Total 1964-68	Total 1969-73	Total 1972-76		
		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975				1976	
Livestock I	IBRD								25.0										
Livestock II	IBRD											30.0							
Livestock III	IBRD													30.0					
Agricultural Research	IBRD									13.0									
Education I	IBRD								12.0										
Education II	IBRD										50.0								
Education III	IBRD												35.0						
Highways I	IBRD		33.0																
RENFE I	IBRD			65.0															
RENFE II	IBRD						50.0												
RENFE III	IBRD								85.0										
Ports I	IBRD				40.0														
Ports II	IBRD										50.0								
Industry Unidentified	IBRD										50.0								
Industry Unidentified	IBRD												50.0						
Industrial Credit Unidentified	IBRD													50.0					
Unidentified	IBRD												45.0		50.0				
Operations Program	IBRD									98.0	100.0	80.0	95.0	85.0	80.0		315.0	440.0	
No.											2	2	2	2	2		8	10	
Lending Program			<u>33.0</u>	<u>65.0</u>	<u>40.0</u>		<u>50.0</u>		<u>37.0</u>	<u>98.0</u>	<u>80.0</u>	<u>80.0</u>	<u>80.0</u>	<u>70.0</u>	<u>70.0</u>		<u>188.0</u>	<u>295.0</u>	<u>380.0</u>
No.			1	1	1		1		2	2	2	2	2	2	2		4	8	10
IBRD Loans Outstanding																			
-including undisbursed		-	31.3	95.2	135.2	135.2	185.1	182.1	213.6	311.6	387.6	436.3	530.0	613.5	690.2				
-excluding undisbursed		-	-	-	22.6	66.7	94.1	131.8	149.2	159.2	176.5	337.9	330.0	392.9	463.7				
IBRD Gross disbursement		-	-	1.7	23.7	44.0	27.5	39.9	22.4	17.7	27.0	75.0	94.0	64.0	77.0	96.9	276.0	337.0	
Net disbursement		-	-	1.7	23.7	44.0	27.5	36.0	16.7	10.0	17.3	64.7	82.4	50.9	60.6	96.9	144.7	275.9	
Net transfers		-	-	1.4	23.0	41.5	23.0	30.0	8.6	0.2	15.8	47.3	58.5	25.3	27.0	88.2	101.9	170.9	

Europe, Middle East and North Africa Department
April 9, 1971

S P A I N

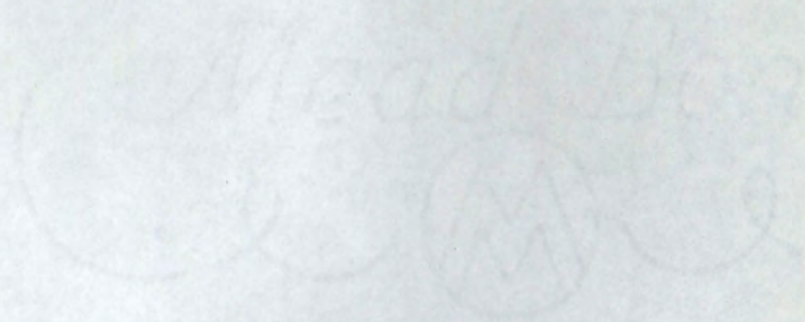
INDICATORS OF DEVELOPMENT

	Unit	Annual Average				
		1956-60	1961-65	1966-70	1971-75	
I. <u>ECONOMIC & STRUCTURAL INDICATORS</u>						
1. Gross Domestic Product (in constant 1964 prices)	% Change	3.2	8.7	6.5	6.0	
2. Manufacturing Output	% Change	6.1	7.4 ¹	10.7	10.0	
3. Agricultural Output	% Change	3.3	2.9	3.4	3.0	
4. Import of Goods & NFS	% Change	n.a.	30.2	10.7	12.5	
5. Export of Goods & NFS	% Change	n.a.	13.5	14.1	13.2	
6. Domestic Price Level	% Change	7.1	6.6	5.6	6.0	
		<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>
7. Gross National Savings	% GDP	19.3	21.9	22.4	23.8	25.0
8. Resource Gap	% GDP	1.6	-3.0	3.8	1.8	1.8
9. Net Factor Payments Abroad	% GDP	0.03	0.06	0.08	0.08	0.08
10. Gross Domestic Investment	% GDP	20.9	19.0	26.3	25.7	26.9
11. Debt Service	% exports	n.a.	n.a.	1.8	2.7 ²	5.0
12. Central Govt. Current Revenue	% GDP	9.6 ³	11.3	12.3	14.4	14.8
13. Central Govt. Curr. Surplus (Deficit)	% GDP	3.1	4.2	3.6	3.1	2.6
14. Public Exp. on Social Services	% GDP	n.a.	n.a.	n.a.	n.a.	n.a.
15. Military Expenditure	% GDP	n.a.	n.a.	n.a.	n.a.	n.a.
16. Manufacturing Output	% GDP	24.9	25.0	25.4	26.5	27.5
17. Energy Consumption (in coal equivalents)	million tons	n.a.	34.4	43.6	61.2	85.8
18. Fertilizer Consumption	'000 tons	492	606	832	1204 ⁴	1500
II. <u>SOCIAL INDICATORS</u>						
19. Population Growth Rate	%	0.8	0.8	0.8	1.0	1.0
20. Urban Population Growth Rate ^{7/}	%	2.4	2.0	1.9	1.9	1.9
21. Population Madrid & Barcelona only	%	n.a.	n.a.	2.7	2.6	2.7
22. Birth Rate	Per 1,000 popln.	n.a.	21.6	21.1	20.0 ⁴	19.5
23. Income of: Highest quintile	% total income	n.a.	n.a.	n.a.	n.a.	n.a.
24. : Lowest quintile	% total income	n.a.	n.a.	n.a.	n.a.	n.a.
25. School enrollment: Primary & Secondary	% school-age popln.	51.8	52.8	59.7	70.9	80.0
26. Literacy rate	% adult population	82.7	84.5	89.6	93.1	95.0
27. Unemployment rate ^{8/}	% labor force	n.a.	0.9	1.2	1.3 ⁵	1.5
28. Population per hospital bed	Number	n.a.	198 ⁶	203	210	220

Europe, Middle East and North Africa Department
March 11, 1971

1/ 1963-65 only; 2/ Based on external public debt as of end 1969; 3/ 1958; 4/ 1969;
5/ 1969; 6/ 1963; 7/ Madrid and provincial capitals
8/ Registered unemployment only

COCKLE FINISH



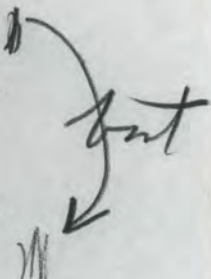
MADE IN U.S.A.

SPAIN

Relations with the Bank

General

1. With total Bank lending amounting to \$225 million (including \$37 million in FY 1970), Spain is the Bank's 13th largest borrower. This amount remains small when compared with the investment needs of Spain's economy and in regard of other sources of long-term capital. Relations between Spain and the Bank have generally been good over the past years. There is no doubt that the Spaniards are genuinely interested in Bank expertise and advice and in the support for structural and policy reforms on which our lending program is based. Our approach has been to assist in overcoming constraints to development through reforms in selected sectors; it has, on the whole, been successful. However, Bank operations suffered from slow and inadequate project preparation due to the lack of long-term development outlook and coordination in the Spanish administration; this situation was sometimes compounded by the Government discounting the Bank's effectiveness or desire to operate in Spain. Both the Minister of Planning and the Minister of Finance lately acknowledged deficiencies in project preparation and implementation and gave assurances of speedier action, which have not yet shown appreciable results. The Government has also taken steps to show its willingness to cooperate fully by increasing its capital subscription to the Bank and its contribution to the replenishment of IDA resources. At the same time, the Minister of Finance asked for a higher level of Bank activity through larger loans. The next two or three years will be critical for giving momentum to liberalization and reform and substantial backing from the Bank will be necessary. Such assistance would require from the part of the Spanish administration a major effort to identify and prepare suitable projects for Bank financing. Although the Government prepared, and presented to the Bank in November 1970, a list of projects to be financed by foreign capital, preparation is still lagging, even for projects scheduled for FY 1972 like ports and education.



Lending Operations

2. The major objectives of the Bank's lending program is to help overcome various shortcomings in financial and economic development policies which make it difficult to attain a steady rate of expansion. To obtain the necessary leverage the program has been concentrated on structural and policy reforms in transport, education, agriculture and industry. Industry and education are the sectors of principal concentration in the 1972 lending program because of their crucial importance for assistance beyond the mere provision of finance.

3. Railways. The Bank has so far lent \$115 million for two loans to Red Nacional de los Ferrocarriles Españoles (RENFE), a public corporation operating the railways along commercial lines. A third project has been appraised, which is scheduled to be negotiated soon.

4. The loans were made (a) to help finance the first two years (1964-65) and the years 1967-68 of RENFE's Ten Year Modernization Plan (1964-73) through financing the acquisition of locomotives, rolling stock and other railway equipment, and (b) to help RENFE improve its operations through an agreed Plan of Action, which covered such matters as transport coordination, personnel and administration, discontinuance of uneconomic lines and stations, rates and fares, accounting and financial management. The first loan is fully disbursed; the closing date of the second is July 31, 1971, but a postponement has been requested. The proposed third loan, which would amount to \$90 million, would contribute to the financing of the first three years of RENFE's 1971-75 investment plan.

5. The justification of our lending to railways is that a significant part of the nation's traffic can be carried most economically by railway; that despite past stagnation this traffic should increase in parallel with economic growth provided adequate marketing measures are taken and that implementation of RENFE's modernization program will make it possible to carry the traffic at substantially lower costs while improving the quality of the service.

6. Throughout our association with RENFE, our major concern has been its financial situation which in contrast to physical achievements under the Modernization Plan and the rationalization of operations, made little progress towards agreed targets. After a marked slump in 1966-1968, financial results have improved, but the operating deficit still remains nearly 18 percent of total operating expenses. However, RENFE's financial performance has to be seen in perspective. As a matter of implicit policy, RENFE's gains were distributed to users and workers rather than being utilized to improve its finances. Whereas the financial projections made under our loans counted on real price increases for railway services, the Government held down railway prices despite rising costs in order to dampen inflationary pressures. RENFE was authorized to raise its rates and fares by an average of about 17 percent in the period 1965-70, with costly lags behind a general price inflation of nearly 34 percent. This means that RENFE prices to its customers were reduced in real terms by a substantial margin. Further, RENFE and the Government followed a wage policy which increased real wages by over 48 percent during the 1965-70 period; altogether RENFE's unit costs for its inputs rose by over 72 percent, more than double the rate of general inflation. This was made possible only because large gains in productivity and cost reductions in real terms were effected by the measures taken and investments made under the action plans partly financed by the Bank.

7. This policy of affecting efficiency gains and cost reductions to labor and customers rather than toward deficit reduction should now come to an end; price reductions in real terms are no longer required to attract and retain traffic; and with the 22 percent wage increase to be implemented in 1971, wages are now about on par with other industries. Our purpose is

from the Government on a policy which would eliminate RENFE's deficit in a reasonable period of time. In the week of April 19, a Bank mission will discuss the following two points with the Spanish authorities:

- (a) Approval by the Council of Ministers of a decree allowing RENFE freedom to set rates and fares within agreed limits, and
- (b) Agreement between RENFE and the Bank on satisfactory Plan of Action covering fully 1971 cost increases by rate increases and important new costs reductions.

These conditions should be fulfilled before negotiations of the third loan. M

8. Ports. One loan of \$40 million has been made for Ports and a second one is under consideration for FY 1972. A preappraisal mission is scheduled to visit Spain early in May.

9. The Government approached the Bank for a Ports project as far back as 1963. Spanish ports suffered from over-centralization, inadequate resources because charges were unrelated to costs, and generally obsolete facilities. To help remedy this situation, the Government adopted a large (\$200 million) Ports Development Plan for 1964-67 and embarked on a number of reforms in consultation with the Bank. Our first loan in 1965 was to help finance the cost of civil works and equipment in four major ports (Barcelona, Huelva, Pasajes, La Luz y las Palmas) and the cost of equipment in a number of other ports. As part of its Port Development Plan, and with particular reference to the four project ports, the Government had undertaken a broad range of measures for improving port administration and operations. These measures had been discussed with the Bank and were incorporated in the agreements under the loan. The two most important are the Principles of Autonomy and the Ports Finances Law.

10. The Government drew up a set of Principles of Autonomy (the text was attached to a supplemental letter to the loan) which would grant a larger degree of independence to ports. Ports would have broad power to vary their rates and would have considerable freedom in daily operations, in the execution of works, and in contracting and employment practices. The Government agreed that a law, incorporating these principles, would be enacted by August 1966 and that at least one of the four project ports would be made autonomous before the end of 1967. The Government also drafted a Ports Finances Law (the text was also attached to a supplemental letter), with the dual purpose that port rates were to be set on a commercial basis (reflecting the cost of individual services) and that the ports be financially viable by 1973.

11. Construction lagged considerably behind schedule and the closing date was postponed twice to March 31, 1972. On the policy side there were also considerable delays in the preparation and enactment of the Principles of Autonomy Law. Because of inadequacies in the Law as passed, autonomy was granted to the port of Huelva in November 1969 only, almost two years after the originally agreed date. The present position in the Ministry of Public Works is that ports autonomy is not possible in Spain and that it has not improved Huelva's operations and finances. However, no reliable assessment of the results of autonomy can be made until the end of 1971. In respect of ports finances, results were relatively satisfactory although scheduled rate increases did not take place since 1968. A permanent problem with this loan has been delays in disbursements for which requests came at unusually long intervals.

12. A possible second ports project was identified in April 1970. After a long period of coolness vis-à-vis the Bank, the Directorate of Ports in the Ministry of Public Works seems now anxious to get the Bank's financial support in the face of growing needs for more and better facilities. Indecision, however, resulted in delays in preparation and we are still awaiting answers to a questionnaire sent last November. For the Bank's part, participating in a second ports project raises a problem of principle, i.e. that of the reform element to be included in the project. The proposed preappraisal mission should help in defining our objectives in the reorganization of the Spanish ports administration.

13. Agriculture -- Livestock Development. The project originated in the Bank/FAO joint mission that reviewed Spanish agriculture in late 1965. The mission recommended that high priority be given to a livestock development program with associated pasture development and technical assistance. Demand for meat, particularly beef and veal, had been expanding rapidly in parallel with improvement in living standards, but domestic production had not kept pace with demand. Imports had soared, causing a heavy pressure on the balance of payments.

14. We had some difficulty in getting the project started, since it took some time to define the technical bases on which it would be organized. It was necessary to assess the possibility of establishing artificial pastures of subterranean clover for which further experimenting will take place under a proposed UNDP project.

15. The project's purpose is to initiate major changes in livestock production techniques and policies. It consists of a credit program managed and supervised by the Institute for Medium- and Long-Term Credit (ICP) which refinances loans made to ranchers by the Agricultural Credit Bank and participating private banks. About 1,000 farmers located in two regions are expected to participate in the project. In the Southwest, around Sevilla, beef production would be emphasized; in the North, milk

production with beef as a significant by-product would be promoted in about 150 dairy farms. A Livestock Development Agency providing technical services and appraising loan requests has been established in Sevilla, with a branch in Santander. It has a foreign technical director. The Loan Agreement contains provisions to modify progressively meat import and marketing policies, specifically:

- (a) a suitable relationship between the prices of veal and beef to encourage beef production will be established through imports of veal;
- (b) beef and veal imports will become free of quantitative restrictions and open to the private as well as the public sector, subject to compensatory import levies; and
- (c) meat price support operations will be made more efficient. Subsidies on imported beef will be eliminated.

16. The establishment of the Agency required considerable time and effort and the loan had to be made effective with a three-month delay. The Government, however, implemented ahead of schedule the policy measures agreed during negotiations.

- (a) Consumer subsidies have been eliminated or reduced on imports of beef;
- (b) Meat is now imported by private as well as government organizations.

Generally, operation seems to have made a good start. Processing of sub-loan application has been slow due to lengthy procedures in the Agricultural Credit Bank. This situation has improved considerably but no disbursements have yet been made.

17. A pending problem remains that of the establishment of a system of livestock procurement (SLP) for the project area, the purpose of which is to ensure a steady supply of breeding cattle to participating farmers. Although agreed to in the Loan Agreement, the SLP was never created despite strong pressure from our side. We are now reviewing the question of breeding cattle supply with the Agency for Livestock Development before deciding on a course of action.

18. A second Livestock project was originally scheduled for FY 1972. Because of the slow start of the first project and lack of preparation it has now been postponed to FY 1973. The basic idea would be to extend the area of the Southern part of the project to surrounding regions of similar ecology.

19. Agriculture -- Agricultural Research. This project, which was recently negotiated (March 26-31, 1971) is a new departure from the Bank. As the Livestock Development project, it stems from the recommendations of the 1965 joint Bank/FAO agricultural survey mission.

20. Agricultural yields and techniques in Spain are lower than in most other European countries. The growth in agricultural production during the past decade of 3.5 percent per year has lagged far behind overall economic growth. The balance of external trade in agricultural products has shown an increasing deficit, which in 1969 amounted to nearly \$300 million. There is a need for improving the efficiency of agricultural research and extension, but while academic agricultural research is up to international standards in some instances, applied research remains fragmented, poorly equipped and is handicapped by inadequately trained staff.

21. A project to improve this situation was prepared by Spain with help of the FAO/IBRD Cooperative Program and submitted to the Bank in October 1969. The original project had to be considerably changed later in the course of several Bank missions to conform to the goals of the Spanish Government.

22. The proposed project now consists in upgrading agricultural research, as a prerequisite to the use of modern technology, principally through the restructuring of the National Institute of Agricultural Research (INIA) and the reorientation of research. Our approach was to concentrate scarce research skill on a limited number of "mission-oriented" centers, rather than scattering it over multipurpose centers, each of which would provide a complete coverage of the agricultural research field. The loan, therefore, will help organize a coordinated research system through financing six commodity oriented research centers designed to meet national requirements for the commodity concerned. Together, these commodities will cover 85 percent of the agricultural output of the country and 70 percent of agricultural external trade. In addition, the Bank loan will finance the services of research specialists and consultants and a program of training fellowships abroad.

23. To ensure success of the proposed "specialized institute" approach, the project would provide two to four research specialists per center in selected fields essential to effective operation. Since these specialists are not available in Spain, they will be recruited abroad on a contract basis. These specialists would assist INIA scientists in developing and participating in effective field research programs, arranging on-job training of local staff, assisting in the selection of personnel for training fellowships, and in the locating and guiding of fellows abroad. Centers would also have access to high-level specialists short-term consultants to meet special needs.

24. To strengthen the quality of research leadership at INIA, the Project would also provide for the appointment to headquarters of an agricultural scientist of international repute as National Research Coordinator to assist management in coordinating research plans and programs.

25. The proposed Bank loan of \$12.7 million would finance the foreign exchange cost of the project estimated at 49 percent of the total project cost. About \$5.7 million would finance the building and equipment of the research centers; another \$5 million would cover the foreign exchange cost of technical assistance; the remainder is for contingencies. The economic rate of return is difficult to determine for this kind of project, but it is estimated to be in the range of 15 percent to 30 percent. The term will be 20 years including 5 years of grace.

26. Education. Our first loan was signed on June 30, 1970 and amounted to \$12 million. The need for reforms in the education sector was first pointed out in the 1966 economic report. Enrollment growth over the past few years as a result of economic development has been considerable but has taken place within obsolete and inefficient educational and administrative structures. The present system is excessively rigid and does not favor equalization of educational and economic opportunity. High wastage rates are frequent.

27. The origin of the project was the recognition by the Government that the educational system was not suited to attaining the economic development objectives that the country had set for herself. The deficiencies of the present situation were analyzed in a White Paper, published in 1969 by the Government, which proposed an ambitious ten-year reform program now embodied in a law. It aims at increasing the efficiency of the education system at all levels by generalizing and upgrading primary education, improving and reorienting secondary education and rechanneling students through intermediate degrees in higher education. Another major element in the reform is teacher training, and the revision of teaching methods and curricula to be undertaken in Institutes of Education within each University. The structural reforms require an elaborate planning to be supported by technical assistance for the utilization of existing and the construction of new facilities. It is proposed to decentralize the administration of education and to establish provincial offices with delegated powers from the Ministry; the central administration itself will undergo a major overhaul to increase efficiency.

28. The assistance provided by our loan consists in financing an innovative project covering a limited number of educational institutions, and technical assistance. Because the reform program implies a totally new approach to education and, to be successful, requires looking at the new system as an organic unit, we participate in all aspects of the first phase of the reform from general basic to higher education, to help ensure its full implementation. The project is a pilot scheme which adds only

little enrollment capacity. The new facilities, however, would have a much larger effect by permitting the Spanish authorities to test and demonstrate the principles of the reform program. The project would also contribute 64 percent of the teacher training needs and provide technical assistance to promote curriculum development, programming of the reform plan, establishment of norms and standards and the training of education planners, administrators and supervisors.

29. The loan was the first lending by the Bank Group for primary education. A key element for attaining a better allocation of human resources and higher productivity of the labor force is the modification of the structure of primary education which absorbs 34 percent of the proceeds of the loan. Primary education, will be replaced by basic general education extending over the entire compulsory school period (Grades 1-8) and providing a reformed curriculum emphasizing mathematics, sciences and practical subjects. This should give students a well-balanced general education before they must choose between further schooling and vocational training.

30. The implementation of the project started much more slowly than expected. Difficulty in setting up the project unit generated delays that deferred effectiveness by four months. As a result, the technical assistance program fell behind schedule and the phasing of the reform program is now postponed by six months. Finally, the drafting of the legislation for the administration reorganization of the Ministry was also considerably delayed and was passed only at the end of January 1971. Part of these delays were due to an accident that kept the Under-Secretary of Education away from the office for about two months last Summer; however, lack of coordination within the Spanish administration, contention over political issues and generally poor efficiency also played a role.

31. Slow progress under the first loan affected the preparation of a second Education project, which would incorporate vocational and technical education in the general reform plan. In January, the Under-Secretary for Education came to the Bank and discussed the elements of a second project which are as follows:

- (a) University level technical schools
- (b) General primary and secondary schools
- (c) Vocational and technical education
- (d) Laboratory equipment.

The total estimated cost is \$120 million. Further information promised for late March has not been received yet. However, we have already told the Spaniards that it was unlikely that we could finance primary education.

32. Industry. The possibility of Bank assistance to open the way for the accelerated development of the Spanish industry has been under discussion for about two years, after the 1969 economic mission concluded that heavy and random subsidization resulted in a distorted price structure and misallocation of resources. Despite broad agreement on this idea from the Spanish side, no firm proposal for a mission was received by the Bank until October 1970. Mr. Kalmanoff visited Spain in November and held preliminary discussion in preparation for a full mission concentrating on study and project identification in certain strategic subsectors to be chosen from six branches of industry proposed by the Government. It was pointed out that the Bank would not limit itself to project identification, but would be concerned with broader recommendations relating to the course of development in the subsectors selected and to matters of general policy affecting them. The mission is now scheduled for early June.

33. Another approach to Spanish industrial problems is industrial credit. We have been approached by Spain to assess whether we could channel Bank financial assistance to industry through official credit institutions. A draft law has been prepared, to be presented to the Cortes later this year which reorganizes governmental credit institutions better to attend to the needs of the economy for long-term capital.

Other Projects

34. Drainage -- Irrigation. We have been lately contemplating the possibility of a drainage/irrigation in the delta of the Ebro river. The purpose of the operation would have been to reconvert the area from rice production, which is at present heavily subsidized and for which export prospects are dim, to high-value crops for which there is a rising demand. At the same time, we could have promoted reforms in the general irrigation policy. Because of uncertainties concerning its feasibility, the project was deleted from the operations program. This decision, however, could be reconsidered if further review by a Bank mission in the latter part of April, should indicate that it should be pursued.³

35. Planning. Sr. Lopez Rodó granted an interview to Mr. Larsen, Chief of our recent economic mission, the only Cabinet Minister to do so. Perhaps significantly, he had none of his own Planning Commission people with him. He agreed that such matters as ecological and urban pollution should receive increased attention in the Third Plan (1972-1975), and that the one-dimensional, statistical, growth of GNP was not the sole target of development. He asked that the mission write to him personally and unofficially giving their own views on a desirable orientation and strategy for the Third Plan; this is intended to be done in the form of a covering letter from Mr. Larsen transmitting a copy of the economic report. This is expected to be done in the second half of May.

Special problems

36. The reforms that the Bank is trying to achieve in Spain are those that the Government and its agencies want but do not always have the competence or cohesion to push through. We have therefore, experienced most difficulty not in obtaining Government agreement to the measures we recommend, but rather in getting the Government to prepare and implement them without undue delays.

Disbursements

37. Generally Spain has been very slow in implementing Bank projects. There have been considerable delays in fulfilling conditions for effectiveness (e.g. Livestock and Education Loans), in taking agreed measures (e.g. Ports and Livestock Loans) and in completing works (e.g. Ports Loan). Details are given in the attached note on delays in operations. Also in many cases, the procedure for calling for tenders has been slow and the communication of contracts to the Bank has been delayed. This reflected on disbursements out of Bank loans as shown in the annex table.

38. Delays have been particularly conspicuous in the case of the Ports Loan (Loan 429 SP; see above p.3 paragraph 8) and the Livestock Loan (Loan 633 SP; see above p. 4 paragraph 13). In respect of Ports, not only was the legislation an Autonomy enacted almost two years after the agreed date, but construction also lagged behind schedule. It took the Government several years to obtain suitable designs and offers for the handling equipment at the Port of Huelva, which delayed the design and construction of the berth. As a consequence, the closing date had to be postponed twice, by 28 months in total. Moreover, withdrawal applications are sent with delay after works have been completed.

In respect of Livestock Development, the project unit (Agency) required considerable efforts and time to be set up because of administrative problems. Difficulties arose to provide it with a budget when it was established and even now, after we agreed to a change in its financing better to adapt to Spanish procedures, the Agency still has no budget for 1971. We ran into similar problems with our Education Project (Loan 699 SP; see above, p. 7 paragraph 26) which was plagued by delays in setting up the Project unit with subsequent deferment of the whole technical assistance program.

General assistance towards development objectives

39. The Spanish administration has up to now shown remarkably little reluctance in agreeing in principle with the reforms requested by the Bank as a condition to its financial aid. While the general situation and the frame of mind of

most Cabinet members are certainly favorable to change, the rigidities of the social, political and administrative set up constitute a formidable obstacle, very often underestimated by the Spaniards themselves. Generally, the Government seems anxious to receive more assistance from the Bank to plan and program its development. The request from Sr. López-Rodó (see above p.9 paragraph 35) is a case in point. The feeling in Spain is that the 1961 economic mission and the 1965 agricultural survey mission were most useful, while ordinary economic missions are more geared up to the needs of the Bank than those of Spain. However, more assistance in the field of planning from the part of the Bank would prove useful only if a major effort towards coordination were made inside the Spanish administration itself.

CONFERENCE BOARD



A N N E X

Some facts on delays in operations

LOAN 699 SP - (General Education Project)

1. Effective date September 30, 1970 postponed to December 31, 1970

Reasons= 1/ Legislation necessary to establish
 Project Unit not enacted
 2/ Legal opinions not ready
 3/ Illness of Under-Secretary of Education

2. Effective date postponed again to January 31, 1971

Reason= Faulty legal opinion due to absence of transmission
 of our letter explaining evidence required to
 Ministry Education by Ministry Finance.

3. Consequences= The technical assistance program has fallen behind
 schedule and phasing of program is delayed by
 about six months.

Second Education Project

The Under-Secretary of Education, Sr. Ricardo Diez-Hochleitner, visited the Bank on January 26, 1971 and promised a summary of the loan request by the end of March. This has not been received yet.

LOAN 633 SP - (Livestock Development Project)

1. Because of the difficulties foreseen in establishing the project unit (Agency), the final date for effectiveness was set 150 days after signing, as December 15, 1969. It had to be postponed to January 31, 1970.

Reasons= 1/ Legal opinions not ready
 2/ Arrangements not made to contract technical
 services for the North area of the Project.

2. Discussions concerning the contract of the Technical Director of the Agency began on September 19, 1969 and ended on November 24. The contract was not finalized until December 10, 1969

although the Technical Director had reported for duty on October 26.

3. Livestock Procurement System

This question was raised by:

- a mission in May-June 1970
- our letter of July 15, 1970
- a mission in September 14-17, 1970
- a mission in November 5-December 17, 1970

No action has been taken.

Second Ports Project

Data required to identify the project were discussed during a mission on September 28 to October 15, 1970 and requested in our letter of November 19, 1970. During a mission on February 8 to 13, 1971, they were promised for March 15, 1970. They are now promised (their cable of March 30) in installments for end April-beginning of May.

S P A I N - LOANS UNDER SUPERVISION

Disbursements (in \$ million)

<u>Project - (Loan)</u>	<u>Year</u>						<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>						
<u>Roads (360 SP)</u>												
Scheduled	2.55	8.68	6.81	7.38	7.55							
Actual	--	0.82	1.12	7.46	8.77	13.99						
<u>RENFE I (387 SP)</u>												
Scheduled	--	13.30	30.00	21.60								
Actual	--	--	7.27	24.38	16.71	15.16	1.48					
<u>Ports (429 SP)</u>												
Scheduled	--	--	--	14.00	13.30	12.70						
Actual	--	--	--	10.80	2.86	2.17	11.88	5.50	--1/			
<u>RENFE II (507 SP)</u>												
Scheduled	--	--	--	--	4.00	19.80	20.00	6.10				
Actual	--	--	--	--	--	8.92	14.29	11.45	1.01 ^{2/}			
<u>Livestock (633 SP)</u>												
Scheduled	--	--	--	--	--	--	--	2.90	6.40	8.70	5.40	1.60
Actual	--	--	--	--	--	--	--	--	--2/			
<u>Education (699 SP)</u>												
Scheduled	--	--	--	--	--	--	--	0.50	8.00	2.00	1.30	
Actual	--	--	--	--	--	--	--	--	--2/			

1/ Disbursement as of 30 March 1971 nil
Undisbursed amount 6.70 million dollars. Closing date extended to March 31, 1972

2/ Disbursement as of 30 March 1971 nil

NOTE

Slight discrepancies in totals are due to sales of Loans

Mr. Juan Moro

April 19, 1971

L. Nurick

Spain; IDA Third Replenishment

In answer to your request I am writing this note to advise you of certain matters relating to Spain's commitments under the Third Replenishment arrangements.

I. Release of Balance of Initial Subscription

The report of the Executive Directors on the Third Replenishment states that Spain has expressed its willingness to cooperate in providing resources to the Association by releasing that part of the 90% portion of its original subscription which remains unused as of July 1, 1971 in fully convertible form over the period of the Third Replenishment, i.e. by June 30, 1974. The 90% portion of Spain's initial subscription totals \$9,081,000. As of March 15, 1971 \$2,592,894 had been disbursed by IDA, leaving a balance of \$6,488,106 to be released as stated above.

The obligation of Spain to release this balance in fully convertible form by June 30, 1974 is independent of its obligation to make a contribution of \$2,500,000 under the Third Replenishment, as referred to in paragraph 4 of the said report of the Executive Directors. (This latter obligation is described in paragraph 2 below.) While the Association would expect to make commitments on the faith of this agreement by Spain to release this balance, it is expected that the precise timing of the release would be discussed between Spain and the Association. We would suggest that this balance be released in no less than approximately equal annual instalments during each of the years ending June 30 of 1972, 1973 and 1974. If this rate of release is too rapid, we would, of course, be ready to discuss a different rate.

II. Contribution of \$2,500,000

Spain has indicated its intention, subject to any necessary legislative action, of making a contribution in connection with the Third Replenishment of the equivalent of \$2,500,000^{1/} payable in "usable form," i.e. either in freely convertible currency or in local currency available for financing purchases in Spain, provided that there is a reasonable expectation that it will

^{1/} Spain has agreed to provide \$2,107,600 of this amount in the form of a contribution not carrying voting rights. (See par. 15 of the Report of the Executive Directors.)

be fully used for procurement in Spain during the Third Replenishment disbursement period. While this amount of \$2,500,000 is, as a formal matter, divided into a contribution not carrying voting rights and a subscription carrying voting rights (see footnote 1, p. 4 of the Report of the Executive Directors and Table attached to the Report), it is assumed that Spain will wish to deal with these two amounts taken together.

The Third Replenishment resolution provides that the Third Replenishment will not become effective until members, including at least twelve Part I members, whose subscriptions and contributions (herein collectively called contributions) aggregate not less than \$1,900,000,000 shall have given the Association formal notification that they will make the contribution authorized for each such member. This means that the arrangements cannot become effective until the United States Government has notified the Association that it will make the contribution required of it, since without such action it is not possible to meet the requirement for effectiveness. Payment of the contribution is to be made in three equal annual instalments (except in specified cases where cash is paid), commencing November 8, 1971, provided that (a) if the Third Replenishment is not effective by October 8, 1971 payment is to be made within 30 days after effectiveness and (b) a member may postpone payment for a period of up to three months if, because of governmental procedures or administrative problems, it is not in a position to make the payment. As far as Spain is concerned, therefore, the timing of its payments depends, among other things, on the date when the Third Replenishment becomes effective.

If the November 8, 1971 date is postponed because the Third Replenishment is not yet effective, payment of Spain's instalments would be postponed in the manner described above.

Under the Third Replenishment arrangements a member is free to deposit notes, instead of making payment of its contribution in cash, and these notes (when deposited by Part I members) would then be drawn on an approximately pro rata basis (unless drawn at a faster rate) throughout the Third Replenishment disbursement period. The actual rate of drawing on these notes would thus depend on the disbursement needs of the Association from time to time during this period. In order to ensure the use of Spain's contribution at approximately the same rate as the contributions of other members we could provide, for example, for drawing on the notes of Spain on either of the following bases:

(a) If Spain were agreeable we could draw on its contribution at the same rate as the contributions of Part I members without regard to the amount of procurement in Spain during the period.

(b) We could provide that during each fiscal year during the Third Replenishment disbursement period we would draw on Spain's contribution only for procurement in Spain but that at the end of each year Spain would permit the Association to draw on its contribution an additional amount calculated to insure that Spain would have been drawn on for its pro rata share by the end of the year. For example, if by the end of, say, June 30, 1972 we had drawn 5% of the total contributions under the Third Replenishment from all countries while we had used only 2% of the Spanish contribution to cover purchases in Spain during that period, Spain would then give us the balance of 3% in convertible currency.

III. Advance Contribution

In view of the fact that it now appears that the Third Replenishment will not become effective by the scheduled date, Spain might wish to consider making an advance contribution of all or part of its contribution. It will be recalled that this method was used during the period in 1969 when a delay occurred in the coming into effect of the Second Replenishment and most of the Part I countries made these advance contributions. If Spain were to agree to make an advance contribution, the amount of the contribution would be used as the basis for commitment authority by the Association in making credits. However, actual drawings on the notes which would be given to represent the contribution would only be made, along with drawings on other contributions, when necessary to meet the Association's disbursements.

LNurichivv

Cleared in substance with Sir Denis Rickett
Cleared with Mr. Adler and Mr. Brash

cc: Mr. Broches
Mr. Scott
Miss Lennon

WORLD BANK
WASHINGTON, D.C.
M
U.S.A.

4

Index of Biographies

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- ✓ 2. de Borbón, Prince Juan Carlos
- ✓ 3. Carrero Blanco, Luis
- ✓ 4. Franco Bahamonde, Francisco
- ✓ 5. López de Letona, José Maria
- ✓ 6. López-Rodó, Laureano
- ✓ 7. Monreal Luque, Alberto
- ✓ 8. Fernandez de la Mora, Gonzalo
9. Silva Muñoz, Federico
- ✓ 10. Villar-Palasi, José Luis

Sr. Tomas Allende Garcia-Baxter, Minister of Agriculture since
October 1969

- He was born in Madrid in 1920; he is married and has nine children.
- After completion of his university education at the Faculty of Law in Madrid, he went to live in La Alcarria where he managed a private agricultural enterprise.
- President of the Official Syndical Chamber of Agriculture in Guadalajara since 1953, he was later elected President of the central economic division of the Central Committee of the Brotherhood of Farmers and Ranchers and kept that position from 1962 to 1965.
- In 1965 he was nominated Assistant Commissary for Agriculture of the Plan for Economic and Social Development by López-Rodó.
- Dedicated to agricultural economics he published many articles on that subject. Sr. Allende is the only member of the Cabinet who has an intimate knowledge of the Spanish Syndicate system. As such, he has been acting Minister of Syndicates together with his position of Minister of Agriculture, for several months while Sr. Garcia-Ramal was ill.

Don Juan Carlos de Borbon, Prince of Spain

Don Juan Carlos de Borbon, who is now 33, is the grandson of Alfonso XIII, the last King of Spain, who relinquished the throne in 1931, and the direct descendant of Felipe V who founded the Spanish Borbon dynasty in 1701. He is married to Princess Sophia of Greece and has four children.

Don Juan Carlos was chosen by Generalissimo Franco to succeed him as head of state, under the Fundamental (Constitutional) Laws of the country, and was presented to the Cortes (Parliament) on July 22, 1969. This decision was under preparation since 1955, when the Prince was brought to Spain to be educated from Portugal where he was living in exile with the royal family. The succession is widely believed to have been organized, with Franco's agreement, by the Vice President Admiral Carrero Blanco and his friends of the Opus Dei. Although Franco's decision was perfectly legal, it was strongly objected to by Don Juan, Juan Carlos' father, who has always considered himself to be the only legitimate candidate to the throne; Juan Carlos' acceptance to succeed Franco and to restore the monarchy brought about a bitter quarrel between the Prince and his father, which has since subsided and most Spanish monarchists have rallied around the Prince.

After following university courses mainly in philosophy and economics, the Prince was further educated in military academies and undertook short training periods in various ministries. He thus has a rather thin background for a European head of state and, despite receiving increasingly large amounts of publicity and attending ceremonial functions, has had very little direct exposure to political problems, and decision-making. Lately, however, he has been receiving a number of political figures in Spain and has begun to travel abroad as representative of the Spanish Government. Juan Carlos has little public recognition and is not accepted as a political leader or statesman in Spain.

Although he has had few opportunities to make meaningful public statements, the Prince has indicated his conviction that the regime must continue to change and liberalize itself and his awareness of a number of problems such as youth and education. When he takes over from Generalissimo Franco as Head of State the Prince will be confronted with a most difficult political task, to assure the continuity of an authoritarian regime -- he has sworn to uphold the basic principles of the National Movement -- and at the same time to preside over change.

Admiral Luis Carrero Blanco, Vice President of the Spanish Government since September 21, 1967

Born in Santoña on March 4, 1903, Sr. Carrero Blanco entered Naval School in 1918 and took part in the Moroccan War in 1924, 25 and 26.

Following studies at the Naval Warfare School in Madrid and Paris he was named Professor of the Naval Warfare School in 1935. He served with distinction during the Civil War rising to the rank of Chief of Staff, Cruisers Division, which he held until the end of the War when he was promoted to Chief of Operations of the Spanish Navy. Sr. Carrero Blanco was appointed Undersecretary of the Presidency on May 7, 1940. He became Second Vice President of the Cortes (Parliament) on July 19, 1951.

Generally, Sr. Carrero Blanco, who still retains his position as Minister Undersecretary of the Presidency, will perform whatever duties the President may demand in case of illness, absence or vacancy of the President himself.

Admiral Carrero Blanco has written several books in particular Arte Naval Militar and Victoria del Cristo de Lepanto, which won the José Antonio National Literary award in 1947.

The Admiral is very close to the Opus Dei and to Sr. López-Rodó. He remains the principal adviser of Franco.

Francisco Franco Bahamonde (General Franco)

Captain General, Chief of Spanish State, Generalísimo de los Ejércitos de Tierra, Mar y Aire (Commander-in-Chief of Army, Navy and Air Force).

- He was born in El Ferrol (Coruña) in 1892; he is married and has one married daughter, the Marquesa de Villaverde. He was educated at the Military Academy of Toledo.
- Franco started his military career in the Spanish Foreign Legion with which he took part in a number of operations in Morocco such as the occupation of Xaven, the liberation of Melilla and the Landing at Allurcemas.
- In 1935, he became Chief of Staff in charge of the reorganization of the army.
- In July 1936, he took the head of the military uprising in Morocco which followed the establishment of the "Popular Front" Government in Madrid.
- Very soon, in December 1936, he was proclaimed Commander-in-Chief of the Armed Forces by the anti-republican provisional Government in Burgos. After the victory of the revolutionary forces in February 1939 he assumed de facto the supreme political power in Spain. It is only in 1947 that a national referendum made him formally Chief of State for life.
- In July 1969, he designated Juan Carlos de Borbon, grandson of the last King of Spain Alfonso XIII, as his successor as Head of the State.

Sr. Jose Maria Lopez de Letona, Minister of Industry since
October 1969

- He was born in Burgos in 1922; he is married and has three children.
- He started his career as a highway engineer. In 1952 he became Engineering Director of Vias y Construcciones S.A., a company in which he was promoted to General Manager in 1954.
- Between 1957 and 1960 he promoted and created various companies in the industrial, real estate and cinematographic sectors. In 1960 he left Vias y Construcciones S.A. to be responsible in Spain for the interests of an international group formed by Westinghouse Air Brake and its European affiliates.
- His involvement into politics started in January 1966 when he was nominated Assistant Commissary of the Plan for Economic and Social Development. In this position he was responsible for programing the industrial sector.

Sr. Laureano López-Rodó, Minister of Planning

Sr. López-Rodó was born in 1920. By training he is a lawyer, specialized in administrative law. He started his career as a professor of law at Santiago University and as a representative in the Spanish parliament. He is presently Minister of Planning and has held this position, with various titles, since 1962. Between 1956 and 1962, he was Secretary to the Minister of the Presidency, Admiral Carrero Blanco, who is at present Vice President of the Council of Ministers.

Sr. López-Rodó is considered the highest ranking member of Opus Dei in Spain. (Opus Dei is a lay Catholic organization that claims to be non-political). He is regarded as the "grey eminence" of Carrero Blanco. He was the main organizer of the sweeping Cabinet change late in 1969, when many of his former collaborators in the planning office were given key portfolios and positions. He is said to have promoted the nomination of Prince Juan Carlos as Prince of Spain and heir apparent to Generalissimo Franco. In foreign policy, Sr. López-Rodó is a strong advocate of closer links between Spain and Europe.

Sr. Alberto Monreal Luque, Minister of Finance since October 1969

- He was born in Madrid in 1926. He is married and has three children.
- He studied in Madrid and in Rotterdam (Holland) and completed his university education with a Ph.D. in Economics and Statistics. He has been Professor in the Faculty of Economics of the University of Madrid since 1957.
- He has held the positions of Economic Adviser of the Council of National Economy (Consejo de Economía Nacional) and of Chief of the Economic Office of the Under-Secretary of the Merchant Marine (Asesoría Económica de la Subsecretaría de la Marina Mercante).
- In July 1965 he was nominated General Technical Secretary of the Ministry of Public Works and, in 1968, Under-Secretary of the Ministry of Education and Sciences.
- He is considered to be a man of great realism and efficiency and to be one of the leading figures in the Spanish economics. Politically, he is considered as the second strong man in the Cabinet after López-Rodó with whom he has very strong personal ties. Although he is not member of the Opus Dei, he is very close to it. He seems, however, to have also excellent relations with other groups since he is the one who established Silva-Muñoz (who represents the Christian Democracy) as President of CAMPSA, the semi public oil distribution monopoly.

Sr. Don Gonzalo Fernandez de la Mora, Minister of Public Works
since April 1970.

Politically, Sr. de la Mora is a member of the Opus Dei and a royalist who, after having been a member of Don Juan's private council until 1965, has now switched his allegiance to Don Juan Carlos.

Previously Under-Secretary in the Ministry of Foreign Affairs, he succeeded Sr. Silva Muñoz after his resignation as Minister of Public Works. He seems to have little or no connection with Public Works and is mostly known as a political writer.

CONFERENCE BOND

Sr. Silva Muñoz, President of CAMPSA

Sr. Silva Muñoz is 47 years old. He is one of the prominent figures of the Christian Democracy.

He started his career in the Ministry of Finance and as special adviser to the banking group BANESTO. He became Minister of Public Works in 1965, in which position he promoted an active policy of investments in the transport sector, both for highways and railroads.

He stayed in the Cabinet as Minister of Public Works after the October 1969 reshuffle but resigned soon afterwards in April 1970. Many people consider that he is "in reserve" for a higher position in another Cabinet, possibly when Juan Carlos would become King of Spain. Soon after his resignation as Minister of Public Works, he was nominated President of CAMPSA.

COMPLETENCE BOND



Sr. Alberto Monreal Luque, Minister of Finance since October 1969

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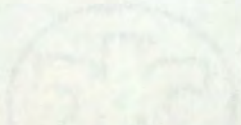
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COMMENCEMENT BOND



Sr. Jose Luis Villar Palasi, Minister of Education

Born in Valencia in 1922; married. He became Minister of Education in 1968. After being trained as a lawyer, he became Legal Adviser to the Council of State and the National Institute of Social Security. He was then Representative at the National Assembly (Procurador en Cortes) before becoming Undersecretary of Information and Tourism.

Sr. Villar Palasi has been the main architect of the Educational Reform (which we help finance through our Education Loan) together with his Undersecretary, Ricardo Diez-Hochleitner, a former UNESCO and Bank staff member.

Politically, he is very close to the Opus Dei tendency although it is not certain he is a member.

Sr. Jose Luis Villar Palasi, Minister of Education

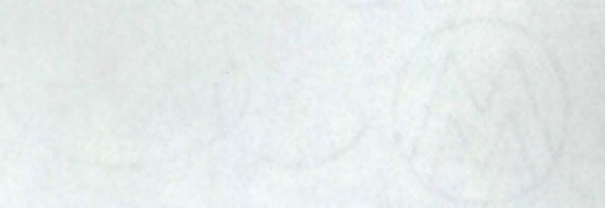
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AGNES FINCH

1860-1865



5

Population: 33.3 million

GNP Per Cap: \$804

SPAIN - ACTUAL AND PROPOSED LENDING PROGRAM THROUGH FY 1976

Attachment 1

(\$ million)

		Fiscal Years											1975	1976	Total 1964-68	Total 1969-73	Total 1972-76	
		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973						1974
Livestock I	IBRD							25.0										
Livestock II	IBRD										30.0							
Livestock III	IBRD													30.0				
Agricultural Research	IBRD								13.0									
Education I	IBRD							12.0										
Education II	IBRD									50.0								
Education III	IBRD												35.0					
Highways I	IBRD		33.0															
RENFE I	IBRD			65.0														
RENFE II	IBRD						50.0											
RENFE III	IBRD								85.0									
Ports I	IBRD				40.0													
Ports II	IBRD									50.0								
Industry Unidentified	IBRD										50.0							
Industry Unidentified	IBRD												50.0					
Industrial Credit Unidentified	IBRD											50.0						
Unidentified	IBRD											45.0		50.0				
Operations Program	IBRD								98.0	100.0	80.0	95.0	85.0	80.0			315.0	440.0
No.										2	2	2	2	2			8	10
Lending Program			<u>33.0</u>	<u>65.0</u>	<u>40.0</u>		<u>50.0</u>		<u>37.0</u>	<u>98.0</u>	<u>80.0</u>	<u>80.0</u>	<u>80.0</u>	<u>70.0</u>	<u>70.0</u>	<u>188.0</u>	<u>295.0</u>	<u>380.0</u>
No.			1	1	1		1		2	2	2	2	2	2		4	8	10
IBRD Loans Outstanding																		
-including undisbursed		-	31.3	95.2	135.2	135.2	185.1	182.1	213.6	311.6	387.6	436.3	530.0	613.5	690.2			
-excluding undisbursed		-	-	-	22.6	66.7	94.1	131.8	149.2	159.2	176.5	337.9	330.0	392.9	463.7			
IBRD Gross disbursement		-	-	1.7	23.7	44.0	27.5	39.9	22.4	17.7	27.0	75.0	94.0	64.0	77.0	96.9	276.0	337.0
Net disbursement		-	-	1.7	23.7	44.0	27.5	36.0	16.7	10.0	17.3	64.7	82.4	50.9	60.6	96.9	144.7	275.9
Net transfers		-	-	1.4	23.0	41.5	23.0	30.0	8.6	0.2	15.8	47.3	58.5	25.3	27.0	88.2	101.9	170.9

Europe, Middle East and North Africa Department
April 9, 1971

SPAIN: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ millions)

Project & No.	Amount: - Original - Cancelled - Net	Date: - Approved - Signed - Effective	Closing Date	Forecast Date	FY'66	FY'67	FY'68	FY'69	FY'70	FY'71				FY'72				FY'73	FY'74	FY'75
										1	2	3	4	1	2	3	4			
Ports Project IBRD 429	40.0 - -	9/23/65 9/29/65 1/31/66	Orig: 9/30/69 Rev: 3/31/72 Act: -	N.A. 9/30/70 (first) -	- - 2.9	- - 12.9	- - 15.9	- - 22.0	- - 30.9	- 33.3 33.3	- 36.6 33.3	- 40.0 33.3	- - -	- - -	- - -	- - -	- - -	- - -	- - -	
Second Railways IBRD 507	50.0 - -	8/3/67 8/4/67 12/15/67	Orig: 7/31/71 Rev: - Act: -	N.A. 9/30/70 (first) -	- - -	- - -	- - 1.4	- - 17.7	- - 31.2	- 34.7 32.9	- 39.7 34.7	- 44.7 35.7	- 46.7 -	50.0 - -	- - -	- - -	- - -	- - -	- - -	
Livestock Development IBRD 633	25.0 - -	7/15/69 7/17/69 1/30/70	Orig: 12/1/74 Rev: - Act: -	N.A. 9/30/70 (first) -	- - -	- - -	- - -	- - -	- - -	- - -	- .8 -	- 2.3 -	- 4.0 -	- 5.8 -	- 7.8 -	- 10.0 -	- 12.5 -	- 21.2 -	- 24.5 -	- 25.0 -
Education Project IBRD 699	12.0 - -	6/30/70 6/30/70 1/8/71	Orig: 6/30/74 Rev: - Act: -	N.A. 9/30/70 (first) -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- .1 -	- .2 -	- .3 -	- .4 -	- .6 -	- .8 -	- 10.0 -	- 12.0 -	- - -

Controller's
4/20/71

INDIVIDUAL COUNTRY PROJECTS

Symbol	Project	Agency	Approved by Governing Council	Project duration (years)	Project costs (US dollar equivalent)		
					Total	Governing Council earmarkings ^{1/}	Government counterpart contribution ^{1/}
<u>SPAIN</u>							
SPA 9	Hydrogeological Investigations in the Guadalquivir River Basin	FAO	Jan. 1965 (Dec. 1968)*	3½	1,467,000	730,000	737,000
SPA 11	Higher Mining Engineering School, Oviedo	UNESCO	June 1966	5	3,953,900	1,307,900	2,646,000
SPA 16	Pilot Project of Ground-water Utilization for Agricultural Development in the Guadalquivir River Basin (Phase II)	FAO	Jan. 1969	2½	2,454,400	791,400	1,663,000
SPA 15	Scientific Study of Water Resources in the Canary Islands	UNESCO	June 1969	3	1,191,400	666,400	525,000
SPA 12	Electrical Industry Testing and Experimentation Centre	UNIDO	Jan. 1970	2	4,627,500	693,500	3,934,000
SPA 21	Centre for the Improvement and Demonstration of Olive Production Techniques	FAO	Jan. 1970	5	2,108,100	1,060,100	1,048,000
SPA 17	Pasture and Fodder Crop Development	FAO	Jan. 1971	5	3,160,100	1,098,100	2,062,000
SPA 19	National Centre for Educational Development and Research, Madrid	UNESCO	Jan. 1971	3	3,115,700	1,052,700	2,063,000
<u>SUDAN</u>							
SUD 1	Animal Health Institute	FAO	Dec. 1960 (July 1967)*	5	459,900	264,900	195,000
SUD 2	Hides, Skins and Leather: Development and Training Project	FAO	Dec. 1960 (Feb. 1967)*	4	868,600	521,000 ^{2/}	347,600
SUD 3	Forestry Research and Education Centre, Khartoum	FAO	May 1961 (Apr. 1968)*	5	1,222,600	832,600	390,000
SUD 4	Land and Water Use Survey of Kordofan Province	FAO	May 1961 (May 1966)*	4	1,385,035	885,035 ^{2/}	500,000
SUD 9	Training Institute for Secondary School Teachers	UNESCO	May 1961 (Sept. 1968)*	5	3,015,400	1,074,400	1,941,000
SUD 19	Post and Telegraph Training Centre at Khartoum	ITU	Jan. 1962 (Mar. 1968)*	5	1,936,900	486,900 ^{2/}	1,450,000
(cont'd)							

* Date of completion of field work.

^{1/} See footnote 3/, page 3.^{2/} Final earmarking.

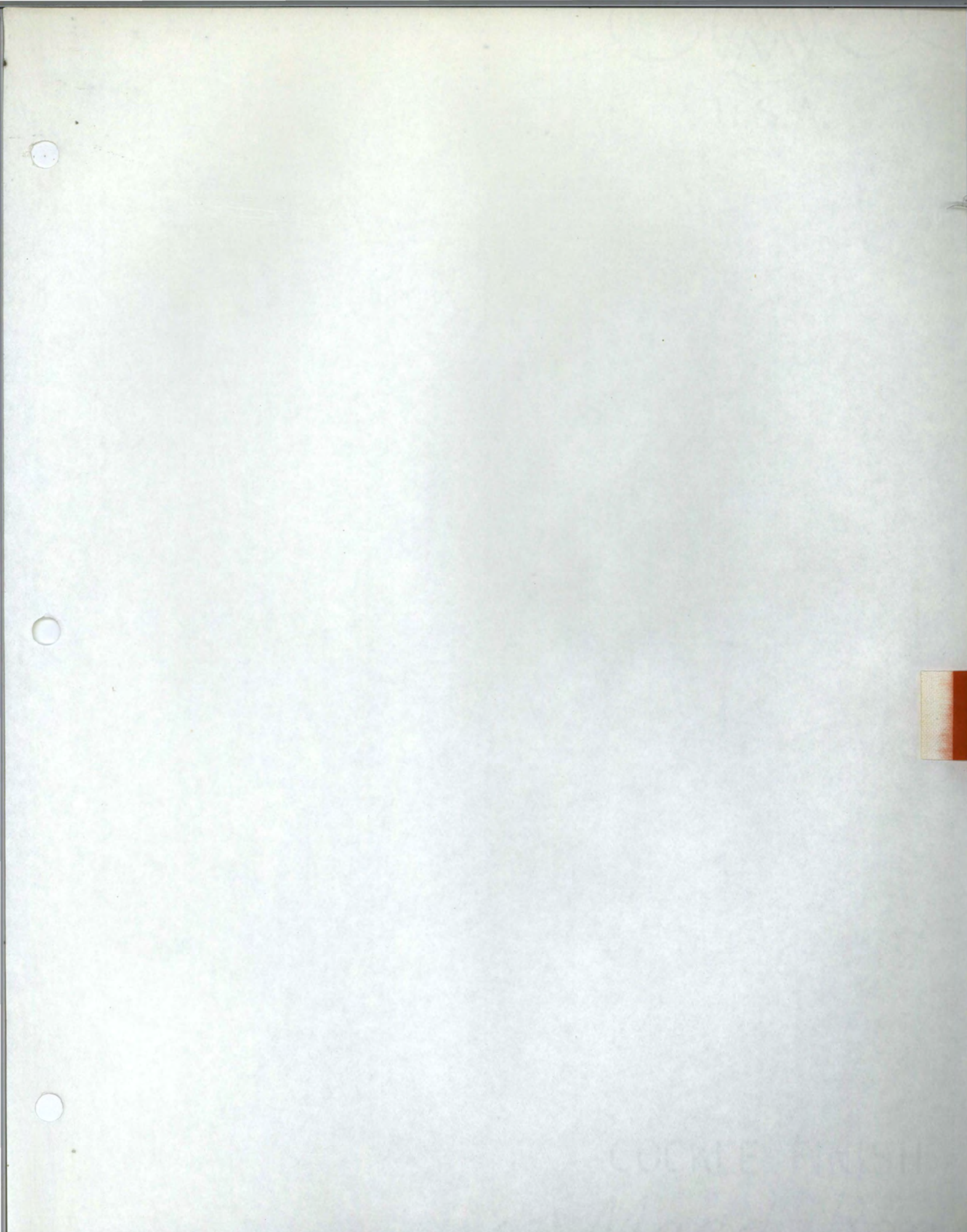
Export-Import Bank (U.S.A.)
 Loan Statement as of February 1971
 (in million dollars)

<u>Sector</u>	<u>Number of loans</u>	<u>Export value</u>	<u>Disbursed</u>	<u>Undisbursed</u> ^{1/}	<u>Outstanding</u> ^{2/}
Electrical Power	29	371.8	242.1	53.6	144.2
Steel Manufacturing	8	170.0	165.7	1.9	104.3
Fertilizer Industry	1	7.6	7.3	--	0.1
Communications (Satellite)	3	14.5	7.3	1.2	3.8
Transport (Iberia Air Lines)	5	277.7	90.0	30.0	65.0
Military Equipment	1	120.0	--	120.0	--
Relending credit	6	6.5	0.4	3.0	0.1
Miscellaneous	2	0.7	0.7	--	0.2
Terminated loans at beginning of fiscal year		12.5	89.3	--	--
T O T A L		<u>981.3</u>	<u>602.8</u>	<u>209.7</u>	<u>317.6</u>
		=====	=====	=====	=====

Source: Export-Import Bank of United States

1/ To be repaid by borrower

2/ To be withdrawn by borrower minus cancellations, sales and write offs.



IFC ACTIVITIES IN SPAIN

I. Completed Investments

1. Fabrica Espanola Magnetos, S.A. (FEMSA) - Madrid

- Investment:** \$2.5 million in loan and \$0.9 million in equity in three separate transactions in fiscal years 1962, 1965 and 1967. After repayments, the outstanding loan amount as of August 1, 1971 was US\$ 319,500.
- Business:** The Company supplies 82% of the total original electric equipment market for automobiles in Spain and 39% of the electrical equipment replacement market.
- Ownership:** The Company is controlled and managed by the Caprile family and its shares are quoted on the Spanish stock exchanges. IFC holds 40,365 shares, or approximately 5% of the Company's capital. Other major shareholders include Spanish investment funds, Bankers International, Banco Urquijo, and the Globe-Union (UK).
- Results:** In 1970, the Company's sales for the first nine months amounted to Ptas. 2,228 million and pre-tax income of Ptas. 17 million, compared with sales of Ptas. 1,701 million and pre-tax profits of Ptas 18 million for the corresponding 1969 period.
- Return on Investment:** Taking dividends and sales into consideration, the value of IFC's equity investment at the present market price of Ptas. 2,150 per share represents an 18% discounted rate of return on IFC's original investments.

2. Banco del Desarrollo Economico Espanol, S.A. (BANDESCO) - Madrid

- Investment:** \$0.6 million in equity approved in two separate transactions in fiscal years 1963 and 1965.

Business: BANDESCO is an industrial bank with total assets of Ptas. 7,276 million as of December 31, 1970.

Ownership: 45% of the shares are controlled by Banco Espanol de Credito (BANESTO), the largest commercial bank in Spain. Other investors include Banco Guipuzcoano, Morgan Guaranty, de Rothschild Freres, Banca Commerciale Italiana, Deutsche Bank and Barclays Bank Ltd. IFC holds 8.33% of the share capital.

Management: The General Manager of the Company is Mr. Marzo. BANDESCO's policies are very much influenced by Mr. Aguirre and Mr. Garnica of BANESTO. Mr. Aguirre succeeded the Marquis of Deleitosa as chairman of BANDESCO's Board in 1970. IFC is represented on BANDESCO's Board by Mr. Harold Linder.

II. Projects Under Consideration

1. Industrias del Papel y de la Celulosa, S.A. (INPACSA) - Barcelona

IFC is considering an investment of Ptas. 150 million in equity (\$2.1 million equivalent) and \$5.6 million in loan for an integrated, 82,500 ton per year unbleached pulp and kraft linerboard mill to be established at Teruel, one of the least developed areas of Spain. Total estimated cost of the project amounts to US\$33.3 million. The production of the new mill would substitute for imports, and achieve considerable foreign exchange savings. INPACSA is already operating a similar mill with a capacity of 26,000 tons per year near Barcelona. INPACSA is largely owned by Mr. Jose Maria Porcioles, the Mayor of Barcelona.

A full field appraisal of the project was carried out in March of this year and negotiations with the Company are due to start soon.

2. Empresa Nacional Calvo Sotelo (Calvo Sotelo) - Madrid

IFC has been asked to help finance a new company which would be established to construct and operate a 1,000,000 hectoliter plant for the production of ethyl alcohol for industrial uses. The estimated project cost of \$13 million would be financed by \$5 million in equity and \$8 million in loans. The equity is to be held 50% by VEBA-CHEMIE of Germany, which would provide the technical know-how; 25% by Calvo Sotelo, a large Government-owned chemical company which is also involved in other joint ventures with

foreign partners; IFC has been asked to provide the balance of 25%. The sponsors have also asked IFC's help to arrange the total loan financing from its own sources and from foreign banks. Mr. Joaquin Gutierrez Cano, former Bank-IFC Executive Director, and now a Board member of Calvo Sotelo and Director of one of its affiliates, is in charge of promoting the project.

The only alcohol now available in Spain for industrial uses is made from grapes and molasses and these sources are both insufficient and high cost. The proposed project would not only help to save foreign exchange which would have to be spent for the import of industrial alcohol and substantially reduce costs, but also lay the foundation for a number of downstream facilities producing products now imported due to the high ethanol price. The main problem for the project is to obtain the approval by the Government, where some opposition from the Ministry of Agriculture may be expected on behalf of the wine producers, who are likely to have some apprehension with respect to their interests. Mr. Becker-Boost of the IFC Engineering Department carried out a field appraisal of technical aspects of the project in March 1971.

3. Hidro-Nitro Espanola S.A. - Madrid

IFC has been asked to help finance ~~the Company's~~ expansion program consisting of construction of a 30,000 mty ferro-manganese plant and four hydro-electric plants to generate power for the plant, at a total project cost of about \$26 million. Uguine Kuhlmann of France has invested \$3 million in convertible debentures which upon conversion this year will give it 40% of the share capital. IFC is asked to provide \$1 million in equity and \$5 million in loan.

The plant would be the largest of its kind in the world and would supply 8% - 10% of the world's ferro-manganese market, with 95% of plant output going for export, thereby making a meaningful contribution to Spain's foreign currency receipts.

IFC has only preliminary information on the project and a technical and financial appraisal in the field will have to be undertaken prior to IFC Investment Committee consideration. Parts of the expansion project are already under construction.

4. Monsanto Iberica, S.A. - Barcelona

IFC has been asked to provide ~~\$4 to \$5 million~~ in financing for a 100,000 ton per year vinylchloride monomer facility to be built at Tarragona at an estimated cost of \$11 million. It has not yet been decided whether the plant will be part of Monsanto Iberica or whether a new company will be formed incorporating some of Monsanto Iberica's existing PVC facilities.

5. Pyrites Project

IFC has been approached by the Ministry of Industry for support of a possible project by a group of private companies to extract iron ore, copper, lead, zinc and other metals from pyrite ash. It is estimated that \$5 to \$10 million is required for development work to prove a new technical process, and \$45 million is needed to build the refining plant. IFC has replied that it is interested in considering financing for the final plant, but would not be in a position to provide funds for the basic development work.

III. Other Projects

Over the last year, IFC has sent two promotional missions to offer its assistance for projects which (1) are of a competitive size within Europe to assist Spain in its eventual integration into the EEC and (2) also offer immediate benefits to Spain in terms of employment, income and balance of payments effects. In doing so, IFC has expanded considerably its contacts with Spanish industry, banks and the Ministries of Finance and Industry, as a result of which numerous projects were brought to IFC's attention, of which only the ones mentioned above have so far reached a defined project stage. In this connection, IFC has had very preliminary discussions with a number of other companies interested in IFC financing including Sarrio for a pulp project in Badajoz, Nueva Montana for a wire drawing facility in Bilbao, Union Explosivos Rio Tinto and with several other sponsors which are to submit detailed information on their various projects in the near future.

April 14, 1971

COCKLE FINISH

Head 500



USA



OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 20, 1971

FROM: William Diamond *W.D.*

SUBJECT: Brief for Your Visit to Spain

In connection with your forthcoming visit to Spain, there are two matters involving development finance institutions. One concerns BANDESCO, the company in which IFC has an equity investment of \$585,000. Attached as 1 is a memorandum on the affairs of that company and IFC's relationship with it.

The second matter concerns the prospect of more extensive Bank involvement with industrial financing institutions in Spain. I commented on that subject in my memorandum of March 29 on the CPP. I attach as 2 a copy of it, and have nothing to add.

Attachments (2)

cc: Messrs. Paterson
Benjenk
Linder

WDiamond:bda

Banco del Desarrollo Economico Espanol (BANDESCO)

IFC has invested \$585,000 in the share capital of the Banco del Desarrollo Economico Espanol (BANDESCO). This is one of about 18 investment banks established in the several years following the passage, in April 1962, of legislation which called for a major reform of the banking system, including the creation of "industrial finance institutions". These institutions were designed to provide specialized investment and term lending facilities to Spanish industry.

BANDESCO was the creation of Banco Espanol de Credito (BANESTO), Spain's largest commercial bank. BANESTO provided 45% of the capital, brought in one of its Spanish affiliates for 5%, so as to assure Spanish control, and persuaded a stellar group of foreign investors to come in on a pari passu basis, including IFC, Morgan Guaranty, Rothschilds, Banca Commerciale Italiana, Deutsche Bank, and Barclay's Bank. IFC had an observer on the Board from the beginning and accepted full Board membership in 1969. Mr. Harold Linder now represents IFC on BANDESCO's Board.

In many respects, BANDESCO, like the other industrial banks established within the framework of the 1962 legislation, has been a disappointment. It has behaved primarily as the term lending arm of BANESTO, and not an aggressive one at that. It has not been active in underwriting or equities, nor in the making of riskier types of loans. It has not developed an independent outlook or staff. To some extent its operations have been determined by conditions inherent in Spanish industry and finance, but they also reflect the policies of BANESTO which dominates the Board, staff and policies of BANDESCO. On the other hand, BANDESCO has been active in mobilizing a very substantial amount of bonded debt, although this was done basically on the credit of the parent BANESTO, rather than of the child BANDESCO.

At the end of 1970 BANDESCO's portfolio amounted to Ptas 5.5 billion (US\$80 million). Its share capital and reserves totalled Ptas 682 million and long-term bonds amounted to Ptas 3.6 billion; the remainder of BANDESCO's assets were financed by deposits and rediscount lines at the Bank of Spain. It has been reasonably profitable, with net profits now running at around 13% of equity and 19% of share capital. For the past three years it has paid a 6% - 7% dividend. IFC has received a dividend from BANDESCO, but no other benefits. And its principal objective, of facilitating the growth of a new and aggressive type of investment institution in Spain, has not been realized.

Several times, in the years since it made the original investment in 1963, IFC has considered selling its holdings in the company. It did not do so largely because of the importance of the association with the other foreign investors in BANDESCO and because of the hope that BANDESCO could be made to "turn around", become an aggressive investor and lead IFC into new business opportunities in Spain. With the resignation last year, because of age and ill health, of the Marques de Deleitosa, the President of both BANESTO and BANDESCO, and the succession to the presidency of Mr. Aguirre, who seems to have a considerably more active outlook, there is some chance that BANDESCO's orientation might change, but no evidence to support this hope is yet noticeable. IFC is now aggressively in pursuit of new business in Spain and considers it wise, for the moment at least, not to abandon its position with one of Spain's most important financial groups. Relations with that group, and with the other shareholders, have become much closer since Mr. Linder became IFC's representative on the Board last year.

Mr. Robert S. McNamara

March 29, 1971

William Diamond

SPAIN

1. The CPP on Spain will be before you March 31.
2. High priority is given to the modernization and reorientation of industry in Spain; and "the breaking of institutional and production bottlenecks" is one of the objectives of the Bank's program in the sector. An industrial credit operation has therefore been added, in FY 74, to the two "loans for the modernization and development of specific industrial sectors", scheduled for FY 73 and FY 75.
3. Industrial investment in Spain is running at around \$2 billion per year. The \$30 million planned for industrial credit would hardly provide much leverage; even the \$150 million for credit plus sector loans may not be significant in dealing with the Bank's underlying objective in the industrial sector.
4. The sub-sector mission now planned for the summer will focus on segments of the industrial sector and will result in identifying a few specific projects in the sub-sectors for direct lending by the Bank. This will, no doubt, open production bottlenecks. But it may not lay a sufficient basis for the proposed general credit or for dealing with institutional bottlenecks.
5. Given the size of the Spanish industrial establishment, the entrenched position of the banks which now provide the bulk of industrial financing, and the primitive character of the capital market, I imagine the Bank's route to an effective attack on Spain's industrial problems (if we can deal with them at all) will be through (a) assistance in development of the capital market (along lines we are pursuing in Brazil) or (b) massive finance directed through a large battery of institutions toward carefully selected industries and enterprises (along lines we are pursuing in Mexico). I suspect the former is the more important and likely course. In any case, some exploration in Spain is needed before we can usefully plan a loan in this field; and some more consideration ought to be devoted to the problems of the industrial sector here on the basis of what is already known, before we commit manpower to an exploratory mission. In this connection, Mr. Kalmanoff notes the Spanish Government did not mention industrial credit during his visit to plan the forthcoming industrial mission. On the other hand, it was mentioned recently by Mr. Moro, Alternate ED from Spain; a memorandum on our talk is attached.

Attachment.

cc: Messrs. Benjenk, Paterson, Adler, Gulhati, Gustafson
WDiamond/smb



COCKLE FUND
Mead Bo
USA



THE PREFERENTIAL TRADE AGREEMENT SPAIN - EEC

1. Spain applied for the first time in 1962 to obtain a mutual reduction in tariff and other trade barriers with the European Economic Community. After protracted negotiations, a preferential trade agreement was eventually concluded and went into effect on October 1, 1970. The agreement provides for a progressive reduction of existing trade barriers between Spain and the Common Market over a period of at least six years. It foresees a second stage in general terms, "to the extent the necessary conditions are realized" (Article 1 of the Agreement). However, the criteria for entering the second stage and its objectives have remained undefined.

2. The agreement essentially affects industrial products and a limited number of agricultural commodities. The EEC will gradually reduce by 60 percent its common external tariff for Spanish industrial products before the end of 1973, with provision for a further cut of 10 percent in 1974. A first reduction of EEC tariffs, by 30 percent became already effective in October 1970. For a number of petrochemical products these reductions will apply only within the limits of quotas and for some commodities, mainly textiles and shoes, total tariff reduction will be limited to 40 percent by 1977. The EEC concessions would affect about 95 percent of Spain's exports of industrial goods to the Common Market, which represent only about 25 percent of its total exports of industrial products. For agricultural products, EEC tariff reductions would average about 27 percent.

3. Tariff reductions will be at most 25 percent except for a minor group of commodities representing about 5 percent of Spanish imports from the EEC for which reductions can go up to 60 percent. However if the EEC decided to raise its tariff cuts for Spanish industrial products from 60 to 70 percent by 1974, Spain would increase reductions to a maximum 30 percent except for the minor group mentioned above for which they would reach 70 percent. Spain also agreed to increase by 13 percent annually the total of its import quotas for EEC countries, with the provision that increases of a single quota will, in no case, amount to less than 7 percent.

4. Spain's trade with the Common Market accounted in 1970 for one-third of its total imports (\$1.6 billion) and for 36 percent of its total exports (\$0.8 billion). EEC is thus by far Spain's most important trade partners. Since the EEC supplies more than 50 percent of all Spanish imports of semi-manufactures, investment goods and consumer manufactures, its impact on the economy of Spain is even more significant. While industrial products are the principal commodity group in Spain's imports from the EEC, Spain's exports to the Common Market consist to a large extent of food products. They still accounted for 43 percent of exports to EEC countries in 1969, although their share had declined considerably during the 1960's. Industrial products, on the other hand, became increasingly important in the last decade and accounted in 1969 for 34 percent of Spain's exports to the Common Market. Exports of

capital goods and consumer manufactures expanded most, rising from 14 percent to 21 percent of total exports in 1966-69.

5. The agreement will have important implications for the foreign trade and the industrial structure of Spain, and may be a first step towards an integration into the Common Market. Industry in particular will have to strengthen its position vis a vis highly aggressive competitors not only to utilize the opportunities of a substantially enlarged market but also to maintain its share of the domestic market. Undoubtedly, this will accelerate the implementation of much-needed structural reforms. Traditional protective policies, however, cannot be expected to disappear very rapidly, since the whole sector of coal, iron and steel, which is highly protected and subsidized, remains excluded from the agreement. Moreover, Spain is allowed under the agreement to apply quantitative restrictions on imports it deems necessary to protect particular industries. After 1977, however, quotas will not be permitted to exceed the equivalent of 5 percent of average 1966-68 Spanish imports from the EEC.

6. On the whole, Spain should increase its exports to common market countries in the next few years. The general outlook appears good mainly for labor-intensive products requiring high technical skills, such as parts for electrical engineering and electronics industries, automobile accessories and machine-tools. But as most of the industrial branches concerned are largely in the hands of, or working with licences of, foreign companies, it is difficult to predict, at the present time, to which extent these firms might transfer part of their production facilities to Spain to take advantage of the agreement's mutual preferences. In respect of agricultural products, no major change in Spain's trading pattern can be expected. Nevertheless, the agreement helps ensure that Spain's position in the Common Market will not suffer from the competition of a number of Mediterranean countries which already have a privileged position vis a vis the EEC.

THE BANKING SYSTEM

1. Because private corporate savings have been inadequate to meet the demand for medium- and long-term funds, Spanish authorities have developed a rather complex system aimed at channeling such funds, through selected circuits in the banking system, the Treasury, and the securities markets to privileged borrowers,^{1/} mostly at preferential interest rates. The various regulations have, apart from distorting the interest structure, greatly limited the supply of funds available in the free markets, forcing other borrowers, particularly small and medium-sized enterprises, to finance their investments by means of more expensive short-term bank credits.

2. A recent sample survey on the financial situation of 102 private and public enterprises in 15 sectors revealed that out of total sources of funds in 1965-69 only one quarter came from the firms' own savings, a situation comparable to that in Japan. This reflects the heavy reliance of the corporate sector on domestic financial markets and on foreign capital. Loans, short-term credits and security issues, the latter mostly placed with the banking system, provided roughly 50 percent of total funds and the remaining quarter came from the issue of stocks and from other sources. About one quarter of total borrowing was short-term.

3. Due to the heavy indebtedness of the corporate sector to the banking system, enterprises, particularly the non-privileged ones, are usually very sensitive to changes in policy made by the monetary authorities. In the past, authorities have therefore been often reluctant to apply restrictive measures quickly or strongly in order not to endanger growth in output and investment.

4. In the Spanish financial system, decision-making and regulatory powers are concentrated in the Ministry of Finance, with predominantly supervisory functions delegated to the Bank of Spain (regarding commercial and industrial banks), the Credit Institute for Savings Banks (regarding savings banks) and the Institute for Medium- and Long-Term Credit (concerning the public credit institutions and the securities markets).

5. Until the 1962 banking reform, when commercial banks were forced to separate investment banking from commercial banking the Spanish banking system was characterized by an overwhelmingly influential position of the commercial banks. It was customary for the

1/ Privileged borrowers are enterprises belonging to priority sectors defined in the Development Plan and taking such action as recommended by the policy guidelines of the Plan, such as increase in number of jobs, exports, or production of capital goods.

more important banks to hold large participations in private corporations and also in other banks; and through their near oligopolistic position, they exerted a strong influence on the activities of private sector. These links still largely persist.

6. Commercial banks are the most important source of credit for the private sector, accounting in 1969 for 68 percent of total discounts and direct credits. Savings banks provided over 20 percent and public credit institutions about 10 percent of the credit to the private sector. The role of industrial banks as a source of credit is small. The largest part of credits provided by commercial banks is to the manufacturing sector, followed by commerce and other services. The manufacturing sector has slightly reduced its share in bank credit from 55 percent in 1966 to 51 percent in 1969-70, with mechanical industries, food processing, siderurgical and chemical industries remaining the main beneficiaries. Commerce and other services maintained their share of about 27 percent over the last years. Financing of agriculture, mining and credits to individuals each account for less than 5 percent of total bank lending. In mid-1970 there were 117 commercial banks in Spain, ten of them ^{1/} combined 60 and 72 percent, of capital and reserves of all commercial banks respectively, 72 percent of deposits and 67 percent of credits.

7. A noticeable feature in recent years has been the rapid rise of rediscount lines at a preferential rate at the Bank of Spain, in practice creating a privileged flow of central bank funds to selected private sectors (exports and domestic sales of equipment goods and ships) and operations using commercial banks as intermediaries. These special lines are applied to medium-term bills, authorized by the Institute for Medium and Long-Term Credit, and are automatically rediscountable at a rate which is 1.3 percentage points below the basic rediscount rate of the Bank of Spain. Actual special rediscounts increased from Ptas. 7.9 billion in 1965 to Ptas. 63.4 billion in 1970, and in that same year were three times ordinary rediscounts.

8. Savings banks have expanded much more rapidly in recent years than commercial banks. Due to a considerable increase in the number of branches, particularly in rural areas, both deposits (now accounting for one-third of total deposits in the banking system) and assets have been rising very rapidly. But they are very inflexible in their lending and investment operations, because of rigid compulsory investment rules which earmark 80 percent of their deposits; 45 percent have to be invested in public bonds, mostly INI bonds, the remaining 35 percent are utilized for low interest loans to agriculture, industry, house-building, and social purposes.

^{1/} Banco Español de Crédito (BANESTO), Banco Hispanoamericano, Banco Central, Banco de Bilbao, Banco de Vizcaya, Banco de Santander, Banco Popular Español, Banco Exterior de España, Banco Urquijo, Banco Pastor.

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9. The public credit institutions, supervised by the Institute for Medium and Long-Term Credit, have drastically reduced their operations since 1969, when the misuse of public export credit by a private firm was revealed, with subsequent prosecution and replacement of leading officials. Outstanding credit, of which over 80 percent is extended to the private sector, rose by only 5.6 percent in 1970 to about Ptas. 275 billion, after having expanded an average of 21 percent a year in 1964-69.

10. In the past, public credit played a growing role as an instrument to achieve investment targets and objectives of the Development Plans. In each year, priority sectors were defined to which determined amounts of credit were allocated according to the priorities set up in the Plan. Guidelines and specific credit "authorizations" were established by the government, on proposal of the Ministry of Finance. Most of the lending was directed to priority investments in agriculture and industries. Lending to industries was mainly in the framework of the growth centers and "acciones concertadas" (restructuring and modernization of branches of industry through the joint action of Government and enterprises). Financing of exports did not become important before 1968, providing in 1968 and 1969 about half of total export credit granted in Spain in both years.

11. By their express purpose, public credit institutions follow a policy of privileged lending, with lending rates determined by government decision. Interest rates are substantially lower than those of other financial institutions. Due to their very favorable conditions, the public credit institutions have attracted borrowers who previously had recourse to other funds, thereby departing from the original principle of providing only supplementary finance to the private sector.

12. Prospects. The authorities are at present preparing legislation to re-organize the public credit institutions and to make important changes in credit policy. It is intended that in future, public credit institutions will be confined to the Agricultural Credit Bank, Local Credit Bank, Industrial Credit Bank, Mortgage Bank of Spain, and Construction Credit Bank. Their specific functions will remain unchanged, except for the Industrial Credit Bank, which would lose that of providing export credit, but would assume the financing of shipbuilding and those functions now allocated to the Fisheries Credit. The public credit institutions would be supervised by an Institute for Public Credit (Instituto de Crédito Oficial), successor of the Institute for Medium and Long-Term Credit. Funds for the public credit institutions will, as in the past, stem from transfers of the Treasury, but also from direct borrowing in the domestic and foreign capital markets, which would be guaranteed by the Institute for Public Credit. Export credit would in future be provided exclusively by commercial banks and the External Bank of Spain (Banco Exterior de España), with the latter acting as agent

for the public credit and funds provided by the Institute for Public Credit. Special rediscount lines with the Bank of Spain will be abolished. Their purpose would be accomplished, in future, by specific lending operations of the public credit institutions, and more important, by commercial banks' lending on the basis of a new obligatory investment quota, which is envisaged not to exceed 25 percent of deposits and could replace the present 22 percent quota for the holding of government bonds by commercial banks.

WORKERS EMIGRATION

1. Spanish migration is not a new phenomenon; in the recent past, many people were still emigrating to Latin America. In the 1960's however, destinations changed increasingly to European countries, and the outflow accelerated. During 1960-69 about 1.3 million Spaniards left for employment in other European countries; net emigration was close to 0.6 million. Emigration elsewhere became relatively insignificant and probably turned into net immigration after 1964.

2. The Spanish Institute of Emigration estimated that in 1970 approximately 1.1 million Spaniards were employed in other European countries. Germany, France and Switzerland employ most Spanish emigrant workers. In 1969, of total emigration to other European countries, 34 percent was to Switzerland, 30 percent to Germany and 24 percent to France. There is also a considerable temporary outflow of agricultural workers to France, comprising over 100,000 Spaniards annually, for harvesting rice, sugar beet and, more importantly, the vintage; such workers stay on average not longer than three months in France.

3. Economically, emigration abroad has helped to keep open unemployment within Spain low and eased domestic urban congestion. Workers' remittances averaging about \$320 million a year during 1964-69 also contributed significantly to foreign exchange receipts. Many Spaniards working abroad acquire professional skills and experience which help their employment on return to Spain, or accumulate savings for setting up a small business, such as a retail shop or workshop.

CAMPSA

(Compania Arrendataria del Monopolio de Petroleos, S.A.)

1. CAMPSA was founded by Law in 1927, primarily under fiscal considerations. Its objectives were to replace the then de facto private monopoly in the distribution of fuels and lubricants by a public one, to participate directly in oil drilling and to set up a number of refineries in Spain supplied by a company-owned tanker fleet. Since its foundation, CAMPSA is a private company, with the Spanish State holding a blocking minority of 30 percent of total shares.
2. CAMPSA's activities are predominantly directed to import and distribute petroleum and petroleum products in Spain. Oil refining, has been transferred to various concessionaries. CAMPSA is minority shareholder in only 2 (out of 10) Spanish refineries, holding 30 percent of the share capital of PETRONOR (Bilbao) and reportedly the same percentage with the Refinery of Catalonia in Tarragona. In collaboration with international oil companies CAMPSA is also exploring oilfields in Spain and abroad.
3. The President of CAMPSA is presently Sr. Silva Munoz.

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CAMPSA

(Compania Arrendataria del Monopolio de Petroleos, S.A.)

1. CAMPSA was founded by Law in 1927, primarily under fiscal considerations. Its objectives were to replace the then de facto private monopoly in the distribution of fuels and lubricants by a public one, to participate directly in oil drilling and to set up a number of refineries in Spain supplied by a company-owned tanker fleet. Since its foundation, CAMPSA is a private company, with the Spanish State holding a blocking minority of 30 percent of total shares.
2. CAMPSA's activities are predominantly directed to import and distribute petroleum and petroleum products in Spain. Oil refining, has been transferred to various concessionaries. CAMPSA is minority shareholder in only 2 (out of 10) Spanish refineries, holding 30 percent of the share capital of PETRONOR (Bilbao) and reportedly the same percentage with the Refinery of Catalonia in Tarragona. In collaboration with international oil companies CAMPSA is also exploring oilfields in Spain and abroad.
3. The President of CAMPSA is presently Sr. Silva Munoz.

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Reading list

Two books recently published in English can provide an excellent background on Spain:

- Spanish Travels and Reflections, by
J. Michener
Published by Random House,
1968

- Spain, the Gentle Anarchy, by
B. Welles
Published by Vraeger,
1966

Non-Government personalities

J.M.LOPEZ IBOR

about 55, psychiatrist, influential in university circles

José María PEMAN

about 80, former president of the private council of D.Juan de Borbón, father of Prince Juan Carlos. Writes frequently in ABC
Losing ground because of age

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CARLOS MENDO, Journalist, about 45. Chief of information in AHB. Former UPI
Manager for Spain (1961-1963), Director General of Spanish Newsagency
EFE(1963-1969)

EMILIO ROMERO

About 55, journalist, writer and politician. Editor of "Pueblo"
(a paper published by the "Sindicatos") Controversial figure

SALVADOR PANIKER

about 40, writer. Author of "Conversaciones en Barcelona" and
"Conversaciones en Madrid". Two best sellers. Books made up of
talks with leading personalities from all sectors in Spain (opposition
included)

Mr Christ Johnson

April 7, 1971
M. Ebstein

Note for Mr. Clark

Suggested List of Spanish Journalists

Here is a suggested list of Spanish journalists Mr. McNamara might wish to see while in Madrid:

Emilio Romero - Editor of "Pueblo". Official paper of the Spanish Union (Sindicatos). Politically active and controversial.

Ekkehard Tertsch - Editor of "Spanish Economic News Service", a weekly bulletin, published in English, French and German, widely read in international circles.

Enrique Fuentes Quintana - Professor of Public Finance in the Madrid University. Editor of "Hacienda Pública Española" (published by the Ministry of Finance). Formerly chief-editor of "Información Comercial Española"

Antonio Fontan - Editor of "Madrid", Opus Dei evening paper, closed for four months by the Spanish Government in 1968 and recently fined for its editorials on Spanish political developments.

+ Min of Educ.

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