McNamara Papers

Contacts
Costa Rica (1975-1976)

Folder 1

COSTA RICA

COSTA RICA

6/4/68 President Jose Joaquin Trejos Fernandez - lunch at Blair House and dinner at the White House

6/5/68 President Trejos - loan signing, followed by office visit by Costa Rican Ministers

9/9/68 Jimenez de la Guardia, Minister of Commerce and Industry

1/31/69 Ambassador Luis Demetrio Tinoco

7/18/69 (Aspen-Eisen.Exc.) Manuel Formoso, Prof., Political Science Dept., University of Costa Rica

1. 11/5-8/75 (San Jose) RMcN Notes and Itinerary

2. 11/5-8/75 (San Jose) President Daniel Oduber Quiros
Porfirio Morera, Minister of Finance
Jorge Sanchez, Minister of Economy, Industry and Commerce
Bernal Jiminez, President, Central Bank
Rudolfo Silva, Ambassador of Costa Rica to the US and the OAS
Rafael Carrillo, Vice-Minister of Finance
Fernando Naranjo, Coordinator General of the Ministry of the Presidency and Chief Economic Advisor to the President
Rudolfo E. Quiros, Deputy Coordinator General
A. Jenkins, Minister of Public Works and Transport
Dr. O. Arias, Minister of Planning
B. Soto, Ministry of the Presidency
Enrique Ortez Colinderes, President, Central American Bank (CABEI)

11/7/75 (San Jose) Fernando Volio, Minister of Education
Danilo Jimenez Veiga, Executive President, National Apprenticeship Institute (INA)

" Jose Figueres, Ex-President of Costa Rica

" Walter Kissling, Manager and Owner of "Kativo" (paints and plastic)
Humberto Perez, Manager and Owner of "Scott Paper of Costa Rica"
Celso Surroca, Owner of a zipper factory
Mario Esquivel, Rancher, Air Transport
Juan Arrea, Rancher
Ricardo Batalla, Rancher
Miguel Barzuna, Clothing industry

11/7/75 (Rio Macho) National Power and Telecommunications Authority(ICE):
Alex Murray, Executive President
Mario Hidalgo, Manager, Power Department
Rodrigo Suarez, General Manager
Antonio Canas, Manager, Telecommunications Department
Teofilo de la Torre, Chief of the Electrification and Planning Department and Executive Director of the National Aluminum Commission

11/7/75 (Orosi) Dr. Hernan Weinstock, Minister of Health
Rene Castro, Program Coordinator, Nutrition Center

3. 12/8/75 Dr. Manuel Elgueta, Director, Tropical Agricultural Research and Training Center (CATIE)

   3/17/76 Rodrigo Madrigal, Editor, La Republica, San Jose

4. 5/6/76 Ambassador Rodolfo Silva (host at dinner honoring the McNamaras)

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PROGRAM FOR MR. R. S. MCNAMARA'S VISIT TO COSTA RICA

November 5-8, 1975

Wednesday, Nov. 5

19:30	Arrival at the Airport Juan Santamaria. Transfer to Hotel Cariari.

Thursday, Nov. 6

9:00-12:00	Meeting with the delegations of Central American countries and Panama. (Hotel Cariari. List of participants in Annex I.)
12:00-13:30	Private lunch: President Oduber and Mr. McNamara. (Casa Presidencial.)
(12:00-13:30)	Lunch for the Bank Mission and the delegations of Central America and Panama, hosted by the Costa Rican delegation. (Hotel Cariari).
13:30-15:00	Visit to the Barrios del Sur de San Jose. (San Jose slum area. President Oduber will accompany Mr. McNamara).
15:00-18:00	Bilateral meetings with the delegations of the five countries of Central America and Panama. (Hotel Cariari. Each meeting should take up to 30 minutes. Order of meetings in Annex II).

9-10:30

Guat 15:00 Nicar 16:30
El Salv 15:30 Panama 17:00
Hond 16:00

EVENING FREE

Reg Mtg: My impression is the Regional Com MKT is becoming weaker not stronger
What should future emphasis be placed on: greater intra-reg trade?
rationalization of production for export? (should not seek to be given support to study these issues & do the proper thing w/ Cabei)
What is the role of Cabei in this respect
What do gov't think of Cabei's plan for Trust Fund
What are their views on particular physical integration projects (power, roads; telecom; ports;) (can they strengthen their plans)
What is potential for agri specialization: seed prod. for basic grains; storage; etc.
Potential for agri integ.
Levels of GCC tariffs - industr.
Levels of market tariffs - agri

El S fears agrarian unrest of Honduras may become contagious
Guatemala & Nicaragua are also fearful -

El S wants to solve the "legal issues" w/o any participation of international orgs (OAS, Inter-American etc) while Honduras is willing to negotiate directly but to fall back on an inter-tribunal if necessary -

Cortegua - growing 82 pc - 25 & 40% squatters in slums made by converting mangrove & reclaiming tidal areas; no sewers or water; children completely naked in shacks equipped with TV & phones or transistor with males drinking men & beer (clothing is said to be a prime necessity from of central Ame as well)

Friday, Nov. 7

9:00	Departure (by helicopter, from Hotel Cariari) of Mr. McNamara and President Oduber to the Atlantic Region. Route will be over the area to be crossed by the proposed San Jose-Siquirres highway.
9:45-10:30	En route, visit to ~~the Juan Viñas~~ LA CAÑADA ranch. (Financed with the proceeds of a Bank Agricultural Credit Loan).
10:30	Departure (by helicopter) for Rio Macho hydroelectric plant.
11:00	Arrival at Rio Macho.
(9:15-10:45)	The rest of the Bank Mission, accompanied by a small number of Costa Rican officials (see Annex III) will leave Hotel Cariari by car and join President Oduber and Mr. McNamara at Rio Macho.
11:15-11:45	Meeting with the Management of ICE (National Power and Telecommunications Authority): - Ing. Alex Murray, Executive President; - Ing. Mario Hidalgo, Manager of Power Dept; - Ing. Rodrigo Suarez, General Manager; -Ing. Antonio Cañas, Manager of Telecommunications Dept. - Ing. Teofilo de la Torre, Chief of the Electrification and Planning Department and the Executive Director of the National Aluminum Commission. The ICE team will make a 30-minutes presentation of past achievements and planned future activity.
12:00-13:30	Informal lunch at Rio Macho.
14:00-14:45	En route to San Jose, visit to the Nutrition Center at Orosi. Dr. Hernan Weinstock, Minister of Health and Rene Castro, Program Coordinator, will provide information on the Government-sponsored programs of Family Allowances and Rural Health.
15:45-16:30	Visit to the headquarters of the National Apprenticeship Institute (INA), at the outskirts of San Jose. Lic. Fernando Volio, Minister of Education and Lic. Danilo Jimenez Veiga, Executive President of INA, will provide information on the Government education and vocational training policies.
16:45	Arrival at Cariari.
17:15-18:00	Meeting with the Costa Rican Committee for Coordination of Economic Policy:, including: - Lic. Porfirio Morera, Minister of Finance; - Lic. Jorge Sanchez, Minister of Economy, Industry and Commerce; - Dr. Oscar Arias, Minister of Planning; - Lic. Bernal Jimenez, Executive President of The Central Bank; - Dr. Fernando Naranjo, Coordinator General of the Ministry of Presidency, to review the results of the two-day visit.

18:00-18:30	Meeting with a group of private businessmen. (Hotel Cariari. Names of participants in Annex IV.)
~~20:00~~ 20:30	Dinner in honor of Mr. McNamara, hosted by Lic. P. Morera, Minister of Finance. (Hotel Ambassador. About a dozen distinguished citizens, including Ex-President Figueres, have been invited).

Saturday, Nov.8

7:00	Departure via LACSA 620 for Miami. (Departure from Cariari at 6:30.)
12:45	Departure for Washington via Eastern 190.

ANNEX II

ORDER OF BILATERAL MEETING WITH DELEGATIONS FROM CENTRAL AMERICA AND PANAMA

(Thursday, Nov. 6, 3-6PM, Hotel Cariari)

10:45 - 11:30 ~~15:00 - 15:30~~	Guatemala	10:30 - 11:15
1500 ~~15:30 -~~ 16:00	El Salvador	11:15 - 12
16:00 - 16:30	Honduras	15:00 - 15:45
16:30 - 17:00	Nicaragua	15:45 - 16:30
17:00 - 17:30	Panamá	16:30 - 17:15
~~17:30 - 18:00~~	~~Costa Rica~~	17:15 - 18:00

ANNEX IV

COSTA RICAN BUSINESSMEN MEETING WITH MR. MCNAMARA

(Friday, Nov.7, 6-6:30 PM, Hotel Cariari)

Messrs. Walter Kissling, Manager and Owner of "Kativo" (paints & plastic)

Humberto Perez, Manager & Owner of "Scott Paper of Costa Rica"

Celso Surroca, Owner of a Factory of zippers

Mario Esquivel, Rancher – air transport

Juan Arrea, Rancher

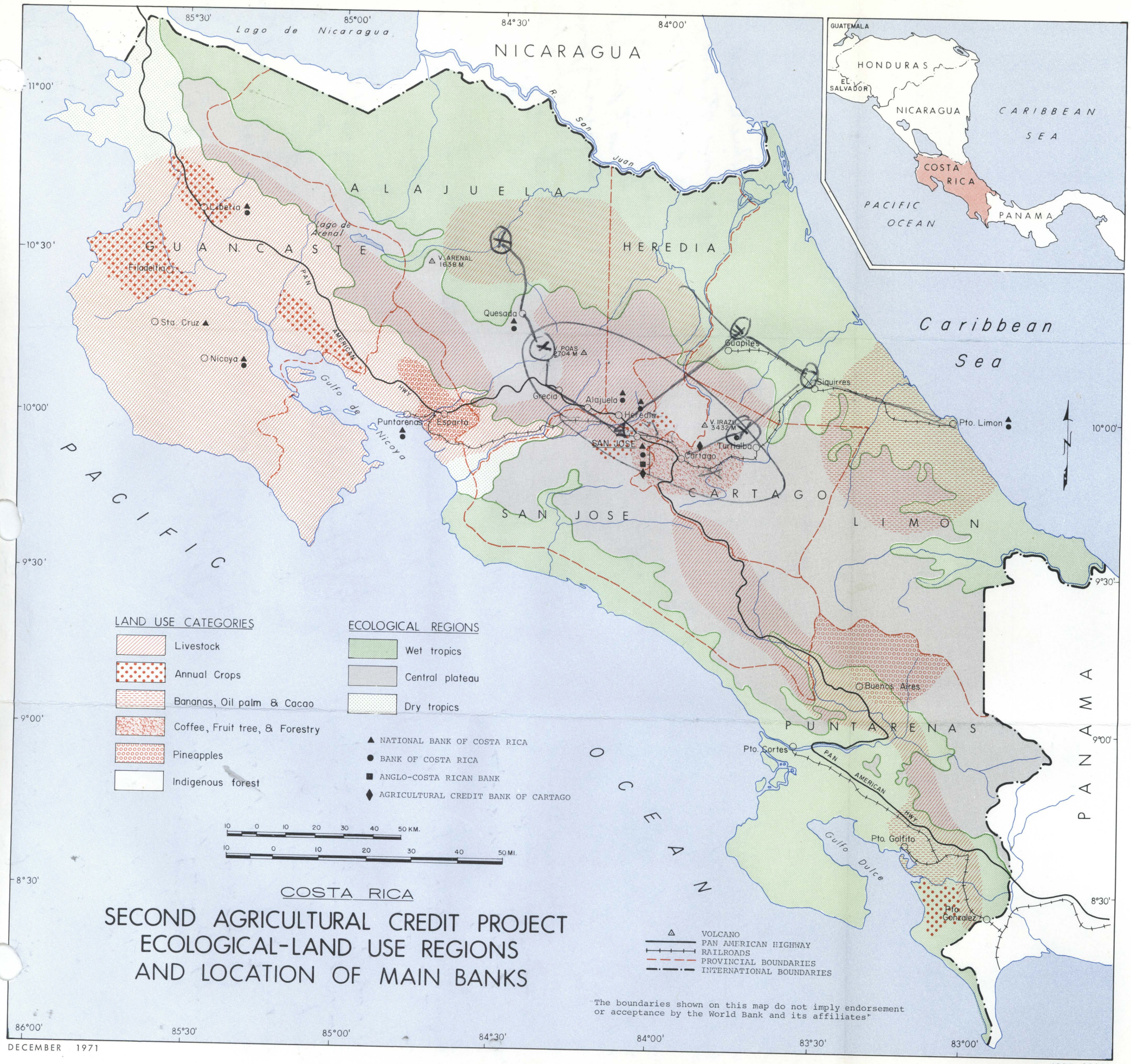
Ricardo Batalla, Rancher

Miguel Barzuna, Clothing industry

Kissling – limitations of CA area
no yet few petroleum & mineral resources
size of mkt is ltd
provided extra-dem CACM decisions after 69 war
new structure of CACM tariffs is urgd
On positive side
for. inv. is welcomed
for. inv. is treated as natl inv.
CACM area is a strong curr. area
free movement of capital
close to US mkt
Re Costa Rica – positive influences
pol. infra structure: 1870s remaining dem.
provided infrastructure
human infrastructure
gov't cognizant of importance of raising productivity
greatest potential is: 1) agro-industry
2) close to US: drawbacks and
3) if change some of CACM regs, greater emphasis
tourist & beach –

Juan Arrea – little prog in CACM in advancing agri –
govts have not agreed on price policies –
Nothing only free. mkt –

Perez – air, water, soil favorable to lumber prod: 6 to 7 yrs to prod.



COSTA RICA

SECOND AGRICULTURAL CREDIT PROJECT ECOLOGICAL-LAND USE REGIONS AND LOCATION OF MAIN BANKS

DECEMBER 1971

IBRD-3332R

(1)

1. abolished the army in 1948
was weak – had been defeated
in 48 by "Oldebers" guerilla
force (which lasted +
algerians studied)
now have only a 5000 man
police force – doing [illegible]
every thing to prevent them
from acquiring power –
abolishing the army per-
mitted them to go further to
left w/ 70 years of coups d'état –

Now expanding trade with southern
US & Eastern Bloc –

Decided to reverse completely
the dealing with the countryside
where 60% of people live –
great effort to take basic services
to rural areas: roads, telecom,
elec, health & nutri,
75% of pop was living below
min CR by std
along 2/3 of pop in 1st grade
undernourished –
the proposed cash family allow-
ance in form of services: Family
equivalent than going food & health
to every child – by 1977

Provided
food (then schools) for all 0 to 12

(2)

nurse 1 to 3000 –
500 sec. for peasants
stressing learning everything while
forming industries
decision: not to abandon
industrialization but to reverse
the trend which was placing
whole emphasis on indus-
but want the state to be so strong
that the index is reversed.
so: minimizing gatekeeping
+ wherever foreign factor can be
used they force it – as the
state enter becomes more & more
widespread it becomes more &
more inefficient
Very concerned at environ prob –
working to replace trees for with
planted forest [illegible]
The Latin left experts but haven't been
told because the conditions in which
they breed have been dein
Conflict between US & A absurd:
over 90 agri; big lands going
down & down; abolishing LA 70%
+ an explosion food on their
borders – an alliance of most
~~Oldebers~~ conservative forces with
army: to then Oldebers economist
the Cubans are promoting the
conflict to advance themselves
also Soviet in preparing to
fight US over Belize –

(3)

Cuba said "can't support blockade
the regime becomes in hands of
only friend"
Very worried about Haiti –
there is a young technocrat who
trying to make Haiti more but
floods of cocoa (drought & erosion)
so bad that will lead to conditions that
Cuban agitators will seek to
breed chaos –
very serious because Dom Rep
is not in good shape
Have 500 people studying in Com
countries, all efforts fol –
trying to counteract by strengthening
an Institute for Politics trying fol()
Ideas in all of the students
(labor leaders, etc) – Com entering
over the student pop
Family Recruit Prog might go
covering 2/3 of pop: will cost
40m (20% which must be
selected from say 20% of 150% c)
In 50's pop 4.42; now 2.72; by
2 by 80 –
extra Pes: install, will reduce; subsidi-
ment (drive own car) detractor
to democracy + should be protecting
it –
Prime: agriculture: irrigation: channel
also for practice health care –

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 1, 1975

FROM: Gerald F. Flood, Division Chief, LAC I
Gregor Dolenc, Loan Officer, LAC I

SUBJECT: COSTA RICA: Mr. McNamara's Visit of November 5-8, 1975

A. BACKGROUND AND OBJECTIVES

At the invitation of President Daniel Oduber of Costa Rica, Mr. and Mrs. McNamara visited Costa Rica from November 5-8, 1975. They were accompanied by Messrs. Adalbert Krieger (Vice-President for Latin America and the Caribbean), William Clark (Vice-President for External Relations), Enrique Lerdau (Director, LAC Country Programs Department I), Sven Burmester (Personal Assistant to Mr. McNamara), Gerald Flood (Division Chief for Central America) and Gregor Dolenc (Loan Officer for Costa Rica). Dr. Amado Gavidia H. (Executive Director for Central American countries) also participated in the visit. The itinerary which was prepared for the visit is attached as Annex I.

The visit was designed to accomplish several different objectives. The first was to enable Mr. McNamara to meet representatives of the five Central American countries, Panama and the Central American Bank (CABEI) and to review with them in a multilateral context the progress and prospects for regional economic integration and the potential Bank role in this process. A second objective was to give Mr. McNamara an opportunity to review bilateral issues with each of the country delegations and CABEI. Finally, the trip was designed to enable Mr. McNamara to see the progress which Costa Rica was making in economic and social development, to review Government plans and programs designed to further this development and to assess existing and planned Bank assistance to help the Government to carry out its objectives.

B. SUMMARY OF DISCUSSIONS[1/]

1. Multilateral Meeting

The country delegations at the multilateral meeting included the Ministers of Finance from five countries, the President or General Manager of the Central Bank of five countries, four Ministers of Economy, two Planning Ministers and the President of CABEI. Each of the Central American delegations which spoke (i.e., all countries except El Salvador) expressed

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1/ A more detailed report of the discussions is contained in notes attached as Annex II. A list of the country and CABEI delegations is attached as Annex III.

firm support for regional integration and requested Bank financial and technical assistance for regional institutions, studies and projects. Minister Palomo of Guatemala attributed considerable importance to the meetings of Central American Presidents which he said were occurring with increasing frequency and which he felt gave reason for optimism that the political obstacles hampering progress towards a restructured common market (presumably referring principally to the failure to achieve a normalization of relations between Honduras and El Salvador) would be resolved. He stressed the potential role of the Bank as an agent of technological transfer to the Region and requested technical assistance to various regional institutions.

Mr. Bueso of Honduras stated that his Government was committed to supporting regional integration but that a substantial restructuring of regional arrangements was necessary if the Common Market were to begin to be effective in agriculture and the social sectors. His Government accepted a stronger role for CABEI in financing regional development, but it would wish to be assured that Bank loans to CABEI would be over and above what the countries could expect to receive from the Bank on a bilateral basis. Minister Martinez of Nicaragua mentioned the difficulties of Central American industry achieving a competitive position in third country markets and even within the Region. He stressed the importance of support by institutions such as the World Bank in strengthening regional and national financial and technical assistance institutions, many of which lacked the resources to do an adequate job. Vice Minister Carillo of Costa Rica urged Bank support of regional studies, such as for electric power interconnection. Minister Morera of Costa Rica and Mr. Bueso of Honduras also requested Bank consideration of Third Window financing to help fill the growing resource needs of the Central American countries. Mr. Ortez of CABEI submitted a document outlining alternatives designed to enable the Bank to lend to CABEI. He said that CABEI planned to submit soon to the Board of Governors the "trust fund" alternative, i.e., one which would involve the Bank lending to each of the Central American Governments which would in turn place the proceeds in a trust fund to be administered by CABEI.

Minister Barletta of Panama (which is not a member of the Central American Common Market) expressed concern about the Bank's use of per capita income criteria in allocating resources among countries. He said that per capita incomes were a function of accumulation of capital and of productivity while productivity was a function of scale, technology and specialization. Countries such as Panama were handicapped in their ability to increase productivity because of their small size. Export projects have to be given high priority at the same time that the countries attack urban and rural poverty. Instead of applying restrictive allocation criteria, the Bank for the next several years should be considering ways of providing special help to many of the small countries of Central America and the Caribbean, including more

local cost financing, longer grace periods and maturities, and with such help and major efforts by the countries themselves, many of these countries in 10-12 years could approach the "take-off" point. Finally, Minister Barletta suggested establishment of a working group of the Bank, IDB, CABEI, the Caribbean Development Bank and the countries of the Central America and Caribbean region to examine how external assistance might most effectively be mobilized to help the countries of the region achieve satisfactory growth with improved income distribution.

In responding to the various points raised by the delegations, Mr. McNamara said that the Bank was anxious to support Central American efforts to further economic integration of the region. He asked that the Governments tell us how the Bank could help them make progress towards integration in fields such as agriculture (storage, processing and, where opportunities for integration existed, production), roads, electric power and ports. He expressed disappointment that we had been unable to find a way to support CABEI and asked that the Government help us find a formula (other than attempting to change the Bank's articles) that would enable the Bank to work with CABEI. He welcomed the document presented by CABEI and said that we would review it. He said that we were also ready to help other integration institutions such as SIECA. If we financed regional projects and studies, we would be able to lend more to Central America than would otherwise be possible. Our proposed lending to CABEI, for example, should be regarded as additive rather than in substitution for what we might make available on a bilateral basis.

Mr. McNamara explained the status of the proposed Third Window facility, and the very limited amount that might be available, as well as the increasing limitations on the availability of IBRD funds. He urged the Governments represented to support an increase in the Bank's capital. In the meantime, he said, the Bank's resource constraint was one reason why projects with a regional impact were particularly attractive to us. Mr. McNamara did not comment directly on Mr. Barletta's proposals for special help over the next few years for small countries of Central America and the Caribbean, other than to endorse the self-help criteria for Bank support implicit in Mr. Barletta's statements and to suggest that he discuss his idea of a working group first with the other countries -- if they agreed to come forward with such a proposal, the Bank would be interested in considering it.

2. Bilateral Meetings

Guatemala

Minister of Finance Lamport briefly reviewed Government plans for giving increased emphasis to development of agriculture, education and health. He mentioned that the President is giving personal backing to the growing small-farmer cooperative movement and said that they hoped for Bank support in this effort. He described last year's tax measures which he said should

increase tax revenue by about 10 percent in real terms in 1976. Mr.McNamara expressed interest in supporting Government initiatives in agriculture and rural development, said that he was pleased with the improved fiscal effort which he said was essential to an adequate development program, and stressed the importance of strengthening project preparation, which he said is usually an obstacle when we wish to expand lending in a particular country.

El Salvador

Planning Director Vieytez, after a brief summary of the over-all economic situation, mentioned the Government's plans for "agrarian transformation" and actions taken recently in four areas where structural changes are needed: (1) capital structure - a state-owned banking system for agriculture has been created; (2) technology - a center for technological research and development has been created; (3) marketing - the financial capacity of the marketing agency has been expanded and an improved price support policy, particularly for basic grains has been adopted; (4) land tenure - a new institute has been created to redistribute land. Through these measures, the Government hoped both to increase agricultural production and improve income distribution. Mr. McNamara asked that we receive a memorandum expanding on how land reform would work with other measures (fiscal etc.) to achieve more rapid development. His impression was that lack of action by El Salvador on its very difficult development problems has been largely responsible for the low level of Bank lending to that country. He was disappointed at what seemed to him to be inadequate support by El Salvador for regional economic integration (including insufficient support for CABEI). Minister of Finance Martinez replied that El Salvador was actively pushing for integration and that the question was rather whether other Central American countries wished to integrate.

Honduras

Central Bank President Bueso described briefly Honduras' recent economic difficulties (natural disasters -- hurricane in 1974, drought in 1975 -- complicating an already difficult balance of payments situation). He said that these problems had come at a time when the Government was embarking upon an ambitious agrarian reform program. While the Government was fully committed to the program, it was placing a great strain on their financial and human resources, the peasants were impatient, and private investment in agriculture was declining. Revenues from the recently nationalized forests, together with planned new tax measures should help finance a large part of the agrarian reform program. However, to go forward with the agrarian

reform program at a pace rapid enough to keep the situation under control, they will need external technical and financial assistance. As far as the traditional agricultural entrepreneurs were concerned, the Government recognized that it had to devise incentives for them to increase investment rates.

Mr. McNamara said that he was prepared to consider, from his contingency fund, a special loan or credit to finance technical assistance for the agrarian reform program provided there was an adequate local organizational structure, counterpart personnel and counterpart resources. We would also give special priority to preparation and appraisal of projects for implementation of the agrarian reform program.

Mr. Bueso reviewed the history of the program loan application of a year ago and asked if the Bank would reopen consideration of a program loan. Mr. McNamara said that he lacked sufficient information on this matter to comment, but that we would look into it and he had an open mind about it.

Nicaragua

Minister of Economy Martinez mentioned projects in various fields which the Government wished the Bank to finance. After a brief discussion of these projects, Mr. McNamara referred to Nicaragua's heavy debt service burden and the need to limit commercial borrowing. Mr. Martinez replied that if the Bank did not lend for, e.g., the proposed geothermal project, the Government would have to borrow commercially. Mr. McNamara replied that the Bank wants to finance projects in Nicaragua, but we have to be sure that our loans can be repaid. If Nicaragua continues a high level of commercial borrowing, the Bank would not be able to lend.

Panama

Commenting on Planning Minister Barletta's proposals at the multilateral meeting, Mr. McNamara said that the Bank was willing to consider some lengthening of maturities and even to think about extending grace periods, although the latter presented quite difficult problems. Mr. Barletta discussed his proposal to establish a banking center in Panama which would finance Latin American exports through a scheme that would be organized with the cooperation of Latin American Central banks. He hoped that the Bank would be willing to be of assistance in the implementation of the proposal. Mr. McNamara said that he would be prepared to consider Mr. Barletta's request and suggested that he send us a description of the proposal. Mr. Barletta said that he would bring a first draft of the proposal to the Washington CEPCIES meeting on Panama in December.

The Government's development program was discussed. Mr. Barletta said that Panama wished Bank help in mobilizing complementary financing for several large projects and also would like the Bank to raise the level of its lending (after the La Fortuna power project) to about US$30.0 million per year for the next three years. Mr. McNamara said that we would certainly be willing to help the Government raise complementary financing as we want to strengthen Panama's access to world capital markets. As far as Bank lending was concerned, Panama was already receiving an unusually high level of Bank support because of its strong development effort, and a very strong case would have to be made to justify an increase in planned lending to Panama. On specific projects, he said that the Bank hoped to continue supporting the livestock program (which Mr. Barletta said was going well). On the Panama-Colon highway, Mr. McNamara said that we would be prepared to consider this project, if it could be accommodated within the lending program.

Costa Rica

After a brief summary of the economic situation, the Costa Rican delegation mentioned a series of project proposals in urban and rural development, tourism and industry. Mr. McNamara said that Costa Rica's exceptional development performance warranted a very high level of Bank assistance, but that the proposals as presented at the meeting would call for Bank financing well in excess of what we could consider. He asked that the Government establish an order of priorities for the proposals. At a subsequent meeting, Minister of Finance Morera promised to send to the Bank by December a program for our consideration which would include investment priorities, projects and their proposed timing.

Mr. Morera also asked the Bank to establish a permanent office in Costa Rica. Mr. McNamara cited, as reasons militating against this proposal, the close geographical proximity of Costa Rica to Washington and the fact that to be useful such offices had to have a wide range of expertise available, which necessarily meant a large number of people. Mr. Morera said that the office might be set up so as to serve all of Central America. Mr. McNamara said that this would reduce some of the problems and that, while he could make no commitments, we would consider the proposal.

Central American Bank (CABEI)

Mr. Ortez, President of CABEI, said that his institition was working out the details of the proposed trust fund he had mentioned at the multilateral meeting. They planned to send for our comments a document describing the proposal, and they hoped to present the proposal to CABEI's Board of Governors in January. He said that the Trust Fund was designed to operate in a way that would enable CABEI to allocate resources among the member countries in accordance with economic criteria regardless of how much each country had made

available to the fund. He hoped to sell the concept to the countries with the argument that the fund should be looked at as representing one part of CABEI's operations and that the countries could expect an equitable distribution of CABEI's total resources. Mr. Ortez said that they estimated that CABEI could lend US$30.0 - US$40.0 million each year for industry and hoped for a first Bank loan of about US$15.0 million.

Results and Impressions

Given the format and time available for the multilateral meeting, the discussion was necessarily fairly general. Nevertheless, there is no doubt that the basic message got across: do more to integrate your economies and the World Bank will help you more. As most of the delegations included officials at the forefront of the integration movement in their own countries, the message was received as a welcome sign of support and was well publicized when they returned home. Articles and editorials commenting favorably on the "push" given by Mr. McNamara to economic integration have appeared in the press of all Central American countries except Honduras. We have seen very little negative comment; the Salvadorean press complained about a "lack of understanding" of El Salvador's interest in integration but nevertheless lauded Mr. McNamara's call for concrete action in the field of integration. The question remains, of course, whether "concrete action" will be forthcoming. One test may be how the Governments react to the CABEI trust fund proposal. Given Mr. McNamara's appeal to the countries to tell us how we can work with CABEI, together with his assurances that our lending to CABEI would be designed to be additive to what they might expect on a bilateral basis, there probably would never be a better time for CABEI to try out this proposal. (CABEI will be sending a representative to Washington in mid-December to review a draft trust fund agreement with the Bank before presenting it to CABEI's Board of Governors for approval in January.) As for the bilateral meetings, most of them achieved about what had been expected -- an opportunity for the delegations to exchange of views with Mr. McNamara on issues under active discussion at the staff level. (An exception was El Salvador where the delegation did not react well to Mr. McNamara's questions.)

The Costa Rican meetings and field visits in general were well prepared by the Costa Ricans. President Oduber, thanks in large measure to the personal attention he gave to the arrangements, was able effectively to demonstrate, in a very brief period of time, how Costa Rica was achieving high levels of economic and social progress within a democratic framework. While it also was made evident during the visit that there is much room for

improvement in the area of development planning, this did not offset the general impression that the Costa Ricans were getting the job done and that investments being made and considered by the World Bank would redound to the benefit of the majority of the people.

Attachments

Cleared with and cc. Mr. Krieger

cc. Mr. McNamara's Office (2)
cc. Messrs. Knapp
Chenery
Clark
Baum
Knox, Director, LAC Projects
Lerdau, Director, LAC I (o/r)
de Vries, Chief Economist, LAC
Fernandes, Division Chief, LAC I
Division 1B

GFFlood/GDolenc:mdk

ITINERARY FOR MR. McNAMARA'S VISIT TO COSTA RICA

November 5-8, 1975

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10:30	Departure (by helicopter) for Rio Macho hydroelectric plant.
11:00	Arrival at Rio Macho.
(9:15-10:45)	The rest of the Bank Mission, accompanied by a small number of Costa Rican officials will leave Hotel Cariari by car and join President Oduber and Mr. McNamara at Rio Macho.
11:15-11:45	Meeting with the Management of ICE (National Power and Telecommunications Authority): - Ing. Alex Murray, Executive President; - Ing. Mario Hidalgo, Manager of Power Dept; - Ing. Rodrigo Suarez, General Manager; - Ing. Antonio Cañas, Manager of Telecommunications Dept; - Ing. Teofilo de la Torre, Chief of the Electrification and Planning Department and the Executive Director of the National Aluminum Commission. The ICE team will make a 30-minute presentation of past achievements and planned future activity.
12:00-13:30	Informal lunch at Rio Macho.
14:00-14:45	En route to San Jose, visit to the Nutrition Center at Orosi. Dr. Hernan Weinstock, Minister of Health, and Rene Castro, Program Coordinator, will provide information on the Government-sponsored programs of Family Allowances and Rural Health.
15:45-16:30	Visit to the headquarters of the National Apprenticeship Institute (INA), at the outskirts of San Jose. Lic. Fernando Volio, Minister of Education, and Lic. Danilo Jimenez Veiga, Executive President of INA, will provide information on the Government education and vocational training policies.
16:45	Arrival at Cariari.
17:15-18:00	Meeting with the Costa Rican Committee for Coordination of Economic Policy, including: - Lic. Porfirio Morera, Minister of Finance; - Lic. Jorge Sanchez, Minister of Economy, Industry and Commerce; - Dr. Oscar Arias, Minister of Planning; - Lic. Bernal Jimenez, Executive President of the Central Bank; - Dr. Fernando Naranjo, Coordinator General of the Ministry of Presidency, to review the results of the two-day visit.

18:00-18:30	Meeting with a group of private businessmen.
20:30	Dinner in honor of Mr. McNamara, hosted by Lic. P. Morera, Minister of Finance. (Hotel Ambassador. About a dozen distinguished citizens, including Ex-President Figueres, have been invited.)

Saturday, Nov. 8

7:00	Departure via LACSA 620 for Miami. (Departure from Cariari at 6:30.)
12:45	Departure for Washington via Eastern 190.

ANNEX II

Notes of Discussions

Mr. McNamara's Visit to Costa Rica, December 5-8, 1975

Multilateral Meeting

1. Mr. P. Morera, Costa Rican Minister of Finance, acted as Chairman of the meeting and delivered an introductory speech, the main points of which were the following:

(a) The development of middle-income Latin American countries is in jeopardy because of increasing difficulties in obtaining adequate financing; the problems are being further compounded by deteriorating terms of trade and world recession.

(b) In view of the above, there is a need for additional financing on concessionary terms, such as the Third Window.

(c) It would be desirable if the World Bank would take the initiative to create a mechanism which would eliminate intermediaries in international trade. Such a mechanism could include managing an institution which would store and sell primary products. Alternatively, the Bank could sponsor international agreements for marketing of certain goods, with the objectives of: (i) increasing the share of the producer in the price paid by the consumer; (ii) regulating global supply so as to stabilize producers' incomes; (iii) establishing a system of compensation for crop failures due to climatic causes, etc.; and (iv) increasing the export prices of the developing countries and thereafter adjusting them to changes in the terms of trade.

(d) If the redistribution of wealth in favor of the developing countries is not accomplished, the gap between the rich and the poor countries will continue to widen, contributing directly to exacerbation of the problems of absolute poverty; in this context, expanding the Third Window facility to Latin American countries would be a step in the right direction.

(e) The developing countries themselves ought to focus harder on the issue of the redistribution of wealth. One way of doing it would be to avoid or eliminate the regressiveness which is inherent in many fiscal systems of the developing nations. It would be useful if the Bank could organize a group to study this problem, since introduction of progressive fiscal systems is indispensable to a serious attack on rural poverty in the region.

(f) The Bank could consider acting as a guarantor for bonds issued by LDCs on the world market.

(g) The possibility should be examined of having 1/6 of the IMF gold transferred to the Bank, which could then use the gold for backing its bond issues and in this manner increase the funds available to LDCs.

2. Minister Morera then suggested that, given the limited time available, the main topic of the discussion to follow should be regional integration.

3. Guatemalan Minister of Economy, Lic. E. Palomo, pointed out that the problems of 1969 (Honduras-El Salvador conflict) did not allow the progress which the Central American Common Market (CACM) had achieved in the 1960's to continue and that only in 1974 has the situation started changing for the better. He stated that Guatemala is ready to enter into the next stage of integration, which would include not only trade, but involve "participation of all segments of CACM societies." Minister Palomo attributed considerable importance to the meetings of Central American Presidents which he said were occurring with increasing frequency and which he felt gave reason for optimism that the political obstacles hampering progress towards a restructured common market would be resolved. He also pointed out that Guatemala has a great, but yet unrealized, agricultural potential (and inadequate storage capacity) which could be developed to cater to the needs of the Region.

4. Minister Palomo also asked that the Bank provide technical assistance to various regional institutions, such as ICAP, ICAITI and SIECA. (ICAP has already contacted the EDI.)

5. Mr. McNamara responded first to the points raised by Minister Morera, explaining the status and limitations of the Third Window facility as well as growing resource constraint on the Bank itself. He requested that the countries present at the meeting support the Bank Management in its efforts to increase the Bank's capital--the latter being the only way for the Bank to continue making a meaningful contribution to the Development of the LDCs. Furthermore, Mr. McNamara requested advice from all delegations present as to how the Bank could more effectively help regional integration in fields such as food production, storage and processing, power interconnection, roads and ports, and any related studies. He also inquired as to how the Bank could support CABEI, given the Bank's statutory limitations which cannot be changed.

6. The President of the Honduran Central Bank, Lic. G. Bueso, stated that his Government is determined to continue supporting regional integration, although it is aware that a substantial restructuring of existing mechanisms is necessary if CACM is to be effective in sectors such as agriculture (where integration efforts so far have failed) or in the social sectors. He also mentioned that one of the issues would be how much authority should

be given to supra-national authorities. He pointed out that, given the Region's financial difficulties, additional financing would be needed to support stepped-up regional integration. In this sense, a stronger role for CABEI is acceptable to the Government of Honduras, provided that the funds which the Bank would make available to CABEI would represent an addition to what the Region would receive bilaterally. He also voiced his concern that Bank lending to CABEI could result in higher cost of funds to the CACM countries with doubtful gains in lending efficiency.

7. At this point Mr. McNamara again elaborated on the features of the Third Window reminding the delegates that any country has to be fully creditworthy to qualify for such loans. However, the total potential amount of Third Window funds available world wide was small and was not an answer to Central America's desires for an increased flow of resources to the Region. At present the most promising way for the Region to obtain additional financing would be to present to the Bank more regional projects. The latter possibility should be explored especially while there are limitations on Bank resources. Referring to CABEI, Mr. McNamara expressed his dissatisfaction with the lack of progress in negotiations between the Bank and CABEI and mentioned that, while it is impossible to change the Bank's Articles, some formula for allowing the Bank to work with CABEI should be possible.

8. Nicaraguan Minister of Economy, Lic. J. J. Martinez, emphasized the difficulties of Central American industry achieving a competitive position in third country markets and even within the Region. He stressed the importance of support by institutions such as the World Bank in strengthening regional and national financial and technical assistance institutions, many of which lacked the resources to do an adequate job. In particular, he requested (and so did Mr. R. Carillo, Costa Rican Vice Minister of Finance) that the Bank help regional institutions like ICAITI or ICAP (which are in difficulties), as well as participate in regional studies, such as power interconnection. Mr. McNamara replied that we were interested in considering such studies.

9. Minister of Planning of Panama (which is not a member of the Central American Common Market), Dr. A. Barletta, expressed concern about the Bank's use of per capita income criteria in allocating resources among countries. He said that per capita incomes were a function of accumulation of capital and of productivity while productivity was a function of scale, technology and specialization. Countries such as Panama were handicapped in their ability to increase productivity because of their small size. Export projects have to be given high priority at the same time that the countries attack urban and rural poverty. Instead of applying restructive allocation criteria, the Bank for the next several years should be considering ways of providing special help to many of the small countries of Central America and the Caribbean, including more local cost financing, longer grace periods and maturities, and with such help and major efforts by the countries themselves, many of these countries in

10-12 years could approach the "take-off" point. Finally, Minister Barletta suggested establishment of a working group of the Bank, IDB, CABEI, the Caribbean Development Bank and the countries of the Central America and Caribbean region to examine how external assistance might most effectively be mobilized to help the countries of the region achieve satisfactory growth with improved income distribution. Mr. McNamara said that he endorsed the self-help criteria for Bank support implicit in Mr. Barletta's statements and suggested that he discuss his idea of a working group first with the other countries--if they agreed to come forward with such a proposal, the Bank would be interested in considering it.

10. Mr. E. Ortez, Executive President of CABEI, submitted a document outlining alternatives designed to enable the Bank to lend to CABEI. He said that CABEI planned to submit soon ot the Board of Governors the "trust fund" alternative, i.e., one which would involve the Bank lending to each of the Central American Governments which would in turn place the proceeds in a trust fund to be administered by CABEI. He felt that in this manner CABEI could undertake a regional program of industrial, agroindustrial and tourism development, amounting to about $150 million over the next few years. He stated that CABEI has already started exploring the five Governments' reaction regarding an initial trust fund operation on the order of $30-40 million.

11. Mr. McNamara welcomed the document presented by CABEI and said that we would review it. He said that we were also ready to help other integration institutions such as SIECA. If we financed regional projects and studies, we would be able to lend more to Central America than would otherwise be possible. Our proposed lending to CABEI, for example, should be reagrded as additive rather than in substitution for what we might make available on a bilateral basis.

Bilateral Meetings

a) Guatemala

12. Mr. Lamport, Minister of Finance, pointed out that the Government of General Laugerud is determined to do something about the problems of rural poverty in Guatemala. Aware that the Indian population (which he said represents about 60 percent of the country's total) lives in a condition of absolute poverty and illiteracy, the Government is placing emphasis on agriculture and education. To promote these two sectors, the Government has sought external assistance (such as a $15.0 million small farmer credit loan from IDB) and has increased taxes (on coffee, sugar and cotton) and improved tax administration. Government revenues have increased from $134 million in 1973 to $204 million in 1974 and $340 million in 1975; a 10 percent increase (in real terms) in tax revenue is expected in 1976. He also mentioned that the Government Planning Council is preparing a program to strengthen cooperatives, which have been gaining momentum lately and in which President Laugerud is particularly interested. The Government would be anxious to receive Bank help for cooperatives, particularly in agroindustries.

13. Mr. McNamara expressed interest in supporting government initiatives in agriculture and rural development, said that he was pleased with the improved fiscal effort which he said was essential to an adequate development program, and stressed the importance of strengthening project preparation, which he said is usually an obstacle when we wish to expand lending in a particular country. He also inquired about the quantitative impact of those programs. The Guatemalans responded that in education the impact is already significant although not yet quantified. In agriculture, recent annual increases in production are estimated at about 10-15 percent, although no reliable measuring devices exist. (There is a possibility of crop estimation via satellite, to be financed by AID.)

b) El Salvador

14. Mr. H. Vieytez, Director of CONAPLAN, outlined the current economic situation of El Salvador: a 13 percent rate of inflation in 1975 (whereas there was none until 1971) accompanied by a local recession, felt in agriculture and industry alike (export-oriented industries have been particularly affected). He mentioned the expanding role of the public sector. The Government was giving priority to "agrarian transformation" and had taken actions recently in four areas where structural changes are needed: (1) capital structure - a state-owned banking system for agriculture has been created; (2) technology - a center for technological research and development has been created; (3) marketing - the financial capacity of the marketing agency has been expanded and an improved price support policy, particularly for basic grains has been adopted; (4) land tenure - a new institute has been created to redistribute land. Through these measures, the Government hopes both to increase agricultural production and improve income distribution.

15. Mr. McNamara invited the Government to send us a memorandum with a more detailed information on the above-mentioned institute. He was particularly interested in what kind of fiscal or other measures were intended to promote land reform and help expand agricultural output. He went on to say that Bank lending to El Salvador has been very low and he would like to know why we have been unable to work more with El Salvador. He stressed that El Salvador had serious development problems, and his impression was that lack of action by El Salvador on these problems was a main reason for the low level of Bank activity. He recognized that El Salvador has special difficulties -- a large population with very limited resources -- and the Bank was prepared to give special consideration to the country because of this, but the Bank would also expect a program and a real development effort. Mr. McNamara said that one matter of particular concern was regional integration, and he felt that El Salvador was not doing enough in this area.

16. Minister Martinez replied that El Salvador is more pro-integration than any other Central American country and lack of progress should be attributed principally to lack of will on the part of others. Minister

Vieytez added that El Salvador would like to see more administrative flexibility on the Bank's part and a less time-consuming process of project evaluation, as well as a more flexible interest rate policy.

c) Honduras

17. Mr. G. Bueso, President of the Central Bank, explained that reconstruction after the 1974 hurricane had not been completed when a drought struck; so that for the first time this year Honduras has had to import some $6 million worth of corn. Despite recurrent economic difficulties, the Government is determined to go ahead with its rural programs, while at the same time trying to develop its forestry and mineral resources (with a view to promoting exports thereof and using the proceeds for rural development).

18. According to a 1973 law, the landowners were forced to rent the land to tenants and so far 16 asentamientos have been established. With the expectations of the peasants increasing and their patience dwindling, the Government promulgated the Agrarian Reform Law (1975). However, the application of the law is still falling short of expectations, primarily because of the lack of financial and human resources. Meanwhile, private investment is lagging and capital flight is growing. The latter trends have made the Government more appreciative of the role which private entrepreneurs have to play. The Government presently estimates that about 10,000 families per year would need to be settled if the situation is to be kept under control, while its administrative capacity would permit handling no more than about 5,000 families per year (in plots of 5 ha and minimum investment of $3,000 per family). Revenues from the recently nationalized forests, together with planned new tax measures, should help finance a large part of the agrarian reform program. However, to go forward with the agrarian reform program at a pace rapid enough to keep the situation under control, they will need external technical and financial assistance. As far as the traditional agricultural entrepreneurs were concerned, the Government recognized that it had to devise incentives for them to increase investment rates.

19. Mr. McNamara said that he was prepared to consider, from his contingency fund, a special loan or credit to finance technical assistance for the agrarian reform program provided there was an adequate local organizational structure, counterpart personnel and counterpart resources. We would also give special priority to preparation and appraisal of projects for implementation of the agrarian reform program.

20. Mr. Bueso reviewed the history of the program loan application of a year ago and asked if the Bank would reopen consideration of a program loan. Mr. McNamara said that he lacked sufficient information on this matter to comment, but that we would look into it and he had an open mind about it.

d) Nicaragua

21. Minister of Economy Martinez informed Mr. McNamara that his Government is presently focusing on development of infrastructure, physical and social alike. There are several projects under preparation, for: rural education, a 45 MW geothermal development, rural airports, and feeder roads (some 3,000 km), for which Bank financing was desired.

22. Mr. McNamara responded that in principle rural roads usually have a high development potential, while for the geothermal project apparently more exploration and analysis is necessary. As for the airports, the Bank very seldom finances them, but it is too early to form an opinion about this particular project. He also made a reference to Nicaragua's heavy debt service burden and the need to limit commercial borrowing. Mr. Martinez replied that if the Bank did not lend for, e.g., the proposed geothermal project, the Government would have to borrow commercially. Mr. McNamara replied that the Bank wants to finance projects in Nicaragua, but we have to be sure that our loans can be repaid. If Nicaragua continues a high level of commercial borrowing, the Bank would not be able to lend.

e) Panama

23. In response to Mr. Barletta's query at the multilateral meeting, Mr. McNamara said that the Bank is prepared to consider lengthening the maturities on loans to Panama and will "think about" longer grace periods, but that the latter presents more difficult problems. As to the joint task force, which was also mentioned earlier, Mr. McNamara said that we would be prepared to consider the idea, but that it also depends upon the other countries (whose will to work together has disappointed him). He should first discuss his idea with the other countries, and if they agreed with it, then he should come back to us.

24. Mr. Barletta then mentioned that he is working on establishing a banking center, which would embrace some 72 banks operating in Panama (with capital of about $6 billion). The purpose would be to finance trade in Latin America, primarily by discounting acceptances. A $100 million guarantee fund would be established initially. Mr. McNamara responded that he would be willing to consider the proposal even though the Bank Board is generally against such schemes and suggested that Mr. Barletta send us a description of the proposal. Mr. Barletta said that he would bring a first draft of the proposal to the Washington CEPCIES meeting on Panama in December.

25. The Government's development program was discussed. Mr. Barletta said that Panama wished Bank help in mobilizing complementary financing for several large projects (a copper project, 2 hydropower projects, a pipeline and a container port) and also would like the Bank to raise the level of Bank lending (after the La Fortuna power project) to about US$30.0 million per year for the next three years. Mr. McNamara said that we would certainly be willing to help the Government raise complementary financing as

we want to strengthen Panama's access to world capital markets as far as Bank lending was concerned, Panama was already receiving an unusually high level of Bank support because of its strong development effort, and a very strong case would have to be made if he was to consider an increase in planned lending to Panama.

26. Referring to the Bank pipeline of projects, Mr. Barletta stressed that he would like to have the Bank appraisal mission for the La Fortuna hydro project follow the current schedule. Mr. Lerdau said that the problem was whether or not project preparation was sufficiently advanced to permit appraisal now. Referring to rural development, Mr. Barletta mentioned that the results of Government efforts so far are good, and some 20,000 families have benefitted from agrarian reform. At present, the Government is seeking IDB and AID assistance for the Borico integrated rural development project. He said that the Bank-financed livestock program was proceeding well, and Mr. McNamara responded that we hoped to be able to continue supporting it. Finally, Mr. Barletta asked if the Bank could finance the Colon Highway. Mr. McNamara responded that it would be possible if the project could be accommodated within the Bank's lending program.

f) Costa Rica

27. The Costa Rican delegation briefly touched upon the current economic situation, which they characterized as generally favorable, with Government stabilization measures taking effect and inflation, measured by the consumer price index, will be about 12-16 percent in 1976. Particularly encouraging was the fiscal situation, since the indebtedness of the Central Government with the Central Bank has actually decreased over the last two years.

28. The delegation then described a list of projects in which the Government was interested in obtaining Bank financing:

	External Financing	Total Cost
	($ million)	
- Urban development for Barrios del Sur de San Jose (housing and infrastructure, education, training)	$30-35	$50
- Urban transport	$16	$20
- Rural Development including small farmer credit, rural infrastructure (social and physical), agroindustry, small industry and artisan credit, vocational training, agricultural and marketing research, and assistance to the newly created Institute of Natural Resources	$30-40	$60

	External Financing	Total Cost
	($ million)	
- Tourism (a loan to Banco Central)	$15	
- Industrial Credit for small and medium industry (a loan to Banco Central)	$15	$30-$40

29. In addition to the above, Minister of Industry, J. Sanchez, informed Mr. McNamara of the status of the Aluminum Project. He said that the original project, estimated currently at $2,000 billion, is being scaled down to a more manageable size requiring an estimated investment of about $700 million, for which an investor has yet to be identified since the aluminum concession originally given to ALCOA has been rescinded. He requested that the Bank continue providing support as it has done in the past. Mr. McNamara said that we would be happy to discuss the project with the Government after it has been reshaped.

30. Mr. McNamara asked that the Costa Rican Government establish an order or priority for the various projects which it wished the Bank to consider. He said that Costa Rica's exceptional development performance warranted a very high level of Bank assistance, but that the proposals as presented at the meeting would call for Bank financing well in excess of what we could consider. He added that the Bank will reexamine its program in light of the priorities to be established.

31. In a subsequent meeting with the Costa Rican delegation, the Minister of Finance, P. Morera promised, following Mr. McNamara's request, to send a list to the Bank within three weeks specifying Government investment priorities and the proposed timing for projects for which Bank assistance would be sought. Mr. Morera also requested that the Bank establish an office in Costa Rica in order to help the Government in project preparation and to facilitate loan negotiations and project supervision. Mr. McNamara cited, as reasons militating against this proposal, the close goegraphical proximity of Costa Rica to Washington and the fact that to be useful such offices had to have a wide range of expertise available, which necessarily meant a large number of people. Mr. Morera said that the office might be set up so as to serve all of Central America. Mr. McNamara said that this would reduce some of the problems and that, while he could make no commitments, we would consider the proposal.

32. Asked about his impressions, Mr. McNamara said that, as regards the region, he finds the lack of political will to integrate very disappointing. As one way to remedy this he would like the CACM countries to give more support to CABEI. As regards the country, Mr. McNamara said that Costa Rica was exceptional. It had a strong democracy and was making the kind of economic and social progress that gave us confidence

that projects which the Bank financed would work to benefit the majority of the people. While improvement was needed in long-term investment planning, this should not be taken as affecting his over-all impression, which was very favorable and made him optimistic about the future development of Costa Rica.

h) Central American Bank for Economic Integration (CABEI)

33. Mr. Ortez, President of CABEI, said that his institution was working out the details of the proposed trust fund he had mentioned at the multilateral meeting. They planned to send a representative to Washington in mid-December to review a draft trust fund agreement with the Bank before presenting the proposal to CABEI's Board of Governors in January. He said that the Trust Fund was designed to operate in a way that would enable CABEI to allocate resources among the member countries in accordance with economic criteria regardless of how much each country had made available to the fund. He hoped to sell the concept to the countries with the argument that the fund should be looked at as representing one part of CABEI's operations and that the countries could expect an equitable distribution of CABEI's total resources. Mr. McNamara expressed the hope that the CACM countries would be agreeable to the trust fund plan submitted by CABEI and inquired how much CABEI could lend for industry every year. Mr. Ortez said that they estimated that they could lend US$30.0-US$40.0 million each year for industry and hoped for a first Bank loan of about US$15.0 million. An average industrial sub-loan would amount to about US$300,000-US$400,000.

i) Meeting with the Costa Rican Businessmen

34. A small group (list attached in Annex III), chosen by President Oduber, was introduced to Mr. McNamara. In response to his queries, they gave a basically favorable account of general business conditions now prevailing in Costa Rica. They explained that business has been booming partly as a result of advantages provided by the Central American Agreement on Fiscal Incentives, and partly also because of a comparative advantage over their Central American neighbors in terms of infrastructure development and a trained labor force. The group stressed the scarcity of investment capital in Costa Rica. They pointed out that the National Banking System's capacity to lend for investment purposes falls substantially short of the needs of the business community and inquired about the possibility of Bank lending for industrial development. Mr. McNamara responded that we have just completed an industrial sector review and would hope to discuss the conclusions of this review with the Government in the near future. Subsequently, we would hope to start preparing a DFC-type operation for Costa Rica.

PARTICIPANTS AT THE MEETINGS IN SAN JOSE NOVEMBER 6-7,1975

Guatemala

Lic. Eduardo Palomo	Minister of Economy
Lic. Jorge Lamport	Minister of Finance
Lic. Roberto Mazariegos	Manager, Banco de Guatemala
Lic. Fernando Andrade	Secretary, National Economic Commission
Arch. Federico Fahsen,	CONAPLAN

El Salvador

Sr. Rigoberto A. Martínez	Minister of the Treasury and Governor of the IBRD
Sr. Manuel A. Robles	Minister of Economy
Sr. Atilio Vieytez	Executive Director, CONAPLAN and Alternate Governor of the IBRD
Dr. Guillermo Quehl,	President, Banco Central de Reserva
Mr. Héctor A. Peñate,	Economist, Banco Central de Reserva

Honduras

Sr. Guillermo Bueso	President, Banco Central
Sr. Porfirio Zavala	Minister of Finance and Public Credit

Nicaragua

Gen. Gustavo Montiel	Minister of Finance and Public Credit
Lic. Juan J. Martínez	Minister of Economy, Industry and Commerce
Dr. Carlos G. Muñiz	Manager, Banco Central de Nicaragua

Panama

Mr. Nicolas Ardito-Barlleta	Minister of Planning and Economic Policy

Costa Rica

Mr. Porfirio Morera	Minister of Finance
Mr. Jorge Sanchez M.	Minister of Economy, Industry & Commerce
Mr. Bernal Jimenez	President, Banco Central
Mr. Rodolfo Silva	Ambassador of Costa Rica to the White House and the OAS
Mr. Rafael Carrillo	Vice-Minister of Finance
Mr. Fernando Narango	Coordinator General of the Ministry of the Presidency and Chief Economic Advisor to the President
Mr. Rodolfo E. Quiros	Deputy Coordinator General

CABEI

Mr. Enrique Ortez Colinderes	President

COSTA RICAN BUSINESSMEN MEETING WITH MR. MCNAMARA

Messrs. Walter Kissling, Manager and Owner of "Kativo" (paints & plastic)

Humberto Perez, Manager and Owner of "Scott Paper of Costa Rica"

Mario Esquivel, Air Transport

Juan Arrea, Rancher

Richardo Batalla Esquivel, Rancher

MEMORANDUM FOR THE RECORD

Visit to Costa Rica

November 6 & 7, 1975

November 6

Mr. McNamara met with the delegations from the five Central American countries and Panama in a plenary meeting (see separate memoranda from the Region for all the meetings in Costa Rica). All meetings took place in Hotel Cariari about 12 kilometers from San Jose. This first meeting concentrated on integration efforts in Central America. All the delegations expressed support for the Central American Development Bank (CABEI). At the end of the meeting, the President of CABEI, Mr. Ortez, submitted a proposal for channelling World Bank funds through CABEI for regional projects. Mr. McNamara said that we would study the proposal in the Bank. The most interesting talk of the morning was given by the Minister of Planning from Panama, Mr. Barletta. He stressed the special problems of middle-income countries and said that these countries deserved a large amount of assistance in a medium-term period to help in their take-off.

Mr. McNamara had lunch with President Oduber and visited slum areas in San Jose. Mr. McNamara later reported that the President himself had driven the car to the slum areas and obviously had been very well acquainted with the people living there. The slums were not nearly as bad as the ones we visited in Cartagena.

The newspapers reported that there was a demonstration against the Bank on the main square of San Jose at noon. I drove through the town at that time but did not see the demonstration. According to the newspapers, about 20 leftist students participated, carrying slogans like: "McNamara Increases Tariffs on Electricity," "McNamara Wants to Sterilize our Women." People paid little attention to the demonstration and no violence was involved.

Mr. McNamara met bilaterally with all the delegations in one of the hotel rooms in the afternoon. Planning in Costa Rica did not reach the heights of Colombia and I, therefore, spent most of the afternoon policing delegations in and out of the room. Two points deserve mentioning: (a) Mr. McNamara stressed the need for adequate project preparation by the Governments, and (b) he gave strong support to the rural development program in Honduras.

Mrs. McNamara spent the day with Mrs. Oduber, the President's wife. She runs a program for distribution of books to primary school children in Costa Rica. She and Mrs. McNamara visited four schools in the northern part of the country.

The Bank mission had dinner together in a small but very pleasant restaurant in San Jose.

November 7

Mr. McNamara went on a helicopter trip in the morning with the President. The rest of the mission joined them in Rio Macho to see the hydroelectric project. After a delightful but informal lunch, we visited the nutrition center in Orosi. It was charming to observe that even the President of the country could not make the children quiet during the lecture. After the lecture, we visited the church in Orosi which is the oldest in Costa Rica.

On the way back to the hotel, we stopped at INA (the National Apprenticeship Institute). Mr. McNamara was very impressed by the program and particularly by the fact that almost all graduates found employment immediately.

A final meeting with the Costa Rican delegation took place late in the afternoon. Mr. McNamara said that he had never visited a country like Costa Rica. He was very impressed by its informality, its democracy and its lack of an army. He said that he would recommend a lending program for Costa Rica that would be larger than for other countries of that size, because he was convinced that the funds lent to Costa Rica would benefit the majority of the people. However, he did stress that the investment program for Costa Rica was weak and asked the Government to submit a list of priority projects as soon as possible.

After the meeting with the delegation, we met with a group of businessmen from Costa Rica. Contrary to their colleagues in Colombia, they stressed that the climate for private investment was very favorable in Costa Rica.

Costa Rica is an extraordinary country: democracy works, development takes place and income distribution is less skewed than in other Latin American countries. Personally I was most impressed by the fact that Costa Rica does not have an army. This was illustrated by the very informal security arrangements made, again contrary to Colombia where the army was out in full dress to protect us. I think there is a lesson to be drawn for other small countries, particularly my own, in the Costa Rican attitude towards military expenditures.

In the evening a farewell dinner was given by the Minister of Finance. Among others the former President, Mr. Figueres, was present with his wife of Danish origin. The dinner was a delightful social affair, including a show by the folkloric ballet of Costa Rica. In his toast, Mr. McNamara stressed the example that Costa Rica could set for the world on democracy with growth.

SB
November 12, 1975

3.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Warren C. Baum

DATE: December 4, 1975

FROM: John K. Coulter and Daniel Ritchie, CGIAR Secretariat

SUBJECT: CATIE -- Visit of Dr. Elgueta

1. The Director of the Tropical Agricultural Research and Training Center (CATIE), Dr. Manuel Elgueta, has asked to meet with Mr. McNamara early next week to discuss CATIE's program. Mr. Burmester has requested a note on the Center.

CATIE's Program

2. The Inter-American Institute of Agricultural Sciences (IICA) has had a research station at Turrialba, Costa Rica since 1942, involved primarily in graduate training and some research. In 1973, the Center became an autonomous institute (CATIE), and its emphasis changed from training to research, particularly for the Central American zone. The training program continues, but under the academic responsibility of the University of Costa Rica.

3. The station covers about a thousand hectares at Turrialba; it has adequate laboratories for the existing program and very good library and documentation facilities. The research program follows three major lines: the management of tropical forest resources, agricultural production systems and milk and beef production systems. At the moment, the CGIAR is not supporting research on forestry or on milk production, so that only the agricultural production systems and the beef production program are relevant to the work of the international network.

4. The CG Secretariat has had no firsthand experience of CATIE on which to judge the quality of the research work, but reports have suggested that it is of mixed quality. There is agreement that CATIE could play an important international agricultural research role, first as a relay center for the international centers, second, as a means of strengthening national research programs in a number of small countries in Central America and third as a center for collection of germ plasm of important crops. CATIE has the largest collection of coffee varieties in the world and the International Board for Plant Genetic Resources has supported a proposal to establish a regional plant genetic resource center there.

5. CATIE's 1975/76 budget proposes expenditure of $1.24 million projected to rise to $1.8 million by 1979/80. The present budget would appear inadequate for the task which the Center has been set, but the situation will possibly worsen as IICA, which has provided a major part of the budget (up to $700,000 per annum) is progressively reducing its

support over 5 years to a level of $300,000. Other support comes from the Government of Costa Rica ($50,000 per annum), the Government of Panama ($10,000 per annum), and various donors supporting the scholarship program. FAO, U. K., and Germany finance restricted projects, valued together at less than $200,000 annually. It would appear that a considerable proportion of the financial support for the Center is on an ad hoc basis and consequently somewhat precarious.

TAC Review of CATIE

6. In July 1975, the Technical Advisory Committee (TAC) considered a possible association of CATIE with the CGIAR system. It noted the considerable resources of CATIE in land and buildings, and its potential importance in helping to strengthen research programs of small countries in Central America, thus fitting into the concept of a regional institute.

7. TAC considered, however, that before making any recommendation for CG support, several measures needed to be taken by CATIE. First, linkages to the countries of the region needed to be considerably improved, both in collaborative research and training activity and in terms of financial support. Links with international centers in the region also needed improvement. TAC also considered that the management and staff of the Center needed to be strengthened.

8. The Chairman of TAC subsequently reported to the Consultative Group meeting in July along these lines, suggesting that bilateral support for CATIE was worthwhile, but he did not recommend CG-sponsored support until the Center's management had been strengthened and stronger links developed with the countries of the region it was intended to serve.

9. The Chairman of TAC offered to CATIE, TAC's assistance in exploring ways of strengthening the Center. To our knowledge, CATIE has not yet approached TAC, nor has it contacted the CG Secretariat, to pursue this question.

cc: Mr. Burmester

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 6, 1976

FROM: Adalbert Krieger

SUBJECT: COSTA RICA: Briefing for your Dinner with Ambassador Silva

Economic Situation

1. As stated in the CPP for Costa Rica which you reviewed on April 7, 1976, the economic situation has been favorable recently, and the positive trends identified in 1975 have continued in the first months of 1976. Government measures implemented in 1975 which were designed to curb imports, promote non-traditional exports, boost domestic food production (and also substitute some food imports) have largely been successful. In addition, the Government has succeeded in slowing down inflation primarily through controlling monetary expansion and wage increases. It is presently estimated that in 1976 output should grow between 5-6 percent with unemployment not exceeding about 7 percent. Inflation, which reached over 30 percent in 1974 and 20 percent in 1975, is presently estimated at between 12-15 percent in 1976.

2. Favorable international prices for Costa Rica's traditional exports--especially coffee--in recent months have also given a strong boost to Government efforts. The deficit on current account, which amounted to about 16 percent of GDP (about $270 million) in 1974 and 10.5 percent of GDP (almost $220 million) in 1975, is likely to be further reduced in 1976 to about $150-180 million. Net international reserves, which stood only at about $30 million by end-1975 now exceed $60 million with prospects of further increase.

Political Situation

3. At present, the political parties are preparing for February 1978 elections. The opposition, which is fragmented, has criticised the Government's taxation policy as detrimental to the growth of the productive sectors. It is equally critical of the high level of spending for social and physical infrastructure. The Government has responded that under its management the country has avoided any significant setbacks in production and employment, while most of the world has gone through a period of recession. Further, in order to achieve one of its key political objectives, the Government has recently proposed to the Congress a tax reform bill which, among other features, would offer significant reductions for lower income tax payers, while closing loop-holes which until now have facilitated tax evasion on dividends. The labor unions support the Government's proposal, but business interests have, for the present, succeeded in blocking it in Congress. Some local political observers believe that

the Administration's failure to pass the bill would have a detrimental impact on its chances for winning the forthcoming election.

4. There has been some unrest recently in the Province of Limon (particularly in the provincial capital), which is the least developed of all Costa Rican provinces and has traditionally had high unemployment rates. The local political leadership has charged the Central Government with lack of support in solving the Province's economic problems, and has threatened to call a general strike. (The Bank is planning a Rural Development Project for Limon Province for 1980.)

Bank Lending Program

5. Ambassador Silva has always taken a very keen interest in projects and is therefore very likely to inquire about the current Bank lending program.

6. Following your visit to Costa Rica, where you recommended that the Government improve its long-term investment planning, we received (in January 1976) a list of four top priority projects for which Bank financing was requested. The list included (in order of priority):

	Estimated Total Cost equivalent	Requested Bank Financing
	(US$ million)	
1. Rural Development and Agricultural Credit	72.3	33.6
2. Improvement and Rehabilitation of San Jose Slum Areas ("Barrios del Sur")	87.4	35.3
3. Industrial Credit	39.4	20.0
4. Tilaran-Puerto Viejo Highway	50.0	35.0

7. We have discussed this program with the Costa Rican Minister of Finance as well as the other Ministers concerned and reached the following understandings:

(i) In general, all projects except the fourth-ranked highway project appear to merit Bank consideration. In fact, the Rural Development and Industrial Credit Projects were included in our lending program even before the Government had submitted the above-mentioned list. The second-ranked priority, Improvement and Rehabilitation of Slum Areas, will be partially included in the proposed Urban Transport

Project, presently scheduled for FY77. Not enough is known about the proposed highway project to permit a judgement as to its priority at this time.

(ii) In view of the lack of experience in Costa Rica with the implementation of projects such as Rural Development and Slum Rehabilitation, it was agreed that the Bank should at present consider loans smaller than those originally requested, albeit with a view to repeater operations if the initial operations are successful.

8. The above understandings were taken into account when formulating our lending program (approved 4/7/76), which includes:

FY77 $10.0 million Urban Transport Project scheduled for Board presentation in May 1977. This project would help improve transport and transit facilities in the Metropolitan Area of San Jose, with emphasis on improvement of public transport facilities. It would also include improvements in the slum area.

FY78 $15.0 million Rural Development and Agricultural Credit Project. The feasibility study has not yet been completed, and at the earliest the project could go to the Board in July 1977.

FY78 $15.0 million Sites and Services Project. Status identical to that of the previously mentioned project.

FY79 $15.0 million DFC Project.

FY79 $40.0 million Power III Project. (Reduced, at your request, from CPP proposal. Government list does not really consider projects beyond 1978, but we are anticipating that a power project will have to be undertaken by end-1978.)

The lending program for FY77-81 is attached.

Other Issues

9. Ambassador Silva may raise the issue of establishing a Bank office in Costa Rica, which was discussed during your visit. The Government would like to strengthen the project preparation capacity of its institutions, and believes that it would benefit from having Bank representatives in San Jose, even if, as we have suggested, such an office would have to serve all of Central America to be justified.

10. You may wish to respond that we ordinarily rely on UNDP to finance such offices within the framework of Bank/UNDP technical cooperation agreements. Given UNDP financial constraints, such an arrangement does not appear possible at present.

11. Ambassador Silva may also raise the issue of Bank support for a tourism project which is being promoted by the Central Bank. You may wish to respond that, from the little known about the project, it would seem more suitable for IFC than for Bank financing.

12. The Ambassador has been involved for a number of years in the preparation of the Aluminum Project, and he may inquire about the Bank's willingness to support it. At present the Government is continuing its efforts to secure a foreign partner for a joint venture under which the partner would construct the aluminum smelter and ICE (the government power company) would build the power project and provide electric energy. You may recall that at the CPP review, it was concluded that the Bank should be prepared to consider the power project if the foreign exchange gains accruing to the country from this project are found to be satisfactory by the Bank.

13. For your information, we are also attaching a copy of the last CPP and a biographical sketch of Mr. Silva.

Attachments

Cleared with and cc: Mr. Lerdau, Director, LAC I
Mr. Weissman, Acting Division Chief, LAC I

cc: Mr. Flood, Division Chief, LAC I, o/r

Attachment I
Revised April 7, 1976

1973 Population: 1.9 million; 2.6 percent p.a.
1973 Per Capita GNP: $710[1]
Area: 50,900 km²
Literacy: 89 percent adult population (1970)

COSTA RICA: ACTUAL AND PROPOSED OPERATIONS AND LENDING PROGRAM THROUGH FY81 *

(US $ million)

		Through FY68	Actual FY69	FY70	FY71	FY72	FY73	FY74	FY75	Current FY76	Program FY77	FY78	FY79	FY80	FY81	Total FY69-73	Total FY74-78	Total FY75-80	Total FY77-81	Reserve
Agricultural Credit II	IBRD					9.0														
Agricultural Credit & Rural Development	IBRD											15.0								
Rural Development (Limon Province)	IBRD													20.0						
Sites & Services	IBRD											15.0[2]								
DPC I	IBRD												15.0[2,4]							
DPC II	IBRD														15.0[2]					
Communications II	IBRD			6.5																
Communications III	IBRD					17.5														
Communications IV	IBRD							23.5												10.0(FY79)
Communications V	IBRD																			
Education	IBRD						6.2													
Highways III	IBRD			15.7																
Highway Studies	IBRD						1.4													
Highways IV (San Jose Highway)	IBRD									39.0										
Urban Transport	IBRD										10.0									15.0(FY81)
Feeder Roads	IBRD																			
Power III	IBRD			12.0																
Power IV	IBRD					6.5														
Power V	IBRD								41.0											
Power VI	IBRD												40.0							
Aluminum Enclave Program Power	IBRD											50.0								
Lending Program	IBRD	50.5		34.2		33.0	7.6	23.5	41.0	39.0	10.0	80.0	55.0	20.0	15.0	74.8	183.5	204.0	180.0	
	IDA	5.5																		
	Total	55.5		34.2		33.0	7.6	23.5	41.0	39.0	10.0	80.0	55.0	20.0	15.0	74.8	183.5	204.0	180.0	
	Number	9		3		3	2	1	1	1	1	3	2	1	1	8	8	8	8	
Commitment Deflator (FY74 $)			78.6	87.8	98.8	110.7	122.4	132.7	141.9	150.4	158.4	166.4	174.7	183.5	192.6	75.0	121.2	122.7	104.6	
Real Lending				39.0		29.8	6.2	17.7	28.9	25.9	6.3	48.1	31.5	10.9	7.8					

	Through 1968	Actual 1969	1970	1971	1972	1973	1974	Current 1975	Program 1976	1977	1978	1979	1980	1981	Total 1969-73	Total 1974-78	Total 1975-80	Total 1977-81
Commitments of Other Capital (CY)																		
Multilateral	n.a.	5.2	12.9	--	7.7	7.6	37.9	90.1	68.5	75.4	82.9	91.2	100.3	110.3	33.4	354.8	438.3	460.1
Bilateral	n.a.	13.2	20.7	1.1	2.0	5.4	17.5	43.4	42.3	41.5	40.7	40.2	40.0	43.4	42.4	185.4	204.7	205.8
Other Sources	n.a.	7.2	8.7	38.5	26.9	54.3	93.4	92.7	98.2	83.3	83.8	95.0	96.6	108.7	135.6	451.4	456.9	467.4
IBRD[3] o/s incl. undisb. (FY)	38.9	37.0	69.3	67.2	98.1	114.0	132.6	169.8	205.6	217.2	228.2	281.9	284.1	309.6	385.6	953.4	1217.0	1321.0
excl. undisb.	35.9	34.0	34.3	40.9	47.8	70.1	78.4	89.5	108.1	131.1	153.1	174.7	199.7	217.6	227.1	560.2	766.7	876.2
IBRD Gross Disbursements (FY)	52.5	--	2.2	8.7	9.0	13.9	13.3	11.7	21.9	26.3	26.1	27.8	32.8	27.4	33.8	99.3	134.9	140.4
Less: Amortization	11.9	1.9	2.0	2.0	2.1	2.1	2.7	2.7	3.4	3.4	4.2	6.3	7.9	9.5	10.0	16.4	25.2	31.3
Equals: Net Disbursements	40.6	-1.9	0.2	6.7	6.9	11.8	10.6	9.0	18.5	22.9	21.9	21.5	24.9	17.9	22.8	82.9	109.7	109.1
Less: Interest	9.0	2.0	2.0	2.3	2.8	3.6	4.7	5.5	6.9	8.5	10.4	12.2	14.3	16.2	12.7	36.0	52.3	61.6
Equals: Net Transfers	31.6	-3.9	-1.8	4.4	4.1	8.2	5.9	3.5	11.6	14.4	11.5	9.3	10.6	1.7	11.0	46.9	57.4	47.5
Total Net Disbursements (CY) (Bank and Other)	n.a.	7.4	8.4	33.2	39.6	39.9	76.5	138.7	137.7	120.5	123.4	133.3	133.2	138.9	128.5	596.8	648.1	649.3

1/ Calculated according to World Bank Atlas methodology.
2/ New project.
3/ As of end of fiscal year, excluding Aluminum Enclave project.
4/ [illegible] processed as a stand-by for the preceding fiscal year.
* Program submitted to Mr. Knapp in conjunction with current Bank-wide review of 5-year lending program. Includes reductions of CPP proposed program, decided at Management review.

Ing. Rodolfo SILVA Vargas - Ambassador to Washington

Ambassador Silva belongs to the younger generation of Costa Rican politicians. Unlike a number of politicians from President Oduber's Administration (or Mr. Figueres', during whose term Mr. Silva served as Minister of Public Works and Transport) who at one time or another were accused by the opposition of various improprieties, Mr. Silva's reputation for honesty and integrity so far remains untainted. He is viewed by local observers as a potential candidate for President sometime in the future.

Ambassador Silva has a degree in civil engineering from a U.S. university. He is married to an American.