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January 7, 1966

MEMORANDUM FOR MR. McGEORGE BUNDY
THE WHITE HOUSE

Subject: Speech of Felipe Herrera, President of the Inter-American Development Bank, at the Conference of Foreign Ministers

Enclosed for your information is a copy of the English text of a speech given by Felipe Herrera, President of the Inter-American Development Bank, at the Conference of Foreign Ministers in Rio de Janeiro on November 23, 1965. The speech was enclosed in a letter from Mr. Herrera to the Secretary.

Recounting the accomplishments of the Bank, Mr. Herrera emphasized in his speech that the Bank's capacity to discharge expanding responsiblities depends upon the extent to which it is able to obtain new resources, and pointed out the problem faced by the Bank in being denied access to capital markets because of balance of payments considerations.

In his speech Mr. Herrera called attention to President Johnson's statement of August 17 commemorating the Fourth Anniversary of the Charter of Punta del Este. On that occasion the President had said the United States will contribute to the creation of a new fund for the preparation of multinational projects. Since the Rio conference, Mr. Herrera has been seeking a further definition of the timing and amount of the United States contribution to the new fund, which is to be organized and administered by the Inter-American Bank. A working group which includes State/AID representatives has been holding discussions with the Bank on this matter.

Benjamin H. Read
Executive Secretary

Enclosure:
Copy of speech

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**INTER-AMERICAN DEVELOPMENT BANK**

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ADDRESS OF FELIPE HERRERA, PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK, AT THE PLENARY SESSION OF THE II SPECIAL INTER-AMERICAN CONFERENCE OF FOREIGN MINISTERS IN RIO DE JANEIRO, NOVEMBER 23, 1965

The Inter-American Development Bank took shape over a period of many years within the inter-American system itself. This aspiration, dating back many decades, became a reality only six years ago, but already it is able to provide the Americas valuable experience in formulas for dealing with the economic and social problems of the Hemisphere.

The concept of "multilateralism," currently gaining ground in international political and economic relations, is constructively projected through the Inter-American Bank, which enables 19 developing countries to join in sharing a common task with the most highly industrialized and technologically most advanced nation on the world scene today. This undertaking has been carried out in such a way as to make it possible for the Bank to rally to its cause all the diverse Latin American sectors, which consider it to be "their Bank," without for one moment losing the sobriety and efficiency of a financial organization.

It is interesting to note that our experience has been reflected in similar efforts on other continents, through the establishment of the African Development Bank and the proposal now being implemented for an Asian Development Bank, initiatives to which our Bank has had the pleasure of contributing its technical assistance.

The original concept of the IDB as an agency designed to finance specific economic development projects has been substantially broadened by the terms of new guidelines for inter-American economic and social policy. I refer to events of great significance for our institution, particularly to the adoption of the Act of Bogota and the Charter of Punta del Este, to the joint efforts united in the Central American Common Market and the Latin American Free Trade Association and to the Alta Gracia Meeting, where the first step was taken towards a joint approach to the problems of foreign trade.

As a result of these developments, our original tasks have expanded to include the financing of social investment, cooperation in planning for the study and implementation of institutional reforms, and, more recently, responsibilities in the promotion of regional trade, economic supplementation and the multinational undertakings which are earning us the title of the "Latin American Integration Bank."

Committed as we are to the dynamic future that lies ahead, we are following closely the preoccupations of the inter-American system, particularly in the economic development sphere, with a view to adjusting our activities to possible new tasks, certain that in their fulfillment we will receive the same steadfast support which the member governments of the Bank have given us in the past.

As other speakers have already pointed out, peace, democracy and self-determination cannot prevail if the conditions needed to promote economic growth in the Latin American countries and to distribute the fruits of this growth equally are not created. It is obvious that the Bank must play an important role in these endeavors and for that reason, I would like to outline to you the following considerations which influence our activities.

## I. Towards a Latin American Economic Community

I should like to point out, first of all, that if Latin America is to attain full maturity, it urgently needs to accelerate its irrevocable march towards economic integration. Every day we become more fully aware that, to overcome the frustrations and tensions that have characterized long decades of our history, a vast hemisphere-wide undertaking must be initiated in which we Latin Americans can take pride in standing as a single community of peoples which, by creating a far broader geoeconomic panorama through common endeavor, will lead to the development and utilization of immense human, cultural and natural potentials.

The rapid advance achieved in consolidating the Central American Common Market and the recent LAFTA Conference of Ministers permit us to take the optimistic view that this motivation is being expressed in constructive achievements. In fact, the recent meeting of the LAFTA Foreign Ministers in Montevideo has made evident that the single "micronegotiation" of reciprocal tariff facilities has virtually exhausted its possibilities and that measures must be taken leading to the creation of a "common market" for Latin America. This is the significance of the proposals and resolutions adopted at Montevideo, not only in connection with hastening the liberalization of trade but also with reference to the advisability of coordinating monetary and payment policies, promoting and channeling regional investment and strengthening the institutional mechanisms that will permanently fulfill these purposes. Particularly important was the announced adherence of Venezuela to LAFTA and the proposals for closer ties between LAFTA and the Central American Common Market.

Such decisions reflect initiatives undertaken on various political and technical fronts. It is a source of particular satisfaction for those of us who participated in preparing the "Document of the Four" to see the significant consideration and response evoked by the thesis brought to the attention of the Latin American governments a few months ago.

I will not describe in detail the Inter-American Bank's relationship to the integration process. However, I would like to recall the effective operation of our lines of credit in financing regional trade in capital goods. We witness, for example, our resources being utilized to export steel piping from Argentina to Chile and to enable El Salvador to purchase machinery in Mexico to manufacture rolled steel. We have also observed how these credits have permitted Peru, Chile and Brazil to set up and strengthen their own national systems for the promotion of such exports.

I would also like to recall our financial and technical backing for the establishment and consolidation of the Central American Bank for Economic Integration; the preparation of border integration programs; the drafting of pre-investment studies designed to obtain multinational financing for a diversity of projects such as the Bolivarian Highway; the first interconnection of electrical systems in South America between Venezuela and Colombia and highways financed or soon to be financed in Honduras, Uruguay, Brazil and Chile to facilitate or expand communications with neighboring countries. Our activities have also included studies undertaken in collaboration with LAFTA, ECLA, ILPES, the FAO and ILAFA, designed to promote regional integration of such basic sectors as the steel industry, fertilizers and telecommunications. Mention should also be made of the establishment by the Bank of the Institute for Latin American Integration, now functioning in Buenos Aires, with the primary purpose of preparing experts in the various facets of this process.

In order to achieve more harmonious development among the various nations seeking integration, the IDB has given priority to the needs of the comparatively less developed countries, as shown by the per capita geographic distribution of loans and technical assistance granted.

## II. <u>External Resources and International Trade</u>

The goal of transferring at least 1 per cent of the gross national product of the industrialized nations to the developing regions, as proposed in the "Development Decade" has not been achieved. This circumstance led Mr. Woods, President of the World Bank, to state recently that "no one can be happy about the state of the international development effort today."

The same dissatisfaction exists in connection with the lack of effective progress in the relation of trade between countries exporting raw materials and the developed world. Other speakers have already pinpointed both these circumstances at this meeting.

In Latin America, the volume of exports has increased since 1960 at an annual rate of 5 per cent, but this represents only a 1.6 per cent rise yearly in regional purchasing power. Consequently, prevailing conditions of international trade deny our countries the possibility of overcoming the limiting characteristics of underdevelopment.

The weakness of our export trade has been reflected in a balance-of-payments deficit and growing international indebtedness. Latin America's long-term foreign public debt payable in foreign exchange has climbed from $4.3 billion at the end of 1956 to $11 billion at the end of 1964. Service on this debt, in principal and interest, increased over the same period from $425 million to $1.6 billion. Of the total indebtedness outstanding at the close of 1964, 47 per cent matures within the next 5 years, 24 per cent in five to ten years, and only the remaining 29 per cent matures in more than 10 years. By no means can this situation be regarded suitable to the development needs of Latin America. Thus, the payments difficulties periodically affecting our countries are not due to an exhaustion of their capacity to service long-term debt, nor to the fact that the incapacity to absorb external capital has reached a saturation point. To the contrary, if foreign financing were available on more favorable terms and at lower interest rates, Latin America could absorb a larger volume of external resources and service it adequately.

We must note the positive fact that, following the signature of the Charter of Punta del Este, there has been a significant increase in long-term international public financing for Latin America, from an annual average of $400 million in 1957-60 to an average of $1 billion in the following four-year period. The resources loaned by the Inter-American Bank, a total of approximately $300 million a year, accounts for a substantial share of the latter figure.

It is also satisfactory to observe that during the last two years most of the Latin American countries have reached the economic growth goals set forth in the Charter of Punta del Este, significantly assisted by this increase in the flow of international public investment resources. This demonstrates that, barring unfavorable developments in the foreign sector, the Latin American countries are capable of substantially accelerating their growth when their internal policies are sound and they are supported by flexible external aid.

## III. The IDB Role in Latin American Development

As of October 30 of this year, the Inter-American Bank had committed resources equivalent to $1,344 million from its various funds through 302 loans. We expect this year to attain the highest yearly loan figure of our history.

The $540 million disbursed to date is reflected in a vast physical program of works. The programs in which the Bank participates include more than 1 million hectares of new or improved farmlands; 115,000 farm credits derived rom our over-all loans; 45 large industrial plants installed, expanded or under construction; 1,500 small and medium industrial projects aided by our lines of credit; 1,300 kilometers of main highways and almost 1,600 kilometers of access and farm-to-market roads; an increase of almost 1,800,000 kilowatts in electric generating capacity; 250,000 low-cost housing units, of which 71,000 have already been completed and 81,000 are in an advanced stage of construction; 2,175 urban and rural water supply and sewage programs benefiting 24 million individuals, of which more than 500 are already operating, and 40 universities in 15 countries receiving external financing for administrative and academic modernization.

These figures achieve even more significance because of the fact that nearly 50 per cent of our financing are "soft" loans with regard to terms, interest rates and repayment currencies. Consequently, such financing does not entail an additional burden on regional balances of payment, a problem we have already mentioned. Furthermore, these loans have been earmarked for neglected areas and sectors which do not ordinarily receive international financial assistance and, by generating a parallel mobilization of domestic human, financial and institutional resources, exert a positive multiplier effect.

The stagnation of the agricultural sector in Latin America has already been emphasized at this meeting. For this very reason, we have assigned priority to that sector, allocating more than $300 million to programs of irrigation, farm mechanization and modernization; rural land settlement and crop diversification; the establishment of credit facilities for small and medium farms, and the promotion of farm cooperatives.

We are accelerating the industrialization of Latin America not only by the direct financing of projects requiring heavy investment but also by providing financial support for small and intermediate local entrepreneurs. The utilization of development banks, public and private, agricultural and industrial, has led to the placement of $330 million benefiting dozens of these financial entities which serve as effective instruments for savings and investment in their respective countries; therefore, in practice, we are functioning as a "central bank" for those organizations.

Extremely important in terms of its volume, $460 million, and its pioneering nature has been the Bank's cooperation in the improvement of social infrastructure through the creation of better housing and sanitary conditions. It is interesting to recall that at the time the Social Progress Trust Fund began to operate in 1961, only one country had a housing program and the institutional arrangements set up for systematic handling of the serious social problems represented by housing were extremely tenuous. Today, with the collaboration of the IDB, almost all of its member countries have succeeded in projecting their policies in this area and in establishing the technical and financial mechanisms required to promote them.

In like manner, our credits for water supply and sewage facilities have led to the formation and strengthening of national, municipal and autonomous agencies which are able to provide these services systematically in a continent where almost 50 per cent of the population still lacks such facilities. In these undertakings, we have been able to count on the valuable technical experience of the Pan American Sanitary Bureau.

Consequently, the role of the Inter-American Bank has not been confined to the provision of resources, but has also been oriented towards the establishment and strengthening of institutions responsible for satisfying the growing demands of the economy and of social welfare. To this end, the utilization of a substantial part of our funds for purposes of technical assistance has been essential. The funds earmarked for such activities amount to nearly $50 million, representing a unique "preinvestment" undertaking that has taken many forms, ranging from the institutional aspect already outlined to the preparation of programs and projects and the training of the experts and administrators to direct them.

The operating procedures we have mentioned make it possible to create powerful incentives to the utilization and development of potential or poorly directed national energies; this explains why our contribution represents only a little more than one-third of the total cost of the respective projects.

In this endeavor to generate local resources, we have met with the inherent limitations of underdevelopment, fiscal and administrative systems and land tenure. As indicated in our annual reports of the Social Progress Trust Fund, the Bank's work has made a dynamic contribution to the progress achieved in implementing the reforms stipulated in the Charter of Punta del Este.

Our specific activities have been facilitated by the establishment of the Inter-American Committee on the Alliance for Progress (CIAP), whose role as coordinating agency for the several national efforts and as promoter of economic and social programming has provided the countries with valuable guidelines and exchanges of experiences. We have obtained similar benefits from joint undertakings with the OAS and ECLA, through the Tripartite Committee, especially by means of expert groups which are assisting the countries to prepare and draft their development policies.

## IV. IDB Capitalization

The expansion of Bank activities and the flexibility of our operating policies have been made possible by the dynamic growth of its resources. A number of mechanisms have facilitated this growth: contributions by the member countries, trust funds, sale of our bonds on the markets and private bank participation in our loans.

The Bank has faithfully followed the guidelines provided by its member countries in adding funds to the substantial resources contributed or entrusted to the Bank for administration by the United States Government; accordingly, more than $120 million has been obtained from nonmember countries. This total includes bond issues in Italy, Germany and England; funds made available to us by the Canadian Government; a direct loan from the Government of Spain, and a special arrangement with the Netherlands. Similar agreements are being negotiated with the United Kingdom, Japan and Israel.

The formation of a sound portfolio has given the Bank access to the international capital market on advantageous conditions comparable to those available to other financial agencies. However, these markets are not always easily accessible to such organizations as ours, not because of any doubts regarding the soundness of the bonds offered but because of the concerns of the capital-exporting countries regarding their balance of payments and the priority they assign to other financing operations that must also be based on the same markets. It should be recalled that the Geneva Conference on Trade and Development posed the need for having countries with a greater savings capacity grant preference to international and regional financing agencies for utilizing those markets to satisfy the expanding requirements of the developing world.

The problem presents another facet in the European countries: prevailing high interest rates often dash hopes of obtaining funds for development purposes, since the corresponding loan projects are unable to absorb those costs.

In order to continue satisfying growing demands for long-term resources, the Bank has sought in advance to propose various formulas designed to ensure the opportune expansion of its funds. In this way, it has been able to obtain assurances of sufficient "soft" funds, particularly through the most recent increase in the Fund for Special Operations amounting to $900 million, to meet its needs in the coming years. With reference to the ordinary capital resources, we have sought increases in callable capital suscriptions from the member countries in order to place new issues on the capital markets.

In accordance with this policy, the Board of Executive Directors and the Management of the Bank will submit a new proposal for a capital increase to the next Meeting of the Board of Governors to be held in April 1966 in Mexico City. This is particularly necessary due to the fact that member countries are demanding not only a greater volume of financing but also that resources be channeled to new fields.

In this connection, the Bank is already utilizing the new resources of the Fund for Special Operations to expand its credit activities in community development programs, in support of higher and technical education, and in over-all loans for the establishment of national "preinvestment" systems to finance the preparation of specific projects, thus eliminating one of the most serious obstacles to the absorption of external funds.

Our capacity for greater action in these and other fields, will depend upon the extent to which we are able to obtain new resources, since the special characteristics of our long-term loans will prevent us from making recoveries of any substance in the immediate future.

Mr. Chairman:

Distinguished Ministers:

I should like to take advantage of this occasion so generously given to me to outline for this Conference the views of the Inter-American Bank on the economic and financial aspects of hemispheric development efforts to refer to certain lines of action that I regard as fundamental.

First: Recent Latin American experience demonstrates the advisability of strengthening multilateralism as an effective form of cooperative international financing. With reference to the Bank, this implies, on the one hand, continued decisive support by its member countries for the increase of its capital and, on the other, the even broader participation of extra-continental resources.

As we have already seen, the Inter-American Bank has tirelessly striven to obtain contributions from nonmember capital-exporting countries. Along the same lines, it has repeatedly urged that European countries which are interested in Latin American development should set up a "European Investment Fund" to be administered by our Bank. I would like to emphasize how important it is for the success of this undertaking that all the member countries of the inter-American system give what support they can to the efforts of our institution.

It is not enough to strengthen the institutional and financial machinery. We must also assure an increasing flow of external resources to help our countries achieve the investment levels required at least to maintain the goals of growth and social equity established in the Charter of Punta del Este. This aim will be fulfilled both by ensuring an adequate supply of public resources and by opening the capital markets to the financial agencies operating in Latin America.

Second: The developing countries must have the backing of foreign private investment and be able to look forward to a foreign trade that is not only expanding and more diversified, but also ensures that the products of those countries are traded at equitable prices. It is illusory to draft external financing programs unless terms of trade are achieved under which our countries can earn from their exports of goods and services the resources they must have for their current and future development. Here, too, multinational solutions are essential, on both the regional and international levels.

Third: The rising flow of international public aid has considerably expanded the volume of long-term financing available to Latin America and the region is adapting its national development programs to the characteristics of such financing. Yet, it is short-term external aid which is becoming a top-priority need in many of our countries. External economic problems and inflationary conditions often prevent the governments from responding in full to the immediate demands of economic and social progress.

Obviously, the task of achieving financial soundness is the responsibility of the countries themselves; however, external cooperation is becoming an increasingly necessary adjunct to its accomplishment.

Regional action may have an important role to play in this field, as well. Just as the course of inter-American relations evolved the ideas that culminated in the establishment of our institution as an aid to the process of capital formation, so now a need has arisen for some type of regional arrangement under which countries affected by imbalances and external financing problems may be given temporary assistance on short and intermediate terms and appropriate conditions. A mechanism of this kind would enhance our prospects for recourse to agencies already acting to solve these difficulties on the international level. In the positive steps towards cooperation now being taken by our central banks we can already glimpse the initial basis for what might become such a scheme, which will of course, require the support of the principal capital exporting countries linked by investment and trade to the economic life of Latin America.

Fourth: Our countries should act to accelerate the sluggish growth of their internal investment. This action calls for the use of planning techniques, essential structural reforms, and the creation of conditions for monetary and financial stability. Without such internal policies, resources absorbed from abroad will not be properly utilized and will always fall short of requirements.

Fifth: Latin America's current affirmation of its desire to integrate should be given expression on the financial level by promptly establishing the "Preinvestment Fund" for the preparation of multinational projects in accordance with the statements of the President of the United States, the CIAP proposals and the resolution recently adopted by the LAFTA Ministers. The view expressed by the LAFTA countries and CIAP that the responsibility for organizing and administering such a fund should be entrusted to the Inter-American Bank, is a source of great satisfaction to our institution.

Sixth: Massive multilateral action is required to raise the present levels of technology and science in our countries. This is another area in which the efforts of an integrated Latin America can achieve optimum results: broader markets and more flexible relations can make the absorption of knowledge and experience a more rapid and less expensive process; in today's world, such conditions are more easily created in the nations of more developed economic areas.

As a specific contribution to this task, the Bank will intensify its policy of support to Latin American universities and to other centers of advanced training, a policy which has made it the principal source of external cooperation in this field.

Seventh: The thesis calling for strengthening of the inter-American system by bringing in countries of the hemisphere that have not yet joined that system carries important implications for regional development policy, not only as to new members that have already entered the industrialization stage but also with reference to those nations whose growth problems are similar to those of certain Latin American countries and areas. In this connection, the Bank's experience in its cooperation agreements with Canada and its contacts with Jamaica and Trinidad-Tobago constitute valuable precedents.

Gentlemen:

On behalf of the Inter-American Development Bank, it is my hope that this Conference will help to create conditions that will assure to our region the future of peace, democracy and social justice which is no less the ultimate goal of economic development in this hemisphere.

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