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Washington, D.C.

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**PUBLIC DISCLOSURE AUTHORIZED**

McNamara Papers

Contracts  
Venezuela (1969-1974)

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Contacts with member countries: Venezuela - Correspondence 01

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WBG Archives

VENEZUELA

VENEZUELA

1. 9/12/69 Luis Vallenilla, President of ~~CAVENDES~~
- 10/3/69 General Rafael Alfonzo Ravard, President, Corporacion Venezolana de Guayana  
Ambassador Julio Sosa-Rodriguez
- 12/3/69 Dinner:  
(Caracas) Pedro Tinoco, Minister of Finance  
General Rafael Alfonzo Ravard, President, Corporacion Venezolana de Guayana. Governor of Bank for Venezuela  
Rodolfo Aristeguieta, Secretary of the Presidency  
Andres Boulton, industrialist  
Carlos Emanuelli, Director, Public Credit, Ministry of Finance  
Benito Raul Losada, President, Central Bank of Venezuela  
Oscar Machado Zuloaga, General Manager, La Electricidad de Caracas;  
Board Chairman of VIASA airline  
Eugenio Mendoza, industrialist  
Luis Enrique Oberto, Director, CORDIPLAN
2. 12/3/69 Pedro Tinoco, Minister of Finance  
(Caracas)
- 12/3/69 Argenis Bamboa, President, Steel Plant (SIDOR)  
(Guayana)
- " Lester Russell, Manager, Aluminum Plant (ALCASA)
- " Carl Hogberg, President, Orinoco Mining Company
- " Juan Andres Vegas, Urban Development  
Roberto Alamo, Regional Development  
Hector Font, Education
- " Pedro Palacios, Construction Manager, Guri Hydroelectric  
Rodolfo Telleria, Operations Manager
3. 12/4/69 Creole Petroleum Company:  
(Caracas) Federico Baptista, Director  
Guillermo Rodriguez Erazo, Director
4. " Jose Antonio Mayobre, Board Member, Boulton industrial group
5. " Hector Hurtado, former Director of CORDIPLAN
6. " Freddie Muller, First Vice President, Federation of Chambers of  
Commerce and Industry
- " Hans Neumann, President, Resimon factory
- " Luis Vallenilla, President, CAVEMDES
- " Dr. Arturo Uslar Pietri, intellectual. Senator, and Director of  
El Nacional, Caracas daily newspaper
- " Dr. Concepcion Quijada, Distribuidora de Algodon. Livestock raiser;  
former President, Federation of Chambers of Commerce and Industry

- 12/4/69  
(Caracas) President Rafael Caldera
- " Jose Curiel, Minister of Public Works
- " Miss Haydee Castillo, Minister of Development
- " Dr. Carlos Galavis, President, Banco de Desarrollo Agropecuario,  
coconut grower and cattle rancher
7. 7/2/70 Luis Vallenilla, President of CAVENDES
8. 11/12/70 Adolfo Linares, President, Andean Development Corp. (Bolivian; paper  
filed under Bolivia)(Corp. located in Caracas)
9. 6/9/71 Pedro Tinoco, Minister of Finance -- dinner at the Venez. Embassy
10. 10/8/71 Adolfo Linares, Executive President, Andean Development Corp.  
Enrique Vial, Vice President of Operations  
Carlos Barbery, Director of Operations
- 6/16/72  
(NY) Dr. Alberto J. Vollmer, Central El Palmar S.A., Caracas
11. 7/26/72 Antonio Casas, Head, Venezuelan Planning Agency  
Luis Ugueto, Minister Counselor, Venezuelan Embassy
- Roberto Gonzalez-Cofiño, Economist
12. 6/12/74 Hector Hurtado, Minister of Finance  
Manuel Perez Guerrero, Minister for International Economic Affairs  
Guillermo Pimental, Special Adviser to Mr. Hurtado  
Cesar Manduco, National Investment Fund
13. 8/13-15/74 Gumersindo Rodriguez, Minister of Planning  
(Caracas) Helly Tineo, General Director, Minister of Planning  
Hector Hurtado, Minister of Finance and Chairman of the Venezuelan  
Investment Fund Assembly  
Venezuelan Investment Fund:  
Carlos Guillermo Rangel, President  
Cesar Manduca, Vice President  
Marcel Curiel, Director  
Francisco Mendoza, Executive Secretary  
Juan P. Perez Castillo, Director  
Juan Vicente Amengual, Director  
Francisco Alvarez, Legal Advisor  
Alfredo Lafee, President, Central Bank of Venezuela  
Anthony Dubois, Legal Counselor, Central Bank of Venezuela  
Carlos Andres Perez, President of Venezuela  
Constantine Quero, Minister of Development  
Luis J. Oropeza, Minister of Agriculture  
Manuel Perez Guerrero, Minister of International Economic Affairs  
Juan M. Suere, Chairman, Finance Committee, House of Representatives


(Continued)

13. 8/13-15/74  
(Contd) (Caracas) Advisors to the Minister of Finance:  
Javier Pazas  
Guillermo Pimentel  
Eduardo Mayobre  
Eutenio Soler
14. 10/1/74 Gumersindo Rodriguez, Minister of Planning
15. 10/25/74 Juan Pablo Perez-Castillo, Director, Venezuelam Investment Fund  
Eduardo Wallis, Director, Venezuelam Investment Fund
16. 1/15/75 Hector Hurtado, Minister of Finance  
Guillermo Pimentel, Special Advisor to Mr. Hurtado
17. 4/16/75 Gumersindo Rodriguez, Minister of Planning  
8/25/75 Gumersindo Rodriguez, Minister of Planning and Chairman  
of the Annual Meeting, 1975  
1/6-10/76 Manuel Perez Guerrero, Minister of State for International  
(Dev.Cte., Economic Affairs  
Kingston)
18. 4/16/76 Manuel Perez Guerrero, Minister of International Economic Affairs  
12/15/76 Simon Alberto Consalvi, Ambassador to the UN  
(New York) (At luncheon hosted by Amb. Akhund of Pakistan)
19. 6/30/77 Hector Hurtado, Minister of Finance  
Roberto Guarnieri, ED, IMF
20. 9/30/77  
(Annual Meeting) Hector Hurtado, Minister-President of Venecuelan Investment Fund  
Roberto Guarnieri, Executive Director for Venezuela, IMF
21. 9/27/78 Annual Meeting Hector Hurtado, Minister-President of Venezuelan Investment Fund  
Guillermo Pimentel, Adviser to the Pres.  
Eduardo Mayobre, ED, IMF
22. 10/1/79 Belgrade Ricardo Martinez, Minister of Planning
23. 7/2/80 Humberto Calderon Berti, Minister of Energy  
Marcial Perez Chiriboga, Ambassador to the U.S.  
Ivan Sigurani, Minister Counsellor for Petroleum Affairs
24. 9/28/80 Annual Meeting Ricardo Martinez, Planning Minister  
Polo Cassonova, Advisor  
James Stone, Advisor  
Mr. Eduardo Mayobre, ED



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Martin M. Rosen 

SUBJECT: Luis Vallenilla of Venezuela

DATE: September 8, 1969

Dr. Luis Vallenilla, who is President of Cavendes, the development bank in Venezuela which IFC helped establish and in which we are an important shareholder, will be visiting here on Friday, September 12, to discuss some new activities which Cavendes is planning and which might involve joint operations with IFC.

He has asked for the opportunity to meet you, anytime on Friday, September 12, or Saturday, September 13, or would be willing to stay over to Monday, September 15.

He is one of the leading young Venezuelan businessmen, in his late thirties, and is quite close to the new administration. I think he will be a leading figure in the private community in Latin America for some time and may very well have an important public office, and so I believe ten minutes with him would be worthwhile.

4:30  
OK

9K  
OK  
MCM





December 17, 1969

MEMORANDUM FOR THE RECORD

VENEZUELA - Dinner Tendered by Mr. McNamara at Hotel Caracas Hilton  
December 3, 1969

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Attended by:

Mr. McNamara	
Mr. Machado	
Mr. Clark	
Mr. Wright	
Mr. Zinman	
Mr. Pedro Tinoco	Minister of Finance
General Rafael Alfonso Ravard	President, Corporacion Venezolana de Guayana (C.V.G.)
Mr. Rodolfo Aristeguieta	Secretary of the Presidency, C.V.G.
Mr. Andres Boulton	Leading industrialist
Mr. Carlos Emanuelli	Director, Public Credit Ministry of Finance
Mr. Benito Raul Losada	President, Central Bank of Venezuela
Mr. Oscar Machado Zuloaga	General Manager, La Electricidad de Caracas; Board Chairman of VIASA airline
Mr. Eugenio Mendoza	Leading industrialist
Mr. Luis Enrique Oberto	Director, CORDIPLAN

On December 3, 1969, Mr. McNamara invited a group of Venezuelan leaders to dinner for the purpose of obtaining their views on the economic problems and prospects of the country and to elicit their comments on how they saw the role of the Bank in Venezuela's economic development.

Mr. McNamara opened the discussion by giving his impressions obtained from reading about Venezuela, from his brief opportunity to see a part of the country, and from conversations with Venezuelan government officials and representatives of the private sector. He observed that the slower growth of petroleum output (3 percent per year) in the 1960's compared with the 1950's (6 percent per year) should be a cause for concern. He referred also

President has seen

to the fact that the ratio of oil reserves to output in Venezuela was very low compared to other petroleum-producing countries. The outlook for a further decline in the growth rate for petroleum, the low per capita income of the bulk of the population and the high unemployment rate, particularly in rural areas, would seem to make it imperative for Venezuela to take prompt action to generate new sources of income in support of government programs for economic development. He said his quick impression was that potential for development lay in agriculture, minerals, and possibly tourism. It seemed irrational to him that Venezuela should be importing large quantities of foodstuffs.

Mr. McNamara mentioned the Bank's policy of increasing substantially its total lending during the 1969-1973 period, particularly for agriculture and education. He then asked his Venezuelan guests to indicate to him their views on his remarks. He also informed them that the Bank had scheduled an economic mission for next February.

Mr. Boulton said he agreed fully with Mr. McNamara that diversification was urgently required, and that the fields mentioned by Mr. McNamara for development were the appropriate ones. He pointed out, however, that the minerals industry was not labor intensive and therefore would not help relieve unemployment significantly. He said, further, that under past and present conditions the unemployment problem had been severe only for unskilled workers: that there was in fact a shortage of workers with skills. He was surprised and pleased to learn that the Bank made loans in the field of education, and indicated that this might be a good way for the Bank to help Venezuela.

Mr. Uslar Pietri and Mr. Mendoza stressed the need to concentrate diversification efforts in only a few fields and agreed with Mr. McNamara that agriculture, minerals and tourism needed priority attention.

Mr. Machado Zuloaga agreed on the need to develop the non-petroleum sectors of the economy. He indicated, however, that there would be sufficient oil reserves if the Government would only take action to permit new exploration. He noted that there were good prospects for finding significant reserves of oil in the areas outside present concessions. He mentioned, in particular, the tar belt in the eastern part of the country and petroleum reserves in the Gulf of Venezuela in the west. He was concerned that, while there was general acceptance of the principle of service contracts, the Government had dealt with the matter much too slowly.

Minister Tinoco stated that there was a high degree receptivity now for the ideas expressed in the discussion: the need to take measures to "sow the petroleum," to use Uslar Pietri's phrase, was widely accepted, and the Government was now focussing on the development of agriculture, minerals and tourism.

Several of the guests raised the question of U.S. action on oil import quotas. Mr. McNamara responded by saying that it was recognized in the U.S. that national security was no longer an adequate reason for maintaining the

import quotas; and that Venezuela would probably obtain some benefit from the decisions which will emerge from the current review of oil import policy. He emphasized, however, that it would be imprudent for Venezuela to look for a long-term solution to its economic problems from that source considering the high cost structure in Venezuela's petroleum industry. Action was necessary to implement proposals for developing other sources of income, particularly in agriculture, minerals and tourism.

cc: Messrs. McNamara  
Knapp  
Aldewereld  
Clark  
Machado  
Alter  
Wyss  
Schmitt  
Evans  
Koch  
Fuchs

Bernard Zinman  
Western Hemisphere Department



December 17, 1969

MEMORANDUM FOR THE RECORD

VENEZUELA - Meeting with Creole Petroleum Company at the Hotel Caracas  
Hilton, December 4, 1969

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Attended by:

Mr. Federico Baptista ) Directors of the Creole  
Mr. Guillermo Rodriguez Erazo ) Petroleum Company

Mr. McNamara

Mr. Machado

Mr. Wright

Mr. McNamara explained his interest in obtaining as clear a picture as possible of the future prospects for petroleum production in Venezuela. The petroleum sector had provided the main stimulus to the country's economic growth in the past, but the rate of increase in petroleum production had slowed down considerably in recent years, and it looked as if Venezuela would have to rely very largely on non-petroleum sources for additions to its national income in future.

The Creole representatives said that Venezuela's exports of petroleum, which produced around \$1.3 billion a year in government revenues, were at present "supply-limited" - a change from the situation in the early 1960s when demand rather than supply was the main constraint on production. Ten years ago Creole had up to 7,000 undrilled wells, but the number was now only about 2,000, and these were marginal locations. The Company intended to drill 400 wells next year, as against 250 in 1969, in spite of the fact that marginal costs were rising. This could result in a very slight increase in Creole's production, which was currently running at 1.6 million barrels a day (b/d) or approximately 40 percent of Venezuela's total crude production of 3.6 million b/d. On the other hand, the other petroleum companies in Venezuela - principally Shell, which had 30 percent of the market, and Gulf - had practically no new wells left to drill on their existing concession areas, and their production therefore could be expected gradually to decline over the next few years. Thus, so far as the present concession areas were concerned, total petroleum production in Venezuela might be maintained at around 3.6 million b/d over the next four to six years, with a slight increase for Creole and a slight decline for the other companies. After this period total production would begin to trail off unless new discoveries were made. Shell was already being driven to turn to steam injection, which permits oil to be obtained faster, though probably does not result in any increase in the percentage recovered (Creole reckoned that steam injection raised costs of production by as much as 25-30 cents a barrel).

President has seen /..

December 17, 1969

The Creole representatives mentioned that the highest sustained level of crude production ever attained in Venezuela, in 1957 following the Suez Crisis, had been 3.8 million b/d, and they considered it unlikely that this rate would be exceeded in future, even if agreement were reached on service contracts. Costs of petroleum production in Venezuela were relatively high, averaging around 35 cents per barrel as against 10 cents per barrel in the Middle East. This was basically because wells in Venezuela yielded less (around 300 barrels per well as against 4,000-5,000 in the Middle East). About 75 percent of Venezuela's production came from the Lake Maracaibo area and 20 percent from the State of Anzoategui in the eastern part of the country.

Messrs. Baptista and Rodriguez then turned to the prospects for new discoveries of oil in Venezuela, and they identified four main areas where petroleum might be produced in future:-

- (a) South of Lake Maracaibo, where there were interesting possibilities, but the wells would have to be drilled very deep (10,000 to 14,000 feet) - the Companies had been invited to bid on service contracts for five blocks, one of which looked quite good, another promising and the other three less attractive;
- (b) the Gulf of Venezuela - much the most promising of the new areas, but temporarily locked out because of a territorial dispute between Colombia and Venezuela which affected one quarter of the area (the Creole representatives thought that there was a good prospect of a settlement being reached between the two Governments in the not too distant future);
- (c) off-shore areas around the Orinoco Delta, where the State-owned Venezuelan Petroleum Company (CVP) was just beginning seismic work; and
- (d) the tar sands of the Orinoco, where there were huge deposits, but probably not more than 2-3 percent could be recovered, and no one knew what the costs of recovery might be (Creole was studying the area as a long-range research project).

The Creole representatives expressed concern over the delay in agreeing on service contracts and said that it was very doubtful if these contracts, on the basis now proposed by the Venezuelan Congress, would attract any takers in the current round of bidding for the south of Lake Maracaibo.

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A significant gap existed between the minimum terms suggested by Congress and the best bids so far offered. Creole had put in a bid, but it was not a very serious one, and only some of the smaller companies (Occidental was mentioned) were likely to be interested. The main trouble was that the Venezuelan Government during the past ten years had concentrated mainly on increasing its tax take and not on expanding production (royalties and taxes now worked out at about \$1 per barrel and accounted for 72 percent of the total profit made on producing crude oil in Venezuela). Even if agreement could be reached quickly on the service contracts - and the Creole representatives seemed to think this unlikely - it would take at least three years to develop new production. The existing oil concessions expired in 1983.

Apart from new exploration under service contracts, the Creole representatives said that liquified natural gas (LNG) offered the best possibilities for increasing Venezuela's income from the petroleum sector. Creole had returned a lot of gas to the ground, and other companies were doing the same (85 percent of the gas in Anzoategui was being returned). However, there was a question whether Creole had the right to exploit the gas since CVP was supposed to have a monopoly in this field. A year or two ago Creole had put together a project for the supply of 600 million cubic feet a day of LNG to the United States, which would involve investing as much as \$130-150 million in Venezuela alone, in addition to the cost of tankers and receiving facilities. This would not be a particularly attractive proposition, however, if the life of the project was limited to the 15 years which the present concessions still had to run - and this was always a danger, even if the right to exploit the gas was granted. Meanwhile, Philadelphia Gas had been talking with CVP about going into business "from the plant to the market-place" with the objective of delivering gas to the United States at 35 cents per thousand cubic feet laid down. Creole had just been approached about the possibility of supplying gas for this project, but they were not interested in selling at give-away prices, and they considered the 35-cent figure quite unrealistic. Algerian Gas was being laid down on the east coast of the United States at a price of 55 cents, of which 15-18 cents was accounted for by transport. In Creole's view, the minimum realistic figure for LNG from Venezuela would be in the range of 40-45 cents. There were considerable possibilities here, since the likely increase in demand for LNG in the United States market would absorb one 600 million cubic feet a day plant annually. The Venezuelan Government might earn around \$30 million a year from a project of this size, and this would help to compensate for the expected decline in income from petroleum.

Another project in which Creole had been interested was for the use of natural gas for the concentration of iron ore. A \$50 million project had been put together, and talks had been held with the Guayana Corporation of

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December 17, 1969

Venezuela (CVG) on terms which would have provided the Company with an accelerated tax holiday, while CVG would have had an option to take a 25 percent equity interest in the venture for a period of one year after start-up. A pilot plant had indicated the possibility of achieving a 92 percent concentration of iron ore by use of a special process which Standard of New Jersey had developed (as compared with the 86.5 percent which the Orinoco Mining Company was aiming at in the ore concentration plant now being built in Ciudad Guayana). However, Creole had not gone ahead with the project because they had had to pay around \$80 million in back taxes to the Government, and they were also investing \$120 million in a desulphurization plant, and this left them short of funds. The Creole representatives suggested, however, that the project might be revived in future.

Mr. McNamara enquired about the possibilities for mineral development in the Guayana region. Messrs. Baptista and Rodriguez said that the main problem here was the Government's refusal to open up the region to private exploration. This policy had been established ten years ago by the then Minister of Mines, Mr. Perez Alfonso, and it was now 25 years since there had been any private exploration. The Government had meanwhile been carrying out its own investigations, but its method of operation was not calculated to encourage aggressive commercial exploitation.

cc: Messrs. McNamara  
Knapp  
Aldewereld  
Alter  
Clark  
Ross  
Schmitt  
Machado

E. Peter Wright  
Western Hemisphere Department



December 17, 1969

MEMORANDUM FOR THE RECORD

VENEZUELA - Meeting with Mr. Jose Antonio Mayobre at the Hotel Caracas Hilton  
December 4, 1969

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Attended by:

Mr. Jose Antonio Mayobre - Board Member, Boulton industrial group, former Secretary General of ECLA; Minister of Mines; ED in IMF; and Ambassador to U.S.

Mr. McNamara

Mr. Machado

Mr. Wright

Mr. McNamara explained the purpose of his visit to Venezuela and asked about the prospects for future economic development and diversification away from petroleum. Mr. Mayobre was more optimistic about prospects for petroleum developments than the Creole representatives who had met with Mr. McNamara earlier in the day. He expressed his confidence that agreement would be reached within a few months on service contracts for petroleum exploitation; south Lake Maracaibo would be the first area to which the new arrangements would be applied, but the prospects for finding oil were much better in the Gulf of Venezuela, where a small question of territorial waters had to be settled first. At least three years would be required before new production could begin under service contracts, and during this period Venezuela's petroleum exports would not grow by more than one percent a year. The official figure of Venezuela's proved petroleum reserves was 17 billion barrels, but this was a very conservative figure, and 25 billion was not an unreasonable estimate.

Mr. Mayobre emphasized the importance of Venezuela making better use of its gas (Associated Gas in the Maracaibo area, Free Gas in the east). So far, industrial uses had been very limited, and the petrochemical industries had not got off the ground; three years ago, for example, a project for a large ammonia plant had been dropped because of the fall in prices. Mr. Mayobre considered that prospects for the export of liquified natural gas to the east coast of the United States were very promising, and he referred to discussions that were going on with Philadelphia Gas and to a study being undertaken by Columbia Gas; gas re-injected by Creole in the Lake Maracaibo area was a possible source of supply.

However, Mr. Mayobre agreed that Venezuela could no longer look to the petroleum sector for its main impetus to growth, and it was most important that exports should be diversified. He saw considerable possibilities in tourist development, and referred to a proposal under consideration for a chain of new

President has seen

December 17, 1969

hotels to be built by the Boulton group, with which he was associated, in association with Spanish hotel interests. Mineral development was also, in Mr. Mayobre's view, a promising field for expansion. He referred to the Orinoco Mining Company's project for using natural gas to produce iron ore briquettes, and said that Venezuela might be able in future to produce steel competitively. If industrial uses were developed for low quality bauxite Venezuela could be an important source of supply. The Venezuelan Government was currently engaged in mineral exploration on an extensive scale. Deposits of silver, lead and zinc had been found in the Andes which might have commercial possibilities, and a project for mining nickel forty to fifty miles west of Caracas was under discussion with the French company Le Nickel (the deposits so far discovered could be sufficient to produce 10,000 tons a year for twenty years).

Mr. Mayobre then turned to agriculture, which had achieved a rate of growth of over 6 percent a year over the last ten years, mainly in the private sector. Agrarian reform had diverted resources away from the private sector, but the establishment of the new Banco de Desarrollo Agropecuario would help to correct this situation. Apart from traditional crops such as sugar, coffee and cocoa, there were promising opportunities for expanding production of oilseeds, vegetables and tropical fruits. Venezuela should also be able to reduce its dependence on imports of animal feedstuffs. Good progress had been made during the past twenty years in building up livestock production, especially in the Acarigua area, and here too there was plenty of scope for further expansion, particularly as 200,000 head of cattle a year were being smuggled into Venezuela from Colombia (this traffic could be stopped as domestic supplies increase to meet local demand).

cc: Messrs. McNamara  
Knapp  
Aldewereld  
Alter  
Clark  
Ross  
Wyss  
Zinman  
Schmitt

E. Peter Wright  
Western Hemisphere Department

5

December 16, 1969

MEMORANDUM FOR THE RECORD

VENEZUELA - Meeting with Mr. Hector Hurtado at the Hotel Caracas Hilton  
December 4, 1969

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Attended by:

Mr. Hector Hurtado - Former Director of CORDIPLAN

Mr. McNamara

Mr. Machado

Mr. Zinman

(Mr. Hurtado was Director of the government's economic planning organization during the administration of President Leoni from 1964-1968. A prominent figure in the Acción Democrática (AD) Party, he held cabinet rank and was the main economic advisor to the President. He is still influential as an advisor to AD which is the leading opposition party.)

Mr. McNamara asked Mr. Hurtado for his views on economic development priorities under present conditions in Venezuela. Mr. Hurtado replied that agriculture and tourism held the greatest potential, particularly as sources of employment. He estimated unemployment to be over 10 percent of the labor force in urban centers (mainly Caracas) which had suffered, over the past 15 years, from an influx of unemployed and underemployed workers from the rural areas of the country.

Mr. Hurtado repeated to Mr. McNamara an oft-mentioned remark made by him to members of Bank staff with whom he was the main contact in the Government during the 1964-1968 period: that Bank assistance was important as much to improve the administration of borrowing agencies in Venezuela as for the finance itself.

According to Mr. Hurtado, a priority need, in view of sluggish trend in revenues from petroleum, is tax reform (Mr. Hurtado was the architect of the 1966 tax program which was watered down by the Congress to increase the burden on the foreign oil companies).

cc: Messrs. McNamara  
Knapp  
Aldewereld  
Alter  
Clark  
Wright  
Ross  
Wyss  
Schmitt

Bernard Zinman  
Western Hemisphere Department

*President has seen*

6

December 17, 1969

Mr. McNamara:

to see

see  
12/17

MEMORANDUM FOR THE RECORD

VENEZUELA - Mr. McNamara's Visit, December 1969

Mr. McNamara visited Venezuela from December 2 to December 5. He was accompanied by Dr. Machado and by Messrs. Clark, Wright, Christoffersen and Zinman.

On Wednesday, December 3, Mr. McNamara visited the Guayana region in southeast Venezuela. While there, he toured Ciudad Guayana and visited Orinoco Mining Company's iron reduction plant now under construction; and Aluminio del Caroni (ALCASA), the aluminum plant jointly owned by the Corporation Venezolana de Guayana (C.V.G.) and Reynolds Aluminum International Company. He also visited the Guri Hydroelectric Project which was financed, in part, by a Bank loan (353-VE). After flying back to Caracas on the same evening, Mr. McNamara was host at a small dinner attended by government, business, press and political leaders.

On Thursday morning, December 4, Mr. McNamara met in separate meetings with Mr. Guillermo Rodriguez Erazo and Mr. Frederico Baptista, Directors of the Creole Petroleum Corporation; Mr. Jose Antonio Mayobre, former Secretary General of ECLA, Minister of Finance, Minister of Mines, Executive Director of the IMF, and Ambassador to the U.S.; Mr. Luis Vallenilla, President of Compania Anonima de Desarrollo Venezolana (CAVENDES), which has received a \$7.5 million loan from IFC and in which IFC has a 15 percent interest; Mr. Hector Hurtado, former Director of CORDIPLAN; and Mr. Freddie Muller, First Vice-President of the Federation of Chambers of Commerce and Industry. After meeting with the foregoing Venezuelan representatives, Mr. McNamara met with the Minister of Finance, Mr. Pedro Tinoco, who accompanied him to the residence of the President of the Republic, Dr. Rafael Caldera, with whom he and Dr. Machado met privately. The President then tendered a luncheon in honor of Mr. McNamara which was attended by the Cabinet members and leaders representing government, labor, agriculture and industry.

On the afternoon of December 4, Mr. McNamara and party traveled by car to Valencia in the west where they visited the Protinal animal feed plant.

On the morning of December 5, Mr. McNamara traveled by air from Maracay to Acarigua where he visited the cattle farm of Mr. Concepcion Quijada and a sugar mill nearby. Mr. McNamara and party departed by air from Acarigua to overfly the southwestern part of Venezuela where he saw part of the Second Highway Project (Loan 390-VE) between Barinas and San Cristobal, and the surrounding livestock and agricultural areas. Traveling by air towards the city of Maracaibo, they overflew the petroleum fields in and around Lake Maracaibo, and after landing at Maracaibo, they departed by air for Mexico at 5 p.m.

cc: Messrs. McNamara      Clark  
                                 Knapp      Machado  
                                 Aldewereld

Bernard Zinman/E. Peter Wright  
Western Hemisphere Department

President has seen



December 16, 1969

MEMORANDUM FOR THE RECORD

VENEZUELA - Meeting with Mr. Freddie Muller at the Hotel Caracas Hilton  
December 4, 1969

---

Attended by:

Mr. Freddie Muller - First Vice-President, Federation  
of Chambers of Commerce and Industry (FEDECAMARAS)

Mr. McNamara

Mr. Machado

Mr. Zinman

Mr. McNamara opened the discussion by giving his impressions: Venezuela needed to diversify its economy in view of the stagnation of petroleum even though that industry would undoubtedly remain the most important one in Venezuela for some years to come. Mr. Muller agreed but added that the future of the economy would be in no danger if the Government had acted on the service contracts instead of procrastinating for the past ten years on important decisions relating to the proposed contracts. He felt that service contracts might not be the ideal arrangement but, since this was the form adopted, definite action is urgently required.

Mr. Muller then indicated his (and FEDECAMARAS') opposition to Venezuela's entry into the Andean Group along with Bolivia, Colombia, Chile, Ecuador, and Peru. He referred mainly to Venezuela's high cost structure and the fear of competition. He insisted that the Government (and particularly Mr. Hurtado, former head of CORDIPLAN and a leading proponent of Venezuela's participation) did not understand the difficulty: that competition from producers in the other Andean countries would ruin Venezuelan industries. He added that Venezuelan industry, led by the powerful FEDECAMERAS, would not accept entry into the Andean Group unless "complementarity", instead of competition, were made the rule, i.e., only if selected industries were assigned to specific countries which could be protected by all members of the Andean Group. In reply to Mr. McNamara's inquiry on what industries he was thinking of, Mr. Muller singled out petrochemicals.

McNamara

cc: Messrs. Knapp  
Aldewereld  
Machado  
Alter  
Clark  
Wright  
Ross  
Wyss  
Schmitt

Bernard Zinman  
Western Hemisphere Department

President has seen



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: William Diamond *W.D.*

SUBJECT:

DATE: July 2, 1970

You will meet, this morning, Mr. Luis Vallenilla, President of CAVENDES.

As you will see from the attached curriculum vitae, he is 42 years old, and was trained in both law and economics. He has been associated throughout his active life with Eugenio Mendoza, one of the most important of Venezuela's businessmen and industrialists, who also wields considerable political influence. From 1960 to 1964 Vallenilla was President of the Corporacion Venezolana de Fomento, Venezuela's official development bank.

At our Annual Meeting in 1961, while Vallenilla was still President of CVF, he raised with Rosen the question of establishing a private development bank. He was the principal promoter with whom we worked in bringing the company into existence, in 1963. Its first President was Mendoza himself; but in 1964 Mendoza resigned and Vallenilla left CVF to become President of CAVENDES. He is also a member of the boards of various companies associated with the Mendoza group. He recently entered politics, and was elected a member of the Chamber of Deputies in 1969.

Vallenilla is an energetic promoter who has a finger in many pies. He has brought to CAVENDES energy and connections rather than industrial or investment expertise, for which he has relied very heavily, both on members of the Board and on his small staff. Nevertheless, he has a very good reputation in, and holds the confidence of, both Venezuelan and foreign private business circles, and the government. He is ambitious, imaginative and able.

You will recall the main issues raised in connection with the recent CAVENDES loan:

- (a) relatively low profitability so far, the result of low spreads, inadequate leverage and high administrative expenses;
- (b) insufficient attention to new enterprises;
- (c) the necessity to promote the sale of CAVENDES' bonds, arrangements for which were an essential part of IFC's new loan and standby;
- (d) insufficient staff to handle the expected large volume of business.

President has seen

Having said the foregoing, however, the fact remains that CAVENDES has established itself as an important private source of finance in Venezuela and has done much in pioneering underwriting and distribution of corporate bonds. Most of us here have the conviction that CAVENDES' long-term future rests, not with being a relender of borrowed funds, which has in fact been the main use of its resources so far, but in being an investment bank providing financial services and in underwriting and distributing securities.

Attachment

IFC equity investment	\$1.3 million
first loan	7.5 million
( second loan	5.0 million
( standby	5.0 million

CURRICULUM VITAE

Luis Vallenilla

DATE AND PLACE  
OF BIRTH

Born in Caracas, Venezuela; December 12, 1928

FORMAL  
EDUCATION

Doctor in Law, University of Maracaibo, 1952  
Doctor in Jurisprudence, Cum Laude, University of  
Rome, 1953  
Doctor in Economics, University of Caracas, 1957  
One year training at Harvard Business School (1953-1954)

PROFESSIONAL  
POSITIONS HELD

General Manager of Financiera Mendoza, 1956-1966  
Member of the Board of Banco La Guaira; also of Banco La  
Construcción; some years during that period (1956-1960)  
President of Cover CA (reinsurance company, some years  
during that period)  
President of Corporación Venezolana de Fomento (1960-1964)  
Member of the Board of Banco Central de Venezuela (1960-1964)  
President of CAVENDES since 1964  
Member of the Board of Inversiones Mendoza (since 1964),  
of Productos Efe S.A. (since 1966), of Protinal C.A. (since  
1967)

POLITICAL  
POSITIONS

Member of the Venezuelan Congress (Camara de Diputados)  
since 1969.



8

Memorandum for Record

November 13, 1970

Gerald Alter

Meeting of Mr. McNamara with Mr. Adolfo Linares,  
President of the Andean Development Corporation

Mr. McNamara met on November 12, 1970 with Mr. Adolfo Linares, President of the Andean Development Corporation, and Mr. Enrique Vial, Vice-President (see my briefing memorandum of November 10, 1970). Mr. Linares described the set up of the Andean Development Corporation and its major objectives. He emphasized that they were proposing to concentrate on the industrial sector with particular reference to projects of multinational significance. He feels the Andean Development Corporation has a special capability for action on multinational projects and, in cooperation with the Board set up under the Act of Cartagena, they may also become involved in industrial planning and programming. They have a clear mandate from the governments of the region to identify, promote, and finance industrial projects which will contribute to the economic integration of the area.

They have already made an inventory of projects in the region as the result of the work of a mission which has recently returned from visits to each country. The report of this mission will be made available to the World Bank. It was agreed that the Andean Development Corporation would designate a member of their staff to have further discussions with the World Bank on possible areas of collaboration. Mention was made of the possibility of providing some assistance in pre-investment work and project preparation. It was noted that the World Bank and IFC already are involved in financing industrial development through the industrial development banks in Colombia, Ecuador and Venezuela. Some of the projects may well lend themselves to World Bank financing through these channels.

Some attention is being given also to infrastructure and transport services directly related to industrial projects. This is particularly true of the less developed countries in the region, namely Ecuador and Bolivia. In these countries also industrial projects of strictly national interest in the short-term are considered suitable for the Corporation's attention. In the infrastructure field, mention was made of power projects in Ecuador. (It was not clear why the Andean Development Corporation need concern itself with this sector, in view of the availability of finance from other sources.)

During the course of the discussion, mention was also made of their interests in promoting a steel project of an economic size in the area. The World Bank has recently held discussions with the Venezuelan authorities on possible involvement in the steel sector in Venezuela.

cc: Messrs. Gutierrez, Fuchs, Diamond, Skillings, Frost, Zinman,  
Dosik, Wyss, Guerra.

GAlter:pa.

9



Mr. Christoffersen

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 8, 1971

FROM: E. Peter Wright *EPW*

SUBJECT: VENEZUELA - Your Dinner with Minister Tinoco

1. Dr. Pedro Tinoco, Minister of Finance, whom you met in Venezuela, is the only member of President Caldera's Cabinet who is not a COPEI party member. A prominent lawyer and banker (associated with the Banco Agricola y Mercantil, a subsidiary of Chase Manhattan), he has emerged as a principal leader of Venezuela's business community, heading the "Desarrollista" group - a loose association of politically independent businessmen. Dr. Tinoco has worked consistently and with a fair degree of success on improving the quality of government expenditures and has instituted stricter controls on autonomous institutions and government enterprises. He has, however, been rebuffed by Congress in an effort to establish a tax reform substantially along the lines of last year's Bank mission recommendation and, more recently, has been under attack on his programs for new investments to be carried out with additional oil revenues. In spite of this, Dr. Tinoco is much the most effective member of President Caldera's very weak economic team.

2. I am attaching for your information a copy of Mr. Gutierrez' memorandum of May 6 to Mr. Knapp summarizing recent economic developments and proposing some modification of our lending posture towards Venezuela. During his most recent visit to Venezuela, Mr. Gutierrez found that no progress has been made by the Government in defining its industrial policies. We shall pursue this matter in the context of our forthcoming economic review (now advanced to August/September 1971). Meanwhile, IFC has responded to Dr. Tinoco's request for assistance toward developing Venezuela's capital market with a visit from Mr. Gill who has since reported his findings in some detail to Dr. Emmanuelli, the Director General of Finance in the Finance Ministry.

*W  
6/4*

3. As you know, we are dealing in Venezuela with a rather ineffectual Government, which has not yet been able to obtain Congressional approval of legislation authorizing the telecommunications entity to borrow from the Bank. The Senate yesterday, once again, set aside the discussion of the draft law for our telecommunications loan under the pretext that Government had failed to provide enough information on the public credit situation of the country. If we are to present the telecommunications loan to the Board this fiscal year, Congress will have to approve the law by early next week, and the Central Bank and Cabinet will have to provide their approval immediately thereafter. You will no doubt wish to speak your mind on this subject to Minister Tinoco.

Unless the Government is readier to exercise its authority in such matters, we may face similar problems with the livestock, airport,

June 8, 1971

Metro and education projects included in the lending program for FY 1972. The Bank has gone out of its way in responding to the present Government's request for assistance with these projects, and a great deal of our staff time has been invested in working on them. We want to stay with them, but only if Venezuela has a serious interest in pushing vigorously ahead with its economic development. On the livestock project, which has already been appraised, legislation authorizing the Government to guarantee the proposed loan to the Banco de Desarrollo Agropecuario has been submitted to Congress recently. On the Maiquetia Airport project, which we have also appraised, draft legislation for creating an airport authority was submitted to Congress a month ago. You might tell Minister Tinoco that we are prepared to negotiate these two loans as soon as the respective laws have been approved by Congress. The present session of Congress is scheduled to finish in early July, although we understand that it may be extended for another month. We would expect the two laws relating to the livestock and the airport projects to be approved during this session.

Attachment

cc: Messrs. Knapp  
Gill  
Gutierrez (o/r)

MSchloss/HWyss/EPWright:fas

Mr. J. Darke Knapp

May 6, 1971

Edgar Gutierrez

VENEZUELA: Lending Program

Introduction

1. We prepared a lending program for Venezuela last fall on the basis of the findings of an economic mission which had visited Venezuela during the first half of 1970. The principal conclusion of the mission's report (circulated to the Board in October 1970) was that Venezuela faced a fundamental fiscal and balance of payments problem, and that a major tax reform and an export diversification program were essential to deal with this two-pronged problem. An increase in petroleum taxes in December 1970 and, even more, a recent price gain obtained by petroleum-exporting countries have greatly changed the immediate economic outlook. The annual GPP for Venezuela is scheduled for discussion in August. In that context I shall present in some detail the new situation. However, I have felt that the recent changes have been sufficiently important for this immediate brief which is based on a short field visit by our staff and a series of discussions which I had recently in Caracas with the principal representatives of the Government. The memorandum summarizes my conclusions on the new situation and makes proposals for certain amendments to our lending program.

Economic Situation

2. Since last fall the short-term prospects for the petroleum sector and thus for the economy as a whole have improved dramatically. A petroleum tax increase was enacted by Congress in December 1970, yielding Bs.439 million in taxes accrued in 1970 (1 bolivar equals US\$23), and in March 1971 the average reference price for crude petroleum exports was increased from \$1.78 to \$2.58 per barrel, with comparable changes in the prices of refined exports, yielding additional revenues to the Central Government estimated at Bs.2.1 billion in 1971 and Bs.2.7 billion in 1972 (assuming no further change in the petroleum reference price in 1972). As a result, estimates of central government revenues for 1971 and 1972 are increased by 25% and 31% respectively, compared with the 1970 Bank mission projections of government revenues with no tax reform. The need for new taxes in the non-petroleum sector is thus postponed. The tax increases foreshadowed in the economic report were in fact incorporated in a tax reform package submitted to Congress last November, but in the wake of the developments in the petroleum sector this package has not been enacted. The Minister of Finance insists that the Government still seeks a tax reform, which would change the tax structure rather than increase the overall tax burden. However, he admits that prospects for Congress to approve any tax reform under present circumstances are very dim.

May 6, 1971

3. The dramatic improvements in revenue prospects are reflected in the balance of payments. There may well be a temporary increase in foreign exchange reserves until additional expenditures will be felt in higher imports.

4. Under these circumstances, Government is in a position greatly to accelerate development expenditures and, together with a buoyant reaction by the private sector, Venezuela should be able to raise the annual rate of economic growth from the 5% target outlined in the economic report to possibly around 7%. This, of course, is highly desirable in view of Venezuela's underlying problems of high population growth and the need to create additional employment opportunities to which attention was drawn in your letter of November 6, 1970, transmitting the economic report to the Government. Two weeks ago, the Government sent to Congress a supplementary expenditure budget. Accordingly, the Government intends to proceed with the full investment program which it had outlined to the economic mission last year and to which the mission applied certain cuts, mainly because of fiscal constraints. In addition, there is an ambitious program for the development of exports of liquid natural gas (LNG)<sup>1/</sup> by the Government's CVP. The Minister of Finance was, I believe, quite frank when he told us that it was essential to have the new funds arising from the petroleum bonanza committed as quickly as possible to productive investments so as to counter expected pressures to increase current expenditures, including subsidies. In addition, the Government intends to clean up unpaid bills which had accumulated prior to the last presidential elections (in 1968), mainly on account of contract works undertaken by the Ministry of Public Works.

5. From our brief review of the economic situation, the Government's plans for using the additional funds appear basically sound, particularly in view of the political realities which include a minority position of the Government's party in Congress. About four-fifths of the additional expenditures to be financed by the new revenues from higher petroleum prices in 1971 will be - according to the Government's proposal now in Congress - for development, mainly of roads, petroleum (including LNG), housing and education. The remainder would go into military hardware (11%) and current expenditures (7%). It is true that these figures refer to 1971 only, but

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<sup>1/</sup> The Government introduced a draft law into Congress earlier this year under which any natural gas found in the country, including areas covered by concessions, would belong to the public domain and could not be used except with the consent of government. This would not only raise difficult legal problems with the concessionaires, but could have an immediate effect on the ongoing petroleum production, since gas is used in large quantities for reinjection and for power generation. The opinion in the oil companies is that this law proposal would not pass, except possibly in a very modified version.

much of the additional investments which would be started in 1971 will need continued financing in the following years.

6. On the other hand, the Government has made few preparations for dealing with the more difficult problems that will be faced later in this decade in the petroleum sector. There is no incentive for the concessionaires to explore further their concession areas since these are to fall back to Venezuela by 1983. (A draft law is presently being considered by Congress to regulate the reversion process of petroleum companies' assets and to reduce the depletion of reserves between now and 1983). The service contracts, which were recently approved, cover only a limited area South of Lake Maracaibo and are unlikely to add to Venezuela's petroleum reserves more than what is going to be depleted in fields already in production. Meanwhile, CVP, the Government's petroleum company, is still producing less than 5% of total production, and its exploration efforts are very limited. Moreover, the Government has done little to disentangle the very poorly run petrochemical industry which is in the hands of the Government's IVP. While therefore the commitment of large resources to the LNG projects may yield quite a high return, we do not see satisfactory efforts being made to increase available petroleum reserves. This remains one of the weakest elements in the Government's development program and is made all the more crucial by the lack of any concerted plan to promote industrial expansion outside the petroleum sector.

#### Lending Program

7. The change in the overall situation, which has occurred since we presented the lending program to Mr. McMamara last October, has on the whole weakened the case for Bank lending to Venezuela, as the principal government representatives admitted during my recent mission. However, our lending program in Venezuela has stressed projects in which Bank participation can help in diversifying the economy and building up institutions. I have reviewed the merits of our role for providing further assistance to Venezuela in the projects now included in the lending program in order to maximize the development effects of our lending and eliminate projects where our presence has only limited effects beyond that of providing financial resources.

8. This screening of our projects is complicated by the fact that government has had considerable difficulties in obtaining Congressional approval for external borrowing which is needed for each Bank loan. As a result, we have not been able to present any loan to the Board so far in FY 1971. I am still hopeful that a \$35 million loan for telecommunication, which has been negotiated late in 1970, can be presented in early June after Congressional approval is obtained within the next two weeks. We have also appraised a livestock project and the Maiquetia airport expansion program. As to the livestock project, we are proceeding in view of (i) the importance

May 6, 1971

of the livestock sector for the diversification of Venezuela's production structure, (ii) the necessary support for the recently established development bank in the agricultural sector on which the Bank has insisted for many years, and (iii) the unusually large local contribution which we have already prenegotiated as a condition for a Bank loan. In the case of the Maiquetia airport project, we have worked closely with the Government for over a year toward a satisfactory institutional setup and a sound project formulation. During my recent visit to Caracas, Government submitted to Congress a draft law to establish an airport authority for Maiquetia which, we told the Government, would have to be approved before negotiations.

9. For FY 1972 we have also foreseen the Metro, the fourth highway and an education project. As to the Metro project, the Government is anxious to have Bank backing in the very difficult arrangements which will be needed to bring the Municipality into the project as a financial partner - thus offering good prospects for a responsible behavior of the Municipality during the Metro's operation - and on transport coordination in the Caracas area. Moreover, government is still under a lot of pressure to enter into a package deal on the Metro project. The recent discussions I had with the Minister of Public Works have convinced me that indeed we are playing a major role in this project with the prospect of only a limited financial exposure.

10. On the other hand, I doubt that in the highway sector our contribution is very significant beyond that of a financial nature although the Minister of Public Works has greatly emphasized the "umbrella" which Bank financing provides on the bidding thus shielding government against important domestic pressure groups. I have now indicated to the Minister of Public Works that we would not be in a position to consider a highway project given the new fiscal situation, but suggested that the studies for a package of priority roads nevertheless be properly prepared for the Government's own decision-making on the standards of the project. We will make another full economic review in early 1972 - a transport economist will join that mission - but unless there are very good new reasons for reinstating a highway project at that time, I propose to exclude highways from the lending program for the next two to three years.

11. In contrast, I believe we can play a useful role in the education sector through combining a small financial contribution with a considerable input of technical assistance and arrangements for institutional improvements including international competitive bidding. Investments in certain high priority elements of the education sector are likely to yield high returns for the economy as a whole, since Venezuela already has quite an extended education system which is in need of improvements to produce better and more appropriate kinds of training.

12. Looking ahead into FY 1973 we have been working with SIDOR, the Government's steel company, and with the tourism agency on projects in those sectors. Both these sectors have a good economic basis for playing an essential role in diversification of the Venezuelan economy and I am not proposing to interrupt preparation work on these proposals. In the power sector, we have included an operation for an additional transmission line between Guri and Caracas. We shall carefully review this operation in the light of suppliers' and IDB credit possibilities and possible alternative operations in the western part of the country where interconnection of the type promoted under the Guri project and institutional strengthening may require our further involvement in the sector. We may eventually find on all these three projects that other sources of financing might be available so that Bank financing can be kept to somewhat smaller figures than now included in the lending program.

#### Industrial Finance

13. You will recall that we have given special attention to the possibility of IFC-type financing for industrial development, beyond that provided by IFC to CAVENDES. I am satisfied, from discussions with the Minister of Finance and the President of the Central Bank, that there is room for some redirection of industrial policies, particularly toward export promotion, which would be linked to IFC-type financing by the Bank. Moreover, the Minister of Finance, who had approached IFC on a possible liquidity fund for developing Venezuela's capital market, has indicated that he was prepared in principle to tie his proposal to progress made toward the export promotion.

14. Before making any proposal for a Bank operation in the industrial sector (beyond the SIDOR proposal), I plan to discuss further with government and private sector representatives the realism of any prospects for a re-orientation of industrial policies, including the Government's direct involvement in this sector, particularly in petrochemicals. For this purpose I shall visit Venezuela for a couple of days on my return from the IDB meeting in Lima.

#### Conclusion

15. In view of the reasonably satisfactory allocation proposals for the additional petroleum revenues, I believe that we should continue to help Venezuela, through lending for selective purposes, in the preparation and implementation of sound projects and thus to contribute to a more efficient use of capital. I propose therefore that we proceed with work on the projects included in the lending program for FY 1972 and FY 1973 except for a fourth highway project which should be dropped, at any rate for the time being.

cc: Messrs. Chenery; Diamond; Evans; Fuchs; Koch; Knox; Sadove; Weiner;  
Gill (IFC); Paterson (IFC); Wright; Kuczynski

10



## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: October 12, 1971

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with Mr. Adolfo Linares, Executive President of the Andean Development Corporation

Mr. Adolfo Linares, Executive President of the Andean Development Corporation, accompanied by Mr. Enrique Vial, Vice President of Operations, and Mr. Carlos Barbery, Director of Operations, called on Mr. McNamara on Friday, October 8. Messrs. Escobar and Alter were also present. Mr. Linares reviewed the discussions which he had been having over the past ten days with Bank staff, expressing gratification with the results. He pointed out that at this stage of the work of the Andean Development Corporation, it was very important to have the World Bank's support. He expressed satisfaction with the arrangements which had been tentatively agreed upon to have prepared an Aide Memoire of the conversations with the Bank staff. This Aide Memoire would indicate how the Bank and the Andean Development Corporation could collaborate in the future. Mr. McNamara expressed his agreement with these arrangements.

The visitors explained the interrelationship between the Andean Development Corporation and the Andean Pact. They emphasized the importance which they attached to this relationship and to the opportunity it offered for the development of multi-national projects in the industrial sector in the interest of regional integration. In response to questions concerning the financing capacity of the Andean Development Corporation, they pointed out that they should be able to associate themselves with the financing of almost US\$500 million worth of projects. They expected their own contribution in each project to be relatively small, with supplier credits covering the foreign exchange cost and Government capital contributions to individual projects taking care of most of the equity. Their own paid-in capital will not exceed US\$25 million in the next few years. At the present time, finance is required mainly for covering the cost of studies and they are receiving assistance from the Inter-American Development Bank.

cc: Mr. Knapp  
Mr. Escobar  
Mr. Sapir

GAlter:pa.

President has seen

<b>ROUTING SLIP</b>	Date October 7, 1971
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NAME	ROOM NO.
Mr. Robert S. McNamara	A 1230

<b>To Handle</b>	<b>Note and File</b>
<b>Appropriate Disposition</b>	<b>Note and Return</b>
<b>Approval</b>	<b>Prepare Reply</b>
<b>Comment</b>	<b>Per Our Conversation</b>
<b>Full Report</b>	<b>Recommendation</b>
<b>Information</b>	<b>Signature</b>
<b>Initial</b>	<b>Send On</b>

**REMARKS**

For your meeting at 12:15 on October 8.

**From** Gerald Alter *gla.*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 7, 1971

FROM: Gerald Alter *gpa*SUBJECT: Discussions With the Andean Development Corporation (CAF) Delegation

1. A three man delegation from CAF, led by Mr. Adolfo Linares,<sup>1/</sup> Executive President, has been holding a series of intensive exploratory discussions with various Departments of the Bank, and with IFC, during the period from September 26 to October 7. In addition to the South America Department, the Bank Departments involved have been Agriculture, Industry and Transport Projects and Development Finance Companies.
2. One main conclusion which emerges from these discussions - including those with IFC - is that CAF has no immediate prepared projects to present to us, either in the public or private sectors, which might already be appraised and ultimately financed. CAF clearly understands this, and has entertained no illusions about the very early prospects for obtaining financial support from the Bank Group. The prospects for a general line of credit of the DFC type are especially remote. But CAF appreciates the Bank's repeatedly expressed desire and readiness to support and be associated, especially through them, with the process of Andean economic integration in a practical operational manner on the basis of specific identified and viable projects.
3. We now have deepened considerably our understanding of CAF's relations with the Junta of the Andean Pact in Lima, its organizational strengths and weaknesses, and the content and status of its ambitious program of investments and financing. Clearly most of the program - whether of studies or capital projects - is still only in the "idea" stage rather than representing a true pipeline of operationally identified projects on which business can be done.
4. Largely admitting this, CAF is basically asking us to give them a clear indication of intent to help them from this very earliest stage of proposing and promoting project ideas and then developing initially one or two of them to the stage of well identified and prepared projects for appraisal and financing. In short, assurance of a basic Bank "presence" would be exceedingly helpful to CAF in its working relationships with the member countries, the Junta and with external donor countries as well. We have agreed to prepare an Aide Memoire of our meetings, conveying to CAF our positive desire and intent to collaborate with them in any practicable way and to seek specific major projects we can help finance.

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<sup>1/</sup> The other members are Mr. Enrique Vial, Vice President for Operations, and Mr. Carlos Barbery, Director of Operations.

President has seen

October 7, 1971

5. The industrial sector is clearly the most promising, and our Industrial Projects Department has already indicated a willingness to send a short-term technical assistance mission to CAF headquarters in Caracas to try to identify a possible first project of considerable size and obvious integration content. This will require CAF immediately to pre-select a "short list" of four or five of what they consider their most promising and advanced projects and to assemble all the available studies and data on them for review by us. They have promised to do so at once, and we already have some preliminary notions of potential industries to be involved. Agricultural projects - we discussed livestock and edible oils in particular - are likely to be harder to find, but our Agriculture Projects Department will try to keep the dialogue with CAF going, and we foresee possibilities of injecting integration objectives into the scope of some of our existing or future loans to the agricultural credit institutions of the various Andean countries.

6. Obviously a major constraint on us with regards to the heavy input of both general and specialized sector technical assistance desired of us by CAF is the shortage of Bank staff availability. We have promised, however, that in addition to fairly continuous involvement of Mr. Sapir in my Department in developing increasingly close relations and concrete operations with CAF (and the Junta), other Departments of the Bank are ready to give technical help on project preparation, or other fields we are exploring, from time to time.

7. Meanwhile our Transport Projects Department has agreed to collaborate in November with ECLA in the design of a preliminary Transport survey for the Andean region. This activity, sponsored by the Junta in Lima, is also of general interest to CAF, and might eventually lead to significant transport projects of integration significance.

cc: Messrs. Knapp, Escobar, Evans, Fuchs, Knox, Diamond, Gutierrez

HMSapir:pat

11

## OFFICE MEMORANDUM

TO: Memorandum for Record

FROM: Edgar Gutiérrez

SUBJECT: Meeting of Mr. McNamara with Mr. Antonio Casas González,  
Director of CORDIPLAN, Venezuela

DATE: July 27, 1972

The meeting took place in Mr. McNamara's office on July 26, at 6:30 p.m. Mr. Luis Ugueto, Chargé d'Affaires of the Venezuelan Embassy and myself were also in attendance.

Mr. Casas indicated his appreciation for the receptiveness of the Bank's staff to recent comments from his office on the draft economic report. He said he had strongly suggested that the tone of the report was overly optimistic on the foreign exchange position as a result of recent oil developments. Oil production has not lived up to expectations and the availability of resources for development is much more restrictive now than what it appeared to be six months ago. He complained that this sense of affluence of the Venezuelan economy has been unduly strengthened by misleading indicators in some of ECLA's publications (where Venezuelan data is explicitly excluded because of the upward distortions it introduces in regional "averages"). He is much happier with the new version of the report, where proper weight is given to the unfavorable trend in oil production during the first semester of this year.

He said that Venezuela still faces very serious social and economic problems, for the solution of which full Bank cooperation is required. He was appreciative of the role the Bank has played in the past in roads and power, but he thinks that much remains to be done in the production sectors (namely agriculture and industry). There is urgent need to expand employment opportunities and, above all, to diversify the export economy. He stated that important measures are on the way in this field, without elaborating upon them.

Mr. Casas sees the essence of the contribution (past and future) of the Bank in Venezuela in the institution-building aspect of our operations. He pointed out the case of EDELCA as one of the remarkable results of this contribution. But other institutions are lacking in key sectors where the Bank is expected to help. Such is the case of metropolitan transport.

The Government, he said, has given clear indications about the priority it gives to the metro, and important events have taken place to confirm such interest.

President has seen

July 27, 1972

First, elaborate arrangements have been made between the municipalities with regard to their participation in the system. This is the first time in the history of the country when strong local interests are surrendered to allow this type of joint approach in favor of a regional or metropolitan program.

Second, the introduction of the betterment tax draft bill involves a drastic change in the mentality of political parties and leaders. This would have been inconceivable in Venezuela in the present circumstances, unless there was such strong belief in the priority of the metro. It also reflects a new trend in municipal governments and it is their desire to seek their own solutions on the bases of an adequate participation of local and users' resources. The satisfactory experience with the toll contribution in roads, sponsored by the Bank, is being effectively translated now to the municipal level. One interesting example is the construction of the Zulia bridge financed by a toll twice as high as the one applied on the much bigger and expensive Maracaibo bridge.

Third, the Caracas Council (where the opposition holds a majority of votes) accepted a Government proposal to reorganize the Municipal Transport Institute which had evolved into a huge bureaucratic and ineffective body. Eighty per cent of the workers have already been fired and there is on the way a crash program of financial and operational rehabilitation.

Fourth, the Government is convinced that the proposed investment in the metro would only make sense within the framework of a program designed to rationalize the entire transportation network of the metropolitan area. As a consequence, the Government has given its full support to the legal, administrative and institutional reforms required to safeguard such aim.

Mr. Casas stressed the efforts of the administration to change the pattern of public investment and the strong pressure, now on the way in CORDIPLAN, to rationalize priorities. Much less emphasis is going to be placed in heavy infrastructure and much more in production. He pointed out roads as a typical sector in which over-investment in the past has led to severe waste of resources.

Mr. McNamara expressed his welcome to the new emphasis given to agriculture and industry and confirmed the intention of the Bank to help in building the institutions required by the modern sectors of the economy. Unfortunately, the plans for diversification of the economy have been delayed and are yet in a formative stage and this

July 27, 1972

has prevented the Bank from building up a sounder pipeline of projects. CORDIPLAN has got a delicate responsibility in this matter. Another obstacle to our association has been the slow processing of our projects through political bodies in Venezuela (Cabinet, Congress, etc.). The bad experience registered with the CANTV loan (it took more than a year between negotiations and Board presentation because of lack of Congress authorization) is about to be repeated with the education loan (appraisal was completed early this year and the public law draft has not yet been submitted to Congress). Mr. McNamara said that a greater amount of coordination within the Government is essential to make sure that this process is simplified.

In connection with the metro, Mr. McNamara did not want to prejudice the outcome of the ongoing discussions on this project within the Bank which still will have to clarify difficult aspects of the operation. He said that in case the Bank decides to maintain its association with the project, it would be on the understanding that this would be part of an integral and coordinated approach to the problem of metropolitan transport in Caracas. The Bank will, in consequence, strongly insist on an institutional setup conducive to such coordination.

cc: Mr. Knapp  
Mr. Sadove  
Mr. Kuczynski  
Mr. Wyss

EGutiérrez:vet

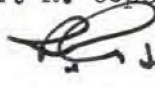


## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. R. Cope)

DATE: July 25, 1972

FROM: Edgar Gutiérrez

 July 25 72SUBJECT: VENEZUELA - Your meeting with Mr. Antonio Casas

1. On July 26, at 6:30 pm, Mr. Antonio Casas, head of Venezuela's Planning Office (CORDIPLAN), has an appointment with you. Mr. Casas, 37 years old, studied economics at Georgetown University. He is the only Cabinet member of the Caldera administration without a political career: most of his professional career has been spent with the Inter-American Development Bank (before returning to Venezuela he became Director of one of the three Loan Divisions) where we found him very cooperative with our staff. He also is one of the nine members of CIAP. With this career abroad, he had developed few connections with business or political groups in Venezuela before his return home. At the beginning of the Caldera Government in 1968, he became Vice Minister of Development. The Ministry of Development, which accomodates a wide variety of functions, is mainly concerned with foreign trade and industrial policy. Mr. Casas succeeded Mr. Oberto, who is now the Minister of Finance, as head of CORDIPLAN in April 1972.
2. CORDIPLAN, the planning office attached to the Presidency, was the center of economic policy making in previous administrations, but has provided little leadership since 1968. Although the technical staff of CORDIPLAN is not bad, Mr. Oberto's concern with politics weakened the role of CORDIPLAN. We hope that Mr. Casas will strengthen the Planning Office and that this will also improve our dialogue with the Venezuelan Government.
3. Mr. Casas requested the appointment with you to "renew the dialogue between Venezuela and the Bank". As you will recall, following the reassessment of Venezuela's economic and financial situation in fall 1971, we reduced our program of future operations, mainly by eliminating prospective road and power projects, and expressing serious reservations about Bank financing for a steel project. Shortly thereafter, we also dropped a second Maiquetía Airport loan in the light of the Board discussion of the first loan. Some members of the Government who are politically very sensitive and less experienced in dealing with international lending institutions (Minister Oberto, President Lafee of the Central Bank) linked the Bank's posture to pressures from oil companies that were unhappy about various measures taken by the Government in this sector (see paragraph 5), and to pressures from the U.S. Government which, in their view, supports the Bank in building up primarily the economic power of Brazil and Mexico (with large-scale steel projects), although in the Venezuelan view, Venezuela would be the most economic steel producer in Latin America. Others, like General Alfonzo and, I believe, Mr. Casas, having worked extensively with the international lending institutions in Washington, have a more rational interpretation of the Bank's lending posture. I have spelled out the Bank's approach to Venezuela and its posture on future projects in a recent letter to the Government (copy of translated version is attached).

July 25, 1972

The Economy

4. Mr. Casas will have had a discussion on the economy with Mr. Chenery before he meets you. You will recall that the fiscal and balance of payments situation of Venezuela improved sharply in 1971 as a result of the action by the Venezuelan Government in 1970 and 1971 to increase the effective taxation of oil companies. As a result, in 1971 the balance of payments showed a large surplus, with Central Bank international reserves increasing by \$450 million to reach about \$1.45 billion, a level similar to that of the record of 15 years earlier. Part of the gain was the result of a capital reflow stimulated by the Government's open discussion of a possible revaluation of the bolivar. In the event, a small revaluation of about 2 percent in relation to the U.S. dollar took place in December. Although the move is not significant, it was nevertheless in the wrong direction from the point of view of fostering the greater diversification of exports. On the fiscal side, the Government was unable to generate enough additional public investment projects to absorb the added revenues in 1971.

5. The buoyant outlook foreseen a year ago has been altered somewhat by the recent decline of oil production which fell by 19 percent in the first four months of 1972 after a slower decline in the second half of 1971. The recent decline in production may well be the response of the companies to the Hydrocarbons Reversion Law of mid-1971. Under the latter, the reference price used for taxation rises in proportion to the decline of quarterly production in relation to the comparable quarter of 1970, the record year. However, beyond a decline of 10 percent, the reference price stays fixed, so that there may be an incentive at the margin for the oil companies to lower production by more than 10 percent, especially in the present circumstances of greatly reduced tanker shipping costs from the Persian Gulf.

6. The decline in fiscal revenues is forcing a cut-back in public investment from the admittedly high levels originally budgeted for 1972. The more stringent fiscal situation may also lead to a more receptive attitude to the Bank. With its high per capita income and lack of major balance of payments constraints, Venezuela is not a candidate for large-scale Bank assistance. However, our assistance can make a useful contribution if it represents a graduated response to progress by the Venezuelan authorities in dealing with the basic problems of their economy. Among these problems are primarily the need to develop a formula for renewed investment in petroleum exploration and development, together with institutions and policies designed to diversify the economy. While the former falls outside the area where the Bank can be influential, it is nevertheless a key issue of increasing urgency, as reported oil reserves are now equivalent to some 10 years output. The principal areas for diversification are dealt with in the following paragraphs.

Bank Lending Program

7. In the industrial sector, an important avenue has been opened for policy changes as the result of the renunciation of Venezuela's commercial treaty with the United States. The treaty, which was agreed to prior to

World War II, lapsed on June 30, 1972 (but under an exchange of notes, the low U.S. oil duties fixed under the treaty continue to apply while Venezuela's commitment is limited to the most favored nation principle except for free trade pacts or customs unions which Venezuela might enter into). Since early 1972, the Government has been working on a new tariff schedule for imports which will be introduced in early 1973. The Government's thinking is that tariffs should be changed over time so as to reduce excessive protection, presently granted through an import quota system, and thereby to introduce pressures for improving industrial efficiency. A second area of policy changes is likely to emerge from the application of Venezuela to enter the Andean Group. If agreement is reached with the Andean Group - and there is possibly a better than even chance that this will happen by 1973 - significant new markets would be opened up while an element of competition would be introduced for Venezuelan producers, especially from Colombia. It is difficult to forecast the outcome of the now apparent reorientation of Venezuelan industrial policies, but there is little doubt about the serious desire of the Government to increase industrial exports and to move away from the rather indiscriminate import substitution policy of the past. In the light of these developments, a Bank mission, headed by an internationally renowned economist, **Mr. Josué Saenz** from México, is currently in Venezuela in response to a request of the Government to provide assistance for a thorough review of the public sector institutions engaged in industrial promotion, with primary emphasis on the credit institutions. **Mr. Saenz** has been instructed to make an initial review of the key issues involved and the preparation of terms of reference of the second phase - namely, a study in depth of the policy environment and prospects, the institutional framework and the needed reforms.

8. In the agricultural sector, we are concentrating our efforts on making medium and smaller farms commercially viable, while with IDB assistance the agrarian reform program is being consolidated. We have recently identified an agricultural credit program for using long-term funds through the Banco de Desarrollo Agropecuario (the borrower under our recent livestock loan) for on-farm drainage and irrigation, tree crops (largely for exports) and equipment for selected annual crops. Two major irrigation/drainage and settlement proposals are currently being prepared by the Government for future Bank consideration.

9. In tourism, a project for the integrated development on a section of Venezuela's Caribbean coast is being prepared with UNDP financing. The project would support Venezuela's efforts to further the growth of international tourism while at the same time offering more tourist attractions to Venezuelans now spending their vacations abroad. The project is scheduled to be ready for appraisal for a Bank loan by March 1973.

10. The other two projects under preparation are an education project and the Caracas Metro. Both projects are in support of the Government's policies to provide the necessary infrastructure for making industries in the central area more efficient. The education project, consisting of the construction of several secondary schools, instructional television equipment

July 25, 1972

and technical assistance, was appraised in September 1971 and has been ready for negotiation since January 1972. At that time we informed the Government that we were awaiting the legislation to borrow to be passed before proceeding with negotiations. The Government has not yet submitted the bill to Congress, partly due to the growing opposition to further borrowing from abroad, and increasing problems between the Government and students both at secondary and university levels. Recently, the Minister of Finance pressed for negotiations prior to the Congressional approval of the bill. You may wish to underscore the importance we attach to a more quick action on the part of the Government to secure such legislation for further Bank lending in the country.

11. As to the Caracas Metro project, we have insisted from the very start that (i) the project be carried out in the context of policies and programs affecting all means of transportation so as to promote the most efficient use of resources in the urban development of Caracas; (ii) that a significant portion of the Metro be financed by the Caracas metropolitan area itself through levies from beneficiaries of the resulting decongestion and from owners of land for which the value will increase from the project; and (iii) that adequate arrangements be worked out for the construction and operation of the project. More recently, we have also emphasized that the major part of external financing should be provided from sources other than the Bank (parallel financing for rails, rolling stock and other equipment). In the light of these conditions the Government has recently submitted to Congress the following bills:

- (i) a land betterment tax enabling law to be levied by the municipalities concerned;
- (ii) a bill establishing a transport coordination agency to regulate all modes of transportation in the area; and
- (iii) a bill authorizing the Government to borrow for the project,

and the Minister of Public Works has written to the Bank (translation of letter attached), requesting our final comments on the bills and the Bank's resumption of appraisal work on the project. We are reviewing these bills and, in the light of this review, we shall advise the Government when we plan to resume appraisal works.

Attachments: CPP (January 1972)  
letters (2)

Cleared with and cc: Messrs. Kuczynski, Wyss

cc: Messrs. Knapp (o/r), Chenery, Diamond, Ballantine, Evans, Knox, Koch,  
Sadove

MSchloss:meyb

→ 7/24

2029

# OFFICE MEMORANDUM

TO: Mr. Anders Ljungh

DATE: July 11, 1972

FROM: E. Peter Wright *EPW*

Mr Mc Namara

*7/13  
6:30 PM  
WED 7/12/72  
Rm 1111*

SUBJECT: VENEZUELA - Visit of Mr. Casas

Mr. Antonio Casas, the newly appointed head of the Venezuelan planning agency (CORDIPLAN) and a member of the Cabinet, will be visiting Washington in the week beginning July 24 for discussions with us and the IDB, and has expressed a particular desire to meet with Mr. McNamara to discuss Bank lending to Venezuela. I have advised Mr. Casas that Mr. McNamara is likely to be very busy at that time (and Mr. Knapp will be away), but he is still most anxious for a meeting, preferably on July 26 or 27. Could you let me know if such a meeting could be arranged? Mr. Gutierrez and others here will, of course, be having discussions with Mr. Casas and other officials coming to Washington with him, on present and possible future Bank projects in Venezuela.

cc: Mr. Gutierrez o/r  
Mr. Wyss

EPWright:vr

*Mr. Wyss preparing brief*  

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*Ab 7/14*



## OFFICE MEMORANDUM

TO: FILES

DATE: June 13, 1974

FROM: Adalbert Krieger, Director, LAC I SUBJECT: Visit of the Venezuelan Delegation Headed by Mr. Hector Hurtado

6/17

1. A Venezuelan delegation visited the Bank on June 12 for the purpose of completing the negotiations held during our two recent trips to Caracas. The first part of the meeting started at 10:00 a.m. in Mr. Rotberg's office. It was attended by Messrs. Guillermo Pimentel and Cesar Manduca (who are expected to become high-level officials of the new Venezuelan Investment Fund) and by Messrs. Rotberg, Hittmair, Krieger and Gonzalez-Cofiño of the Bank. During this part of the meeting, Mr. Rotberg explained in detail several possibilities for implementing the May 22 agreement on Bank borrowing from Venezuela (see annexed Aide Memoire).

2. At 11:30 a.m. the meeting was joined by Messrs. Hector Hurtado (Minister of Finance), Manuel Perez Guerrero (Minister for International Economic Affairs), Roberto Guarnieri (new Venezuelan Executive Director in the Bank) and Eduardo Mayobre (Assistant to Mr. Hurtado); and by Messrs. Knox, Avramovic, Escobar, Holsen and Guerra from the Bank. There was an extensive interchange of opinions on several aspects of the new two-way relationship, particularly in connection with the Venezuelan financial contribution to the Bank, the possibility of co-financing projects in other Latin American countries and the Bank's assistance to Venezuela. In connection with this last point, Mr. Knox indicated that the Bank will send two port experts next week to Caracas; that Mr. Jaffe will visit Caracas in July for initial contacts about the steel industry; and that, given the scarcity of petrochemical experts, the possible Bank collaboration in this field would only start later in the year. Mr. Knox also indicated that there was an education project, fully appraised by the Bank, upon which the previous Venezuelan Government had not adopted a final decision; Mr. Hurtado said that he would promptly inform the Bank of his Government's position on that project. It was also understood that in the near future the Government and the Bank will discuss the alternatives for Bank assistance regarding agriculture and the Caracas Metro.

3. After the meeting, Mr. McNamara invited the Venezuelan delegation for lunch. Messrs. Rotberg and Krieger were also present. Mr. McNamara thanked Mr. Hurtado for the Venezuelan decision to establish this new relationship, which will include World Bank borrowing of US\$500 million from Venezuela during 1974. Mr. McNamara expressed that the Venezuelan decision was an excellent example to the world of how to provide the financial resources required by the developing countries. Mr. McNamara stressed that the Bank can and should play a part as an intermediary in channeling resources from oil-exporting countries to other developing countries. In this respect, Mr. McNamara mentioned

June 13, 1974

some of the proposals included in the document "Revision of IBRD/IDA Program FY74-78" that will be considered by the Board next July 9. He particularly referred to the proposed substantial increase in the Bank lending program, and indicated that he hoped that an important part of the required financial resources could be obtained in the oil-exporting countries. Mr. McNamara gave Mr. Hurtado a copy of the Board document and stressed the importance of Venezuela's support for these proposals.

4. Mr. Hurtado requested Mr. McNamara's full support for the Bank's technical and financial assistance in the areas indicated in paragraph 1 of the May 22 Aide Memoire. Mr. McNamara answered that the Bank has already decided to give the requested assistance to Venezuela in all those areas. Mr. Hurtado also ratified Venezuela's interest in obtaining Bank support for the Latin American sub-regional financial institutions (Andean Development Corporation, Caribbean Bank, CABEI); Mr. McNamara fully agreed with Mr. Hurtado's request in this matter.

5. Mr. Hurtado requested the establishment of a World Bank Resident Office in Caracas. Mr. McNamara indicated that he had already given instructions to establish a new Venezuela-Ecuador Division in the Bank, and to provide adequate resources to this Division and other related parts of the Bank, in order to immediately implement the new Bank-Venezuela relationship. He then asked which were the reasons that would justify the establishment of the Resident Office. Mr. Hurtado indicated that it would serve as permanent liaison between the Bank and the country; that it would permit the Bank to establish a close and long-term relationship with the Venezuelan Investment Fund; and that it could assist the Venezuelan Government in formulating some aspects of its development policies. After a long discussion on this point, Mr. McNamara indicated that he was willing to consider the establishment of the Resident Office, but would make the final decision after Messrs. Hurtado and Krieger had further considered the matter.

6. At the end of the luncheon, Mr. Hurtado indicated that the President of Venezuela, Mr. Carlos Andres Perez, would be very pleased to receive Mr. McNamara in Caracas in the near future. Mr. McNamara accepted this invitation. Mr. Hurtado then indicated that his Government will suggest to Mr. McNamara several alternative dates for his visit.

7. After lunch, Messrs. Guarnieri, Pimentel and Manduca went back to Mr. Rotberg's office to discuss the formal aspects of the implementation of the 1974 US\$500 million Bank borrowing from Venezuela. At the end of that meeting it was agreed that Mr. Rotberg would draft a memorandum containing the conclusions of this part of the meeting and that Mr. Guarnieri would take a copy of that memorandum to Caracas on June 13.

Attachment

AKrieger:mpb



June 13, 1974

cc: Mr. McNamara  
Mr. Knapp  
Mr. Aldewereld  
Mr. Baum  
Mr. Cargill (o/r)  
Mr. Alter (o/r)  
Mr. Stern, Senior Adviser, Development Policy  
Mr. Rotberg, Treasurer  
Mr. Hittmair, Deputy Treasurer  
Mr. Adler, Director, Programming and Budgeting Department  
Mr. Avramovic, Chief Economist, LAC  
Mr. Knox, Director, LAC Projects  
Mr. Wiese, Director, LAC II  
Mr. Escobar, Special Rep. for Inter-American Organizations  
Mr. Holsen, Senior Economist, LAC I  
Mr. Pfeffermann, Senior Economist, LAC I  
Mr. Guerra, Economist, LAC I  
Mr. Gonzalez-Cofiño, Economist, LAC II

May 22, 1974

AIDE MEMOIRE

RESULTS OF THE CONVERSATIONS BETWEEN DR. HECTOR HURTADO, FINANCE MINISTER OF THE VENEZUELAN REPUBLIC, AND DR. ADALBERT KRIEGER, SPECIAL REPRESENTATIVE OF THE PRESIDENT OF THE WORLD BANK

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1. The Government of Venezuela indicated its interest in receiving in the immediate future, the technical and financial support of the World Bank for its investment program in the following areas:

- a) Agriculture
- b) Petrochemical Industry
- c) Ports
- d) Steel Industry
- e) Metro of Caracas

The Bank representatives stressed the favorable disposition of their institution toward collaborating with the Government in these areas. They also indicated that the Bank has experience and specialized personnel relating to agriculture, ports, and steel, and that, therefore, it is in a position to offer its support to the Government in these sectors. Regarding the petrochemical industry, the Bank will indicate to the Government in the near future how it will be able to cooperate in the development of this sector. With respect to the Metro of Caracas, the interest indicated by the Government will be transmitted to the Bank's authorities. Both parties also agreed on the desirability of jointly defining other areas of collaboration within the forthcoming months.

2. The Government also indicated its interest in obtaining the collaboration of the Bank in technically and financially strengthening the Latin American subregional financial institutions. Venezuela is establishing Trust Funds in the Andean Development Corporation, the Caribbean Bank and the Central American Bank for Economic Integration. The main objective of these funds is to finance projects of Latin American multinational interest. Regarding financial assistance, the World Bank representatives pointed out that, given the Bank's statutory regulations, all its loans must be explicitly guaranteed by the Governments of the recipient countries. The absence of this guarantee has made impossible, up to now, the direct financial support of the Bank to these institutions. Nevertheless, it was indicated that a study will be made of all existing possibilities for Bank collaboration with these institutions. The Bank will present in the near future some concrete proposals in this respect to the Government of Venezuela.

3. The Government indicated the Venezuelan interest in assisting other Latin American countries through joint or parallel financing with World Bank. The Government also pointed out that - within the framework of this kind of collaboration - Venezuela considers necessary to specially

support the less developed countries of the region. In this connection, it was noted, as an example, that Bolivia - being the least developed country within the Andean Group - could be one of the first countries to benefit from this joint Venezuela-Bank effort. The Bank expressed its desire to undertake this kind of collaboration. For this purpose, the Bank will start conversations, in the near future, with the Government of Venezuela and the Governments of the possible recipient countries.

4. Both sides agreed that it would be mutually convenient for Venezuela to invest in World Bank bonds and in loans to this institution. It was stressed that, as these investments would yield the interest rate prevailing in the international financial markets for World Bank bonds at the moment of formalizing the negotiations, they would constitute an appropriate and secure way to place the resources of the Venezuelan Investment Fund. It was also agreed that these investments could be negotiated in U.S. dollars, other convertible currencies - including the bolivar - and/or in Special Drawing Rights (the value of which would be expressed in a "baskets of currencies" following a procedure similar to that being studied by the International Monetary Fund). It was also agreed that, within the next three weeks, the Government and the Bank will jointly prepare a program for Venezuelan investments in the Bank during 1974. It was further agreed that the average life of these investments will be no less than 12 years. Although all these aspects including the amount of the Venezuelan investments, cannot be formally negotiated until the Venezuelan Investment Fund has been established, it was agreed that the new Venezuelan investments in the Bank during 1974 would be of the order of US\$500 million. Of this total, Venezuela would invest one-fifth as soon as the Venezuelan Investment Fund had been established.


5. In the framework of this new relationship of mutual collaboration, the Bank will substantially increase its lending program to Venezuela through financing, in areas selected by the Government, development projects that fulfil the usual requirements about their expected rate of return and their consistency with the objectives of the country's development policy. Moreover the Bank will also support Venezuela, as much as possible, through technical assistance related to the identification, appraisal and technical supervision of investment projects, and it will also cooperate in the development of the capital market and in other important areas of development policy. On the other hand, it was pointed out that - in addition to the investments during 1974 mentioned in the previous paragraph - the investments that the Government would make during the following years in World Bank bonds and in loans to this institution would exceed the amount of the authorizations of new loans by the Bank.

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## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

FROM: Adalbert Krieger, Director, LAC I 

SUBJECT: Briefing for the Meeting with the Venezuelan Delegation

DATE: June 12, 1974

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WBG ARCHIVES

1. The Venezuelan delegation having lunch with you today is formed by Messrs. Hector Hurtado (Minister of Finance), Manuel Pérez Guerrero (Minister for International Economic Affairs), Guillermo Pimentel (Special Adviser to Mr. Hurtado) and Roberto Guarneri (new Executive Director). This group has been holding negotiations with the IDB and IMF during the past two days and will be meeting with us this morning.
2. During the meeting, you may wish to comment on the democratic nature of the Venezuelan Government. This recently elected Government is formed by "Acción Democrática" -- the opposition party during 1969-73. The Venezuelans are very proud of the fact that they have been able to maintain uninterrupted democratic rule since 1959.
- 6/2  
3. During our negotiations in Caracas in March and May, Mr. Hurtado and other Government officials stressed that Venezuela intended to use its increased foreign exchange resources to accelerate the country's development and also to contribute to the economic and social progress of other Latin American countries (see Mr. Hurtado's speech at the IDB Board of Governors and the two Aide Memoires drafted during our last mission to Caracas). In this connection it would be important that you ratify in the meeting that the Bank intends to increase its lending program to Latin America to US\$9 billion during the next five years, which will represent about 25% of total Bank/IDA lending. (During our discussions in Caracas, this planned expansion of our lending program to Latin America permitted us to persuade the Venezuelans to abandon their original proposal to earmark their contributions to the Bank.)
4. In Caracas, Mr. Hurtado stressed Venezuela's decision to use multilateral institutions for channeling resources to Latin America. He emphasized Venezuela's special interest in countries forming part of subregional integration schemes -- the Andean Group, the Caribbean countries and the Central American Common Market. He also indicated his Government's willingness to help the poorest countries of the region -- for instance Bolivia -- probably through co-financing with the World Bank and other institutions. In this respect, it could be convenient to point out the high priority attached by the Bank to the financing of poor countries as mentioned in the June 4 Bank document "Revision of the IBRD/IDA Program".
5. Mr. Hurtado made clear last month that his Government considered the Bank's expanded technical assistance and lending program to Venezuela an important part of the whole agreement. I would suggest

June 12, 1974

that you ratify our decision to assist Venezuela in the areas chosen by the Government. You may also wish to mention that an IFC mission (Messrs. Adams and Horch) has already visited Venezuela during the past two weeks to advise the Government on capital markets; that we are trying to expand this assistance by sending Mr. Horch to Caracas for three more weeks; that we are planning to send a two-man Port Project Identification Mission to Caracas next week; and that we are also working on the initial stages of our assistance in other fields.

6. The Venezuelan delegation will be meeting with Messrs. Rotberg and Hittmair this morning regarding the details of the US\$500 million package. I will inform you before lunch of the results of these negotiations. Moreover, you may also wish to raise with Mr. Hurtado the possibility of further Bank borrowing after 1974, explaining to him the policies you are recommending to the Board on this matter (Section 4 of the Board document mentioned above).

7. Finally, it would be convenient to discuss with Mr. Hurtado when and how this agreement will be announced. It seems to me that, if possible, some public statement should be made about his visit to the Bank. You may also wish to ratify your willingness to visit Caracas if the Venezuelan Government deems it convenient.

Attachments: 2 Aide Memoires

AKrieger:mpb

AIDE MEMOIRE

SUMMARY OF THE FIRST MEETING BETWEEN DR. HECTOR HURTADO, FINANCE MINISTER OF THE VENEZUELAN REPUBLIC, AND DR. ADALBERT KRIEGER, SPECIAL REPRESENTATIVE OF THE PRESIDENT OF THE WORLD BANK, ON MAY 20, 1974

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I. NEED OF NEW RESOURCES TO MAINTAIN AND EXPAND THE WORLD BANK LENDING PROGRAM

1. From its creation until June 30, 1973, the Bank and IDA have authorized US\$6,956 million in loans and credits to Latin America. The FY1975-FY1979 lending program that has been proposed, and is now being considered, envisages US\$9,030 million of loans and credits for the region.

2. This proposed program implies a substantial increase in Bank assistance to Latin America. This region has received, as an average, somewhat less than 21% of the total amount of loans and credits granted in FY1973 and FY1974, while it would receive nearly 25% of the total in FY1974-FY1979 and almost 26% in FY1979. The number of projects financed by the Bank and IDA in Latin America would increase -- according to this proposal -- from an annual average of 30 in FY1973 and FY1974, to an average of about 50 per year in FY1974-FY1979, and to 70 in FY1979.

3. The possibility of expanding the lending program in general, and the proportion allocated to Latin America in particular, will basically depend upon the ability of the Bank to borrow in countries with excess foreign exchange resources. During the last two decades, the Bank has been one of the main users of resources in the international capital markets. For instance, in 1972 the Bank placed 17% of the total amount of international and foreign issues placed in those markets. However, given the recent shift in relative prices and in the external liquidity position of several groups of countries, it will be difficult for the Bank to obtain the resources required for that increased lending program in the traditional financial markets. It will thus be necessary to tap new sources of financing, including the oil exporting countries.

II. BENEFITS FOR VENEZUELA FROM INVESTING PART OF ITS EXCESS RESERVES IN THE BANK

4. The Bank offers investing countries the interest rate prevailing in the financial markets for first class medium- and long-term securities. The most recent Bank issues yield 8%; this rate may vary depending upon market conditions at the moment each borrowing is made.

May 20, 1974

5. Bank's liabilities continue to enjoy the confidence of investors, as it is reflected in the market quotations of Bank bonds. This trust is sustained by the explicit guarantee given by all member countries as to the Bank's liabilities.

6. Moreover, it is likely that future investments in the Bank may be denominated in "New Special Drawing Rights" ("baskets of currencies"), which would substantially diminish any exchange risk.

7. Given the long-term nature of Bank loans, it is also necessary that Bank borrowing be made, as a rule, on comparably long terms. In general, the Bank tries to obtain its financial resources with an average term of about 15 years. However, the Bank also recognizes the need to take into account the long-term financial and economic prospects of the investing countries, and it is willing to jointly prepare with each country a financial program which adequately considers those prospects.

### III. ADDITIONAL ADVANTAGES FOR VENEZUELA OF A NEW TWO-WAY RELATIONSHIP WITH THE BANK

8. In spite of Venezuela's high per-capita income and excellent external position, the Bank is willing to substantially increase its lending program to this country, following -- if the Government so desires -- a procedure similar to that adopted in connection with Iran. The Government of Iran has made an important initial financial contribution to the Bank, and has committed itself to repeat these contributions in the future in order to assure that during the following years -- when it is expected that this country will continue to increase its excess foreign exchange reserves -- there will be a net transfer of resources from Iran to the Bank. At the same time, the Bank has stated its intention to authorize a substantial number of new loans. On May 16, 1974, the Bank's Board approved three new loans to this country for a total of US\$148 million. As the country's absorptive capacity increases, the net resource transfer toward the Bank will diminish and, eventually, will again reverse its direction because of an increased flow of amortization and interest payments by the Bank, and of the disbursements of the development loans granted by the Bank to the country.

9. The loans that the Bank might make to Venezuela would carry with them, as usual, important technical support in the preparation, appraisal and implementation of the financed investment projects. Moreover, the Bank is also willing to offer its technical assistance to Venezuela in other areas for which the



May 20, 1974

Government might request such cooperation. (In this connection, the participants in this first meeting discussed the possibility of establishing a "Technical Assistance Consultative Group", which would be chaired by the Venezuelan Government, with the support of the Bank.)

10. The possibility of Venezuela's joining to Bank in co-financing -- under several forms -- investment projects in other countries was extensively analyzed during this first meeting. The participants also considered other alternatives such as the purchase by Venezuela of participations in Bank loans and advanced repayment of previous Bank loans to this country. Likewise, the meeting considered the possibility of Venezuela's collaboration with IFC in financing, through loans and/or equity investments, enterprises in other countries.

#### IV. OTHER ASPECTS

11. Other points considered in this meeting included the convenience of Venezuela increasing its share in the Bank's capital, and the possibility of Venezuela's participation in IDA.

12. Finally, it was decided that, during the following days, the aspects mentioned in this Aide Memoire would be further considered in meetings between the Bank's representatives, the Finance Minister and other high Government officials.

May 22, 1974

AIDE MEMOIRE

RESULTS OF THE CONVERSATIONS BETWEEN DR. HECTOR HURTADO, FINANCE MINISTER OF THE VENEZUELAN REPUBLIC, AND DR. ADALBERT KRIEGER, SPECIAL REPRESENTATIVE OF THE PRESIDENT OF THE WORLD BANK

1. The Government of Venezuela indicated its interest in receiving in the immediate future, the technical and financial support of the World Bank for its investment program in the following areas:

- a) Agriculture
- b) Petrochemical Industry
- c) Ports
- d) Steel Industry
- e) Metro of Caracas

The Bank representatives stressed the favorable disposition of their institution toward collaborating with the Government in these areas. They also indicated that the Bank has experience and specialized personnel relating to agriculture, ports, and steel, and that, therefore, it is in a position to offer its support to the Government in these sectors. Regarding the petrochemical industry, the Bank will indicate to the Government in the near future how it will be able to cooperate in the development of this sector. With respect to the Metro of Caracas, the interest indicated by the Government will be transmitted to the Bank's authorities. Both parties also agreed on the desirability of jointly defining other areas of collaboration within the forthcoming months.

2. The Government also indicated its interest in obtaining the collaboration of the Bank in technically and financially strengthening the Latin American subregional financial institutions. Venezuela is establishing Trust Funds in the Andean Development Corporation, the Caribbean Bank and the Central American Bank for Economic Integration. The main objective of these funds is to finance projects of Latin American multinational interest. Regarding financial assistance, the World Bank representatives pointed out that, given the Bank's statutory regulations, all its loans must be explicitly guaranteed by the Governments of the recipient countries. The absence of this guarantee has made impossible, up to now, the direct financial support of the Bank to these institutions. Nevertheless, it was indicated that a study will be made of all existing possibilities for Bank collaboration with these institutions. The Bank will present in the near future some concrete proposals in this respect to the Government of Venezuela.

3. The Government indicated the Venezuelan interest in assisting other Latin American countries through joint or parallel financing with World Bank. The Government also pointed out that - within the framework of this kind of collaboration - Venezuela considers necessary to specially

support the less developed countries of the region. In this connection, it was noted, as an example, that Bolivia - being the least developed country within the Andean Group - could be one of the first countries to benefit from this joint Venezuela-Bank effort. The Bank expressed its desire to undertake this kind of collaboration. For this purpose, the Bank will start conversations, in the near future, with the Government of Venezuela and the Governments of the possible recipient countries.

4. Both sides agreed that it would be mutually convenient for Venezuela to invest in World Bank bonds and in loans to this institution. It was stressed that, as these investments would yield the interest rate prevailing in the international financial markets for World Bank bonds at the moment of formalizing the negotiations, they would constitute an appropriate and secure way to place the resources of the Venezuelan Investment Fund. It was also agreed that these investments could be negotiated in U.S. dollars, other convertible currencies - including the bolivar - and/or in Special Drawing Rights (the value of which would be expressed in a "baskets of currencies" following a procedure similar to that being studied by the International Monetary Fund). It was also agreed that, within the next three weeks, the Government and the Bank will jointly prepare a program for Venezuelan investments in the Bank during 1974. It was further agreed that the average life of these investments will be no less than 12 years. Although all these aspects including the amount of the Venezuelan investments, cannot be formally negotiated until the Venezuelan Investment Fund has been established, it was agreed that the new Venezuelan investments in the Bank during 1974 would be of the order of US\$500 million. Of this total, Venezuela would invest one-fifth as soon as the Venezuelan Investment Fund had been established.

5. In the framework of this new relationship of mutual collaboration, the Bank will substantially increase its lending program to Venezuela through financing, in areas selected by the Government, development projects that fulfil the usual requirements about their expected rate of return and their consistency with the objectives of the country's development policy. Moreover the Bank will also support Venezuela, as much as possible, through technical assistance related to the identification, appraisal and technical supervision of investment projects, and it will also cooperate in the development of the capital market and in other important areas of development policy. On the other hand, it was pointed out that - in addition to the investments during 1974 mentioned in the previous paragraph - the investments that the Government would make during the following years in World Bank bonds and in loans to this institution would exceed the amount of the authorizations of new loans by the Bank.



September 11, 1974

nical support to VIF regarding short-term financial investments; IFC-type operations and project evaluation procedures. This support could include temporary assistance from Bank personnel and some training of Venezuelan technicians. Mr. McNamara also requested VIF and the Venezuelan Government to let him know if, at any moment, the assistance received from the Bank was not entirely satisfactory from the Venezuelan point of view.

5. Mr. Hurtado stressed that it would also be most useful if the Bank could help the Venezuelan public and private enterprises in the preparation of the investment projects that would be financed by VIF and to help VIF to evaluate these projects as well as the financial situation of those enterprises. Mr. McNamara offered to provide this assistance, although indicating again that it would have to be limited to those areas where the Bank has enough experience. Mr. Krieger suggested that this possible assistance could be included in the matters to be discussed by the Bank/Venezuela working group established by the "Joint Declaration" to be signed later that same day.<sup>1/</sup> Mr. Hurtado agreed with this suggestion. He also pointed out that he expected that the Working Group will include -- on the Venezuelan side -- representatives of the Ministries of Planning, Finance and Development, and of the VIF.

6. Immediately afterwards, Messrs. McNamara and Rangel signed the Loan Agreement by which the Bank borrowed \$500 million from VIF, and made the speeches included as Annexes I and II. Mr. Bravo, from the Bank, and representatives of the press were also present at this moment.

#### Meeting with the Central Bank

7. At 10:15 a.m., Mr. McNamara and the other Bank officials mentioned above met with Messrs. Alfredo Lafée and Anthony Dubois -- President and Legal Counselor -- of the Central Bank, and with Messrs. Hurtado, Manduca and Guarnieri. Messrs. McNamara and Lafée signed an agreement by which the Central Bank was appointed as the Bank's Fiscal Agent for the handling of the notes that may be issued in the framework of the Loan Agreement. Afterwards, the participants discussed briefly -- in answering Mr. McNamara's questions -- some recent financial developments in Venezuela, particularly in connection with the domestic liquidity situation; foreign exchange reserves; inflation; and capital market development. It was stressed that the new economic conditions of Venezuela made it necessary to design new policies to handle a situation that -- particularly in its financial aspects -- is very different from that prevailing in the past. Messrs. Hurtado and Lafée thanked the Bank Group for the assistance on capital markets received from IFC, and said they expected that this sort of assistance will continue in the future.

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<sup>1/</sup> See paragraph 9 below.

September 11, 1974

Meeting with President Carlos Andrés Pérez

8. At 11:00 a.m., Mr. McNamara met with the Venezuelan President, Mr. Carlos Andrés Pérez. The Venezuelan Governor of the Bank, Mr. Rodríguez, was also present.

Meeting with the Minister of Foreign Relations

9. At noon, Mr. McNamara and the Venezuelan Minister of Foreign Relations signed the "Joint Declaration" included as Annex III. This "Joint Declaration" sets up the procedures to be followed in the future to continue the two-way relationship established between the Bank and Venezuela.

Lunch with the Economic Cabinet

10. At 12:30 p.m., the Minister of Planning and Governor of the Bank, Mr. Rodríguez, offered a lunch to Mr. McNamara and to Messrs. Cargill and Krieger. The participants included the Ministers of Finance (Mr. Héctor Hurtado), Development (Mr. Constantino Quero), Agriculture (Mr. Luis J. Oropeza), VIF (Mr. Carlos G. Rangel), and International Economic Affairs (Mr. Manuel Pérez Guerrero); the Chairman of the Finance Committee of the House of Representatives (Mr. Juan M. Suere); Mr. Guarnieri and two advisors to Mr. Rodríguez.

Meeting with Representatives of Public Agencies and the Press

11. At 3:30 p.m., Mr. McNamara met with about 50 representatives of the Venezuelan public sector -- including the Presidents of the most important autonomous agencies -- and of the Venezuelan and international press. The meeting was chaired by the Minister of Planning. This meeting had originally been arranged as a working session with the public institutions that might be interested in future assistance from the Bank. However, the participation of newspapermen in the meeting -- which was decided just the day before by Minister Rodríguez -- turned most of the meeting into a press conference. The meeting started with a statement by the Chairman, who stressed the objectives sought by Venezuela in the new relationship with the World Bank, including: to invest abroad its excess foreign exchange resources, with a reasonable rate of return; to channel resources toward other developing countries, thus promoting a better international distribution of income without a sacrifice of Venezuela's own welfare levels; to shift the balance of power within international institutions in favor of developing countries; and to receive the technical support of the World Bank for the Venezuelan development effort. Mr. McNamara again expressed the Bank's gratitude to the Venezuelan Government, and the Bank decision to assist Venezuela's development. He also stressed the importance of the \$500 million borrowing for the developing countries.

12. Among the issues raised by the press, and discussed by Mr. McNamara, were the prospects for controlling world inflation; the possibility of new

September 11, 1974

commodity agreements among producing countries; the Bank's borrowing prospects in the U.S., other industrialized nations, and the Arab countries; the effects of this Venezuelan loan to the Bank on the future influence of Venezuela in the Bank's Board of Directors and on future Bank lending to Venezuela; and the Bank's views on the future of the Venezuelan economy. In answering some questions of representatives of official autonomous agencies, Mr. McNamara once again expressed the Bank's intention to assist Venezuela in several specific fields about which he was asked by the participants, including capital markets development, human resources, and income distribution.

#### Meeting with the Minister of Finance

13. Mr. McNamara met with Mr. Hurtado at 6:00 p.m. Messrs. Javier Pazos; Guillermo Pimentel, Eduardo Mayobre and Eugenio Soler (advisors to Mr. Hurtado) and Cargill, Krieger and Gonzalez-Cofiño (from the Bank) were also present. Mr. McNamara started the meeting by expressing the World Bank's special gratitude to Mr. Hurtado because of his role as the main architect of the two-way Venezuela/Bank agreement. Mr. Hurtado answered by stressing Venezuela's appreciation of the technical and financial characteristics of the World Bank; the potential importance for Venezuelan development of the World Bank's support; and the fact that the Bank had approached a new Venezuelan Government in a most appropriate way through the preliminary negotiations carried out with Mr. Krieger on March and May of this year. In this context, Mr. Hurtado stressed Venezuela's hopes regarding the effects of technical assistance to be received from the Bank.

14. The meeting then centered around a detailed discussion of Bank assistance to Venezuelan development. Mr. Hurtado stressed the Government's appreciation of the assistance already received during the last few months in connection with ports, capital market development, the foreign fellowships program and other areas. Mr. Hurtado pointed out the Government's hopes for the continuation of Bank assistance in those areas and also for receiving it in other aspects, particularly regarding the operations of the national enterprises which are going to receive the financial assistance of VIF. Mr. Hurtado also pointed out the Government's desire to receive Bank assistance for agriculture including the possibility of establishing a network of private service contracting firms; for industry, specially in connection with steel and petrochemicals; for education; and for the construction of the Caracas Metro (although a final Government decision was still pending with respect to this last item). Mr. McNamara confirmed the Bank's decision to continue its assistance to Venezuela in the fields where it has already started it during recent months, and to start new work in connection with agriculture, industry -- particularly regarding fertilizers -- and education. Mr. McNamara also said that the Bank would offer its assistance to the

September 11, 1974

enterprises to be financed by VIF in those areas where the Bank has enough experience. In connection with the Caracas Metro, Mr. McNamara indicated that the Bank may not have all the required expertise, and that, furthermore, eventual Bank assistance for the Metro project would have to be justified in the framework of a broader, balanced urban transportation plan. Such a plan would, for instance, have to include norms limiting the use of automobiles within the inner city limits.

15. An extensive discussion on development policy issues was also held during this meeting. It included issues related to agricultural policy -- particularly regarding public sector efficiency in this sector, price policy, credit and availability of agricultural technicians; possibilities of maintaining -- and eventually increasing -- oil production; industrial development, including the need to correct existing excessive protection, and to promote mergers to overcome the prevailing inefficiency in many industrial branches; and the need for a comprehensive and ambitious reform of the fiscal and financial structure of the country. Concerning all these issues, Mr. Hurtado stressed the Government's awareness of the need for prompt and decisive action, while also pointing out the limitations of a country like Venezuela, which may now be relatively rich in foreign exchange resources, but which is still underdeveloped in many other respects. Mr. McNamara again expressed the Bank's willingness to help Venezuela in all fields where our expertise can be really useful, and indicated his hope to come back to Caracas ten years from now, in order to see the dramatic results that Venezuela may expect to achieve in this period given its economic potential and the courage and developmental orientation of its present Government.

16. Before the end of the meeting, Mr. Krieger said that he wished to specially recognize the major role played in the Bank/Venezuela negotiations by Mr. Hurtado and his immediate collaborators -- Messrs. Pazos, Pimentel and Mayobre. Mr. McNamara ended the meeting by asking Mr. Hurtado to let him know if, at any time, the Government felt that the Bank was not living up to its commitment regarding the assistance requested by Venezuela.

17. The official visit of Mr. McNamara ended with a Cocktail Party offered in his honor by VIF in the Circulo Militar of Caracas, from 7:30 to 10:00 p.m. Mr. McNamara proceeded to Washington the following day, August 15, at 9:30 a.m.

Attachments

cc: Messrs. Knapp  
Cargill  
Alter  
Baum  
Krieger, Director, LAC I  
Knox, Director, LAC Projects  
Avramovic, Chief Economist, LAC  
Kearns, Director, Organization  
Planning

Hittmair, Treasurer's  
Bravo, Chief, Public Affairs Div.  
Holsen, Senior Economist, LAC I  
Pfeffermann, Senior Economist, LAC I  
Cabezas, Legal  
Guerra, Economist, LC1DE  
Ms. Neufeld, Loan Officer, LC1DE

RGonzalezCofifo:kk



"El Universal", Caracas, August 15, 1974

Signing of the 500 million

Venezuela obtains major financial advantages with the dollar loan made to the World Bank

- \* Guaranteed immediate repayability should a tight financial liquidity situation arise.
- \* The loan consists of US\$400 million, payable in US dollars, and Bs 430 million, equivalent to a further US\$100 million.

STATEMENT BY MINISTER CARLOS GUILLERMO RANGEL, PRESIDENT OF THE VENEZUELAN INVESTMENT FUND

The first public act of the Investment Fund established by Decree of the National Executive pursuant to the Organic Law authorizing the President of the Republic of Venezuela to promulgate extraordinary measures in the fields of economics and finance, is this Credit Agreement with the World Bank by which Venezuela will loan US\$500 million to the Bank.

Venezuela has various aims in view with this agreement. The first, on account of its significance for a world in which the gap between the advanced and the underdeveloped countries is tending to widen, causing tensions and despair, is the international solidarity expressed by it. The World Bank, headed with singular efficiency and dedication by Mr. Robert McNamara, has had a steadily increasing role in assisting the poor countries ever since its founding in 1945. Its loans for specific productive projects, which are approved after thorough studies of their feasibility and the borrowers' ability to repay, have been extraordinarily valuable to the countries of Asia, Africa, Latin America and the Caribbean.

Rarely has a more responsible approach been shown on the international scene, since the Bank's lending has always been accompanied by technical assistance and objective supervision designed specifically to increase economic growth and economic well-being in areas ranging from education and family planning to agriculture, energy infrastructure, transportation, communications, industrialization, mining, environmental sanitation and others. Providing a greater volume of funds for the World Bank amounts to the performance of a duty of solidarity for countries such as ours which are receiving, as a result of the higher oil prices, large inflows of funds which cannot all be absorbed in the short term by the domestic economy because of the inflationary dislocations this would cause.

Secondly, few investments are better guaranteed than those made in one of the world's most solid financial institutions, whose resources and lending are growing all the time and whose balances, despite its low interest rates, show a steady increase on the credit side. The interest that will be payable on the Venezuelan loan, coupled with recognition that Venezuela might find itself short of financial resources during the life of the agreement led to the inclusion in the agreement of clauses requiring the immediate repayment of the loan funds if necessary. Additionally, both credit and

technical assistance from the World Bank are guaranteed should Venezuela consider them necessary for its development projects.

The moral and material benefits of the investment having been carefully and strictly established, attention should now be drawn to the provision that 20 percent of the loan shall be furnished and received in bolívares. The acceptance of this clause by the World Bank is further proof of the role which the bolívar has begun to play as an international means of exchange. This loan will consolidate the function which our currency has begun to fulfill, and which it deserves on account of its quality and the volume of reserves and buoyant economy behind it.

The agreement signed today opens the way for free and wider cooperation between the World Bank and Venezuela. There are many areas, besides the specifically financial ones, in which the Bank can assist concrete development programs of ours. It possesses extensive experience and highly qualified staff, together with an organization and leadership ideally suited for the purpose. This is all the more valuable since Venezuela will have to undertake large-scale projects in the most varied fields, from the establishment of a real and effective agricultural infrastructure to major steelmaking, shipbuilding and petrochemical complexes and other undertakings that will make it possible for Venezuela to develop economically in a context of full justice and social well-being.

August 14, 1974

Statement at Signing Ceremony  
by Robert S. McNamara,  
President of the World Bank

The signing of these documents constitutes the beginning of a new and historical phase in the long and fruitful relations between Venezuela and the Bank. It marks the decision of Venezuela to assume a major role among oil exporting countries in making available financial resources to assist developing nations through the World Bank. We, at the World Bank, are pleased and proud that our institution has been chosen as one of the vehicles through which Venezuelan funds will flow into development.

Last March Venezuela opened its capital market to the World Bank (and the Inter-American Development Bank) making possible for the Bank to borrow through the Venezuelan banking system. The Loan Agreement that we have signed today with the Venezuelan Investment Fund is, therefore, the second of what we expect to become a series of financial transactions which will make possible for Venezuela to invest safely and with a reasonable rate of return part of its balance of payment surpluses while, at the same time, helping the developing countries of the world. Venezuela has publicly stated that among these countries one of its main concerns is to assist its neighbor sister nations in the Latin America region. We, at the World Bank, understand and share this sentiment. We expect Venezuela and the Bank to work jointly in this endeavor in the months ahead.

The major changes we are witnessing in the world economy will place Venezuela among the rich countries. Here lies the challenge and the historical opportunity for this generation of Venezuelans under the leadership of the Government of President Perez. And here also lies an opportunity for the World Bank to help one of its member countries to reach the "take-off" stage. This is a case in which our Institution can operate more in its capacity as a purely developmental rather than as a financial organization because what is important for Venezuela is not our financial aid, but our experience and technical know-how. The Venezuelan Government has announced an ambitious program in order to speed-up the rate of growth and the process of transformation of the economic and social system.

Your President, in his inaugural address of March 12 of this year said, "I hope to become the Head of State of a country of citizens proud of their political system and of its social and economic well-being". I trust that the World Bank will have the opportunity to cooperate with him and his Government -- to the extent that Venezuela deems it necessary -- to accomplish this goal.

JOINT DECLARATION

Establishing a program of cooperation between International Bank for Reconstruction and Development and the Government of Venezuela.

Signed by Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development (IBRD), and Mr. Efraín Schacht Aristeguieta, Minister of Foreign Affairs.

PREAMBLE

Whereas Venezuela is interested in receiving, in the immediate future, the cooperation of IBRD in:

- a. the development of investment programs and projects in areas determined to be of high priority by the National Government;
- b. working with other Latin American countries through joint or parallel financing arrangements with IBRD.

Whereas IBRD has manifested its readiness to:

- a. cooperate with the National Government and provide it with technical support for the better execution of projects and programs related to the development of Venezuela;
- b. increase its lending program for Venezuela in order to finance development projects which will fulfill the purposes of its Articles of Agreement and meet the customary requirements of offering a satisfactory return and which are consistent with the objectives of national policy.

And whereas it would be of mutual benefit for both parties:

- a. to mount a joint effort to strengthen technically and financially the activities of the Latin American sub-regional financial institutions;
- b. for Venezuela to acquire securities and obligations of IBRD, which would constitute appropriate and secure instruments for the placement of resources of the Venezuelan Investment Fund.

The International Bank for Reconstruction and Development and the Government of Venezuela agree to sign the present Declaration:

FIRST: Both parties declare that they will cooperate in efforts to achieve the objectives set forth above.

SECOND: To this end, it is agreed to establish a Working Group, composed of officials of both parties, to study and draft a Basic

Agreement of Cooperation, which shall serve as a framework for activities of this nature that may be agreed between the parties, and which shall be signed by the President of IBRD and by the Minister of Foreign Affairs on behalf of Venezuela.

THIRD: The Working Group shall consist of not less than 4 persons of recognized capacity; it shall begin to function 60 days after the date of signature of this Joint Declaration and it shall complete and deliver the work entrusted to it within 30 days of its installation.

FOURTH: The Working Group shall have its headquarters in Caracas, in the offices of CORDIPLAN. The Government of Venezuela undertakes to supply suitable premises for such meetings and the logistical support required.

FIFTH: IBRD shall bear the cost of international transportation, to and from Venezuela, and subsistence expenses for the IBRD representatives on the Working Group 2/. *L*

SIXTH: The names of the officials designated by each party for the Working Group shall be presented to the other party officially and in writing within no more than 30 days from today's date.

In witness whereof, the present Joint Declaration is signed in the city of Caracas on the fourteenth day of August, 1974.

For International Bank for  
Reconstruction and Development

For the Republic of Venezuela

/s/ Robert S. McNamara  
President

/s/ Efraín Schacht Aristeguieta  
Minister of Foreign Affairs

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<sup>1/</sup> In the signed version, the order of the parties in this sentence was mistakenly reversed.

<sup>2/</sup> Referred to here as "comisión", instead of "grupo" as elsewhere.

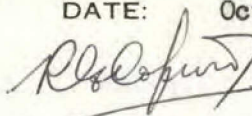
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## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 10, 1974

FROM: Roberto Gonzalez-Cofino, Division Chief, LACI

SUBJECT: VENEZUELA: Mr. McNamara's meeting with Mr. Gumersindo Rodriguez,  
Venezuela's Planning Minister and Governor in the Bank

1. Mr. Gumersindo Rodriguez, head of Venezuela's Delegation to the Bank's Annual Meeting, called on Mr. McNamara at 6.15 p.m. on October 1, 1974. Mr. Roberto Guarnieri, Venezuela's Executive Director, and Messrs. Chenery, Krieger and Gonzalez-Cofino, from the Bank, were also present.
2. Mr. McNamara started the meeting by stressing once more the appreciation of the Bank's management for the Venezuelan's decision to channel through the Bank an important part of its oil revenues. He indicated that he intended to point out the importance of such a decision in the Caucus of Latin American Governors the following day. He then asked Mr. Rodriguez which are the main priority areas for Bank assistance in the near future.
3. Mr. Rodriguez stressed that the project appraisal process constitutes, in his opinion, the area where Bank assistance can be most fruitful. He indicated that such assistance could cover the appraisal of some major projects; the establishment of an efficient project appraisal system by the Government; and the training of Venezuelan technicians. Mr. McNamara said that the Bank will provide such assistance in those areas where it is competent to do so. In connection with training, he offered the services of the Economic Development Institute. While indicating that there is excess demand for EDI services, Mr. McNamara stressed that he would attach high priority to assist Venezuela in this respect. He asked Mr. Krieger to get in touch with the EDI Director, and to work out a program that would be later discussed with the Venezuelan Government.
4. In answering other questions from Mr. Rodriguez, Mr. McNamara indicated the Bank's willingness to assist Venezuela in connection with ports, storage facilities, and new railroads now being planned by the Government. On the other hand, Mr. McNamara said that the Bank has no experience in the shipbuilding industry, and, therefore, is not able to help Venezuela in that field. Mr. McNamara also indicated that the Bank will study if it can assist Venezuela in the planning of the regional decentralization of economic activity which the Government wishes to undertake.
5. It was also agreed that these and other areas of Bank assistance would be further explored during the meetings of the Bank/Venezuela Working Group which will be held in Caracas during October and November.
6. The meeting ended at 6.40 p.m.

Distribution on Page 2

RGonzalezCofino:cc

October 10, 1974

Cleared with and cc: Mr. Krieger, Director, LACI

cc: Messrs. Knapp  
Cargill  
Chenery  
Alter  
Baum  
Knox, Director, LAC Projects (o/r)  
Kearns, Director, Organization Planning  
Hittmair, Treasurer's  
Glaessner, Assistant Director, LAC Projects  
Geli, Assistant Director, LAC Projects  
Blaxall, Assistant Director, LAC Projects  
Bravo, Chief, Public Affairs Div.  
Holsen, Senior Economist, LACI  
Pfeffermann, Senior Economist, LACI  
Cabezas, Legal  
Perez, Program Coordinator  
Frost, EDI  
Koenig, EDI  
Bronfman, LAC Projects  
Cash, LAC Projects  
Goffin, LAC Projects  
Haasjes, LAC Projects  
Malone, LAC Projects  
Renger, LAC Projects  
Thint, LAC Projects  
Div. Circulation  
Guerra, Resident Representative, Venezuela

cc: Mr. Ljungh (2)



15.

## OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: November 25, 1974

FROM: Adalbert Krieger, Director, LACIA

SUBJECT: VENEZUELA: Mr. McNamara's Meeting with Messrs. Juan Pablo Perez-Castillo and Eduardo Wallis, Directors of the Venezuela Investment Fund (VIF)

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1. Messrs. Perez-Castillo and Wallis called on Mr. McNamara at 6.00 p.m. on October 25, 1974. Mr. Roberto Guarnieri, Venezuela's Executive Director and Mr. Krieger from the Bank were also present.
2. Mr. Perez-Castillo started the meeting by stressing once more the appreciation of VIF for the support being granted by the Bank to that Institution. He indicated that VIF is deeply interested in the continuation of this Bank support, which is considered essential for the organization and initial operations of the Institution. In recognition of the importance of the collaboration already offered by the Bank, Mr. Perez-Castillo offered Mr. McNamara, as a gift from VIF, a facsimile of the document by which the Venezuelan Government made the first transfer of funds to VIF, when this Institution started its operations.
3. Mr. McNamara reiterated to the Venezuelan visitors the Bank's decision to continue and intensify its support of the Venezuelan Government development efforts in general, and of VIF operations in particular, as already agreed during his visit to Caracas. With regard to the assistance already being given to VIF, Mr. McNamara referred to the work being done by the Group coordinated by Mr. Kearns. Messrs. Perez-Castillo and Wallis expressed that VIF was very satisfied with that assistance.
4. Mr. Perez-Castillo explained to Mr. McNamara the problems faced by VIF in the immediate investment of their liquid resources, given the difficult situation of the international capital markets. Mr. McNamara agreed in considering difficult the situation in this respect, and indicated that the Bank would try to help VIF in this field through the forthcoming visit to Caracas of Mr. Hittmair and through the work that can be done at Headquarters under the direction of the Bank's Treasurer, Mr. Rotberg. However, Mr. McNamara said that in his opinion, the most important problem faced by VIF, particularly over the medium- and long-term, was to promote productive investment in a way conducive to accelerate, on a sound basis, the Venezuelan development process. In this respect Mr. McNamara indicated that the Bank would offer a much broader and effective support.

November 25, 1974

5. Mr. McNamara explained how the Bank has developed over many years, a highly competent technical staff, with growing emphasis in the productive sectors. He particularly referred, as an example, to the Bank expertise in industry, accumulated in the Industrial Projects Department headed by Mr. Fuchs. The Bank has already started to collaborate with VIF in this area through the appraisal of the SIDOR steel project. In answering Mr. Perez-Castillo's questions about industry, Mr. McNamara stated that the Bank cannot help in connection with shipbuilding, because it has no expertise in this field, but that it is prepared to assist the Government and VIF in all other industrial fields where it is competent to do so.

6. Mr. McNamara requested Mr. Krieger to maintain him systematically informed about the implementation of the Bank's assistance program to the Venezuelan Government. He also asked Mr. Krieger to let him know immediately about any obstacles that might emerge in the implementation of that program, and assured Messrs. Perez-Castillo and Wallis that the Bank management will do whatever may be necessary for continuing an effective support of the Venezuelan development effort.

7. At the end of the meeting Mr. McNamara summarized the discussion by reiterating that he considered that most of the Bank assistance to VIF will be related to the highly important objective of promoting domestic productive investment. He also indicated that the Bank is prepared to help Venezuela in other development areas, and that a final decision in that respect would be made after the November meeting in Caracas of the Bank/Venezuela Working Group.

cc: Messrs. Knapp  
Cargill  
Chenery  
Alter  
Baum  
Knox, Director, LAC Projects  
Kearns, Director, Organization Planning  
Rotberg, Treasurer  
Hittmair, Deputy Treasurer  
Fuchs, Director, Industrial Projects  
Gonzalez-Cofino, Division Chief, LACI

AKrieger:cc

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
(through Mr. Gerald Alter) *gh*

DATE: October 24, 1974

FROM: Adalbert Krieger, Director, LAC I *AK*

SUBJECT: Visit of Venezuelan Investment Fund Directors

*6 PM*

- 10/25
1. You are scheduled to meet with Messrs. Juan Pablo Pérez-Castillo and Eduardo Wallis of the Venezuelan Investment Fund (VIF) at 6:00 p.m. tomorrow. This will follow their meetings earlier in the day on a variety of fields in which VIF seeks a wide array of technical assistance from the Bank. Messrs. Pérez-Castillo and Wallis, Directors of VIF, were in the party of Venezuelan officials whom you met on August 14, 1974 at the Fund in Caracas.
  2. As you may recall from that visit, VIF was created on June 11, 1974 by the Venezuelan Government in the wake of the unprecedented oil proceeds accruing in the last two years. Its creation symbolized the Government's awareness of the need to sterilize the increase in revenues from that boom in order to avert excessive increases in domestic money supply. The Fund will channel resources to "productive" development projects in the interest of Venezuela's economic expansion and diversification. Priority will be given to steel, petrochemicals, metallurgy, mining and infrastructure projects. Portions of the Fund are expected to be also used for development projects elsewhere in Latin America.
  3. Prior to meeting with you, the Venezuelan officials are scheduled to spend much of the day pursuing several technical assistance requirements of the Fund, reflecting the new relationship between the Government and the Bank. These include work on the organization of the Fund itself and on VIF's financial investments. The focus of the present visit falls as well on means of assisting the Fund to establish effective project evaluation techniques (which the Venezuelan Delegation to the recent Annual Meetings raised with you). As such, this visit closely parallels that of Dr. Curiel, VIF's Executive Director, who met with Messrs. Cargill, Qureshi, Hittmair, Kearns and several others last Friday on related questions.
  4. The meeting with you is expected to serve principally as a courtesy call. You may wish to point out the actions already taken to implement the agreements signed in Caracas. These include:
    - ✓ a. the provision of advice on the organization and operations of the Fund;
    - ✓ b. the provision of advice on VIF's capital market operations, including counsel on the reform of Venezuela's principal financial laws;
    - ✓ c. an appraisal of the expansion program of the Government steel company (Siderúrgica del Orinoco - SIDOR); and

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- ✓ d. the appointment of a Bank Resident Representative in Venezuela who arrived in Caracas on October 7.
- ✓ In addition, as Messrs. Pérez-Castillo and Wallis are aware, four Bank representatives will meet in Caracas beginning next Monday in the Working Group established to shape the framework for future Venezuela/Bank relations, pursuant to the "Joint Declaration" signed in Caracas.

Cleared with and cc: Mr. Kearns, Director, Organization Planning

cc: Messrs. Rotberg, Treasurer  
Hittmair, Treasurer's  
Fuchs, Director, Industrial Projects  
Blaxall, Assistant Director, LAC Projects  
Geli, Assistant Director, LAC Projects

Mrs. Neufeld, Loan Officer, LCLDE

HNissenbaum:kk