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McNamara papers

Contacts  
Spain (1968 - 1971)

The World Bank Group  
**Archives**



1771181

A1993-012 Other #: 16 209352B

Contacts with member countries: Spain - Correspondence 01

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SPAIN

SPAIN

1. 5/10/68 Gabriel de Valderrama, Head of the Department of External Affairs, Ministry of Finance
2. 10/4/68 Juan Jose Espinosa, Minister of Finance  
Mariano Navarro Rubio, Governor, Banco de Espana  
Joaquin Gutierrez Cano, Executive Director  
Fernando Benito, Head, Office of Foreign Financing, Ministry of Finance
- 6/6/69 Max Ebstein, Desarrollo (with 11 other newsmen)
3. 7/17/69 Juan Jose Espinosa, Minister of Finance
4. 10/2/69 Juan Jose Espinosa, Minister of Finance  
Fernando Benito, Chief of the Office of External Planning, Ministry of Finance  
Alberto Anibal-Alvarez, to be successor to Benito
- 11/25/69 Alphonso Osorio, President, Spanish Railroad  
Jose Ramon Lasuen, Dean, University of Madrid
- 3/19/70 Mr. Diaz-Hochleitner, Under Secretary of Education (former Bank staff member)
- 5/20-22/70 (Paris) Representatives and Observers at OECD Meeting:  
Vicente Mortes, Minister of Housing  
M. de Nerva, Chief of the Permanent Delegation  
Francisco Javier Vallaura, Director General of International Technical Cooperation, Ministry of Foreign Affairs  
Rodolfo Gijon, Secretary General, Ministry of Commerce  
Antonio Linares, Director General of Urbanization, Ministry of Housing  
Javier Irastorza, Secretary General, Commissariat of Economic and Social Development Planning  
Carlos Colmeiro, Deputy Director General of Multilateral Relations Ministry of Commerce  
Jose Maria Sierra, Director of Multilateral Economic Relations, Ministry of Foreign Affairs
- Permanent Delegation: Enrique Manzanares  
Alfredo Escribano  
Enrique Puig  
Joaquin Perez-Gomez
5. 5/21/70 (Paris) Vicente Mortes, Minister of Housing  
Marques de Nerva, Ambassador to OECD  
Francisco Fernandez Ordonez, Secretary General, Ministry of Finance
- 7/21/70 Ambassador Jaime Arguelles
6. 11/16/70 Don Laureano Lopez-Rodo, Minister of Planning  
Ambassador Jaime Arguelles  
Jose Maria Allendesalazar, Minister/Counsellor, Embassy  
Javier Irastorza, Technical Secretary General, Planning Commission

7. 1/27/71 Prince Juan Carlos - at Blair House
  8. 3/10/71 Enrique Fontana Codina, Minister of Commerce
  9. 4/27-5/1/71 Mr. McNamara's Impressions from trip to Spain (*Filed in McN office*)
  10. " " Memorandum of Conversations all contained in one memorandum
- 4/28/71 General Franco  
(Madrid) Monreal Luque, Minister of Finance
- " Prince Juan Carlos  
Monreal Luque, Minister of Finance
- " Admiral Carrero Blanco, Vice President of Government  
Monreal Luque, Minister of Finance
- " Monreal Luque, Minister of Finance  
Jose Vilarasau, Director General, Financial Policy
- " Jose Luis Villar Palasi, Minister of Education
- " Vincente Mortes Alfonso, Minister of Housing
- 4/29/71 Tomas Allende y Garcia-Baxter, Minister of Agriculture  
(Seville) Mr. del Pozo, Director, Agency for Livestock Development
- " Military Governor of Seville, del Infantado
- " Governor of Seville, de Muniz
- 4/29/71 Mayor Jose Maria Porcioles  
(Barcelona)
- " Meeting with businessmen
- " Meeting with industrialists:  
Mr. Ribera-Rivira, President, Chamber of Commerce  
Mr. Duran, Maquinista Terrestre de Porcioles IMPACSA  
Mr. Trias-Farges, textiles  
Mr. Sanchez-Cortes, SEAT
- 4/30/71 University of Madrid  
(Madrid)
- " Superior Council of Chambers of Commerce (representatives of steel industry, shipbuilding, metallurgy, chemicals)
- " Luncheon by Jose Maria Lopez de Letona, Ministry of Industry, and Claudio Boada, President of INI

- 4/30/71  
(Madrid)      Bank of Spain:  
Mr. Aguirre Bozalo (BANESTO)  
Mr. Tejero (Hispano-Americano)  
Mr. Reign (Banco Central)  
Mr. Collar (Banco de Bilbao)  
Mr. de Careaga (Banco de Viscaya)  
Mr. Camacho Banos (Banco Popular)  
Mr. Botin-Sanz (Banco de Santander)  
Mr. Fierro (Banco Iberico)
- "      Luis Coronel de Palma, Governor, Bank of Spain
11. 5/24/71      Ricardo Diez Hochleitner, Under Secretary of Education
12. 5/28/71      Claudio Boada Villalonga, President, Instituto Nacional de Industria
- 9/29/71      Jose Maria Aguirre-Gonzalo  
Juan Llado  
Jorge Brosa  
(from Association for the Progress of Management -- presented  
Mr. McNamara with title and silver plaque as Honorary Member  
of the Association)
13. 9/3/75      Jose Luis Ceron Ayuso, Minister of Commerce  
Juan Antonio Garcia Diez, Technical Secretary General, Ministry  
of Commerce  
Manuel Guasch Molino, Chief of Cabinet of the Minister of Commerce
- 6/3/75      King Juan Carlos (private audience at Blair House)
14. 6/15/76      Juan Miguel Villar-Mir, Minister of Finance
15. 3/20/78      Francisco Fernandez Ordonez, Minister of Finance  
Jose Barea Tojeiro, Under Secretary of Budget & Public Expenditures  
Miguel Martin Fernandez, Alternate, ED, IBRD



Files

July 31, 1968

S. R. Cope

Spain

1. Mr. Valderrama, accompanied by Mr. Gutierrez Cano, called to see Mr. McNamara on May 10. I was present.
2. Mr. Valderrama said that he was calling at the request of the Minister of Finance to pay his respects to Mr. McNamara as President. He referred to the Bank's active relationship with Spain in the past few years and said that the Bank had made an important contribution in the financing of roads, ports and railways, financing which was associated with important reforms. He hoped that this relationship would continue and that the Bank would be able to turn its attention to agriculture and education. Mr. McNamara indicated that he hoped that the active relationship would continue and that the Bank would continue to lend to Spain.

SR Cope:smr

IBRD

cc: Mr. Steckhan ✓



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 10, 1968

FROM: S. R. Cope

SUBJECT: Spain

1. Mr. Gabriel de Valderrama, who will be accompanied by Mr. Gutierrez Cano and myself, will call on you at 12:10 p.m. today. Mr. Valderrama is Head of the Department of External Financial Affairs, Ministry of Finance, and is the main point of contact between the Bank and Spain on operational matters.

2. I have already sent you notes on the Bank's relations with Spain and on the Spanish economy. I now attach a short note outlining operations currently in progress.



Attachment

SRCope:mmr



*Mr. McNamara - to see please.*  
*MS 10/17*

## OFFICE MEMORANDUM

TO: Files

DATE: October 14, 1968

FROM: Norman Horsley *X*SUBJECT: Mr. McNamara's Meeting with the Spanish  
Delegation to the Annual Meeting

Members of the Spanish Delegation to the Annual Meeting met with Mr. McNamara at the Sheraton-Park Hotel on October 4, 1968. Representing Spain were:

Sr. Juan Jose Espinosa, Minister of Finance, (Governor)  
 Sr. Mariano Navarro Rubio, Governor, Banco de Espana  
 (Alternate Governor)  
 Sr. Joaquin Gutierrez Cano, Executive Director, (Temporary  
 Alternate Governor)  
 Sr. Fernando Benito, Head, Office of Foreign Financing,  
 Ministry of Finance (Adviser)

Messrs. Knapp, Friedman, Cope and Horsley attended the meeting.

In response to Mr. McNamara's invitation to the delegation to give their views on the Bank's lending program in Spain, the Minister said he had the feeling that a new era was beginning in the Bank. Hitherto in the Bank's relations with Spain only infrastructure projects had been discussed. However, his Government was very interested in the improvement of education and teaching. To meet the pressure on the universities, three new universities had been opened and a bond issue to finance them had been very heavily over-subscribed. The Government was very pleased with the response to the issue, which indicated what could be done in the financing of priority sectors. He said that education was very important for the future of the country, not only in itself but also because it had a great multiplier effect. Mr. Diez Hochleither, formerly of the Bank's staff, had given a new impetus to the development of education in Spain. The Minister asked for the Bank's interest in this development.

With regard to agricultural development and especially livestock, the Minister said that with rising living standards there had been a shift in consumer habits resulting in a surplus of wheat and a shortage of beef. He welcomed the forthcoming agricultural appraisal mission and hoped that it could complete its work rapidly; he added that the livestock project had aroused considerable expectations in Spain.

The Minister referred to difficulties in the wording of the new law on port autonomy which did not go far enough to reflect the Bank's views. His Government was willing to reconsider the law with a view to amending it eventually. Meanwhile, regulations to implement the law

were being prepared and the Government would seek to ensure that these accorded as closely as possible with the Bank's wishes.

The Minister agreed with the Bank's view that the railway must avoid a deficit in their operations. He said that stabilization measures have thus far made it impossible for railways to increase their rates. He pointed out that in this matter he was a natural ally of the Bank, since it was his Ministry which had to cover the deficit.

The Minister thought that the countries in the middle of the development spectrum should support the development of poorer countries. Spain was doing what it could in this matter, especially in Latin America; he mentioned the loan to IDB, purchase of bonds and the provision of finance for the Central Bank of Central America.

Finally, the Minister said that his Government was interested in reviewing and facilitating the use of the Spanish contribution to IDA. It was not yet possible to make a definite statement, but his Government would return to this matter later.

Mr. McNamara responded by saying that the Bank was interested in doing what it could to assist Spain. In the past, Bank assistance had been designed to help in those sectors where changes were needed. The forthcoming Bank mission would discuss with the Government whether it was possible to make further sectoral changes in connection with Bank loans. Sr. Espinosa stressed the thirst for education in Spain at all levels; he said that assistance with technical education, and especially agricultural education, was greatly needed and emphasized that the request for assistance with agricultural education had the full support of the Head of State. Mr. McNamara replied that the Bank would ensure that the education mission included appropriate staff to consider these matters.

cc. Messrs. Cope, Fontein, Karasz,  
van der Mel, Steckhan,  
Lethem, Ballantine, Stoops,  
Carmichael, McKay, Guillot-Lageat

NH:es



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 16, 1969

FROM: M. P. Benjenk *MB*SUBJECT: SPAIN - Your Meeting with the Minister of Finance, July 17, 1969

I understand that the Minister wishes to discuss with you the broad outline of future Bank operations in Spain. He will be attending a lunch given by Mr. Knapp and may be meeting with me later in the day to discuss details. The following notes and attachments summarize our lending policy, program and the status of projects.

Lending Policy

This was fully discussed with the Minister during my visit to Spain in May. A report on our conversations (Memorandum for the Record, dated June 26, 1969) is attached. As you will see, I stressed particularly that our lending would be in the context of sectoral reforms, and that we would require Spain to make adequate efforts to raise funds from external sources other than the Bank.

Lending Program

The attached Country Statement, prepared in connection with discussion of the Five-Year Program in April, sets forth the objectives and rationale of the Bank's lending program for Spain. It also includes a brief survey of the major economic sectors.

Status of Projects

Livestock - The Government has to make a number of institutional arrangements before the loan can be made effective. You may wish to stress the importance of dealing with these promptly, and also our reliance upon the Government undertaking the agreed policy changes. If the present project gets under way successfully, and performance in respect of policy changes is satisfactory, we expect to make further loans for livestock development at intervals of about two years. ✓

Other Agriculture Projects - We propose to develop a second line of projects in agriculture. We had expected irrigation to be the most likely subsector, but the Government does not wish to approach us with irrigation proposals until all its current projects have been completed, possibly about 1972. The Minister will probably ask for our assistance with a project combining agricultural research, extension and training. The project follows from the 1966 report of the Bank/FAO agricultural mission and has been prepared by the FAO/IBRD Cooperative Program. It could be of high priority in developing and applying new agricultural techniques enabling productivity to catch up with the rapidly rising demand for food in Spain. The main element of the project is the decentralization and rationalization of applied agricultural research. It appears to be in } ✓

President has seen

July 16, 1969

line with the item on research in a recent resolution of the Executive Directors concerning commodity stabilization, but we propose to seek a ruling from the Loan Committee on its eligibility for Bank financing.

Education - We are considering a pilot project, which would be the first stage in the implementation of the reform program embodied in the recent Government White Paper on education policy. A UNESCO preparation mission is now completing its field work, and we expect the project to be submitted to us in time for appraisal in the fall. It will cover a full range of experimental schools under the new reform program, mainly located in Galicia. This is potentially the first Bank loan under which primary education would be financed in line with your correspondence with the Director General of UNESCO.

If this project goes well, we expect to consider larger projects (mainly secondary and technical education) at intervals of about two years.

RENFE III (Railways) - A supervision mission that has just returned from Spain reports that while physical execution of the previous project continues to be good, it is still not satisfied with financial performance under the loan, although considerable progress is being made in rationalizing the railways' organization. However, although the mission feels that it could not at this stage recommend a third loan to RENFE it believes that by the end of this year it might be possible to do so. This would depend very greatly on the cooperation of the Government, particularly in such matters as permitting RENFE to increase its rates, the prompt closing of uneconomic lines and the limitation of compulsory wage increases. ✓

In any case, before a third project can be appraised, it is necessary for RENFE to revise its 10-year modernization plan, to revalue its assets, and to prepare new traffic forecasts and financial projections. This work cannot be completed before early 1970. Consequently, appraisal will be delayed by some six months (from September 1970) and Board consideration of this project will slip into FY 1971.

Ports II - Lack of available staff in Transportation Projects Department will probably make it necessary to postpone this project (now in the FY 1971 program) to FY 1972.

The Minister of Public Works has some preference for a road project in place of the Ports II project. We have discouraged this idea because there would be little or no sectoral reform associated with a road project. We do not know the reaction of the Government to this proposal, but it is possible that the Minister may raise the question with you. ✓

Industry - I have discussed a possible Bank study of industry with the Ministers of Finance and Industry, bearing in mind that catching up with the rest of European industry may be the most relevant economic task for Spain in the next decade. They welcome this initiative on the part of the Bank. The Government is to consider the form and coverage of the study, and the Minister of Industry will discuss this with us when he visits Washington. ✓

Attachments

cc: Mr. Knapp

NHorsley:jw

## OFFICE MEMORANDUM

TO: Memorandum for the record

DATE: June 26, 1969

FROM: M. P. Benjenk *MB*SUBJECT: Visit to Spain - Discussions with  
Finance Minister

I visited Spain from May 12 to May 16 and had conversations with the Ministers of Finance, Agriculture, Education and Public Works as well as with senior officials of these and other ministries. Most of these discussions related to sectoral or project matters on which Mr. Horsley has reported in separate memoranda. I also had a more general conversation with the Minister of Finance on the future relationship between the Bank and Spain which is summarized below.

In view of the Minister's interest in the general lending and borrowing policies of the Bank, I gave him the latest available information on the magnitude of Bank lending for FY 1969 and on the corresponding borrowing effort. The Minister said he was very happy to hear of the great increase in Bank lending which went a long way towards achieving the targets outlined by Mr. McNamara at the last Annual Meeting. He was especially glad to hear about the success of the Bank in borrowing large amounts in Germany. The Minister said he fully endorsed the Bank's policy of increasing the volume of lending to those developing countries which could prudently absorb it, even though this might mean that they and the Bank would have to pay more for the money borrowed. The Minister asked whether, in the framework of the Bank's dynamic new approach, Spain could also expect increased amounts from the World Bank.

I explained to the Minister that Spain fell into a special category of countries which posed a difficult problem for the Bank, in view of the fact that they had a relatively high per capita income and were developing very rapidly. Some of the principal contributors to the Bank and also some of the poorer of the developing countries felt that lending to this middle group of countries should be restricted, and in some cases, cease altogether. The Bank, however, felt that as long as it did not need to ration its funds, continued financing in a country like Spain could still have important developmental results. Such lending, however, would have to be based on two assumptions which would condition continued Bank's involvement in Spain. First, Bank lending would have to be selective and confined to sectors and projects in which lending could contribute to the enactment of major reforms in the sectors concerned. The reorganization of Spain's railways and the livestock project under discussion, as well as the education project

**President has seen**



based on a major reform bill, were examples of this type of project. On the other hand, further lending for roads, for example, might not be appropriate since it did not bring much to Spain except finance. The second assumption which would, in effect, be a condition of further Bank lending, would be that a much more aggressive borrowing policy by the Spanish Government and Spanish public entities would be followed in the international markets so that, in due course, Spanish paper might become attractive to the international financial community and easily negotiable. Since World Bank financing had a concessional element in it, it could not be justified for a country like Spain, unless it could be demonstrated that Spain had made all possible efforts on its own to secure foreign finance and that these efforts still left a balance to be met by the Bank. I cited the reluctance of many Executive Directors to approve the recent loans to Finland and Ireland until it could be shown that they had tapped markets to the maximum possible extent. If these two criteria for future lending were met, and provided that the Bank could continue borrowing the large amounts it required, it would become possible to lift the uncertainty which had surrounded lending to Spain in recent years, when it was never known whether a loan to Spain might be the last one; the Bank and the Spanish authorities could then start working together on more long-term objectives in three or four selected sectors of the economy. Such close cooperation would probably also result in increased lending to Spain as compared to earlier years although the total would, as in the past, be determined by how many projects it was possible to process.

The Minister replied that he was very happy to hear about the Bank's policy toward Spain and said he agreed completely with the objectives of Bank lending to Spain as I had explained to him. He, himself, and many of his colleagues in the Government considered that the Bank had been and could continue to be an extremely useful catalyst for the achievement of reforms in sectors where such reforms were otherwise difficult to achieve. While the finance brought by the World Bank was important in itself, the improvements which the Bank's influence could bring about were even more important and he was happy to see that we were contemplating activity in such sectors as agriculture and education which in Spain were in need of major reorganization. He was also happy to hear that there was a possibility that the Bank might become interested in the industrial sector, which was probably the most important sector for the modernization of Spain and its future entry into the Common Market. The Minister also said that he understood why the Bank insisted that Spain should borrow a greater part of its needs in the international financial markets. This was also his desire as Minister of Finance and, as a first step, the Spanish Government had recently guaranteed borrowing by a Spanish corporation for the construction of highways. This had been successful and a second and larger placement

was in process. There were some legal obstacles in the way of the Government itself placing its bonds in international market, but attempts should be made to overcome such difficulties. I concluded by telling the Minister that we would watch the progress on this issue very closely and would raise it again with him at the Annual Meeting; I asked him to keep us informed of the Government's intentions on this matter. The Minister concluded the meeting by saying how pleased he was to see that the Bank continued to have a close interest in Spanish economic development and that he intended to come to Washington in July if the livestock loan could be signed at that time. He said he wished to see Mr. McNamara then and have discussions on a long-term Bank lending program for Spain.

At the end of my visit to Spain, I had lunch with the Minister and informed him of the contacts which Mr. Horsley and myself had with his other Cabinet colleagues. He endorsed our view that the sectors which were most likely to qualify for Bank lending in accordance with our criteria would be agriculture, education and industry, together with the conclusion of our railway and port rehabilitation program, now well under way.

MPB:ab

cc: Messrs. McNamara  
Knapp  
Lejeune (o/r)  
Horsley

## SPAIN - COUNTRY STATEMENT

### I. THE ECONOMIC SITUATION AND OUTLOOK

#### A. Introduction

Spain has a population of 32 million. The natural increase has averaged only 1.2 percent annually since 1950. Per capita GNP reached \$770 in 1968. Income distribution remains very unequal. Natural resources are limited, but there are large reserves of coal and iron ore, mined in substantial quantities. Large deposits also exist of sulphur, potash and salt. Oil has been struck, but quantities are small in relation to needs. The Spanish Sahara, the only remaining African province, has important deposits of phosphate rock. Spain has wide variations in topography and climate; in some areas precipitation is adequate or abundant, but major areas have insufficient rainfall for agriculture, compensated in part by irrigation. Abundant sunshine, a long coastline and proximity to industrialized Europe have contributed to a spectacular growth of tourism, making Spain today one of the leading tourist countries in the world.

Politically, Spain faces a succession problem. General Franco will be 77 this year. Political opposition is limited and there are reasonable prospects that Franco's succession would be orderly. As a result of the political situation the Government focuses mainly on short-term problems. A lack of coordination among Ministries in policy-making continues. The protracted negotiations between Spain and the EEC are another major element of uncertainty. Negotiations took place in 1967/68, five years after the first Spanish request was made. Now, the negotiating Committee of the EEC is seeking a wider mandate, the granting of which could again take considerable time.

### Major Economic Developments and Short-Term Economic Prospects

Through the 1950's, Spain followed strictly autarkic policies. The Stabilization Program of 1959-60 initiated important policy changes. Since then, imports of foreign goods, technology and capital were stimulated by a gradual reduction of restrictions. Also, detailed controls on the domestic economy were lifted gradually.

These new policies were the most fundamental factor behind the high rate of growth in total output during 1961-66, a growth of 8 percent per year in real terms. Industry and services expanded rapidly, but agriculture lagged. Investment and domestic savings were high, well over 20 percent of GNP. Growth was accompanied by a large-scale migration of labor from the land, finding employment in urban areas inside Spain and in other European countries. The total agricultural labor force of 4.9 million in 1960 declined by about one million in the 1960's, roughly one-half of which found employment in Spain and the other one-half abroad. The external payments position improved dramatically; reserves were built up from practically zero in 1959 to a high of \$1.5 billion in 1964. Important factors were the fast rise in tourism (receipts in 1966 were \$1,200 million, up from about \$250 million in 1960 and \$600 million in 1963), remittances of workers abroad and receipts from private foreign investment.

However, the pace of the economy was too fast. Because wage increases were too large and credit and fiscal policies too liberal, the rise in prices, which had been small in the early 1960's, gradually accelerated and external reserves fell until the peseta was devalued, in line with sterling, in November 1967. At that time, measures were also taken to restrain private and public consumption and to encourage business fixed

investment, while ensuring a satisfactory degree of price stability. The measures included a general freeze of incomes and prices, with certain exceptions, through the end of 1968.

These measures have to a considerable extent been successful in the short-run. The rise in the cost of living in 1968 was no more than 2 percent and wage increases were much lower than before. External reserves rose over the year by \$70 million to \$1.1 billion. The real growth rate of GNP recovered to 4-4.5 percent from a low of 3 percent in 1967. Private industrial investment continued to stagnate during most of the year, but this may change because of a recent acceleration of industrial output.

Prospects for this year are for a further rise in the growth rate. Price rises will presumably remain limited because of the existence of some unused productive capacity. However, the feasibility of keeping prices and wages within the established ceilings is questionable. The Government has relaxed its income freeze policy, wage demands are strong and the subsidization of prices is likely to become increasingly costly to the Government and therefore difficult to maintain. External reserves may on balance remain relatively stable, if the expected rise in imports is limited. In the circumstances, a cautious budget policy is most important. Also, private credit should be held in check, given the high liquidity of the economy.

Spain has good potential for further economic growth. It has large resources of unutilized manpower and there is ample scope for increases in productivity. The growth rate of 5.5 percent projected for 1968-71 in the Second Plan (see C2 below) may be considered realistic, provided reasonably effective policies are followed. The major requirements,

discussed in more detail below, are reforms in agriculture, industry and infrastructure, improvements in budgetary, monetary and capital market policies, a more liberal policy on discharge of labor and the avoidance of too strong protectionism.

B. Projections

In the Basic Data Table it has been assumed that the economy will grow by 5.5 percent annually in real terms through 1974. It has further been projected that, to make this possible, there will have to be an increased inflow of capital, including capital from official sources. This latter projection is based, inter alia, on the assumptions that (a) imports of goods and services will have to grow on average by 9 percent in real terms to sustain the rate of expansion; (b) it will not be possible to increase the yearly real growth rate of merchandise exports by more than 10 percent; (c) the average real rate of growth of receipts from tourism will be 7 percent and (d) emigrant remittances will rise by 7 percent annually. The assumptions imply that especially the growth rates of tourism and emigrant remittances will be substantially lower than in the past, which appears realistic.

Total external capital needs are projected to rise to \$715 million annually by 1974, the total for the five-year period being \$3,325 million, excluding a modest increase in foreign reserves of \$100 million. Of the total capital inflow, some \$1,000 million (net) might be obtained through public borrowing, including borrowing from the IBRD. Spain's external public debt position does not preclude contracting additional debt to the projected amounts (see ID below).

			Actual Data						Projected Data						Period Growth Rates	
			1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1963-67	1971-74
Population - growth rate	%	1														
birth rate	per 1000	2	21.3	22.0	21.1	20.7	20.8	20.4						0.8	1.0	
Price Change - c.o.l. index	%	3	8.8	7.0	13.2	6.2	6.4	2.2								
exchange rate (pesetas)	per US\$	4	60	60	60	60	70	70								
Means of Payment - change	%	5	17.0	21.4	18.5	14.0	16.1	18.7								
GNP at factor cost; 1964 prices - Total	\$ mil.	6	15,860	16,898	18,177	19,562	20,278	21,192	22,358	23,588	24,885	26,254	27,698	29,221	5.2/a	4.5
per capita	\$	7	508	537	573	609	625	646	675	705	736	769	803	839		
GNP at constant market prices - real growth rate	%	8	8.8	6.1	7.2	8.3	3.2	4.5							6.4/a	5.5
GDP at current market prices - Total	\$ mil.	9	16,070	18,143	21,470	24,693	27,028	29,366								
Production Growth (real) - agriculture	%	10	13.6	-8.9	0.7	10.2	3.1									
food per capita	%	11														
manufacturing	%	12	8.6	11.7	14.8	16.9	2.9	7.4								
GDP by Branch - agriculture	%	13	22.8	18.4	18.0	17.6	16.4									
mining	%	14	1.4	1.4	1.4	1.2	1.1									
manufacturing	%	15	29.2	30.6	29.4	29.1	28.4									
construction	%	16	5.1	5.5	5.4	5.2	5.2									
transport & communication	%	17	5.9	6.1	6.2	6.2	6.3									
public admin. & defense	%	18	5.7	5.6	5.5	6.0	6.7									
other branches	%	19	29.9	32.4	34.1	34.7	35.9									
Resource Gap	% of GDP	20	2.7	1.6	3.9	4.0	3.4	3.3								
Net Factor Payments	% of GDP	21	--	--	0.1	0.3	0.3	0.4								
National Saving - private/b	% of GDP	22	18.0	18.3	17.8	17.9	15.9									
public/c	% of GDP	23	3.8	4.7	4.5	4.4	3.5									
Total	% of GDP	24	21.8	23.0	22.3	22.3	19.4	18.5								
Marginal Saving Rate		25														
Consumption - private	% of GDP	26	69.3	68.3	68.9	68.4	70.4	70.3								
public	% of GDP	27	8.9	8.6	8.7	9.0	9.9	10.2								
Total	% of GDP	28	78.2	76.9	77.6	77.4	80.3	80.5								
Exports of Goods and Services	\$ mil.	29	1,647	2,130	2,365	2,894	2,946	3,102	3,470	3,885	4,345	4,865	5,440	6,090	13.5/a	11.9
Imports of Goods and Services	\$ mil.	30	2,088	2,412	3,198	3,808	3,775	3,844	4,320	4,895	5,405	5,975	6,600	7,310	13.0/a	11.1
Net Goods and Services	\$ mil.	31	-441	-282	-833	-914	-829	-742	-850	-1,010	-1,060	-1,110	-1,160	-1,220		
Interest on Public Debt, Gross: Outflow (-)	\$ mil.	32	-7	-5	-13	-21	-23	-25	-28	-30	-33	-37	-40	-42		
Other Investment Income, Net: Outflow (-)	\$ mil.	33	5	1	--	-46	-58	-75	-82	-90	-97	-108	-120	-128		
Net Investment Income: Outflow (-)	\$ mil.	34	-2	-4	-13	-67	-81	-100	-110	-120	-130	-145	-160	-170		
CURRENT SURPLUS(+)/DEFICIT(-)	\$ mil.	35	-443	-286	-846	-981	-910	-842	-960	-1,130	-1,190	-1,255	-1,320	-1,390		
Private transfer receipts	\$ mil.	36	251	317	358	417	445	450	480	515	550	590	630	675		
Long Term Private Capital, Net inflow	\$ mil.	37	195	248	302	276	448	480	350	400	425	425	425	450		
Long Term Public Capital, Gross inflow	\$ mil.	38														
less: amortisation	\$ mil.	39														
Net long term pub. cap. inflow	\$ mil.	40	30	7	6	68	92	150	150	175	175	200	225	225		
Short Term Capital, Net inflow	\$ mil.	41														
Other Capital, Net inflow (incl. errors & om.)	\$ mil.	42	72	42	49	33	-213	-168	--	60	60	60	60	60		
NET BALANCE	\$ mil.	43	105	328	-131	-187	-138	70	20	20	20	20	20	20		
IMF Drawings(+)/Repayments(-)	\$ mil.	44	-17	-53	-35	-25	166									
Foreign Exchange Reserves, Inc.(+)/Dec.(-)	\$ mil.	45	85	313	-139	-227	12									
Foreign Exchange Reserves, Net - Total	\$ mil.	46														
Foreign Exch. Reserves, Gross - govt. entities	\$ mil.	47	1,147	1,513	1,409	1,205	1,049	1,095								
comm. banks	\$ mil.	48														
Total	\$ mil.	49														
External Debt/d	\$ mil.	50	349.1	398.9	413.8	425.0	747.3									
Debt Service Ratio	%	51	2.5	2.1	2.0	1.6	1.6	2.3								
Export Price Index	%	52	5.2	-4.0	8.3	6.7	1.8	3.8								
Central Government - Current revenue	% of GDP	53	16.1	17.0	16.8	16.9	19.8									
Current expenditure	% of GDP	54	12.3	12.3	12.4	12.6	16.3									
Saving	% of GDP	55	3.8	4.7	4.4	4.3	3.5									
Capital revenue	% of GDP	56														
Capital expenditure	% of GDP	57														
Surplus(+)/Deficit(-)	% of GDP	58														
Military expenditure/f	% of GDP	59	0.5	0.5	0.4	0.4	0.4	0.3								
Education - expenditure (general government)/g	% of GDP	60														
school enrol., primary & second.	%	61														
literacy rate, adult	%	62														
Tax Revenue (general government)	% of GDP	63	15.8	16.4	16.2	16.4	19.6									
Public Saving (% of public fixed investment)/e	%	64	74.6	85.8	78.7	75.3										
Gross Investment - private fixed	% of GDP	65	16.0	17.0	17.2	16.8	20.9/h	20.8/h								
public fixed	% of GDP	66	5.1	5.5	5.7	5.8										
increase in stocks	% of GDP	67	3.4	2.1	3.4	3.7	1.9	1.0								
Total	% of GDP	68	24.5	24.6	26.3	26.3	22.8	21.8								
Finance of Investment - National saving	%	69	88.9	93.7	85.1	84.9	84.9	84.7								
Foreign capital	%	70														
private	%	71	13.0	13.5	12.5	11.2	11.3	13.9								
public	%	72	0.8	0.2	0.1	1.0	1.5	2.7								
Total	%	73	13.8	13.7	12.6	12.2	12.8	16.6								
Change in reserves	%	74	-2.7	-7.4	2.3	2.9	2.3	-1.3								
Public Investment by Sector - agriculture	%	75														
industry	%	76														
power	%	77														
housing	%	78														
transportation	%	79														
telecommun.	%	80														
education	%	81														
health	%	82														
other	%															

Note: Data are subject to revision after completion of the economic report.  
 /a 1964-68. /b Including savings of autonomous agencies. /c Excluding savings of autonomous agencies.  
 /d Including loans undisbursed. /e Public sector; excluding autonomous agencies. /f Based on incomplete data. /g Including public gross fixed investment.

If Spain is to raise its external borrowing correspondingly, it will have to make stronger efforts than in the past to borrow in the international market. So far, Spain has exercised its credit in the international market only by guaranteeing a privately-raised toll road loan, by borrowing \$60 million by way of a private placement in the Euro-dollar Market, and through loans raised or guaranteed by the state industrial holding company. In total, these borrowings amounted to \$125 million in 1967-68. In connection with future Bank lending, the possibilities of joining Bank loans with Spanish market issues will have to be actively explored.

C. Current Assessment

1. No detailed country statement was prepared for Spain last year.
2. Development Planning and Administration

After the First Development Plan (1964-67), Spain is now in its Second Plan (1968-71). The Plan includes macro-economic targets, public investment programs and indicative projections for the private sector. Most important in practice are the public investment programs, incorporated in the government budgets, and the numerous suggestions for policy reforms, both general and for specific sectors. Under the First Plan, seven growth centers (polos) were set up for regional industrial development and four more are planned under the new Plan. Approved investments in the polos have been important (about \$1.5 billion during 1964-67, or about 30 percent of total industrial investment in those years). Another tool used to advance industry are the acciones concertadas, a joint effort of the Government and enterprises to rationalize certain industrial sectors. There are doubts about the effectiveness of this effort (see C4 below).

The First Plan aimed at a 6 percent growth rate of GNP in real terms. The actual growth was 6.3 percent, despite the 1967 deceleration in



economic expansion. However, as mentioned above, growth was accompanied by sizeable inflation and external deficits. Some of the targets of the Second Plan had to be revised because of the 1967 devaluation. The target annual growth rate of GNP was reduced from 6 to 5.5 percent. The rates for agriculture, industry and services are 2.7, 6.7 and 5.0 percent, respectively. Total gross fixed investment is estimated at almost \$23.9 billion equivalent, of which \$7.8 billion would be public investment (\$6.5 billion direct and \$1.3 billion financial). The new Plan intends to be more selective in its objectives and, in particular, pays special attention to education and agriculture.

Spanish planning is useful in presenting consistent objectives and emphasizing key problems. Its weaknesses are that there is no special mechanism for implementation and some of the recommendations of the planners are not endorsed by the executive. In the past there have been important deviations between planned and actual policies.

Shortfalls or improvements in development planning and administration have been no major factor in the proposed increase in lending to Spain from \$145 million planned last year for 1969-73 to \$300 million planned now for 1970-74 (see II below). The increase is the result of a reassessment of Spain's needs for external capital based on the assumptions mentioned above and a judgment that the expected growing needs are not likely to be met unless the Bank makes a larger contribution.

### 3. Obstacles to the Development Process and Prospects for Overcoming Them

The obstacles to development result in part from shortcomings in agriculture, industry and infrastructure (including transport and education), to be discussed below (see C4). In addition, there is the need for improved general economic policies.

One obvious need is to avoid the recurrence of too strong inflationary pressures. This involves holding the line on prices which should help in curbing excessive wage demands. Direct controls on prices were acceptable as a temporary device after the 1967 devaluation but should not be continued too long because of their obvious rigidity, creating distortions. This leaves budget and credit policies as the major tools to combat inflation. There are a number of shortcomings in both.

The usefulness of the government budget is limited by defects in programming and control of public revenues and expenditures; this weakens fiscal discipline. Also, a number of items are not included in the budget. Particularly important in this respect is state trading in agricultural products. The agencies concerned have direct access to the central bank, their needs depending on the degree of price support provided for imported and domestic agricultural products and the size of crops. In practice, drawings on the central bank have been large over the years. In addition, the six official credit banks (including those for industry, agriculture and housing) are financed by the issue of low interest government bonds which the commercial banks have been forced to absorb. This process, in addition to distorting the capital market, has contributed to inflationary pressures. A fourth problem in relation to the budget is the relatively weak tax effort, although some progress has been made in this area. (Current revenue of the public sector, excluding the social security system, is now about 17-18 percent of GNP.)

An effective monetary policy is complicated by some further factors. First, the independence of the central bank has been seriously curtailed. Second, because of a low degree of self-financing and poorly developed stock market, growth in output and private investment are strongly dependent

on private banking credit, which makes the authorities reluctant to apply the credit brake too strongly and too soon. Third, there has recently been an increasing tendency to grant the banks automatic rediscount facilities with the central bank for the financing of activities considered to be of high priority. Finally, interest rates in general are low and there has been an increasing proliferation of the rate structure.

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 make it difficult to achieve 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.

Other important policy areas are the barriers to the discharge of labor and those to external trade. It is very difficult for enterprises to lay off labor; more flexibility is needed. The trend towards trade liberalization in the first half of this decade has come to a halt. Since 1966, protectionist tendencies have been on the increase, fostered by the disappointing negotiations with the EEC, growing protectionism elsewhere and the weaknesses in the industrial structure, which came more in the open when the growth of the economy slowed down. To stimulate needed reforms it is very important that the process of opening up of the economy be resumed. Unfortunately the conditions making this possible are not determined by Spain alone.

#### 4. Major Sectors of the Economy

In the 1960's, industry has become the major economic activity, both in terms of output and employment. However, agriculture remains very important. In the service sector, tourism is especially significant for

the balance of payments. Transport and education are rightly both receiving high priority in the Plan.

Agriculture. As mentioned above, the surplus of manpower in agriculture has been declining rapidly. Although this has contributed to rising productivity, the sector is still badly in need of reform. Past policies have led to inadequate production patterns, insufficient modernization and high costs. This has resulted in difficult surplus and subsidy problems (e.g. for wheat and wine), contributing to inflationary pressures, and in increased imports of commodities in strong demand (e.g. meat), burdening the balance of payments. Output should be reoriented towards products in strong demand, especially meat, fruits and vegetables. Expansion of livestock production calls for adequate supplies of domestic feedgrains and fodder and a large program of pasture improvement. The desired adaptation of production patterns will have to be supported by suitable marketing and price policies (including long-term price guarantees as an incentive to producers) and improvements in credit. There is also the need for larger plots, changes in land tenure and better research and extension. Public investments in agriculture, especially in irrigation, should be more selective and carefully justified by prospective returns. Some modest improvements in policies, e.g. in regard to prices, have been made in recent years and the policy objectives of the Second Plan, based largely on the Bank/FAO survey of Spanish agriculture of 1965-66, are generally along the right lines. However, entrenched habits and vested interests are likely to continue slowing down the pace of change.

Industry. The rapid expansion of industrial output in the 1960's was accompanied by changes in its composition; growth industries like chemicals, machinery and automobiles increased, whereas traditional

industries like textiles, food processing and mining stayed behind. Growth was supported by a strong rise in private foreign investment, mainly from the U.S. and EEC countries, and a favorable manpower situation. Exports of manufactures have grown substantially. Industry, nevertheless, requires 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 complex, and in the sectors of machinery, textiles, pulp and paper, leather and food processing. Government assistance is provided mainly by financial support (especially official credit) but also by continued protection. There are doubts whether present policies will result in the required changes. Government intervention may well lead to salvaging ailing activities rather than promoting healthy new ones. Also, fiscal regulations and rigidity of labor laws sometimes discourage mergers. Difficulties also continue to surround many of the public enterprises owned by the government's holding company, INI. The Second Plan rightly emphasizes the further modernization and restructuring of the various sectors and calls for improved public assistance towards this end. However, much will continue to depend on implementation.

Transport. Growing traffic needs have far outpaced the quality and type of existing roads. The 1962-77 General Highway Plan provides for large-scale road improvement and additional arterial and access roads. A program of toll highways totalling 700 km is to be financed by private interests. The trucking industry has a number of problems. Many firms are too small and charge rates below true costs. This is one aspect of the lack of a proper transport coordination policy. The railroad network consists mainly of the RENFE system. RENFE is implementing a ten-year Modernization Program (1964-73), involving investments during the Second

Plan of \$500 million. Its efficiency is improving, but its financial results are still poor because many of its problems, such as those of uneconomic lines and surplus manpower, can be solved only gradually. Other modernization programs exist for the major ports and the merchant fleet.

Tourism. The boom that Spain has experienced in tourism since 1960 was largely a spontaneous one resulting from private initiative, and government policy has played only a limited role. The tourist sector did not receive any preferential fiscal treatment and the contribution of official credit for hotel construction appears to have been marginal. Direct public investment has been very small and public investment in infrastructure has fallen behind. There is still a large potential for further growth (e.g. only a small part of the long coastline has been developed), but prospects are for a slower expansion than in the early 'sixties.

Education. The educational system is outmoded. Free basic education is limited to four years, which has acted as a major obstacle to social mobility. In secondary education, over one-third of students attend unrecognized, low-level private schools. In the technical field, there is an acute shortage of scientists and lower grade technicians. The administration of education also is weak.

The principles of an educational reform are embodied in a recently published White Paper. The reform aims at providing basic training for the whole population and a better productivity of the educational system, targets to be reached through equality of educational opportunity, expansion of general intermediate education and greater diversity of training. After eight years of basic education, students would choose between vocational training and several streams of general studies. Secondary education would also be followed by vocational training or university courses leading to a

diploma or a full degree. The new universities would be given more autonomy and secondary teacher training would become an integral part of higher education. This program has been widely accepted and education given a high priority among the objectives of the Second Plan.

5. Local Currency Financing

The projections show that Spain's domestic savings, the foreign resources that can reasonably be expected from sources other than the Bank, and Bank lending for only the foreign costs of the highest priority projects, are together likely to be inadequate to finance the desirable level of investment. An appropriate amount of Bank financing for the local currency costs of the agriculture and education projects, which have low foreign exchange components, is therefore justified. The projects in these two sectors are of the highest priority, but their foreign exchange components are too small to warrant Bank financing confined to foreign costs. Moreover, if 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 prefer not to have the Bank involved in these sectors. Although projects could 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. The best use of the Bank's resources lies in financing agriculture, education and transportation, covering the foreign costs and part of the domestic costs of the projects undertaken.

D. Creditworthiness

Spain is creditworthy for substantial amounts of additional Bank lending. The country might have to face political problems, but this risk

appears small at the present time. Its debt servicing record is outstanding and debt service is low. Total external debt outstanding, including undischarged, as of the end of 1967 was \$747 million. Total service payments on this debt in 1968 were less than 3 percent of current receipts from exports and tourism, reaching a peak of less than 4 percent in 1972. Public borrowing in the amounts foreseen would raise this burden by the mid-1970's to a peak of no more than 5-6 percent of current receipts at that time.

## II. THE LENDING PROGRAM

### A. Objectives

The main objective is to introduce and support much-needed structural and policy reform. Spain's external capital requirements are increasing rapidly, and the larger lending program is also intended to help meet these growing needs. The amount of Bank lending that can be justified by the projected capital requirements is still small in relation to them and our leverage is limited. Given the relatively small size of the program, it has been concentrated on improvements in the priority sectors of agriculture, education, industry and transportation. The Bank should seek to bring about desirable policy changes in respect of monetary and fiscal affairs, interest rates, credit organization and trade but can do so only by general advice and, to a limited extent, by supporting sectoral reforms. A long-term objective is to assist Spain in obtaining better access to the international capital markets, and the Bank's lending program is conditional upon Spain borrowing adequate amounts from external sources other than the Bank.

### B. Tables

Attached.



C. Projects

Livestock II and III and Education II and III are projects in continuing programs already in progress or about to begin, although specific projects have still to be identified: the allocations are reasonable indications of the orders of magnitude of the loans required. The unallocated amounts for agriculture are notional.

D. Rationale for Program

The four priority sectors for which external financing is required, and through which the Bank could make a significant contribution to Spanish economic development by supporting structural change and policy reform, are agriculture, industry, transportation and education. Historically, transportation provided the first opportunity in Spain for the Bank to stimulate this kind of development. 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 railway to the point where it is an example to other public enterprises in Spain and to railways in other countries. The Bank is also helping to modernize and increase the efficiency of the ports, and to bring about coordination of transportation. It is highly desirable that the momentum gained in this sector should be kept up.

Spanish agriculture is backward by European standards, and structural change to bring it up to date is of the highest priority; adjustments to changes in domestic and export demand patterns are especially necessary. By beginning with livestock, which has considerable development potential, it is expected that improvements in agricultural credit, and interest, price and marketing policies can also be achieved. Bank assistance is

also proposed for a second high priority sub-sector -- irrigation -- where planning and implementation are poor and much in need of guidance and improvement.

The Spanish education system is also archaic; it needs restructuring to provide basic training for all and enhanced 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 current preparation of far-reaching policies and plans for educational reform provide an immediate opportunity for the Bank to give significant help in this sector.

The modernization of industry, so that Spain can compete with other European countries, is also of very high priority. To have an effective influence on industry, a sector in which investment runs at almost \$2 billion a year, the Bank must be prepared to lend large sums in a continuing program. The first step, however, should be a thorough study of the sector to determine the structural and policy changes required and to define a role for the Bank.

The sole constraint on the total amount of the lending program is the amount that can be justified in relation to Spain's external capital needs. Within the agriculture and education sectors, there are constraints imposed by the pace of project preparation and the preparation and adoption of structural and policy changes.

Reductions in the program, should they become necessary, should be made in Ports II (FY 1971).

Total net foreign capital requirements in the five years 1970-1974 are forecast as \$3,425 million. Private inflows (net) are expected to

amount to \$2,425, leaving \$1,000 million (net) to be raised abroad by the public sector. The volume of new commitments needed by the public sector would be of the order of \$1,300 million. If Spain made the maximum use of suppliers credits, international capital markets and other financing sources, it is improbable that it could raise more than \$1,000 million of this, which would leave some \$300 million, on a commitment basis, for the Bank to provide. This would be equivalent to 23 percent of the total new commitments. Of the net inflow of \$1,000 million, the Bank's contribution would be \$220 million, or 22 percent, including disbursements of \$67 million from existing Bank loans, and \$197 from the loans in the program, less repayments of \$44 million.

E. Underlying Assumptions

The lending program is based upon the assumptions concerning total external capital requirements and local cost financing discussed above, and upon the following:

(1) It is assumed that there will be no serious political instability in Spain, particularly because of the issue of succession to General Franco, sufficient to affect the country's creditworthiness or capital needs and, consequently, the Bank's lending program. It is also assumed that political opposition to reform will not be significantly strengthened.

(2) The White Paper on education reform will be implemented, and planning for the new education system will proceed on schedule. There is a good chance that these assumptions will be realized; if they are not, this part of the program will slow down, or stop.

(3) There will be a satisfactory response to the first livestock project, justifying a continuing program in this sub-sector. The chances seem good. If the response is not satisfactory, the approach would have to be modified.

(4) A program can be developed in a second agricultural sub-sector -- probably irrigation, where improvement is greatly needed. It seems reasonably sure that we can find such a series of projects; if not, the agricultural program for the five years might have to be reduced.

(5) The Government will accept the Bank's proposal for a study of industry, and projects suitable for Bank financing can be identified in this sector.

### III. OTHER BANK ACTIONS AND ISSUES

- A. The Bank should continue to advise on transport coordination and the improvement of the railways and ports. It should also assume a similar role in connection with agricultural development and education.
- B. At present there are no agreed proposals for pre-investment studies or surveys. We will explore with the Government the possibility of undertaking a thorough study of industry, to determine the structural and policy changes needed and a possible role for the Bank. The transportation coordination studies undertaken in connection with the Bank's loans to RENFE are nearing completion.
- C. There are no specific plans for joint financing, but opportunities should be sought; there may be possibilities in connection with proposed loans for railways, ports and industry.
- D. Essential changes in legislation or regulations include:
  - (1) Formal adoption by the Government of the new policy for educational development, and consequential legislation.
  - (2) Changes in legislation and/or regulations affecting meat marketing and prices to provide better incentives to livestock producers.

IBRD/IDA 5 YEAR LENDING PROGRAM  
 FOR SPAIN (COUNTRY)

PROGRAM:	SECTOR PROJECT NAMES - UNALLOCATED <u>1/</u>	Check one:		Amounts (\$m.)			Timing (FY)		
		IBRD	IDA	70	71	72	73	74	
<u>Agriculture</u>	-Livestock II	x				25			
	-Livestock III	x						25	
	-Unallocated (probably irrigation)	x			25(1)		25(1)		
<u>Education</u>	-Pilot Project	x		10					
	-General & Agricultural	x				25			
	-General II	x						25	
<u>Transportation</u>	-Rail: RENFE III	x		50					
	-Ports II	x			40				
<u>Industry</u>	-Unallocated	x					50		
		5 year total							
TOTALS -		IBRD		300	60	65	50	75	50
		IDA		-	-	-	-	-	-

1/ Where projects not yet identified give total "unallocated" amounts indicating, in parenthesis, probable number of projects in appropriate amounts column.

April 14, 1969

## BANK/IDA LENDING PROGRAM

	<u>FY1965</u> <u>and prior</u>	<u>FY1966</u>	<u>FY1967</u>	<u>FY1968</u>	<u>FY1969</u>	<u>FY1970</u>	<u>FY1971</u>	<u>FY1972</u>	<u>FY1973</u>	<u>FY1974</u>
Agriculture Bank IDA		1/			1/25	-	1/25	1/25	1/25	1/25
Communications Bank IDA										
Education Bank IDA						1/10	-	1/25	-	1/25
Maint. Imports Bank IDA										
Power Bank IDA										
Transportation Bank IDA	2/98	1/40	-	1/50	-	1/50	1/40	-	-	-
Water Supply Bank IDA										
Tourism Bank IDA										
Dev. Fin. Cos. Bank IDA										
Industry Bank IDA									1/50	
Other & Unallocated Bank IDA										
Total Bank IDA	2/98	1/40	-	1/50	1/25	2/60	2/65	2/50	2/75	2/50
Bank and IDA	2/98	1/40	-	1/50	1/25	2/60	2/65	2/50	2/75	2/50

April 14, 1969

1/ Each entry will show both the number of projects and the total dollar value for that year and sector, separated by a slash. Thus, for example, an entry of 4/57 would denote 4 projects with a total value of \$57 million. If the exact number of planned projects for a year is not known, put an X where the number would otherwise be, e.g., X/57.



Mr. McNamara:  
to see please  
lcc  
10/20

## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 16, 1969

FROM: Norman Horsley X

SUBJECT: Mr. McNamara's Meeting with the Spanish Delegation to the Annual Meeting

Members of the Spanish Delegation to the Annual Meeting met with Mr. McNamara in his office at the Sheraton Park Hotel on October 2, 1969. Representing Spain were: Sr. Juan Jose Espinosa, Minister of Finance (Governor), Sr. Fernando Benito, Chief of the Office of External Financing, Ministry of Finance, Sr. Alberto Anibal-Alvarez, to be successor to Sr. Benito, and Sr. Juan Moro, Alternate Executive Director (Bank). Messrs. Lejeune, Benjenk and Horsley attended the meeting.

The Minister presented a letter to Mr. McNamara formally requesting Bank assistance for an agriculture research, extension and education project costing \$28.5 million over 6 years. He outlined the project and stressed its priority and importance for the development of Spanish agriculture. Mr. McNamara in reply said he was pleased that the Minister had proposed this project as it was exactly the kind of thing that he wanted the Bank to be involved in. He was anxious to find a research project that the Bank could finance, but warned the Minister that until we had examined it we could not be sure that this one was appropriate.

The Minister inquired about the progress with the education project and urged that the final stages be completed with all possible speed. He informed Mr. McNamara that the government as a whole had now approved a new draft law on education, embodying radical reforms in the education system. This draft was now before the Spanish Parliament. Mr. McNamara assured him of the Bank's interest in moving ahead with the project.

An invitation to visit Spain was extended to Mr. McNamara by the Minister. The invitation was accepted with pleasure by Mr. McNamara, who said that he would very much like to go to Spain. However, he pointed out that the year ahead would be a very difficult one and that it might be months before he could make the visit. A mutually agreeable time would be worked out.

The Minister asked Mr. McNamara to consider a Spanish candidate for the Tourism Project Department. Mr. McNamara expressed interest in Spanish staff for the Department, in view of Spain's great success with tourism development, and said that he would look into the matter.

In conclusion, Mr. McNamara thanked the Minister for his great personal efforts to ensure that agreement was reached on the Livestock Development Loan.

NHorsley:EV

Cleared with and cc.: Mr. Benjenk

cc.: Messrs. Knapp, Lejeune, Ballantine, Evans, R. A. Clark,  
Christoffersen, van der Mel, Guillot-Lageat/  
Div. File, Cancio, Gavin

President has seen





## OFFICE MEMORANDUM

TO: Files

DATE: May 26, 1970

FROM: Arthur Karasz *JK*SUBJECT: Spain's request to Mr. McNamara for World Bank technical assistance on urbanization.

On Thursday, May 21, at the time of the OECD Ministerial Meeting, the Spanish Delegation met with Mr. McNamara at OECD. Present for Spain were: Mr. Vicente MORTES, Minister of Housing, Marques de NERVA, Ambassador to OECD and Mr. Francisco FERNANDEZ ORDONEZ, Secretary General, Ministry of Finance. Also present: Arthur Karasz.

The Minister outlined his problems regarding urbanization, particularly in the city of Madrid. His Ministry is planning the yearly construction of 350,000 new houses but as 28 percent of the population is still living in rural areas, the increase in city population will be great in coming years. According to the planners, Madrid will grow to become a city of 6 million people.

The Minister would be interested in having the Bank participate in technical assistance regarding this question and in the Bank drawing up plans to build new towns like they exist in the U.K. He mentioned that the Bank is giving such assistance to Bogota, Colombia.

Mr. McNamara in his reply stated that the Bank is interested in urbanization and that a special unit has just been set up to deal with the question. However, the Bank's capacity is limited and he could not say now whether within the foreseeable future staff could be spared to start a study in Spain as well. There are extreme cases like that of Calcutta which have to be given priority.

Mr. McNamara asked the Minister to send a paper to the Bank, outlining his problems and describing his plans in their present form. We would see what action could be taken.

cc: Messrs. McNamara ✓  
Benjenk

President has seen

AK:mcl

6

MEMORANDUM FOR THE RECORD

January 14, 1971

FROM: Norman Horsley

SUBJECT: Meeting of the Spanish Minister of Planning with Mr. McNamara -  
Bank Lending Program for Spain

Sr. Laureano Lopez Rodo, Spain's Minister of Planning, visited Mr. McNamara in his office on November 16, 1970. The Minister was accompanied by Sr. Jaime Arguelles, Ambassador of Spain; Sr. Jose Maria Allende-salazar, Minister/Counsellor, Embassy of Spain; Sr. Javier Irastorza, Technical Secretary General, Planning Commission; and Sr. Juan Moro, Alternate Executive Director. Messrs. Hartwich and Horsley attended the meeting.

Sr. Lopez Rodo said that Spain had been following the economic guidelines established by the Bank's General Survey Report of 1962 and, as a result, had achieved a decade of sound economic development. However, Spain's domestic resources were no longer adequate for a satisfactory rate of growth, and external assistance would be necessary. He expressed Spain's appreciation for the assistance already given by the Bank and looked forward to its continuation.

Guidelines for Spain's Third Development Plan (1972-1975) were now being prepared. The selection of programs and projects for inclusion in the Plan would be stricter than in the past. A new appraisal office had been established to ensure that this objective was realized. The Minister asked for the Bank's help in establishing criteria for project appraisal and in setting up a Spanish institution to give training in the evaluation of projects.

Sr. Lopez Rodo thanked the Bank for sending a mission to Madrid to discuss a program for Bank lending. The Planning Commission had prepared a tentative list of projects based on Spanish priorities. These might not coincide with Bank priorities, but this was a matter that could be discussed further. First priority was given to a second education project costing \$60 million which the Government was now ready to discuss. The Minister emphasized the need for infrastructure development and asked the Bank to support, in particular, further improvements at Huelva port. This was Spain's first autonomous port, strategically situated in southwestern Spain and linked to an important development pole. With regard to agriculture, he stressed the importance of livestock development, and the drainage of the Ebro delta and Valencia regions to permit a shift from rice to more economic crops. Other priority projects were for industry, then being discussed in Madrid by a Bank mission, and airports. He asked the Bank to give particular attention to airport development: the introduction of the new large jet aircraft had made the runways, terminals and other facilities of several of Spain's airports inadequate.

The Minister said he was aware that the insufficient volume of Bank lending to Spain in the past was not due solely to the Bank; Spain had been at fault in not having projects ready. However, it was now ready to

President has seen

present a broad range of projects to the Bank. Spain also wanted to correct past deficiencies in project implementation. He hoped that with these changes, Spain would be in a better position to receive Bank financial assistance. He noted that whereas Spain ranked 15th as a contributor of capital to the Bank, it ranked only 25th as a borrower.

Mr. McNamara, in reply, made two points concerning the basis for Bank lending to Spain. First, he pointed out that there should not be a relationship between a country's capital contribution to the Bank and the loans it received from the Bank. Spain was a marginal country for Bank assistance; it had a substantial rate of economic growth, its average per capita income was rising, and it could borrow in capital markets at commercial rates. The Bank was lending at concessionary rates to those countries which could not borrow in the commercial markets. Consequently, there were some countries that should not borrow from the Bank. It was difficult to determine where the line should be drawn, as was evidenced by the criticism made of recent lending to Ireland. However the Bank was convinced of the justification for lending to countries such as Ireland, Finland and New Zealand. Spain was in exactly the same category; Bank lending was justified so long as those countries made every effort to borrow in the market and still could not raise enough to ensure a reasonable rate of growth. In these circumstances the Bank should and would lend to Spain.

Mr. McNamara's second point was that projects submitted to the Bank by Spain should encompass more than financial assistance. They should also provide for institutional reform and other sectoral or policy changes. He cited the recent livestock and education projects as examples.

Mr. McNamara agreed that neither Spain nor the Bank had done enough to prepare projects. Both should now look ahead and prepare a program of projects for at least the next four years. This would help to expedite decisions on prospective loans meeting the criteria he had stated. A factor of at least 25 percent should be added to the target lending figure to allow for inevitable slippage. Representatives of both sides would try to develop a tentative work program. Mr. McNamara emphasized that such a program could not imply a commitment on the part of the Bank; only the Executive Directors could commit the Bank to lending. Moreover, conditions affecting Bank lending to Spain might change at any time. Sr. Lopez Rodo welcomed Mr. McNamara's proposal and agreed that Spain would work along the lines suggested.

The Minister stressed the great difficulty of drawing a line between the developed and the developing countries. He wished to present two new arguments to support Bank lending to Spain. First, there were several economies in Spain: some regions had per capita incomes of less than \$500, others were over \$1,000. It was difficult to establish income equality between them because of the differences in natural resources. Some of the projects presented to the Bank would be to the benefit of the less-developed regions, e.g., Huelva port and livestock. Second, there were certain types of project which required external finance but for which finance could not be obtained from commercial sources, e.g., railways and the Galicia roads. For projects such as these, Bank financing was needed.

Referring to Spain's contribution to the third IDA replenishment, Sr. Lopez Rodo said that it was important not only as a financial contribution, but also because, with its high level of engineering skill, Spain could compete for consultants' contracts. They would therefore like to see some linkage between the financial contribution and the use of Spanish consultants. Mr. McNamara said that he was greatly pleased by Spain's contribution to the IDA replenishment, but it certainly could not be linked to consultant contacts. However, the Bank Group was very anxious to see more use of consultants and contractors from countries like Spain. Consequently every effort would be made to see that Spanish consultants and contractors were used as much as possible.

Cleared with and cc: Mr. Hartwich

cc: Mr. McNamara's office (orig. + 1), Messrs. Knapp, Chadenet, Benjenk, Krishnaswamy, Knox, Ballentine, Evans, Fuchs, Upper

NHorsley:jw

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 13, 1970

FROM: Dieter Hartwich *DH*SUBJECT: SPAIN - Your meeting with Don Laureano Lopez-Rodo, Minister of PlanningDon Laureano Lopez-Rodo - Biographical Information

Sr. Lopez-Rodo was born in 1920. By training he is a lawyer, specialized in administrative law. He started his career as a professor of law at Madrid 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. Lopez-Rodo 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. Lopez-Rodo is a strong advocate of closer links between Spain and Europe.

Political Situation

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; among these, four (Finance, Agriculture, Industry and Housing) have worked under Sr. Lopez-Rodo in the Planning Commission. Despite the coherence of the Cabinet and its high level of technical competence, its performance in the economic field has been rather disappointing in the sense that no consistent development policy has emerged. There seem to be several reasons for this: the new Ministers are relatively young and of less political stature than their predecessors; the process of decision making suffers from the traditional lack of coordination of the Spanish administration; there has been an unwillingness to take decisions that might cost political support; the Planning Commission has not established itself as the main organ of economic policy making; and Spain has lately run into monetary difficulties which have required ad hoc measures and have left little room for longer-term considerations.

The structure and orientation of the Cabinet reflects more far-reaching changes in the political life of the country. The conscious, even if slow, effort towards liberalization has provoked a deliberate downgrading of that element of the National Movement (the Falange) which is

President has seen

still attached to the authoritarian ideology of the Civil War, in favor of the younger, technocratic element.

#### Constraints to Development

In spite of a slowdown preceding the 1967 devaluation of the peseta, Spain's performance in the 1960's has been quite impressive, with a rate of growth of GDP averaging 7 percent in 1960-69. However, future growth will be more difficult to realize to the extent that the easiest opportunities for action have been utilized and the Government will now be confronted with more deeply seated structural obstacles than in the past. External and internal liberalization of the economy should be replaced by improvements in productivity, which in turn depend on large investments for the modernization of agriculture and industry. To be efficient, these investments will require major reforms in such fields as price relationships, subsidies and credit. Monetary policy is a basic element for future development policy; there is a strong pressure towards higher wages throughout the country adding to latent inflationary pressures. Also, the balance of payments constraint is likely to be more severe than in the past because imports, already more than double the value of exports, are bound to continue to increase rapidly.

The recent agreement with the EEC, signed in October 1970, should be a powerful stimulus for improved economic policies.

#### Bank's Policy

Because of its relatively high per capita income (above \$700) and its level of development, Spain calls for a special relationship with the Bank. The Bank's policy is to undertake lending operations only when it can act as a catalyst to stimulate changes in structures and policies in specific sectors. Because of the large size of the economy the necessary leverage can best be obtained by substantial loans to selected sectors; the Bank's lending program has therefore been concentrated on improvements in transportation, agriculture, education and, in the future, industry. The effort in the last-mentioned sector would be specifically directed towards helping the integration of Spain into the Western European economy.

#### Bank Relations with Spain

On the whole, our relations with the Spanish Government have been very good. However, lack of progress with Bank operations in the past 18 months had convinced the Minister of Finance that the Bank was deliberately slowing down its lending to Spain; for this reason he was inclined to discount the Bank as an effective support for reform. However, the slippages were mostly due to delays and difficulties in preparation on the Spanish side. This misunderstanding now seems to have been overcome; we have explained the position during the Annual Meeting and during recent operational missions. We have also urged speedier preparation of projects.



For its part, the Government has made it clear that it is anxious to press forward with measures to improve economic policies and with sectoral reforms for which it needs, and wants, Bank support. It feels very strongly that the next two or three years will be especially critical for giving momentum to liberalization and reform. Unless substantial backing is forthcoming from the Bank during this period, it will probably be too late. Spain has therefore taken steps to show its willingness to cooperate. It has increased its capital subscription and has contributed to the replenishment of IDA resources. Recently, the Minister of Finance wrote to the Bank to give assurances concerning speedier implementation of on-going projects and preparation of new ones; he also asked for a higher level of Bank activity through larger loans. He gave particular emphasis to industry. At his request, Mr. Kalmanoff will shortly visit Spain to discuss the scope of a proposed industrial study to be undertaken by the Bank. The loan officer for Spain will be in Madrid this week to discuss the possible content of the Bank's lending program.

#### Past and Prospective Operations

Railways - In connection with the Bank's first two loans (\$65 million in FY 1965 and \$50 million in FY 1967) to the Red Nacional de los Ferrocarriles Espanoles (RENFE) considerable progress has been made in improving the operations, management and physical plant of the railways. More recently, important administrative and legal steps have been taken to permit RENFE to improve its financial position. A mission is presently appraising a third loan to RENFE; it is possible that a larger loan than the \$50 million now scheduled may be recommended.

Ports - After initial construction delays and considerable difficulty in securing the passage of agreed legislation on the autonomy of Spanish ports, the project (for which a loan of \$40 million was made in FY 1966) is now going well. However, the question of port autonomy, which has presented difficulties for the Spaniards, and its consequences need to be carefully assessed before we consider a second loan, which is presently scheduled for FY 1972 (\$40 million).

Agriculture - Our Livestock Development loan has been well received by farmers in the project area, and the Government has moved rather faster than required in changing pricing and marketing policies. There remain some problems concerning the establishment of an effective system to secure breeding age female calves for the project, the financing of the project agency, and the participation of private banks in the project. Preparation of a second livestock development project is just starting.

A technical mission is presently appraising an Agricultural Research and Extension Project. This would be the first such project to be financed by the Bank. It results from several years of work by FAO and Bank missions, during which its form has been significantly altered. The Government has accepted the recent Bank suggestions regarding the scope and content of the project.

The Ministry of Agriculture intends to propose to the Bank a project for the drainage of the Ebro Delta and/or Valencia regions, and a shift to more economic crops. Feasibility reports are awaited. The Ministry is also studying projects for the provision of facilities for marketing agricultural produce and animal health.

Education - Because of internal difficulties in establishing the machinery for the implementation of the General Education Reform Law, the loan (\$12 million) signed on June 30, 1970 is not yet effective. However, all the agreed steps now seem to have been taken and the loan should be made effective shortly. As a result of the delays affecting the first education project, very little has been done towards the preparation of a second project, which is scheduled for FY 1972.

Industry - After protracted discussions with the Spaniards, we have now reached broad agreement on the objectives of a sector study mission, which is a necessary prerequisite for Bank lending in this sector. Mr. Kalmanoff will be visiting Spain in November to define the terms of reference for a survey mission in 1971. Two loans of \$50 million each are tentatively scheduled for FY 1973 and 1975.

Urbanization - We have received from the Minister of Housing a request for Bank assistance for an urban development project in the Madrid area. We envisage that, as a first stage, there would be a study embracing the necessary reorganization of the administrative authorities in charge of urban development and the definition of guidelines for an urban development program for Madrid. A mission will visit Madrid in December 1970 to discuss this project with the Spaniards.

JGuillot-Lageat/NHorsley:jw

7

January 26, 1971

To Mr. William Clark (for Mr. McNamara)

From M. Ebstein *ME*

Subject: Mr. McNamara's meeting with Prince Juan Carlos of Spain

Mr. McNamara has already received a "profile of the Prince". Briefing material is being prepared by Area Department. There are three points worth emphasizing:

1. The Prince is genuinely concerned over social and economic development, not only in Spain but in the underdeveloped countries as well. He makes it a practice to discuss development with leading personalities outside Spain in order to compare the methods used at home with what is being done elsewhere, with a view to improving current Spanish development strategy.

2. He is particularly interested in increased World Bank lending for education in Spain. This became clear to me in a number of meetings I had with him, even before joining the Bank.

3. When he succeeds Franco, he is certain to have strong influence - even in the absence of executive power - over the trends in Spanish social and economic progress and thus can become an important supporter of the Bank's objectives.

*Bank's Policy: to lead where it can catalyze & create change  
Problem: how to proceed over change  
& what extent with any future change  
what are the external political trends.  
how to obtain structural reforms on  
the econ (relating to process & subsidies etc)  
& permit continuation of growth -  
need emphasis on man. for effort -*

64-68      69-73  
188            254

69 D  
70 37  
71 28 *copy also* 1813  
72 55 *DR* 5885  
73 137 *Directk.* 25  
74 75 *Drainage* 15  
75 *Educ III* 25  
*Prots II* 40

*Reflection: concentrate on agr. educ trans + local...  
Big 1/2 paper: help integrate Spain into Euro...  
have economic Spain + transition - 100m '71  
Spain has been slow in preparing  
plans for the BK & processing them  
- implementation*

OFFICE MEMORANDUM CONFIDENTIAL

TO: Mr. Robert S. McNamara

DECLASSIFIED

DATE: January 26, 1971

FROM: M. P. Benjenk *MB*

MAY 09 2013

WBG ARCHIVES

SUBJECT: Your meeting with Don Juan Carlos de Borbón, Prince of Spain --  
Additional Remarks

1. I met today with Sr. Ricardo Diez-Hochleitner, Under-Secretary of Education. The conversation revealed that the Prince would want to talk about general policy questions such as the future of the Bank, particularly in its relations with Spain, program lending, and lending to education. In connection with the last mentioned topic, it is interesting to note that the Under-Secretary of Education is the only "sector representative" accompanying the Prince; this shows both the personal interest of Juan Carlos in these matters, and the recent emphasis which has been placed upon educational reform as a key to development, as reflected in Franco's end of the year address.

2. During his conversation with you the Prince intends to raise a question for which he has long shown a high personal interest, that is the creation in Spain of a "Center for Prospective Studies." This would be a center for evaluation of the educational reform program and also for research in programmed learning. The Center would become a part of CENIDE (National Center for Educational Research) for which we are financing equipment under our first loan. The Prince would like to see a provision for financing this new center included in our second loan; the amount involved was said to be small.

3. The question of the content and amount of the second loan was also discussed. The Under-Secretary underscored very strongly the desire of the Minister of Finance for large loans. He confirmed this by requesting a \$60 million loan for education in FY 1972. You will remember that the same point had been made by the Minister of Planning, Sr. Lopez-Rodó, when he visited you last November. The proposal of the Under-Secretary of Education would take a very large portion of our lending program to Spain in FY 1972 and might include components the Bank would find difficult to finance. As it stands now, the project includes general basic education for about 13 percent of its total cost; this particular part of the Spanish proposal is strongly supported by the Under-Secretary who intends to plead in favor of it. We have already told him, of course, that it would be virtually impossible for the Bank to include it in the project.

*x Too large, but we should make an effort since this involves reform which we are concerned with.*

*i.e. elementary, but housed in the same buildings as secondary.*

President has seen

## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

MAY 09 2013

DATE: January 26, 1971

FROM: M. P. Benjenk 

WBG ARCHIVES

SUBJECT: Your Meeting with Don Juan Carlos de Borbon, Prince of Spain

1. 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.
2. 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.
3. 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.
4. 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. If the succession problem were to present itself in the

January 26, 1971

near future, this task would be further complicated by the wide divergences in public opinion, in particular within the Army, which were induced by the recent political crisis created by the Basque trials in December 1970. 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. The Constitutional Law provides for such an appointment, but so far Franco himself has fulfilled the roles of Head of State and Head of the Government, and there is no concrete indication that he intends to nominate a Prime Minister soon.

5. The Prince's visit to the US is considered in Spain as the official presentation of the future King of Spain; the Prince will reside at Blair House, and not at the Spanish Embassy. This visit takes place after Franco has emphasized in his last two public speeches the continuity of the regime through the Prince. It also comes at a time of increasing opening to the outside world, in particular towards the European Economic Community, and follows immediately upon a deep internal crisis, which ended up with the victory of the liberal, technocratic Opus Dei group in the Government.

6. We have no official information on the subjects the Prince intends to take up either with the US authorities or with the Bank. It seems improbable that he should be entrusted to have important political discussions; it is more likely that he will have general talks on US-Spanish relations, on internal political trends and about Spain's policy in the Mediterranean. The Prince is accompanied by Sr. Ricardo Diez-Hochleitner, Under-Secretary of Education, who was formerly head of the Education Projects Division (now Department) in the Bank. This probably means that the subject of financial assistance to education will be raised with the HEW Secretary and the Bank.

7. The Bank's policy towards Spain has been to undertake lending operations particularly when it can act as a catalyst to stimulate changes in structure and policy in specific sectors. Because of the large size of the economy the necessary leverage can best be obtained by substantial loans to selected sectors; the Bank's lending program has therefore been concentrated on important improvements in transportation, agriculture, education and, prospectively, in industry. The effort in the last-mentioned sector would be specifically directed towards helping the integration of Spain into the Western European economy. The Bank has also been seeking to bring about needed policy changes in respect of monetary and fiscal affairs, interest rates and credit organization and trade. We have encouraged Spain to make efforts to borrow from the international capital market. On January 21, 1971, the Government borrowed \$200 million from a consortium of five US banks at a rate of one percent over the current Euro-dollar rate, for 7 years; these funds are to be employed mostly to refinance debts. Two other bond

issues are planned during the next 12 to 18 months. Generally, the reforms the Bank is trying to achieve in Spain are those that the Government and its agencies want but do not have the competence or cohesion to push through. The Bank therefore experiences most difficulty not in obtaining Government agreement to the measures it recommends, but rather in getting the Government to implement them without undue delays.

8. The slow progress of Bank operations in the past 18 months convinced the Minister of Finance last year that the Bank was deliberately slowing down its lending to Spain; for this reason he was inclined to discount the Bank as an effective support for reform. However, he has recently become aware that the slippages were mostly due to delays and difficulties in preparation on the Spanish side and that a speedier preparation of projects was necessary. The Government has made it clear that it is anxious to press forward with measures to improve economic policies and with sectoral reforms for which it needs, and wants, Bank support. The next two or three years will be especially critical for giving momentum to liberalization and reform. Unless substantial backing is forthcoming from the Bank during this period, it might be too late. The Government has taken steps to show its willingness to cooperate fully by increasing its capital subscription to the Bank and contributing 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. He gave particular emphasis to industry, and at his request a mission visited Madrid in November to discuss the scope of a proposed industrial study which should lead to projects in this field. The Minister also submitted to the Bank a list of projects susceptible of Bank financing. We are currently reviewing this list and have found that several proposals are of high priority and could possibly be included in our lending program, in particular a highway to the Northwest of Spain which would speed up the development of this underdeveloped but high-potential region.

9. An economic mission visited Spain late in 1970. In spite of a slowdown preceding the 1967 devaluation of the peseta, Spain's performance in the 1960's has been quite impressive, with a rate of growth of GDP averaging 7 percent in 1960-69. However, future growth will be more difficult to realize to the extent that the easiest opportunities for action have been utilized and the Government will now be confronted with more deeply seated structural obstacles than in the past. External and internal liberalization of the economy should be reinforced by improvements in productivity, which in turn depend on large investments for the modernization of agriculture and industry. To be efficient, these investments will require major reforms in policies relating to price relationships, subsidies and credit. In the short term, Spain does not face an immediate financial problem; reserves amount to more than \$1.6 billion, or about four months of imports. Monetary policy, however is a basic element for future devel-



opment since the strong pressure for higher wages, possibly in excess of productivity gains, may add to latent inflationary pressure. With respect to the longer term, the authorities do not appear to have a coherent policy regarding external borrowing for the public sector. An orderly "development finance program" supporting the Third Development Plan (1972-75) seems all the more necessary now that balance of payment constraints are likely to become more severe than in the past. Imports, already three times the value of exports, are bound to continue to increase while continued growth in tourism and workers' remittances at about the same rate as in the past cannot be expected during the 1970's. Economic growth will, therefore, require increasing emphasis on exports of manufactures. In this connection, the recent trade agreement with the EEC signed in October 1970, which is considered to be a first step towards association, should be a stimulus for improved economic policies. Increasingly, resources will also need to be allocated to alleviate such problems as environmental pollution, regional income disparities and lack of indigenous research and development.

10. Bank's Past and Prospective Operations in Spain

Railways -- In connection with the Bank's first two loans (\$65 million in FY 1965 and \$50 million in FY 1967) to the Red Nacional de los Ferrocarriles Espanoles (RENFE) considerable progress has been made in improving the operations, management and physical plant of the railways. More recently, important administrative and legal steps have been taken to permit RENFE to improve its financial position. A mission has recently appraised a third loan to RENFE and will recommend a loan of up to \$85 million rather than the \$50 million now scheduled. The loan is expected to be presented to the Executive Directors late in FY 1971.

Ports -- After initial construction delays and considerable difficulty in securing the passage of agreed legislation on the autonomy of Spanish ports, the project (for which a loan of \$40 million was made in FY 1966) is now going well. However, the question of port autonomy, which has presented difficulties for the Spaniards, and its consequences needs to be carefully assessed before we consider a second loan, which is presently scheduled for FY 1972 (\$40 million).

Agriculture -- Our Livestock Development loan has been well received by farmers in the project area, and the Government has moved rather faster than required in changing pricing and marketing policies. There remain some problems concerning the establishment of an effective system to secure breeding-age female calves and the participation of private banks in the project. Preparation of a second livestock development project is just starting.

January 26, 1971

A technical mission has recently appraised an Agricultural Research and Extension Project. This would be the first such project to be financed by the Bank. It results from several years of work by FAO and Bank missions, during which its form has been significantly altered. The Government has accepted the recent Bank suggestions regarding the scope and content of the project. The recommended amount of the loan is about \$13 million; this loan is expected to be presented to the Executive Directors during FY 1971.

We are awaiting a proposal from the Ministry of Agriculture regarding an irrigation or drainage project, which is scheduled for a loan of \$15 million in FY 1972, but has not yet been satisfactorily identified.

The Ministry is also studying projects for the provision of facilities for animal health, marketing of agricultural produce and reforestation for later consideration.

Education -- The Under-Secretary for Education Sr. Ricardo Diez-Hochleitner, who is accompanying the Prince, will be visiting the Bank separately this week to discuss a second education project, which is scheduled for FY 1972. The major elements of the project proposal include:

University level technical schools (including a polytechnic institute in Barcelona)

General primary and secondary schools

Vocational and technical education

Laboratory equipment

Total estimated cost \$120 million.

No detailed review of the proposal has been possible since only the bare outline is known. It is unlikely that we could consider financing all of these components, and, in particular, primary education.

Industry -- After protracted discussions with the Spaniards, we have now reached broad agreement on the objectives of a sector study mission, which is a necessary prerequisite for Bank lending in this sector. Survey/identification missions will be visiting Spain later this year. Two loans of \$50 million each are tentatively scheduled for FY 1973 and 1975.

PRINCE JUAN CARLOS de Borbón y Borbón  
(Phonetic: WAHN KAHRlos)

SPAIN

Prince of Spain; Chief of State-Designate

Addressed as: Your Royal Highness

In July 1969 Gen. Francisco Franco designated Prince Juan Carlos, 33, to succeed him as Chief of State. Juan Carlos will be sworn in as Chief of State and crowned King Juan III upon the retirement, incapacitation or death of Franco. In naming Juan Carlos as the future Chief of State, Franco bypassed the chief pretender to the vacant Spanish throne, Don Juan de Borbón y Battenberg, the Prince's father.

In 1968, convinced that Don Juan was no longer a "viable" candidate, Juan Carlos began to bid actively for recognition as the next King of Spain. In a press interview in January 1969, he declared that in the interests of restoring the Borbón monarchy, he would accept the throne if it were offered to him. Personal ambition appears to have played a small part in this decision, which capped years of frustration during which he was torn between loyalty to his father and General Franco's hinted intention to pass over Don Juan.

Quiet-mannered and rather diffident in public, Juan Carlos remains a distant figure to the people at large. In private, however, "Juanito" (as he is familiarly known) displays what Spaniards call the "Borbón charm"--an informal, friendly and bluff manner. He is considerate and even-tempered.

Juan Carlos is a tall (6 feet 3 inches), handsome young man. An accomplished athlete, he maintains a private library said to consist primarily of sporting books. Among the sports he enjoys are sailing, fishing, water-skiing, riding, hunting, auto-racing, hockey, golf and wrestling. A karate expert, he has earned a brown belt, first class. He is also a camera enthusiast.

In May 1962 Juan Carlos married Princess Sophia of Greece. The couple has three children. Juan Carlos has traveled widely and has visited the United States several times. A competent linguist, he speaks English, Portuguese, French and Italian.

January 1971

PRINCESS SOPHIA  
(Phonetic: soFEEah)

SPAIN

Wife of the Prince of Spain

Addressed as: Your Royal Highness

Princess Sophia of Greece, 32, is the eldest daughter of the late King Paul and Queen Frederika and sister of King Constantine II. Sophia and Prince Juan Carlos of Spain were wed in a combined Greek Orthodox and Roman Catholic ceremony in May 1962. (Sophia adopted the Roman Catholic faith in June 1962.)

Sophia was trained as a pediatric nurse before her marriage. The Princess shares her husband's love of sports, especially sailing. Since establishing their residence at the Palace of Zarzuela in Madrid, Prince Juan Carlos and Princess Sophia have toured Spain extensively. The royal couple has three children: Elena, Christina and Felipe. The Princess speaks fluent Spanish, German and English, in addition to her native Greek.

January 1971

Gregorio LOPEZ BRAVO de Castro  
(Phonetic: LOWpehz BRAHvoh)

SPAIN

Minister of Foreign Affairs

Addressed as: Mr. Minister

In October 1969 Gregorio López Bravo, 46, relinquished the Industry portfolio he had held for 7 years to become Minister of Foreign Affairs. He is among the representatives of the powerful, semi-secret Catholic lay organization *Opus Dei* in the Cabinet. López Bravo has been described as the prototype of the nonideological technocrat whom General Franco has apparently decided to entrust with Spain's future. He is considered a rising new power in the country.

In the year that he has been in office, the influential, dynamic and Europe-oriented López Bravo has focused his foreign policy on closer relations with Western Europe and the Common Market. He is an active advocate of close economic cooperation with Europe and the United States, and he has worked to extend this advocacy to the political sphere. The Foreign Minister recently played a key role in the US-Spanish bases agreement negotiations.

López Bravo is a naval engineer by profession. One of the youngest Cabinet members, he has acquired a reputation for being extremely capable and alert. The Minister has a quick smile and a keenly interested manner. Since his appointment as Foreign Minister, he has traveled widely and with considerable publicity to Western Europe and the United States. López Bravo is married to the former María Angeles Velasco Schmidt and has nine children. He speaks English, French and some German.

January 1971

María Angeles LOPEZ BRAVO  
(Phonetic: LOWpehz BRAHvoh)

SPAIN

Wife of the Minister of Foreign Affairs

Addressed as: Mrs. López Bravo

The former María Angeles Velasco Schmidt  
married Gregorio López Bravo in 1948. The couple  
has nine children.

January 1971

Santiago (Jaime) ARGÜELLES y Armada  
(Phonetic: ahrGWAYyehs)

SPAIN

Ambassador to the United States

Addressed as: Mr. Ambassador

Santiago (or Jaime, as he is commonly known) Argüelles, 60, presented his credentials as Ambassador to the United States on 20 February 1970. He has had broad experience in private enterprise and, in his diplomatic career, has concentrated largely on economic affairs.

Argüelles entered the Foreign Ministry in 1933. For almost 20 years thereafter (1939-58) he was simultaneously detailed to the Ministry of Industry and Commerce, where he served successively as a commercial attaché, head of the Commercial Treaties Department, Under Secretary of Foreign Trade, and president of the Spanish delegation to the OEEC. In 1961 Argüelles was named advisory member of the Higher Council of Foreign Affairs, a post he held until his present appointment.

Argüelles has been president of the Board of Directors of La Unión y el Fénix Español and administrator and member of the Board of Directors of the Banco Español de Crédito.

The Ambassador is married to the former Margarita Salaverría. The couple has five children.

January 1971

Margarita ARGÜELLES  
(Phonetic: ahrGWAYyehs)

SPAIN

Wife of the Ambassador to the United States

Addressed as: Mrs. Argüelles

Margarita Argüelles, 59, is a career diplomat with the rank of Minister Plenipotentiary. She has been on an extended leave of absence from the Spanish Foreign Service since 1961.

The former Margarita Salaverría y Galarra received a law degree from the University of Madrid and then took a special course to qualify for Spain's diplomatic service. After 3 years in the service, she married Jaime Argüelles, but she continued her diplomatic career for some time thereafter. At one time she and her husband served side by side as Second Secretaries at the Spanish Embassy in London. For a while Mrs. Argüelles was curator of Spain's State Department--the Palacio de Santa Cruz. In that capacity she handled the decorating of and furnishing of supplies to Spain's Embassies abroad.

Mrs. Argüelles' husband went on to become one of Spain's leading diplomats, but she found her time taken up with a family of five children and the duties of a diplomatic wife and therefore curtailed her own career.

January 1971



Ricardo DIEZ HOCHLEITNER  
(Phonetic: DEEace HOHKlightner)

SPAIN

Under Secretary of the Ministry of Education and  
Science

Addressed as: Mr. Under Secretary

Ricardo Díez Hochleitner, 42, became Under Secretary of the Ministry of Education and Science in November 1969. He previously served as Technical Secretary General in the same Ministry. Well versed in problems of international education, he is currently chairman or president of numerous Spanish educational commissions and committees and was recently elected to the Executive Board of UNESCO.

Díez Hochleitner holds degrees in chemistry and law from the University of Salamanca, a diploma in engineering from the University of Karlsruhe and a degree in industrial management from Georgetown University. A teacher during the early part of his career, he subsequently worked for the Spanish Ministry of Education (1955-56) and for the Ministry of Education in Colombia (1956-57). He joined the staff of the UNESCO Secretariat in Paris in 1957 and worked there in various capacities until 1968. He also served briefly (1963-64) as head of the Department of Investments on Education of the World Bank in Washington, D.C.

Díez Hochleitner is married and has seven children. He speaks German, French and English.

January 1971



# Profile of

H. R. H. Prince Juan Carlos de Borbon y Borbon  
Future King of Spain

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## A PROFILE OF H. R. H. THE PRINCE OF SPAIN

H. R. H. Prince Juan Carlos de Borbon, Prince of Spain, now 33 years old, will succeed General Franco in the Headship of State as future King of Spain.

Of very athletic build and a great sportsman, the young prince accepted the responsibilities and rights of the Spanish Crown after being proposed for it at the Spanish Parliament by General Franco himself, on July 22nd, 1969.

The Prince of Spain was born on January 5th, 1938, in Rome, his parents being Prince Juan de Borbon y Battenberg and Princess Maria de las Mercedes de Borbon y Orleans. He is a grandson of Alphonso XIII, the last King of Spain, and of Queen Victoria Eugenie of Battenberg, a member of the British Royal Family and herself a grand-daughter of Queen Victoria. On May 14th, 1962, Prince Juan Carlos de Borbon was married, in Athens, to Princess Sofia, elder daughter of King Paul and Queen Frederika of Greece. The couple have three children: Princess Elena, born in 1963; Princess Cristina, born in 1965; and Prince Felipe, who was born in 1968.

Juan Carlos de Borbon commenced his studies in Italy, Switzerland and Portugal. At the age of nine, he arrived in Madrid for the first time to start his studies for the Baccalaureate, which he pursued in San Sebastian.

Continuing the military tradition of the Kings of Spain, in 1955, the young prince began to prepare to enter the General Military Academy at Saragossa. He pursued his military studies for two years, and, in June 1957, was commissioned Second Lieutenant in the Infantry. He then went to the Naval Academy at Marin (Province of Pontevedra, Galicia), and after completing his studies there went on the customary training voyage aboard the Spanish sail-training ship «Juan Sebastián Elcano», visiting several countries in America. In June 1958, he was commissioned Second Lieutenant in the Navy.

Subsequently, he entered the General Air Force Academy at San Javier (Murcia), where he obtained his military pilot qualifications and went on various training flights in Spain and abroad.

At the present time, in his capacity as a serving officer, the Prince of Spain holds a commission as Captain of Infantry in the Army. Since being proclaimed Prince of Spain in July 1969, he has been granted honorary Brigadier General's rank in the Army and Air Force, and that of Rear Admiral in the Spanish Navy. He also ranks second in Spanish State protocol, immediately after the Chief of State.

From 1960 onwards, Prince Juan Carlos undertook an intensive course of university training, studying law, history, economics, public finance, philosophy and public administration at Madrid University. This training was later rounded off with periods of service at each of the Government Departments to familiarize himself with all the problems within the scope of the Administration. He also went on constant trips to all the different regions of Spain in order to keep in touch with the socio-economic situation of the country and acquaint himself directly with Spain's industrial infra-structure.

Prince Juan Carlos de Borbon is a great sportsman, and holds a judo black-belt; he practises judo almost every day at a Madrid gymnasium. He is likewise a great sailing enthusiast, and is current Dragon-class champion of Spain. Some other sports which he goes in for include horseback-riding, shooting and swimming.

Since his marriage to Princess Sofia, the Prince has resided at the Zarzuela Palace, just outside Madrid, where he confronts a very crowded daily schedule of work to keep in close touch with the situation of Spanish affairs. Prince Juan Carlos de Borbon's day begins at 7.30 a.m. After an hour of sports, the Prince stays in his office until 1.30 p.m., analysing the Spanish press and working and receiving constant visitors from all sectors of Spanish life. After lunch, he devotes an hour to reading and then continues working until 9 p.m.

This simple way of life and the fact that the doors of the Zarzuela Palace are open to all visitors have made Prince Juan Carlos de Borbon a highly popular figure among the Spaniards, who accept him as future King of Spain, and particularly admire the direct manner in which the prince deals with all the problems with which he is confronted. His constant visits to the provinces, both alone and frequently accompanying the Head of State on official trips away from Madrid, and also his trips abroad have fully acquainted Prince Juan Carlos with current affairs, a factor which is absolutely necessary to accomplish the high mission that will one day be entrusted to him.

The Prince speaks English, French, Italian and Portuguese fluently, and has a good knowledge of German and Greek.

Prince Juan Carlos has twice gone on trips round the world, and on his visits to various countries has held interviews with Presidents Truman, Kennedy, Johnson and Nixon. With the current American President, in particular, he had a long and cordial meeting during Mr. Richard Nixon's official visit to Madrid early in October 1970. He has also met Emperor Hirohito, the Shah of Persia, President Nasser, the President of India, and the Kings of Denmark, Sweden, Norway, the Netherlands, Jordan and Morocco. He has likewise been received in audience by Popes Pius XII, John XXIII and Paul VI. Towards the end of October 1970, he went on a visit to France, where he held talks with President Georges Pompidou. He has also had talks with the prime ministers and other outstanding leaders of most of the countries he has visited.

The Prince is especially well informed about all aspects of the relations between Spain and the United States, a country which he knows very well. Other American nations which he has visited are Colombia, Peru, Panama and the Dominican Republic.

In Europe, he has visited France, Britain, Germany, Belgium, Holland, Denmark, Austria, Switzerland, Italy, Greece and Portugal. He has also made trips to Japan, Cambodia, India, Iran, Thailand, the Lebanon, Jordan, Malasia, Nepal, Egypt, Angola, Mozambique, Kenya, South Africa, Rhodesia, Tunisia and Morocco.

## PRINCE JUAN CARLOS AS SUCCESSOR TO THE HEADSHIP OF STATE

In compliance with the provisions of the Spanish Constitution, Prince Juan Carlos de Borbón was proposed to the Spanish Parliament by the Chief of State as his successor to the headship of the Spanish state with the title of King. On July 22nd, 1969, the Spanish «Cortes» passed the proposal by 491 votes in favour, 19 against and 9 abstentions, and the Prince accepted the responsibilities and rights of this nomination and swore fidelity to the Spanish Constitution before Parliament.

The appointment of General Franco's future successor was provided for under the Spanish legal system through the stipulations of two of the Fundamental Laws comprised in the Spanish Constitution: the Law of Succession of 1947, and the Organic Law of the State of 1967, both of which were passed by a referendum of the Spanish people.

The Spanish Constitution does not consist of a single text, as in some countries, but is composed of seven Fundamental Laws which have constitutional status: the Labor Charter, which establishes the principles of Spanish social organization; the Bill of Rights of the Spaniards, which lays down and guarantees citizen's rights; the Constituting Law of the Cortes, which establishes the Spanish parliamentary set-up; the Referendum Law, which lays down the conditions for the democratic modification of these Fundamental Laws; the Law of Succession, which regulates the machinery of accession to the Headship of State; the Law of Fundamental Principles of the Movement, which specifies the essential political principles of the Spanish régime; and the Organic Law of the State, an important document which completes the constitutional cycle by stipulating the functions incumbent upon the Chief of State, the Government and the highest legislative and advisory organisms in the country.

In 1969, General Franco definitely dispelled any doubts that might arise as to succession in the Headship of State by applying the provisions of the Law of Succession and the Organic Law of the State and making this succession absolutely constitutional and automatic. In the event of the death or incapacity of the present Chief of State, Prince Juan Carlos will be automatically proclaimed King of Spain.

This measure is one of the most important and conclusive elements in modern Spanish history. When the new Spanish State came into being in July 1936, the future form of government was not clearly defined. However, the Spaniards' frustration as a result of two non-monarchical experiments, the second of which ended in anarchy and, eventually, in the conflict of the civil war, made it advisable to return to the form of government which was most deeply rooted and thoroughly understood in popular sentiment and Spanish historical tradition. Consequently, in a referendum held in 1946 the people of Spain defined Spain as a kingdom. In May 1958, when the Law of Principles of the National Movement was promulgated, the Spanish people gave themselves the political system of a Social and Representative Monarchy. Finally, in July 1969, the Spanish Parliament accepted Prince Juan Carlos de Borbón as future King of Spain, thus concluding the cycle of succession to Headship of State.

Under the Spanish Constitution, the Chief of State is the supreme representative of the Nation; he personifies national sovereignty, holding supreme political and administrative power; he is National Head of the Movement (a political organization open to all Spaniards); he guarantees and ensures the regular functioning of the supreme organs of the State and proper coordination between them; he sanctions and promulgates the Laws passed by Parliament, and supervises their execution; he holds supreme command of the Army, Navy and Air Force; he safeguards public order at home and State security abroad; justice is administered in his name; he exercises the prerogative of pardon; he confers ranks, public posts and honors according to Law; he accredits and receives diplomatic representatives and undertakes any duties incumbent upon him under the Constitutional Laws.

As King of Spain, Prince Juan Carlos will direct government of the realm through the Council of Ministers, composed of the President, one or more Vice-Presidents and the Ministers. The President of the Government will serve a five-year term of office. The Prince will likewise be assisted by the Council of the Realm, the supreme advisory body in the country, presided by the President of Parliament, the opinion of this organ being imperative for certain measures, including the adoption of exceptional measures when there is a serious threat to foreign security, the independence of the nation, the integrity of national territory or the institutional system of the Realm.

The King as Chief of State also requires Parliament's permission to rectify international treaties or agreements that affect the full sovereignty or integrity of the Spanish State, to declare war and agree to peace, and to cede rights prior to reigning or to abdicate.

Protection of the political principles upon which the Spanish State is inspired is entrusted to the National Council as the collegiate representatives of the Movement. This Council of a representative structure can suggest to the Government the adoption of measures to make the Spanish Constitutional Laws more effective, and can lodge an appeal against breach of constitutional rights, that is to say, it can proclaim the unconstitutionality of a government measure.

Since he accepted the right to succession to the Headship of State, Prince Juan Carlos de Borbón has borne the title of Prince of Spain, and ranks second in State protocol. On the Headship of State becomes vacant, Prince Juan Carlos will take an oath to abide by the Constitution, and will be proclaimed King of Spain by the Spanish «Cortes».

Until the time comes for these provisions for the succession to come into operation, the Prince of Spain has been undertaking an intensive programme of university, military and administrative training, making a thorough analysis of widely different problems of government of the nation and keeping in close touch with the political, social and economic realities of Spain. He is a very popular figure among all levels of Spanish society, which accept him as future king and admire the painstaking training to which the Prince has committed himself in order to fulfil the high mission which will one day be entrusted to him.

## THE SPANISH MONARCHY

Monarchy has been the traditional form of government in Spain since its inception as a unitary state in 1492. Even during the centuries preceding the creation of the modern Spanish state, Spaniards always organized their politics around the figure of the king. This began toward the end of Roman rule, through monarchies that exercised authority over various regions of the Peninsula, some of which reached great military, cultural, economic and political heights.

Toward the end of the 15th century, when Spain was united under the Catholic Monarchs, monarchy became the popular form of Spanish government. This tradition was interrupted but briefly on two occasions: from 1873 to 1876 and from 1931 to 1936.

In 1939, when the state of anarchy produced by the fall of the monarchy ended with the close of the civil war, the present-day Spanish state was born; from its beginning it strived to re-establish the monarchical form of government desired by all Spaniards. Thus, in July of 1947, Spaniards went to the polls to vote in a democratic referendum and approved the Law of Succession, a document that forms a fundamental part of the Spanish Constitution. This Law was approved by more than fifteen million votes (93 percent of votes cast, which represents 82 percent of the electorate) while dissenting votes totalled only 722,656.

Spain is by law a Kingdom and its political form of government is social and representative monarchy. This principle was again reinforced by popular vote on December 14, 1966, when the vast majority of Spaniards approved the Organic Law of the State, an important document that completes Spain's constitutional cycle by stipulating the functions of the Chief of State, the Government and the country's chief legislative and advisory bodies. This Law obtained 18,643,161 votes in favor, which represents 95.86 percent of all votes cast and 85.50 percent of the electorate. Dissenting votes totalled 372,692.

By virtue of these constitutional measures, the King of Spain is a representative figure who reigns and exercises legal functions stipulated by law. The Chief of State's main advisory body is the Council of the Realm, whose president is likewise President of Parliament and who, within a highly representative structure, assists the Chief of State in important affairs and decisions under his executive jurisdiction.

Aside from the President of Parliament, the Council of the Realm is composed of the senior bishop among members of Parliament, the Captain General of the Army, the Commander-in-Chief of the Supreme General Staff, the President of the Supreme Court, the President of the Council of State (an advisory body), the President of the Spanish Institute (an organ which represents distinguished cultural institutions such as the Spanish Academy of the Language, the Academy of History, etc.), as well as another ten members chosen by diverse groups within Parliament.

The Chief of State governs Spain through the Council of Ministers made up of the President of the Government, who serves a four-year term of office, one or more vice-presidents and ministers. The Council of Ministers defines national policy, ensures the administration of the Law, exercises its regulative authority and serves as a permanent aid to the Chief of State in political and administrative affairs.

Legislative functions are assumed by Parliament «Cortes Españolas» which constitutes the supreme body of popular participation in affairs of state. Its principal mission is to draft and pass laws, without infringing on the rights reserved to the Chief of State. Composed of 503 members, Parliament represents Spanish families, municipal and provincial councils, labor syndicates, professional associations and cultural bodies. The proportional make-up of its membership is as follows: 19.15 percent, direct representatives of Spanish families; 26.59 percent, labor syndicate representatives; 20.39 percent, representatives of local and provincial administrative bodies; 8.16 percent, representatives of high-ranking bodies and associations and professional schools, as well as the Universities and cultural institutions. Members of the government also form a part of Parliament (3.18 percent), twenty-five personalities chosen directly by the Chief of State (4.44 percent of the total), members of the National Council (18.09 percent), an upper chamber charged with defending and fortifying the basic political principles of the Spanish state. This National Council, composed of representatives of each province, can suggest to the Government the adoption of measures to advance the Principles of the Movement and initiate a proclamation of unconstitutionality of a government law or measure (an appeal of breach of the Constitution).



## OPINIONS ON SEVERAL QUESTIONS

Following his proclamation as successor to the Headship of State in the capacity of King, H. R. H. the Prince of Spain has expressed his way of thinking at various official engagements which he has attended, and during audiences granted to representative groups from different sectors of Spanish society.

Extracts from these statements reveal his opinions on different matters.

### JUSTICE AND FREEDOM

«I wish to serve my country as a normal channel of the public function, and I want, for our people, progress, development, unity, justice, freedom and greatness; and this will only be possible if peace at home is maintained. I must be the first servant of our motherland in the task of making our Spain a Realm of justice and of peace. The concept of justice is indispensable for human beings to live together in such a way that their tensions are solvable within the Law and take place within a framework of civic co-existence in freedom and order.»

(Before the Spanish Parliament,  
June 23rd, 1969)

«All efforts must be orientated towards making Law preside over our structure, so that the tranquility and satisfaction of citizens may be born of the righteous application of justice, in the knowledge that their true freedom is guaranteed. Only in this way can Spain progress and aspire to accomplish the mission which is rightly hers in the comity of nations.»

(To a commission of the College of Lawyers  
of Valencia, February 4th, 1970)

«Among the books I have read, I always remember that passage by a great author of our Golden Age who wrote that «the chief basis of the Monarchy in Spain, and what has raised it up and maintained it, is the inviolable observance of justice and the strictness with which the kings have always forced this to be respected». In this endeavor I shall always give you my support, and so I invite you to let us strive together so that the staves of justice, by remaining upright, may ever look heavenwards and not be twisted aside by passion or preference to point viciously earthwards.»

(Speech given in Cordoba,  
June 10th, 1970)

«To play the rôle which rightly belongs to us Hispanic peoples, we need to increase our rate of growth, give greater prosperity to the inhabitants of our countries, raise their standard of living; but, above all, we must found our development upon genuine social justice, the only path to true freedom, sincere democracy which will provide us with political stability, and domestic peace, all indispensable elements for the grandeur of our nations.»

**(Words spoken to the Latin-American Press  
Correspondents, Madrid, July 27th, 1970)**

### **SOCIAL POLICY**

«A fundamental concern of Spanish politics in the last few years has been the promotion of welfare at work, because a nation can not be great and united without solidarity born of Social Justice. In this field we shall never be satisfied.»

**(Before the Spanish Parliament,  
June 23rd, 1969)**

«In the Spain of the future, which we can glimpse hopefully today, we must seek the development of all the estates of society in the country in justice and order. National prosperity must not involve the economic field alone, but Spain must progress in social and in cultural matters, too.»

**(Words spoken to the National Graduate  
Scholarship Prize-winners,  
Madrid, December 17th, 1969)**

«Occupational training is one of the important tasks with which we are confronted. We must spare no effort to succeed in raising the cultural and social standards of our youth, and, in this field, your schools are essential.»

**(To the young champions of the National  
Occupational Training Contest.  
Madrid, March 11th, 1970)**

«I know that the working world demands an increasingly just and speedy rise in its welfare and its earnings. I share these desires, because Social Justice and participation are inherent principles in the very dignity of human beings. I want all Spaniards to know for sure that the prime and fundamental worth will be that deriving from the effort of work, be that work intellectual or material, technical or artistic, agricultural or industrial, professional or scientific.»

«In this respect, one of the means to attain these objectives is to have at our disposal a good system of Social Promotion, so that no talent will be wasted for lack of financial means, and, in all cases, workers should be provided with and guaranteed participation in learning and, consequently, their active presence in our political and economic development.»

**(Speech given at the opening of the academic  
year of the Labor Universities.  
Ceste, Valencia, October 14th, 1970)**

«The basic objective of our future is to apply to our policy the requirements of Social Justice, which, today more than ever, must be the foremost concern of any ruler.»

(Madrid, February 13th, 1970)

## LOYALTY

«The solemn oath before you to fulfil my constitutional duties faithfully is all that I can do at this juncture in the history of Spain.»

(Before the Spanish Parliament, when accepting  
succession in the Headship of State.  
July 23rd, 1969)

«Therefore, the great virtue in which you constantly take pride is loyalty; loyalty to the senior who takes decisions in keeping with your ideas or contrary to them, and whose orders you execute with discipline, which does not consist in mutilating thought and much less dignity. Moreover, as Prince of Spain, let me tell you that that loyalty must be reciprocal; he who commands must also possess firm loyalty to his collaborators and subordinates, sacrificing himself for this principle if necessary. That is how I see it, and that is what I intend to do.»

(To the officers and pupils of the Staff School,  
Madrid. May 4th, 1970)

## YOUTH

«I am very close to youth. I share, and admire in it, its desire to seek a more genuine and better world. I know that in the rebelliousness which worries so many people there burns the utmost generosity of those who want an open future, often filled with unrealizable dreams, but always filled with the noble aspiration of the very best for the people.»

(Before the Spanish Parliament,  
June 23rd, 1969)

«With a youth that does not demand of itself less than it demands of others, that shows as much endeavor in its work as in criticism, that always maintains the legitimate ambition of a more just, free and equal society where truth dispels falsehood and work banishes privilege, Spain can face the horizon of the future without fear.

(Words addressed to the newly graduated  
Mining Engineers.  
June 12th, 1970)

You can rest assured that, of all the different national activities, those matters concerning YOUTH may be the ones to which I should like to devote most attention.»

**(To a commission of youths.  
Madrid, November 12th, 1969)**

«Always be devoted to your profession, so that you will not fall into a facile bourgeois way of life to which a society endowed with greater and greater material means can sometimes lead. Avoid routine in your work, which can break the most enthusiastic spirits and most brilliant minds, causing disinterest in doing a good job, and then disinterest in others and the cult of personal egoism.»

#### **NEWS MEDIA**

«In the happy efforts which all of us devote day by day, with hopeful enthusiasm, to shaping the future of Spain, an important share of the work falls to the people involved in the mass media.»

**(Words for the magazine «Momento».  
April 27th, 1970)**

«The Monarchy as an institution, over and above interests and factions, must guarantee trends of opinion for the better service of Spaniards in co-existence, order and progress.»

**(Statements to Swiss Television.  
May 25th, 1970)**

8

September 14 1971

SPAIN : Visit of Minister of Commerce Enrique Fontana-Codina

The Spanish Minister of Commerce, Mr. Enrique Fontana-Codina, made a courtesy call on Mr. McNamara on March 10 at the request of Mr. Moro. Mr. Moro and Mr. Benjenk were also present.

This was a brief meeting during which the Minister of Commerce told Mr. McNamara that the Spanish Government was looking forward to his forthcoming visit to Spain and continued to attach great importance to relations with the Bank. He also mentioned that the Spanish authorities were now more inclined to apply to the capital markets of the world for funds than had previously been the case.

Mr. McNamara said that he himself was looking forward very much to his visit to Spain.




M.P. Benjenk

## OFFICE MEMORANDUM

DECLASSIFIED

TO: Mr. Robert S. McNamara

DATE: March 9, 1971

FROM: M. P. Benjenk 

MAY 09 2013

WBG ARCHIVES

ConfidentialSUBJECT: SPAIN - Your meeting with Don Enrique Fontana Codina, Minister of Commerce

Don Enrique Fontana Codina - Biographical information. Sr. Fontana was born in 1921 in the province of Tarragona (South-west of Barcelona). He is a lawyer by training and has worked in the private industry for many years, living in his native province until 1960. Sr. Fontana, in addition to being a member of the Board of the Bank of Spain, has held various positions in numerous committees, associations and federations all connected to agricultural production. In 1965-69 he was President of the Supplies and Trade Fund, an agency regulating agricultural markets. He became Minister on the occasion of the last Cabinet change in October 1969. Sr. Fontana is a member of the Parliament and of the Council of the Realm.

Sr. Fontana is certainly one of the less prominent members of the present Cabinet. Although closely associated with the Opus Dei (a lay catholic organization which claims to be non-political) he cannot be counted among the technocrats.

The Minister's visit to Washington

Originally, the Minister was to be accompanied by the Governor of the Central Bank (Banco de España); the Governor cancelled his trip during the week end.

We have no official information on the subjects the Minister of Commerce intends to raise during his visit here.

He will meet with prominent personalities connected with commerce and economic affairs in the administration and in the Congress, in particular W.D. Mills, as well as with various industrialists and the President of the Exim Bank; he will also meet Mr. Schweitzer as Governor of Spain for the Fund. (Annex 1) His visit to the Bank can be considered as a courtesy visit and no particular topic for discussion has been indicated.

Political situation

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.

President has seen

March 9, 1971

With the trial in Burgos of Basque separatists in November-December 1970, the regime suffered a major political crisis. The 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. 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 rather than any radical transformation, at least for the immediately foreseeable future.

### The Economy

The economic mission which visited Spain late in 1970 is finalizing its report. The mission concluded that Spain has a good potential for further economic growth although the rate of growth is expected to be slower than in the 1960's, when it averaged 7.5 percent per year, partly because of the need to allocate more resources to slow gestation investments in such fields as education, research and environmental improvement.

In the short term Spain does not face an immediate financial problem; reserves amount to about \$1.8 billion, or about four and a half months of imports. Monetary policy, however is a basic element for future development since the strong pressure for higher wages, possibly in excess of productivity gains, may add to latent inflationary pressure. With respect to the longer term, the authorities do not appear to have a coherent policy regarding external borrowing for the public sector. An orderly "development finance program" supporting the Third Development Plan (1972-75) seems all the more necessary now that balance of payment constraints are likely to become more severe than in the past. Economic growth will, therefore, require increasing emphasis on exports of manufactures. In this connection, the recent trade agreement with the EEC signed in October 1970, which is considered to be a first step towards association, should be a stimulus for improved economic policies. Moreover, to utilize its growth potential, Spain will continue to require substantial amounts of external capital. Because of its unused debt servicing capacity (the debt service ratio is expected to attain a peak of 5.6 percent in 1971 on the basis of 1970 export earnings), Spain can borrow abroad in the capital markets. However, even after reasonable recourse to international markets, future capital requirements will remain large enough to justify Bank lending.



### Bank's policy

The Bank's policy towards Spain has been to undertake lending operations particularly when it can act as a catalyst to stimulate changes in structure and policy. Because of the large size of the economy the necessary leverage can best be obtained by substantial loans to selected sectors; the Bank's proposed lending program (Annex 2) has therefore been concentrated on improvements in transportation, agriculture, education and industry.

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) which would speed up the development of this underdeveloped but high-potential region. The deterioration of environment is also creating increasing problems as well as the breaking of institutional and production bottlenecks in the industrial sector with a view to helping the integration of Spain into the Western European economy.

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 greatest difficulty, therefore, has been experienced not in obtaining Government agreement to the measures recommended, but rather in getting the Government to implement them without undue delays.

### Bank's relations with Spain

The slow progress of Bank operations convinced the Minister of Finance last year that the Bank was deliberately slowing down its lending to Spain. However, he has recently become aware that the slippages were mostly due to delays and difficulties in preparation on the Spanish side and that a speedier preparation of projects was necessary. The Government has made it clear that it is anxious to press forward with measures to improve economic policies and with sectoral reforms for which it needs, and wants, Bank support. The next two or three years will be especially critical for giving momentum to liberalization and reform. Unless substantial backing is forthcoming from the Bank during this period, it might be too late. The Government has taken steps to show its willingness to cooperate fully by increasing its capital subscription to the Bank and contributing to the replenishment of IDA resources. Also, in January this year, it borrowed \$200 million in the international financial market through a consortium of American banks. At the same time, the Minister of Finance asked for a higher level of Bank activity through larger loans. He gave particular emphasis to industry, and at his request a mission visited Madrid in November to discuss the scope of a proposed industrial study which should lead to projects in this field. The Minister also submitted to the Bank a list of projects susceptible of Bank financing. We have reviewed this list and have found that several proposals were of high priority and could be included in our lending program, in particular the highway to the Northwest of Spain.

Bank's Past and Prospective Operations in Spain

Spain has so far received 6 Bank loans for a total amount of \$225 million. These loans were for transportation, including roads, ports and railways, for livestock development and for education. The most recent loan, for an education project, was made in FY 1970 and amounted to \$12 million.

Railways -- In connection with the Bank's first two loans (\$65 million in FY 1965 and \$50 million in FY 1967) to the Red Nacional de los Ferrocarriles Españoles (RENFE) considerable progress has been made in improving the operations, management and physical plant of the railways. More recently, important administrative and legal steps have been taken to permit RENFE to improve its financial position. A mission has recently appraised a third loan to RENFE and will recommend a loan of up to \$85 million rather than the \$50 million originally scheduled. The loan is expected to be presented to the Executive Directors late in FY 1971.

Ports -- After initial construction delays and considerable difficulty in securing the passage of agreed legislation on the autonomy of Spanish ports, the project (for which a loan of \$40 million was made in FY 1966) is now going well. However, the question of port autonomy, which has presented difficulties for the Spaniards, and its consequences needs to be carefully assessed before we consider a second loan, which is presently scheduled for FY 1972 (\$40 million).

Agriculture -- Our Livestock Development loan has been well received by farmers in the project area, and the Government has moved rather faster than required in changing pricing and marketing policies. There remain some problems concerning the establishment of an effective system to secure breeding-age female calves and the participation of private banks in the project. Preparation of a second livestock development project is just starting.

A technical mission has recently appraised an Agricultural Research and Extension Project. This would be the first such project to be financed by the Bank. It results from several years of work by FAO and Bank missions, during which its form has been significantly altered. The Government has accepted the recent Bank suggestions regarding the scope and content of the project. The recommended amount of the loan is \$12.7 million; this loan is expected to be presented to the Executive Directors during FY 1971.

We are awaiting a proposal from the Ministry of Agriculture regarding an irrigation or drainage project, which is scheduled for a loan of \$20 million in FY 1972, but has not yet been satisfactorily identified.

The Ministry is also studying projects for the provision of facilities for animal health, marketing of agricultural produce and reforestation for later consideration.

Education -- The Under-Secretary for Education Sr. Ricardo Diez-Hochleitner, when he accompanied the Prince of Spain to Washington, visited the Bank to discuss a second education project, which is scheduled for FY 1972.

March 9, 1971

The major elements of the project proposal include:

- University level technical schools (including a polytechnic institute  
in Barcelona)
- General primary and secondary schools
- Vocational and technical education
- Laboratory equipment
- Total estimated cost \$120 million.

No detailed review of the proposal has been possible since only the bare outline is known. It is unlikely that we could consider financing all of these components, and, in particular, primary education.

Industry -- After protracted discussions with the Spaniards, we have now reached broad agreement on the objectives of a sector study mission, which is a necessary prerequisite for Bank lending in this sector. Survey/identification missions will be visiting Spain later this year. Two loans of \$50 million each are tentatively scheduled for FY 1973 and 1975.



Population: 33.3 million  
 GNP Per Cap: \$804

SPAIN - ACTUAL AND PROPOSED LENDING PROGRAM THROUGH FY 1976

Attachment 2

(\$ 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										
Ebro delta drainage	IBRD									20.0									
Reforestation	IBRD											15.0							
Unidentified	IBRD													20.0					
Education I	IBRD							12.0											
Education II	IBRD									40.0									
Education III	IBRD												35.0						
Highways I	IBRD		33.0																
Highways II	IBRD											50.0							
RENFE I	IBRD			65.0															
RENFE II	IBRD						50.0												
RENFE III	IBRD								85.0										
Ports I	IBRD				40.0														
Ports II	IBRD									40.0									
Industry Unidentified	IBRD										50.0								
Industry Unidentified	IBRD												50.0						
Industrial Credit Unidentified	IBRD											30.0							
Urbanization Unidentified	IBRD	—	—	—	—	—	—	—	—	—	—	—	—	30.0	—	—	—	—	—
Operations Program	IBRD	—	—	—	—	—	—	—	—	98.0	100.0	80.0	95.0	85.0	80.0	—	315.0	440.0	—
	No.	—	—	—	—	—	—	—	—	—	3	2	3	2	3	—	9	13	—
Lending Program		—	33.0	65.0	40.0	—	50.0	—	37.0	98.0	80.0	65.0	80.0	75.0	80.0	188.0	280.0	380.0	—
	No.	—	1	1	1	—	1	—	2	2	2	2	2	2	3	4	8	11	—
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  
 February 25, 1971

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Mr. McNamara's visit to Spain

(April 27 - May 1, 1971)

Summary of discussions

1. Mr. McNamara was accompanied by Messrs. Benjenk, Clark, Christofersen and Guillot-Lageat from the Bank. Mr. McNamara met with H.E. General Franco, HRH the Prince of Spain and Admiral Carrero Blanco, Vice-President of the Government. He had conversations with the Ministers of Finance, Education, Agriculture, Industry, Public Works, Housing and Planning. Also, discussions were held with the Governor of the Bank of Spain, the President of INI, the President of RENFE, as well as with representatives of the private sector in Barcelona and Madrid. On April 29, Mr. McNamara visited Seville, where he was taken to the site of the Bank's Livestock Development Project, and Barcelona. A detailed list of the personalities who met with Mr. McNamara can be found in Annex.

The following summarizes the most important of these conversations.

I. Financial requirements

2. This question was discussed during the opening meeting of the visit with the Minister of Finance and his advisers on April 28. The Minister started by indicating the link between the objectives of the Third Plan and the budget. The Government is aware of the need to improve fiscal administration and to prepare a fiscal reform, but this entails many difficulties. On the expenditure side, they have put the ceiling to the growth of recurring expenditures at 12 percent per year; demand for new investments is growing rapidly in particular for highways and they are making efforts to ensure a better selection of projects. Defense expenditures are also rising, because of necessary modernization, and now reach about 1.7 percent of GNP. At this point, Mr. McNamara remarked that too high a level or too strong a growth of defense expenditure tends to scare off external sources of financing, and this should be watched by the Government.

3. The Minister then turned to external financing. He praised the assistance of the Bank to help realize less easy projects and promote structural reforms. He pointed out that the assistance Spain expects from the Bank is as important from a reform point of view as from a financial one. Spain plans only limited recourse to the international financial market of about \$50 million per year, in part at 5 years and in part at 10 to 15 years. In response to Mr. McNamara, the Minister indicated that their major intermediary in Europe was White Weld in London.

President has seen



4. Mr. McNamara then explained that the Bank considered Spain a country "at the margin" for lending. This is so because its development efforts have been successful, because its income per head is rather high, and because it can find capital from its own savings. The first requirement is to raise the ratio of public revenues to GNP, still too low at present. Spain should possibly raise its tax rates or rather, get more from the same taxes. Otherwise it would be difficult for the Bank to support a large lending program. Since there are possibilities to tap Spain's own resources and the external capital market, our lending is contingent upon their utilizing all possible opportunities. More than a source of financial assistance, the Bank is to be considered as a catalyst for institutional reforms, as was the case for railways, livestock development and education; we intend to play the same role in developing industries for exports. Within this framework, a figure of about \$75 million per year of Bank lending might be reasonable.

5. The President indicated that Bank loans could be repurchased by the Bank of Spain. This had been done, for instance, in the case of Thailand. That country had high foreign exchange reserves, even though income per head remained low. However, they needed and wanted Bank technical assistance. The Bank made a loan and in this context provided technical assistance, but the Central Bank bought back 90 percent of the loan. If a similar scheme would be utilized by Spain, the amounts could come in addition to the \$75 million envisaged. Those \$75 million, nevertheless require that the preparation of new projects be accelerated and the implementation of existing loans be expedited. Finally, Mr. McNamara pointed out that the Bank itself had to borrow in the capital markets with the respective Government's permission which made it difficult to lend too much to Spain.

## II. Planning

6. The meeting took place with Sr. López-Rodó, Minister of Planning alone. He indicated that they had a draft macroeconomic five-year plan forecasting an average rate of growth of 6.5 percent per year in GNP. Although this figure was not final and was being discussed by the advisory Council of National Economy, they did not expect important changes. Gross capital formation was set at 8.7 percent and total investment, public and private at \$42 billion, about 1/3 of which was expected to be public and the remainder private; the latter, however might rise to 3/4. Investment is not broken down

by projects. The Plan was to be finished by July and then presented to the Cortes.

7. The Minister said they were planning to have recourse to external financing approximately at the same rate as in the past, i.e. 8.9 percent of total financing. In the first plan, the net inflow of foreign capital had been 9.3 percent of total resources used. The Government's budget contains estimates of external financing by year but no detail for each possible source. The Minister also said that the Plan was flexible and as such could be corrected during implementation.

8. In response to Mr. McNamara, the Minister indicated that they had reached a satisfactory level of plan implementation in the private as well as the public sector. For instance, targets for tourism under the second Plan had been met up to 100 to 105 percent of forecast.

9. In respect of priorities under the Third Plan, the Minister said that it was primarily a question of volume of investment. The most important sector is Transports, which is in great need of basic infrastructure. Then came big projects in Agriculture and Education. The last major endeavor is the restructuring of industrial subsectors through financing by the Industrial Credit Bank under "Acción Concertada" schemes. The Minister ended by saying that the permanent presence of the Bank was most needed to carry out modernization of industry successfully.

### III. Industry

10. Numerous discussions on industrial development and finance were held in Madrid and Barcelona, with representatives of the private and public sectors. While protection does not seem to be an issue, the organization of medium and long term financing appears to be the major institutional bottleneck. Industry also suffers from a lack of consistent industrial development policy.

Medium and long-Term Finance

11. All throughout the discussions, the entrepreneurs complained about lack of medium and long-term funds, and the Bankers about the limited availability of resources to investment Banks. The two questions to which Mr. McNamara and Mr. Benjenk addressed themselves were:

(a) how is the gap bridged between the low degree of self financing of enterprises and the limited capital resources, and

(b) why had there not been a response of the banking system with a specialized type of lending in the period of sustained growth of the last decade.

12. The unanimous answer was that the financial and banking system established by the 1962 Law is inadequate in the face of a weak stock exchange to which small and medium enterprises do not have access. The 1962 Law strictly separates investment from commercial banks. Investment banks (called Industrial Banks in Spain) have access to two types of resources only:

(a) three to five years bonds, generally placed with other financial institutions; because the profitability of those bonds is limited by Law, they suffer from the competition of public bonds, and

(b) since last year, deposit certificates, which cannot be widely used because of the competition for funds of the big commercial banks of which investment banks are subsidiaries. Moreover, industrial banks are not allowed to open more than three branches in order not to compete with commercial banks. As a result, investment banks do not have enough long-term resources to play a substantial role.

13. Up to now, medium and long-term financing was almost entirely done either by public credit institutions or by commercial banks through the rediscounting with the Central Bank at a preferential rate of medium and long-term paper concerning selected sectors or operations. For their part, public credit institutions have to adhere to compulsory, i.e. defined by Government, investment schemes and apply very low interest rates. This organization induced increasing inflationary pressures and substantial inconsistencies between interest rates, thereby distorting the allocation of resources.

14. Entrepreneurs in Barcelona said that present interest rates were 8 percent per year for up to 18 months and 10 percent for three to five years loans, which they considered too high; they added that private banks do not provide funds for terms exceeding five years. However, Madrid bankers said that they granted export credits up to 8 years.

15. The Government has prepared a draft Law reorganizing public credit institutions and using commercial banks as intermediaries. This Law is expected to be submitted to Parliament before the Summer recess. The purpose of the draft Law is to improve monetary management rather than to reorganize and stimulate the activity of the Banking system. It is expected, however, to give more flexibility to private banks in the financing of enterprises. Special rediscount lines with the Bank of Spain will be cancelled, as well as the compulsory 22 percent quota of Commercial Banks deposits to be held in government bonds. Instead, commercial banks will have to utilize a given percentage, reportedly 25 percent, of their deposits to finance industrial exports or industrial enterprises in priority sectors defined by Government; alternatively these resources could be utilized to buy public bonds.

16. The trend set by the draft Law seems a first step towards reverting to one type of bank only, carrying both the functions of commercial and investment banks. Indeed, the Government is at present preparing another draft Law allowing all financial institutions to make medium and long-term credit. The study is still in a preliminary stage and no documents are available yet.

#### Industrial Development Policy

17. The point of departure for all discussions was Mr. McNamara's presentation of the Bank's diagnosis that the "economic miracle" of the 1960's could not be duplicated in the 1970's, in particular because the growth in tourism could not be expected to be as rapid, therefore the need would be to stimulate exports, particularly exports of manufactures. What, under these conditions, were the sectors and factors which would determine future growth?

18. The response of private entrepreneurs was fairly clear. Output and export prospects appear promising in such sectors as shipbuilding, chemicals (in particular pharmaceuticals and intermediate organic products), metal transformation, machine tools, food products (canned foods) and electronic components; it was also mentioned that Spanish industries should be in a good position to work as subcontractors for foreign firms, but no specific examples were given. On the other hand, the outlook for steel, despite ambitious investment plans, appeared somewhat confused. Generally entrepreneurs showed their growing awareness of the necessity to export and to establish enterprises, irrespective of size, on an economic basis. While sometimes mentioning the lack of infrastructure (transport and water supply), they mainly emphasized the need for modern technology and more research.

19. The public authorities for their part do not seem to have established a coherent Government industrial development policy. In the next Development Plan, industry ranks fourth in volume of investments after basic infrastructure, agriculture and education. Government funds, at the rate of US\$100 million a year, are intended to be channeled through the Industrial Credit Bank and utilized mostly for the restructuring of selected sectors within the framework of Acciones Concertadas. However, there are doubts about the economic and financial criteria used to decide on specific projects and, therefore, on the link between macro and micro-economic planning. The decision to build a fourth iron and steel plant on the east coast seems to have been taken primarily on the ground that Spain should be autonomous in its supply of steel. Furthermore, while the private sector assured that they were ready to build and manage the plant, the Minister of Industry considers that the Government will have to do it. Generally investment decisions are made on a piecemeal basis without detailed overall economic analysis. Cost-price-subsidy relationships have seldom been mentioned and estimates of sources of financing remain sketchy.

20. Similarly the role of INI (National Institute of Industry) remains somewhat unclear, but this may be due in part to its recent reorganization. INI was established in 1941, as a government holding to stimulate and finance industrial enterprises, very much along the lines of Italy's IRI. It still controls about 50 percent of coal output, 60 percent of iron and aluminum output, 77 percent of shipbuilding and 60 percent of cars and truck production. Direct subsidies to the INI group amount to about 20 percent of its expenditures. Direct subsidies to the INI group amount to about 20 percent of its expenditures. Its autonomy has been somewhat reduced in 1968 and it was placed under the Ministry of Industry, and its management team was replaced recently. On the one hand, there is a tendency to manage INI as a private profit-oriented concern which has led in some cases to the selling of its participations in marginal enterprises. On the other hand, there is also a tendency to use it as the agent of the Government's industrial policy without having defined the criteria for its intervention. Its exact role in the financing of industrial development and the sectors in which he would invest do not seem to be clearly outlined.

21. In his concluding remarks, Mr. McNamara said our primary target in helping industrial development would be to stimulate exports. To this end we would want to help reduce distortions in the allocation of resources which might require shifts in pricing policy. He added later, in private, that a lot more research needed to be done to identify the major bottlenecks to industrial growth before embarking on any operation in the industrial sector.

#### IV. Education

22. Two meetings were devoted to this subject, one with the Minister and the Undersecretary; the other one with representatives of Madrid Universities.

23. The meeting with the Minister started with a presentation of the basic philosophy of the Education reform, i.e. that a strong basic education is the condition for the literacy of adults. Generally the reform program has been progressing satisfactorily despite a certain inertia, in particular at the higher level. They are grateful to the Bank, mostly for its psychological backing and technical assistance. The rate of implementation of investments has now reached 90 percent of the budgeted amounts as compared to 40 to 50 percent in the past.

24. Under the Third Plan, Education will be decentralized with a delegation of responsibilities to Provinces. About 75 percent of primary education is public and 25 percent private, while it is the reverse for secondary education; higher education is 90 percent public. They have now 8 years of free and compulsory education and their role is to make secondary education free also by 1980. At present the first degree of vocational education is free, and it is compulsory for two years for those students who drop out of secondary schools or do not go beyond primary education. Post-basic vocational education is to begin next year with progressive extension over 10 years. They estimate that it should comprise 70 percent of school population when established fully. It is a difficult field where they have to intermingle the freedom of choice of the students and the requirements of the labor market. The system is to be very flexible and is based on a forecast average of 3 changes in the life of a worker. Concerning higher Education, entry to the University will take place through 3 different channels: from secondary schools, from technical schools and free entry without titles; this last system has already been successfully tried.

25. The Undersecretary then described the proposed second Education Project for which Bank financing has been requested and advocated a program approach. He pointed out that Spain was embarking on a considerable investment program for which they had to think of repeat of operations. They were seeking new procedures for future loans because dealings with the Bank in the usual fashion were slow and complicated.

26. Mr. McNamara said that the program for vocational and professional education was very interesting. In respect of new lending schemes he said we would have to look how it would fit into the Bank plan and Spain's own financial plans and to determine in which amount it could be possible.

27. The meeting with the representatives of Madrid Universities centered primarily on the difficulties of the Education reform. While supporting the reform and praising it, the professors pointed out it still had not reached the University. In particular, the "instruments" of University autonomy remain unknown. Universities find it difficult to raise resources outside the budget which limits autonomy. It was also said that a clear planning of the reform was lacking and that it suffered from the traditional heavy bureaucracy. The motor of the reform had been the students' unrest and the new universities had been created to quell this unrest. A big effort was being made to recruit full time professors, to give professors a better training and to bring in the Universities scientific experts.

28. Asked as to what the Bank could do to help the reform of Universities, Mr. McNamara recalled the general principles guiding Bank lending to Spain. He said that Bank assistance was limited to economic development, which in this case included teacher training.

29. It was concluded that the reform had created considerable expectations in the country. Moreover, Spain's development demanded a major effort to adapt new technologies from abroad and this in turn required a strong effort in social sciences to accelerate the absorption of new techniques by the business community.

LIST OF PERSONALITIES MET

BY MR. MCNAMARA IN SPAIN

April 27 to May 1, 1971

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H.E. General Franco	
H.R.H. Prince of Spain	
Admiral Carrero Blanco	Vice-President of Government
Mr. Monreal Luque	Minister of Finance
Mr. José Luis Villar Palasí	Minister of Education
Mr. Tomas Allende y García-Baxter	Minister of Agriculture
Mr. José María López de Letona	Minister of Industry
Mr. Gonzalo Fernández de la Mora	Minister of Public Works
Mr. Vincente Mortes Alfonso	Minister of Housing
Mr. Laureano López Rodó	Minister of Planning
Mr. Coronel de Palma, Marquis of Tejada	Governor of the Bank of Spain
Mr. Claudio Boada	President of I.N.I.
Mr. Francisco Lozano	President of R.E.N.F.E.





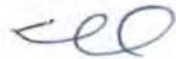
## OFFICE MEMORANDUM

TO: The Record

DATE: May 27, 1971

FROM: O. H. Calika

SUBJECT: Spain - Second Education Project

1. Mr. Diez-Hochleitner, Sub-Secretary of the Ministry of Education in Spain, and Mr. Moro, Alternate Executive Director, called on Mr. McNamara at 5:15 p.m. on May 25, 1971. Mr. Benjenk and I were present.
  2. Mr. Diez-Hochleitner reported briefly about his earlier discussions with the Bank's staff on a second education project, expressing his satisfaction that the Bank would be willing to consider ways to expedite preparation, appraisal and subsequent execution of the project. A Bank mission would be visiting Spain early next month for further discussions.
  3. Mr. Diez-Hochleitner explained his view that, once Spain's overall education reform and development program is fully evaluated and approved by the Bank, a program of lending should be agreed between the two parties. Successive projects within the period of the development program need not require similarly detailed appraisal and evaluation of the development program in each case. Any significant changes should be examined, as well as specific features of each project. Referring to his conversations with the Spanish authorities during his recent visit to Madrid, Mr. McNamara stated that he would agree with sectoral programming of loans and had already discussed this matter with Messrs. Chadenet and Ballantine.
  4. Mr. Diez-Hochleitner then referred to a "computer-assisted instruction" item which Spain wished to include in the new education project. He hoped that the Bank would be willing to participate in its financing. Mr. McNamara expressed general scepticism about this item. While he would not exclude a relatively small amount of money for experimental purposes (similar to what we have done in the case of the Ivory Coast ITV scheme), he would like to see first a satisfactory cost/benefit analysis of the proposed scheme. Mr. Diez-Hochleitner assured him that only a small amount would be involved and the spare capacity of the Education Ministry's large computer would be utilized in this experiment. As a general remark, Mr. McNamara stated that better use of existing plant capacity should be encouraged in all developing countries. The meeting ended with Mr. McNamara saying that he was quite agreeable to the broader approach to educational lending outlined by Mr. Diez-Hochleitner and which he had discussed in the Bank.
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cc: Messrs. Chadenet  
Baum  
Benjenk (cleared with)/Upper  
Ballantine o/r  
Lethem  
Christoffersen  
Miss Dowsett/Mr. Stewart

President has seen

OHCalika:jsc

12

11.10 AM

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 27, 1971

FROM: M. P. Benjenk *MB*SUBJECT: Spain -- Visit of Sr. Don Claudio Boada Villalonga, President of INISr. Boada

You have an appointment to meet Sr. Boada, whom you met briefly on your trip to Spain, at 11:15 a.m. on Friday, May 28. Sr. Boada is in his early fifties. He is not affiliated to any particular political group, and is considered a well qualified technocrat.

He has been President of INI (Instituto Nacional de Industria) since the beginning of 1970. Before that, for about three years, he was President of Altos Hornos de Viscaya, one of the largest steel firms in Spain, wholly privately owned with a 26 percent US Steel participation. When he took on this post, Altos Hornos was the largest steel firm in the country and in very poor financial condition. He carried out a remarkable restructuring of the enterprise, which is now in good shape again. Before this appointment he was President of the Pegaso Truck Company. His appointment as President of INI was based on his management successes in these firms.

His concept for INI is to put it on a more business-like basis, separating profitable enterprises from non-profitable ones, and supporting the latter only for clear overriding policy reasons.

Instituto Nacional de Industria (INI)

INI was created in 1941 as a government holding to stimulate and finance industrial enterprises. It was still controlling 74 enterprises in 1969. Total output 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.

The financial situation of the INI group worsened in recent years, with increasing losses 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, in 1969, 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 was somewhat reduced in 1968 when it was placed under the Ministry of Industry. As a

President has seen

Mr. McNamara

- 2 -

May 27, 1971

result of Mr. Boada's efforts, INI is planning to close down a number of subsidized enterprises and is selling shares of some of its enterprises to private companies.

Industrial Sector Mission

As you know, we are planning to send an industrial sector mission to Spain later this year. The timing now looks best for early fall. As you suggested during your visit to Spain, we are thinking of a broader approach than originally. This will be sounded out by a high level mission, probably consisting of Messrs. Diamond and Kalmanoff, among others, in July if you agree. We will send you a memorandum on this subject shortly.

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MAY 27 1971

NOTE ON THE SPANISH NATIONAL INSTITUTE OF INDUSTRY

1.- Nature and Organization of the Institute

The Institute is an independent Organization within the State Administration, under the supervision of the Ministry of Industry. The Institute is presided by a President who has ample powers and who is assisted by a Vice-President. The administrative positions of the Institute are the following:

- Financial Director, responsible to the President
- Director of the Mining and Metalurgical Area
- Director of the Areas of Petroleum, Petrolchemical and Electricity.
- Director in charge of Mechanical Transformations
- Director of Aeronautical and Service Areas
- Director in charge of the Chemical, Food and other Industries
- Secretary to the Board of Directors and General Secretary
- Director of External Affairs
- Director of Studies
- Director in charge of General Matters
- Director for Social Matters
- Director for Commercial Promotion Abroad

The Institute has traditionally been very strictly controlled as regards its actions, which has made flexible movement rather difficult. As of December 1970, its independence has been strongly reinforced, with the economic control being limited to the yearly budget granted this organization and approved by the Government to be later held responsible by the Treasury Ministry.

2.- Companies integrating the Institute

The Institute participates directly at the present moment in 62 companies, the list of which can be found in Enclosure 1. The companies are either fully owned, controlled by a majority or with minority INI participations. In the above-mentioned Enclosure 1, the sales figures and the number of persons employed in each company are also included for the companies mentioned in same, for fiscal year 1969, which are the latest officially published statistics. It can be said that the first 15 companies represent approximately 80% of the total activity of the Institute, as measured either in sales figures, in personnel employed or in investments made.

If the subsidiaries of these firms are considered, the Institute participates in 100 more companies, of which a dozen are important (more than 15 million dollars of sales annually.)

3.- Financial Position of the Institute

The Assets of the Institute reached the sum of 2.400 million dollars as of December 31, 1970, of which one half are stock holdings and some direct investments, such as, mining investigation and research,

with the other half consisting of loans to subsidiary companies.

Regarding Liabilities, 18% corresponds to what could be called ownership funds (grants from the State and self-financing), 6.5% are loans from the Banco de España, which this year will most likely become an increase in the State grant, 68% proceeds from the Spanish investment market and

7.5% from the foreign investment market.

As can be seen, the percentage of the total Liabilities made up by owners funds is very low, but, above all, it should be pointed out that these owners funds do not represent more than 42% of the amounts invested in the forms of stock holdings or direct investments basically for investigation and prospectation.

Also, not all the investments of the Institute are income-yielding due to various reasons: in the first place, all the investments in soft coal mining and in siderurgy are considerable, with the rentability being nil and very little respectively; there are other investments in areas related to National Defense which are also not income-yielding, and lastly, the INI participates in firms which have a long start-up period which delays the moment in which dividends can be obtained. Own net worth is lower than the investments made in companies of this type. Nevertheless, the Liabilities situation will improve a bit with the grant of the present loan from the Banco de España which we have mentioned above.

The Assets of the Institute in the form of stock holdings as well as the loans to its companies, are fundamentally in basic industry and can be classified as follows:

Mining	11%
Basic Metalurgy	33%
Petroleum	9%
Air Transport	8%
Production of Electrical Energy	23%
Miscellaneous	16%



The low proportion of own net worth in the total amount of sources has required a financing of the activities of the INI by means of high cost money, and as the income-yielding part of these investments has been very little, the economic results of the Institute have been low during the past few years.

4.- Economic Importance of the Group of Companies which Integrate the Institute

In Enclosure 2 some characteristic figures are reflected which demonstrate the importance of the group of companies which integrate the Institute, comparing them with the Spanish macro-economic data.

The value of the sales by the companies in which the INI participates directly has reached 2.400 million dollars in 1970, which represents approximately 7.5% of the production of the national industry; if the subsidiaries of the companies in which the INI participates directly are taken into account, the total sales figures reach the amount of 2.700 million dollars. The gross added value by the companies in which the INI participates directly or indirectly has reached the sum of almost 900 million dollars in 1970, which represents 10% of the Gross Industrial Product.

This production has been obtained with a total employment of 170.000 persons in the companies with direct participation, which is 4% of the personnel employed in national industry. This means that the production per person employed has reached the sum of 14.100 dollars and the added value per person employed 5.300 dollars. In the case of national industry, as can be seen, the average productivity of the companies integrating the Institute is 2.5 times that of national

industry.

This, naturally, is due to a much greater capitalization of the companies in the Institute, in which the investment per person employed is 2.700 dollars as compared with 600 dollars average in national industry, that is, 4.5 times greater. The companies of the Institute have invested during the last few years amounts to the sum of approximately 600 million dollars yearly, and foresee investing some 800 million dollars yearly as an average during the next four year period. These figures represent somewhat more than 20% of the gross composition of fixed capital in the industrial sector.

It can be said that the INI group contributes with 10% to the formation of the Spanish gross industrial product, using 4% of its manpower and investing 20% of the total industrial investment of this country. To point out the intensive capital character of the INI companies, it can be said that they invest an amount of more than 70% of their added value, while national industry invests a sum of less than 30% of the gross industrial product.

The INI group of companies in 1970 exported 160 million dollars, which is 9% of the Spanish exports of industrial products, and 8% of the total sales of the group. National industry exports 6% of its production.

The growth rate of the majority of the figures mentioned are greater in the INI group of companies than in the overall Spanish industry, which could mean an increase in importance of said companies in the industry of the country. This is due

in great part to a strong development of the basic industry during the last few years, in which the INI has had an important participation.

5.- Perspectives of the Activity of the National Institute of Industry in the next four year period

The first fundamental work of the National Institute of Industry during the next four year period consists in developing and fortifying the financial situation of Spanish basic industry in which it is already amply participating. Concretely, this will have to do with the area of soft coal mining, siderurgy, the production of electrical energy, prospection and refining of petroleum, along with the Petrolchemical industry, naval constructions and automotion, to which air transport must be added.

Secondly, the Institute plans to make efforts in some sectors of advanced technology, especially re-structuring the aeronautical industry, creating a company for the production of electronical components and another for the obtainment of uranium and the production of nuclear energy. Also, it plans to concentrate and develop its activities in the field of engineering.

Lastly, the National Institute of Industry considers the possibility of creating within its group a financial independent corporation which could serve as the basic organization to carry out and evaluate investment projects which seem interesting, negotiating the search for economic resources abroad to centralize their distribution, both in companies belonging to the Institute as well as private ones, and acting as an organization for the re-structuration of the industrial areas and companies which have promising futres, being in con-

tact with private financial entities, participating in companies, promoting mergers and providing permanent financial resources.

6.- Investments foreseen for the next four year period by the National Institute of Industry

Although the plan of activities of the Institute for the next four year period has not yet been approved by the Government, a preliminary approximation can include an increase in the extension of the investments foreseen by the Institute from 1972 to 1975 which will be some 1.300 million dollars, which corresponds to approximately 3.000 million as total investments on the part of the companies integrating the Group. These investments will be approximately distributed among the various areas as shown below:

Mining	14%
Steel and Iron works	32%
Petroleum	7%
Production of Electrical Energy	15%
Naval Construction	4%
Automotion	3%
Basic Chemical	3%
Services and Transports	12%
Miscellaneous	4%
Industries of advanced Technology	6%

The strong weight of the investments in the area of Siderurgy should be pointed out where the majority corresponds to precisely the production of steel, under the assumption that private iniciative can not build the fourth integral steel mill which is projected.

There is no doubt about the influence of this area in the overall activity of the Institute, along with the difficulty of its low income-yielding prospects. Nevertheless, it does not seem possible to consider abandonment of the development of the siderurgical production of the country, as the demand increases to redistribute the effort made in this area for investments in other more profitable areas. Of course, a total self-supply of the steel needs of the national production is not intended but it does not seem possible to dispense with the production of a good part of this demand.

Firstly, there is no precedent in a country of the size of Spain, which has undergone an industrial development, not to produce at least, a good part of its steel needs. Also, if the steel production is not developed as foreseen, it would be necessary to plan exports . . . until 1980 of quite a bit more than 1000 million dollars annually, which would be a rather difficult blow to the Spanish economy. Also, it does not seem easy to be able to<sup>transfer</sup> the ample investments necessary for the industry of siderurgy to the more competitive industrial areas which export more; if other basic areas are disposed of, such as electrical and chemical production, . . . in which investments are made which are probably already sufficient, it is not easy for a great number of small exporting industries<sup>to</sup> be developed in a short period of time, the promotion of which, in any case, would overrun the possibilities which the state has to work efficiently. Also, it must be taken into account that the prices of Spanish steel are similar to those which are in effect in other European countries, which is convenient for improving the competitiveness of Spanish industrial production, but which does not occur with many other down stream elaborated products. This means that if the siderurgy area has greater financial

difficulties than other areas, this does not mean that said area is an economic burden for the country, but rather the contrary. Lastly, it must also be pointed out that the improvement in the economic efficiency of our siderurgical plants has greatly improved recently and there is no reason to believe that in the next integral siderurgical plant much better results cannot be obtained than those obtained in the plants constructed a few years ago.

In the rest of the areas mentioned there are no serious income-yielding problems, except in the case of soft coal mining, the exploitation of which the Government does not wish to abandon for social reasons.

For the financing of the 1.300 million dollars which the Institute will probably invest in the next few years the following resources are considered:

Grant from the State	250 million \$
Self-Financing	150 million \$
Spanish Capital market	600 million \$
Foreign Capital market	300 million \$

7.- Concrete Projects among those foreseen in which the World Bank could provide financing.

The following are the concrete projects in which the INI is interested and for which it could receive financial help from the World Bank.

7.1 Fourth Steel Mill

The country is going to build a steel mill on the Mediterranean coast to produce 6 million tons of

steel. The Government will offer the bid for its construction to the private sector, but in case this does not wish to take on this project, it will give the responsibility of this construction to the INI. Regarding this topic there will also be great interest in the contribution of the World Bank for the financing of the port and the water line to said siderurgical plant, even if these investments were made directly by the Spanish state.

#### 7.2 Production of Iron

*Corporación Siderúrgica*

*about ex. technology*

The resources of Spanish iron should be increased and adapted economically to the technical needs of siderurgy. For this reason, it would be necessary to invest in mining prospection and in a pelleting plant in Northern Spain. Also, Spanish siderurgy requires in addition iron imported in an important amount, so it would be convenient to invest in mineral deposits abroad.

#### 7.3 Production of ferrous metallic minerals

The Institute possesses a very interesting land grant with reserves of complex sulphides of lead, copper and zinc which is necessary to exploit. The project should begun with the work of investigation to evaluate its profitability, finding the process which is most adequate for the treatment of the above-mentioned minerals.

#### 7.4 Uranium

The Institute has a project for exploitation and construction of a plant for the treatment of the uranium existing

in the Spanish province of Salamanca, and also, the construction of a plant for the production of nuclear fuels using imported enriched uranium. Also, there is a possibility of participating financially in a multi-nation European company destined to enrich uranium.

#### 7.5 Lignite Mines and Electrical Power Station

The Institute is going to develop the exploitation of a lignite field in Galicia as a source of energy for a large electrical power station to be built.

#### 7.6 Aeronautical Industry

A plan is being elaborated for the re-structuration and development of the Spanish aeronautical industry in which the Institute participates.

#### 7.7 Ship-Building

The expansion of the Spanish naval construction requires the installation of new ship-building facility of very large size. Also the construction of a large dike for the reparation of vessels is projected.

### 8.- General Considerations

From the brief exposition presented, some general conclusions can be deduced regarding the problems and perspectives of the Institute.



The Institute will continue to participate fundamentally in basic industry with high amounts of investments per person employed and with an important amount of the industrial investments of this country. It must be remembered that in this respect only the investments in siderurgy and in the production of electrical energy represent 50% of the total investments in national industry and in both areas the INI has an important participation, although more so in the former than in the latter. Therefore, it is not surprising that the investments of the companies which integrate the INI exceed 20% of the total made by the Spanish industry.

To carry this work out, the first problem of the Institute consists of strenghtening its financial structure in such a way as to be able to finance its future expansion without problems, in order to be able to cover the capital demand required in the Spanish industry development at the rate prevailing during the last few years. This problem presents two aspects, on the one hand, that of strenghtening and improving the profitability of each of the firms in which it participates, and on the other, a transformation of the structure of the liabilities of the Institute which permits financing on strong basis the investments which do not produce much income of themselves and which the Institute is obliged to maintain or support. In this regard, the Institute is expecting a greater grant from the State of low-interest money, continuing the use of resources in the Spanish and Foreign capital markets.

The Institute will also continue to increase its activities to become an instrument of industrial re-structuration, collaborating with private industry to help this latter and also fortifying itself. In this regard, it will have to dispose of the necessary financial resources, with more flexible ways for achieving the non-permanent interventions in the various areas which need financial and technical reinforcement.

ANNEXE I

INI ASSOCIATED ENTERPRISES ~~AR-31-12-1970~~

	SHARE HOLDERS COMMON STOCK		EMPLOYEES 1971	SALES OR INCOME (Million \$)
	Million Ps	% I.N.I.		
<b>1. OIL, PETROCHEMICAL AND POWER GENERATION</b>				
<b>1.1. OIL AND PETROCHEMICAL</b>				
- Compañía Hispánica de Petroleos, S.A. ....	600	51,0	69	91
- Compañía Petrolífera Ibérica, S.A. ....	396	6,7	11	-
- E.N. Calvo Sotelo, S.A. ....	5.000	99,6	6.763	6.501
- E.N. Petroleos de Aragón, S.A. ....	10	67,0	60	-
- E.N. Petroleos de Navarra, S.A. ....	10	67,0	30	-
- Refinería de Petroleos de Escombreras, S.A. ....	1.713	52,0	3.182	12.332
<b>1.2. POWER GENERATION</b>				
- Compañía Hidroeléctrica de Galicia, S.A. ....	629	90,1	113	269
- Compañía Sevillana de Electricidad, S.A. ....	9.666	19,9	5.854	5.551
- E.N. Eléctrica de Córdoba, S.A. ....	680	45,0	191	549
- E.N. de Electricidad, S.A. ....	3.375	98,7	1.155	1.864
- E.N. Hidroeléctrica del Ribagorzana, S.A. ....	6.000	85,3	1.460	2.682
- Gas y Electricidad, S.A. ....	800	97,4	1.680	1.415
- Unión Eléctrica, S.A. ....	10.862	16,5	3.952	4.147
- Unión Eléctrica de Canarias, S.A. ....	415	96,1	991	601
<b>2. MINING AND METALLURGY</b>				
<b>2.1. MINING</b>				
- E.N. Adaro, S.A. ....	560	100,0	943	272
- E.N. Carbonífera del Sur, S.A. ....	270	83,0	1.193	223
- Fodina, S.A. ....	75	90,0	40	-
- Fosfatos de Bu-Craa, S.A. ....	5.000	100,0	538	-
- Hulleras del Norte, S.A. ....	3.900	100,0	26.590	3.293
- Minas de Almagrera, S.A. ....	235	93,6	118	61
- Potasas de Navarra, S.A. ....	2.000	97,5	1.757	832
<b>2.2. METALLURGY</b>				
- E.N. del Aluminio, S.A. ....	1.069	50,5	2.359	2.393
- E.N. Siderúrgica, S.A. ....	16.800	91,1	13.992	14.454
- Ferroaleaciones y Electrometales, S.A. ....	104	52,0	322	465
- Unión de Siderúrgicas Asturianas, S.A. ....	10.000	67,8	8.039	6.179
<b>3. METAL TRANSFORMATION</b>				
<b>3.1. SHIPBUILDING</b>				
- Astilleros Españoles, S.A. ....	2.851	50,0	20.974	14.292
- E.N. Bazán, S.A. ....	700	99,9	12.012	4.408
<b>3.2. CARS AND LORRIES</b>				
- Compañías Hispano-Alemana de Productos Mercedes Benz, S.A. ....	650	49,5		
- E.N. de Autocamiones, S.A. ....	2.100	66,6	9.078	7.163
- Sociedad Española de Automóviles de Turismo, S.A. ....	2.600	35,6	20.039	22.818
<b>3.3. MISCELLANEOUS</b>				
- Boetticher y Navarro, S.A. ....	136	82,1	1.329	407
- E.N. de Optica, S.A. ....	80	100,0	992	497
- E.N. Santa Bárbara, S.A. ....	300	100,0	3.812	696
- Experiencias Industriales, S.A. ....	150	60,8	496	133
- La Maquinista Terrestre y Marítima, S.A. ....	600	23,4	2.529	1.081
- SKF Española, S.A. ....	307	40,8	193	844
<b>4. AIRCRAFT AND SERVICES</b>				
<b>4.1. AIRCRAFT</b>				
- Construcciones Aeronáuticas, S.A. ....	324	34,4	5.057	1.811
- E.N. de Motores de Aviación, S.A. ....	400	97,7	127	31
- La Hispano Aviación, S.A. ....	51	52,9	694	278

	SHARE HOLDERS COMMON STOCK		EMPLOYEES	SALES OR INCOME (Million \$)
	Million Ps	% I.N.I.		
<b>4.2. AIR TRANSPORT</b>				
- Aviación y Comercio, S.A. ....	150	16,7	331	1.013
- Iberia, Lineas Aereas de España, S.A. ....	5.000	98,8	13.929	14.939
<b>4.3. OTHER SERVICES</b>				
- Autotransporte Turístico Español, S.A. ....	256	33,5	275	211
- AUXINI, Ingeniería Española, S.A. (2).....	24	40,0	307	132
- Banco Exterior de España, S.A. (1).....	1.238	10,0	3.500	333
- Empresa de Estudios y Proyectos Técnicos, S.A.(2)	30	100,0	101	99
- E.N. Elcano de la Marina Mercante, S.A. ....	1.350	100,0	673	882
- E.N. de Turismo, S.A. ....	600	100,0	479	81
- Sociedad de Inversiones Mobiliarias en el Exterior, S.A. (1).....	159	100,0	3	8
<b>5. CHEMICAL, FOOD AND MISCELLANEOUS</b>				
<b>5.1. CHEMICAL</b>				
- E.N. de Celulosas, S.A. ....	1.739	99,9	1.384	1.787
- E.N. de Industrialización de Residuos Agrícola.	750	100,0	92	-
- Fabricación Española de Fibras Textiles y Artificiales, S.A. ....	455	43,4	1.359	781
- Sociedad Ibérica del Nitrógeno, S.A. ....	350	6,8	735	571
<b>5.2. FOOD</b>				
- Frigoríficos Industriales de Galicia, S.A. ....	300	72,9	596	1.503
- Industrias Frigoríficas Extremeñas, S.A. ....	225	57,8	801	850
- Industrias Gaditanas del Frio Industrial, S.A....	45,	75,0	103	120
- Industrias Vegetales y Conservas, S.A. ....	100	100,0	184	189
<b>5.3. MISCELLANEOUS</b>				
- Artespaña, E.N. de Artesanía, S.A. ....	350	100,0	10	-
- Campos Velázquez, S.A. ....	150	1,5	21	16
- Elaboración de Plásticos Españoles, S.A. ....	80	6,3	254	130
- Empresa Auxiliar de la Industria, S.A. (2) ....	10	100,0	3.540	1.939
- Industrias Textiles del Guadalhorce, S.A. ....	1.500	99,9	2.256	1.165

(1) Dependent from the Finance Director

(2) Dependent from the Vicepresident.

ANNEXE II

INI BALANCE SHEET

Assets (net values):

- Investment in associated enterprises (at cost).....	732	823	864	
- Credits and advances .....	877	1.062	1.191	1.340
- Direct investments .....	130	75	68	40
TOTALS .....	1.739	1.960	2.123	-

Liabilities

- State allowance and retained earnings .....	443	446	434	441
- Bank of Spain credit .....	132	153	157	147
SUBTOTALS .....	595	599	591	588
- Long Term Debt:				
. Spanish market.....	996	1.164	1.332	1.519
. International market .....	41	126	130	179
SUBTOTALS .....	1.037	1.290	1.462	1.698
- Other .....	107	71	70	-
TOTALS .....	1.739	1.960	2.123	-

TOTAL SALES OR OUTPUT (Million \$)

- INI Subsidiaries (Sales) .....	1.235	1.503	2.984	2.371
- Spanish Industry (output) .....	22.214	24.328	27.544	-
- % INI Sales/Spanish industry output .....	5,6	6,2	7,2	-

ADDED VALUE (Million \$)

- INI enterprises .....	517	644	813	-
- Spanish Industry .....	7.582	8.157	9.314	10.354
- Gross National Product .....	21.555	23.918	26.454	28.581
- % INI enterprises/Spanish Industry .....	6,8	7,9	8,7	-
- % sobre Producto Nacional Bruto .....	2,4	2,7	3,1	-

EMPLOYMENT (Thousands)

- INI enterprises .....	144	159	168	-
- Spanish Industry .....	4.360	4.381	4.473	4.570
- Total Spanish employment .....	3,3	3,6	3,8	-

PRODUCTIVITY: ADDED VALUE PER EMPLOYEE (\$)

- INI enterprises .....	3.590	4.050	4.839	-
- Spanish Industry .....	1.739	1.862	2.082	2.265
- Spanish Economy .....	1.771	1.956	2.143	2.289
- % INI enterprises/Spanish Industry .....	206,4	217,5	232,4	-
- % INI enterprises/Spanish Economy .....	202,7	207,1	225,8	-

INVESTMENT PER EMPLOYEE (\$)

- INI enterprises .....	2.337	3.631	2.658	-
- Spanish Industry .....	499	533	594	-
- Spanish Economy .....	407	440	513	-

INVESTMENTS (Million \$)

- INI enterprises .....	358	600	513	890
- Spanish Industry .....	2.176	2.337	2.657	-
- % INI enterprises/Spanish Industry .....	16,4	25,7	19,3	-

EXPORTS (Million \$)

- INI enterprises .....	58	69	108	160
- Spanish industrial exports .....	835	1.197	1.505	1.840
- % INI exports/Spanish industrial exports .....	7,0	5,8	7,2	8,7

	1967	1968	1969	1970
<b>Assets (net values):</b>				
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- Credits and advances .....	877	1.062	1.191	1.340
- Direct investments .....	130	75	68	40
TOTALS .....	1.739	1.960	2.123	-
<b>Liabilities</b>				
- State allowance and retained earnings .....	443	446	434	441
- Bank of Spain credit .....	132	153	157	147
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- Long Term Debt:				
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SUBTOTALS .....	1.037	1.290	1.462	1.698
- Other .....	107	71	70	-
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- % sobre Producto Nacional Bruto .....	2,4	2,7	3,1	-
<b>EMPLOYMENT (Thousands)</b>				
- INI enterprises .....	144	159	168	-
- Spanish Industry .....	4.360	4.381	4.473	4.570
- Total Spanish employment .....	3,3	3,6	3,8	-
<b>PRODUCTIVITY: ADDED VALUE PER EMPLOYEE (\$)</b>				
- INI enterprises .....	3.590	4.050	4.839	-
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- % INI enterprises/Spanish Economy .....	202,7	207,1	225,8	-
<b>INVESTMENT PER EMPLOYEE (\$)</b>				
- INI enterprises .....	2.337	3.631	2.658	-
- Spanish Industry .....	499	533	594	-
- Spanish Economy .....	407	440	513	-
<b>INVESTMENTS (Million \$)</b>				
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- % INI exports/Spanish industrial exports .....	7,0	5,8	7,2	8,7