

English

PN-AAK-788

**CONFERENCIA INTERAMERICANA  
DE AHORRO Y PRESTAMO**



**CONFERÊNCIA INTERAMERICANA  
DE POUPANÇA E EMPRÉSTIMO**

**INTER-AMERICAN SAVINGS AND LOAN  
CONFERENCE**

**CARTAGENA-COLOMBIA  
1931**



**ANNALS OF THE NINETEENTH INTER-AMERICAN  
SAVINGS AND LOAN CONFERENCE**

*"To promote savings and to contribute to home ownership are objectives closely linked with economic and social development. Savings and Loan Systems have shown, at world level, that they are adequate tools for attaining those goals. To support their full development is a duty for all those who care about the welfare of the American Nations".*

**CARTAGENA - COLOMBIA  
May 4 - 7, 1981**

**S P O N S O R**

INTER-AMERICAN SAVINGS AND LOAN UNION

**C O - S P O N S O R S**

INSTITUTO COLOMBIANO DE AHORRO Y VIVIENDA

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

NATIONAL SAVINGS AND LOAN LEAGUE

UNITED STATES LEAGUE OF SAVINGS ASSOCIATIONS

INTER-AMERICAN SAVINGS AND LOAN BANK (BIAPE)

#### THE CONFERENCE BOARD

- President: Mr. Luis Guillermo Soto, President of the Inter-American Savings and Loan Union.
- First Vicepresident: Mr. Peter M. Kimm, Director, Housing Office of the U.S. Agency for International Development (AID).
- Second Vicepresident: Mr. Eligio Tomás Franco Flores, President of Banco Nacional de Ahorro y Préstamo del Paraguay.
- Directors: Mr. Richard Lawton, President of the National Savings and Loan League.
- Mr. Norman Strunk, in behalf of Mr. Rollin Barnard, President, United States League of Savings Associations.
- Mr. Alberto Klumb, Executive President of Banco Interamericano de Ahorro y Préstamo (BIAPE).
- Mr. Eduardo Villate Bonilla, Executive Director of Instituto Colombiano de Ahorro y Vivienda.
- Mr. Rafael Chalela Costa, President of Asociación Nacional de Mutualistas del Ecuador.
- Mr. Manuel Callirgos Gamarra, Director, Banco de la Vivienda del Perú.
- Secretary General: Mr. Ricardo García-Rodríguez, Secretary General Inter-American Savings and Loan Union.

## A G E N D A

### "SAVINGS, THE DRIVING FORCE OF DEVELOPMENT"

- A.- Analysis of Savings and Housing Finance in Japan, U.S.A., Spain and West Germany.
  
- B.- Study of the following themes:
  - I. Main present-day and prospective problems of Savings and Loan Systems.
  - II. Relations between the Savings and Loan Systems and the Housing promoters and builders.
  - III. Implications of the operational diversification of Savings and Loan Entities.
  - IV. Relations between the Savings and Loan Systems and the Governments.

## SPEAKERS

Mr. Ricardo García-Rodríguez, Secretary General of the Inter-American Savings and Loan Union and Secretary General to the XIX Inter-American Savings and Loan Conference.

Mr. Eduardo Villate Bonilla, Executive Director of Instituto Colombiano de Ahorro y Vivienda.

Mr. Schinichi Ichimura, Economy Professor at the University of Kyoto, Japan, and Director of that University's Center for Asian Studies.

Mr. William Cleve Brown, Vicepresident, Unifirst Savings and Loan Association of Jackson, Mississippi, U.S.A.

Mr. Tom J. Hefter, President, Savings Institutions Marketing Society of America (SIMSA).

Mr. Miguel Allué Escudero, President of Confederación de Cajas de Ahorro de España.

Mr. Willi-Dieter Osterbrauk, Managing Director, European Federation of Savings and Home Financing Entities and Adjunct President of International Union of Building Societies and Savings Associations.

Mr. Peter M. Kimm, First Vicepresident of the XIX Conference and Director of AID's Office of Housing.

Mr. Francis Conway, Regional Director of AID's Office of Housing for Central America.

Mr. Mario Pita, Regional Director of AID's Office of Housing for Panama and South America.

Mr. Eligio Tomás Franco Flores, President of Banco Nacional de Ahorro y Préstamo del Paraguay.



*Juridical Institute Convention. Left to right: Guillermo Le-Fort Campos, Coordinator; Manuel Sánchez Palacios, Vicepresident; Carlos Ignacio Arcaya, President; Ricardo García-Rodríguez, Secretary General; Federman Quiroga, Vicepresident Director.*



*Partial view of the Convention.*

## WORK GROUP PRESIDENTS, RAPPOREUR AND PANELISTS

### B-1 WORK GROUP

PRESIDENT	RAPPOREUR	PANELISTS
Mr. Gerardo Townson (Guatemala)	Mr. José Roberto Talio (Argentina)	Messrs. Jesús Rafael Boada (Venezuela) and Eduardo Iraola (Peru).

### B-2 WORK GROUP

PRESIDENT	RAPPOREUR	PANELISTS
Mr. Carlos Tovar (Panama)	Mr. Guillermo Heisecke (Paraguay).	Messrs. Alvaro Alberto Souto Filgueira (Brazil) and Pedro Gómez Barrero (Colombia).

### B-3 WORK GROUP

PRESIDENT	RAPPOREUR	PANELISTS
Mr. Alfonso Vallejos (Colombia).	Mr. Gastón Mujía (Bolivia).	Messrs. Sergio Vergara (Chile) and Arthur Tonsmeire (U.S.A.).

### B-4 WORK GROUP

PRESIDENT	RAPPOREUR	PANELISTS
Mr. Mario A. Rendón (Honduras)	Mr. Silverio de Zabala (Venezuela).	Messrs. Hernando Villagó- mez Cobo (Ecuador) and Hugo González López (Dominican Republic).

## PRELIMINARY MEETINGS AND AGREEMENTS

Preliminary meetings of the Inter-American Savings and Loan Conference were held by its Directing bodies and special Committees on Thursday April 30, Friday and Saturday May 1 and 2, at the Bogota Hilton Hotel.

The IV Convention of the Union's Juridical Institute was celebrated on April 30 and May 1.

The X Inter-American Meeting of Savings and Loan Institutes was held on Thursday, April 30 at 2.30 p.m.

Next, on Friday, May 1 the Union Executive Committee held its session at 9 a.m. the Union Board met at 6 p.m.

The X Inter-American Meeting of Savings and Loan Leagues took place on Saturday, May 2 at 9 a.m., followed at 10 a.m. by the IV Meeting of the Inter-American Savings and Loan Central Organizations.

Two elections took place during the course of said meetings and should be recorded in these Annals, namely:

- 1.- The election by the Central Organizations of Arch. Manuel Callirgos Gamarra, Director of Banco de la Vivienda del Perú, to represent them on the XIX Conference Board.
- 2.- The election by the Latin American Savings and Loan Leagues of Mr. Rubén Chalela Costa, President of Asociación Nacional de Mutualistas del Ecuador, as their representative to the XIX Conference Board.



*Meeting of the Inter-American Savings and Loan Union's Board. First row: Luis Guillermo Soto, Eligio Tomás Franco, Ricardo García Rodríguez. Second row: Earl D. Hollinshead and Alfred G. Peterson, Directors from U.S.A.*



*Elio Soto van der Dijs, Rafael Martín Guédez, Alfredo Tapia, Miguel Zevallos, Manuel Callirgos, Juan Manuel Peire.*



*Ernesto Wende, Oscar Chapiro, Luis A. Brea, Claude Bovet, Azor Hazoury, Roberto Tallo.*



*Meeting of the Inter-American Savings and Loan Institute. Gilberto A. Coelho, Ricardo García - Rodríguez, Eduardo Villate.*



*Jesús Amado Campos, Oscar Chapiro, Jaime Quezada, Luis Guillermo Soto, Gilberto A. Coelho.*



*Meeting of the former Presidents of the Inter-American Union.*

## MEETING AND AGREEMENTS OF THE XIX CONFERENCE BOARD

On Monday, May 4 at 11 a.m., the constitutional session of the XIX Inter-American Savings and Loan Conference was held at the Cartagena Hilton Hotel.

In the course of this session, the following agreements were adopted:

1. Mr. Peter M. Kimm, Director, AID's Housing Office, was appointed First Vicepresident of the XIX Conference.
2. Mr. Eligio Tomás Franco Flores, President, Banco Nacional de Ahorro y Préstamo del Paraguay, was elected Second Vicepresident of the XIX Conference; Paraguay was the host country of the last Interamerican Savings and Loan Conference.



*Opening Assembly.*

### OPENING ASSEMBLY

The inaugural assembly of the XIX Inter-American Savings and Loan Conference took place on Monday, May 4 at 7 p.m., at the Bocagrande Theater in Cartagena, chaired by Mr. Luis Guillermo Soto. Mr. Soto was accompanied on the rostrum by Dr. Gabriel Melo Guavara, Minister of Economic Development, Colombia; Mr. Robert Gedeón, Governor Department of Bolivar, Colombia; Mr. Augusto Martínez, Mayor, Cartagena; Mr. José Carlos Mello Ourivio, President, World Savings and Loan Union; and the members of the Conference Board of Directors.

The Union Secretary General Dr. Ricardo García-Rodríguez opened the assembly by saying that this XIX Inter-American Savings and Loan Conference would be celebrated in compliance with agreements adopted at the XVIII Conference in Asunción, Paraguay.

Mr. Augusto Martínez, Mr. Luis Guillermo Soto, Mr. Gabriel Melo Guavara, Mr. Peter M. Kimm, Mr. Ricardo Lawton, and Mr. José Carlos Mello Ourivio next addressed the Assembly.

Cartagena's Mayor Mr. MARTINEZ welcomed the Delegates in the name of that city, and emphasized the importance the Colombian authorities attached to tourism as an integral part of his country's economic and social development.

In this connection, Mr. Martínez pointed out that Colombia welcomes international conferences such as the XIX Savings and Loan Conference and its tourism industry can offer special services and infrastructure to accommodate such groups as well as touristically interesting environments for such functions.

Finally, he thanked Assembly for having chosen as the site for the XIX Inter-American Conference Cartagena, a city of considerable historical interest, a warm and romantic atmosphere, and a cheerful and hospitable population.



*Luis Guillermo Soto.*

Mr. LUIS GUILLERMO SOTO, Chairman of the XIX Inter-American Conference and President of the Inter-American Savings and Loan Union, emphasized the importance of this event and called Cartagena, "... a doorway to ideas".

With reference to the problems faced now by Savings and Loan Systems, Mr. Soto specifically mentioned the high interest rates, largely depending on those prevailing in foreign markets, with fluctuations which in turn reflect the effects on inflation. He also cited the keen domestic and external competition that affects Savings and Loan System, against which they cannot remain indifferent.

Lastly, he gave special recognition to the participation of representatives to the Conference from other Continents, a measure taken precisely in order to gather and evaluate diverse experiences, "a circumstance which again proves the permanent interest of American Savings and Loans in the study of other solutions adaptable to the development level in each country".

He concluded by saying that the presence of such a select and distinguished group was an honor to him, as Union President and as a Colombian citizen.



*Conference head table at the opening session.*

Then Dr. GABRIEL MELO GUEVARA, Colombia's Minister of Economic Development, in behalf of his country's Government declared the XIX Inter-American Conference officially inaugurated.

In his scholarly and extremely well-informed address, Dr. Melo covered several diverse topics, such as freedom and welfare, savings and development, need of an intermediary system, merits of internal savings, significance of external resources, inflation, strengthening of savings, the constant value, building and housing, deconcentration of problems and solutions, revitalization of the Provinces, coordinated official action, and new funds for housing.

In this respect, he reminded the Assembly that it is healthy to reflect upon and re-evaluate the problems of economic development. Such analysis, he specified, is beneficial when made in front of a national forum composed of those most directly involved with the problems and also of others with more peripheral interests. The scope of analysis and discussion of such a forum becomes much greater, he continued, if participation includes representatives from several other nations whose knowledge and experience constitute a sizable portion of the information available, at a given moment, on a specific topic. Hence the importance of meetings such as this XIX Inter-American Conference.

He added that one of the major political challenges in these times is to reconcile policies securing an effective search for welfare and economic mechanisms promoting increased production, as well as fair distribution of economic gains. Without savings, he continued, there exists no economic and social development. He also pointed out that, in order to attain a high growth standard and to maintain it, economic policy should develop a financial strategy based on the accumulation of savings, making accessible to certain institutions compensation for their funds, and providing incentives that will permit assignment of the monies thus collected to priority activities.

He admitted that this was no easy task, since it required maintaining enough economic stability to win public confidence and a flexibility to protect financial instruments from the worst possible disease: arteriosclerosis which is a clogging of the channels.

Financial organization by itself, he went



*Finance Minister of Colombia Mr. Gabriel Melo Guevara.*

on, cannot generate economic growth, but it plays a vital role within the framework of an overall policy directed to that aim.

The amount of savings, he specified, as well as its evolution and the ways in which the institutions collect it, are key factors at early stages of development, when a country is just emerging from a pastoral economy, and become essential in the characteristic growth of an industrial society.

As for external resources, he remarked that they may not come to replace domestic ones. Otherwise, he added, the relative economic backwardness of many developing nations would go on indefinitely, with undesirable levels of dependence.

Dr. Melo admitted, on the other hand, the close connection between the internal and external investment sources: a vigorous domestic capital market makes it easier to attract larger resources from abroad.

Since without investments there is no development and without savings there are no investments, development is impossible without savings.

But this whole picture, he continued, with the set of problems and of strategies to overcome them, with the constant search for incentives and the urge to update mediation channels, may change drastically

under a sudden burst of inflation which can sweep everything away like a strong wind; it cannot be dealt with through normal procedures and therefore it is necessary to resort to extraordinary means so that the sacrifices implied in a curtailment of consumption and in the capitalization of companies will not be in vain.

Then he pointed out that a monetary stability policy is the essential step toward larger private savings. Within this context, he added, Colombia has been gradually completing its savings-attracting structure, starting with the traditional the passbook and money-box. Transferable savings, he specified, including those instruments usable through the financial institution system, comprises basically all kinds of saving deposits, certificates, time deposits, mortgage bonds, economic development bonds, coffee production bonds, coffee saving certificates and agroindustrial certificates.

Non-transferable savings, he remarked, an important means in the management of funds, includes exchange certificates, exchangeable certificates and share certificates.

Generally, he continued, figures have shown positive variations in recent years.

Transferable savings grew from 32,280 million pesos toward the end of 1974 to 121,773 million pesos in 1978 and 237,933 million pesos in 1980, with an increase last year of 85,579 millions.

Over the same period, he observed, non-transferable savings grew from 579 million pesos in 1974 to 22,143 millions in 1978 and to 38,386 millions in 1980.

Both types of savings, he specified, totalled 3,859 million pesos in 1974 and 276,319 millions at the close of last year.

As a result of said growth, he stated that the importance of the financial sector shown by the ratio of transferable savings plus non-transferable savings to the GNP rose from 9.6% in 1974 to 16.1% in 1978, reaching 18.2% in 1980.

The past 10 years period, he went on, brought along an unprecedented evolution in this field. Old patterns disappeared, with their short number of financial assets, their almost non-existent secondary markets and their insignificant function of interest rate. The constant value system was established, a start was given to a reform designed to liberalize the credit market and interest rates, in order to raise locally those funds needed for investment.

In years 1977 through 1979, he continued, with respect to the speedy accumulation of international reserves, a series of measures were adopted to restrict the financial sector. Finally, in 1980, he specified, controls begin to be thrown down, for the purpose of restoring its effectiveness to a mediation system featured to compete.

Among the innovations described, he emphasized, the one most influential and farthest-reaching within the financial market was implementation of the constant value. Its significance stemmed not only from its inherent flaws, but also from the alteration it caused in the behavior of other variables.

By offering interest rates reflecting fluctuations in the consumer price index, it attracted substantially bulkier funds all of which were channeled toward urban housing.

Subsequent modifications, he added, imposed limits to adjustments which may not exceed a certain ceiling, even if the cost of living reaches higher levels. This, he specified, put at ease many credit beneficiaries who were used to fixed interests and to whom the increases in the amount of debit balances constituted an entirely new system.

The 8,325 million beneficiaries who joined the system in 1974 became 35,112 millions in 1978 and totalled 83,816 millions in 1980.

These fluctuations, which become significant when discussing transferable savings, were 35.2% in 1980 vs. 28.8% in 1978 and vs. 25% in 1974. The average annual growth over said years was as high as 46.9%.

Once the resources have been collected, he pointed out, the question arises of how to use the money saved. Between the alternative of leaving institutions absolutely free to allocate the savings to whichever sector they desire or assigning them to a specific area, the latter procedure was chosen.

The right to assign those funds, he proceeded, without a compulsory channeling regulation, would make them flow into areas offering the greatest yield, which need not coincide with those activities essential to the country's overall development. Furthermore, he noted, there is the risk that such funds might be diverted towards speculative operations, distorting an already weak financial market, which would be therefore most sensitive to that type of operations.

Next, Dr. Melo pointed out that among the numerous purposes to which these funds may be applied, once the State has resolved to act as a guide in connection therewith, building was given the first priority. "Its importance is topmost in any economy, and decisive in those who are striving to leave underdevelopment behind for ever".

Its social outreach, he proceeded, as a factor that improves living conditions, its reflection on the general well-being of the population in their daily tasks, its quality as generator of sizable direct employment, its intake of non-specialized labor, the reach of its secondary effects into quite a number of supplying and complementary industries, its secondary incidence on numerous places for new workers within its direct influence orbit, and its quick response to stimuli fully justify the choice of construction as destination for a large portion of savings.

Said choice, he specified, appears more accurate if we take into account that practically all raw materials are of domestic origin. All of their beneficial effects remain inside the country. There exists no dependence on the external sector, which has been one of the weak points in our development even when transitory periods of prosperity may, at their best, make us forget structural weakness.

He then pointed out that, once general shift toward home construction has been accepted, the question at once arises: where?

Our cities, he specified, show a ceaseless construction activity which render non-applicable existing physical planning schemes.

Situations arise that are difficult to control -situations which bring to the surface old and deep rooted social, evils and create new problems, all of which are made worse or aggravated by the new densities. The gray belt areas surrounding the larger urban centers and those invasions stabilized in some places to the extent of becoming an endemic disease are prime examples.

These pressures are relieved through housing programs in cities affected by such problems because they are terminal gates for migratory streams. If same are executed, he went on, within physical city growth parameters, they may also become effective steps toward better use of the land and public facilities.

But to build homes in cities is not sufficient, he observed; by concentrating all resources there, we would bring about contraproductive results. If the impression is given that homeownership is obtainable in big cities only this would only more attract people of the rural areas, of the small and intermediate-sized communities to the urban centers. Homeownership accessible through credit and convenient terms viewed as a privilege reserved to urban dwellers, would come in addition to the alluring picture of lights and opportunities shown on the mass-media and heard from relatives or friends who have already emigrated. It is too powerful an attraction. The exodus would be unrestrainable.

In his statement, Dr. Melo emphasized also that housing plans should constitute a final stage in community development, in conversion of villages into towns and of these into places offering agreeable life and work conditions, in environments propitious to production and capable of absorbing the housing demand of people returning from the large urban centers, as will be the case when new physical infrastructure and social programming permit for decentralization of industry.

Shortage of funds, he proceeded, is no excuse to concentrate them in a few places. The largest portion should go there where needs are greatest and most pressing, yet another portion -even if a lesser one- should be destined to solve minor but not less acute problems.

Attention to problems outside the cities, he specified, also contribute indirectly to alleviate conflicts these areas suffer. Removing unnecessary pressures, as well as retaining a considerable number of inhabitants in towns and villages, prevents problems from growing worse and the unchecked exodus from generating situations almost impossible to control. We will thus have, he noted, some channels to relieve the anguish of huge urban centers and incentives for the distribution of development among all members of the social body.

Application of these norms, he specified, requires coordination of activities between those public agencies involved in home construction and those working in related areas. Clear guidelines resulting in well defined procedures, plus accurate practice of same, will serve as marks of reference for private persons. These, he continued, will be sure of how, where and what extent

the State operates. They will be able to adopt decisions based on the certainty to find the parameters of Governmental measures precisely defined.

Then he referred to the activities of the Urban Development Fund and of the Institute for Real Estate Credit, stressing the importance the Colombian Administration assigns to these instruments providing homeownership.

With specific reference to the latter, he pointed out that the constant value formula was also subjected to modifications toward improved management and allocation of resources.

Monetary correction, he said, rose so as to be in tune with the fluctuations in prices. Savings and housing corporations, he added, became free to fix, according to market trends, the interest rates they would pay their depositors.

Now, new regulations have come in support of the design to intensify construction of low-cost shelter units and to offer home buyers easier purchase terms. Under the system, 22% of the loans granted must now go to shelter units with a maximum sale price under 2,500 constant purchase power units (UPACs), or approx. 1.1 million pesos; further 24% of placements, he noted, must be destined to shelter units with a price between 2,500 and 5,000 UPACs, thus leaving 46% for shelters with a value under 2.2 million pesos.

There is no upper limit to the cost construction, he specified. Yet the highest loan may not exceed 10,000 UPACs, now equal to 4.4 million pesos which precludes concentration of large amounts of funds in the hands of a few beneficiaries.

He furthermore recalled that the observations and suggestions of the private sector were fully comprehended before the issuance of these norms. Any ideas this sector may have for improving the attraction and channeling of savings deposits is welcome, he said. Its initiatives, he added, will be extensively studied and accepted, for the purpose of improving living conditions and increasing the standard of living of our population.

The opinions of those who operate in the savings field and in construction will not only be received, he added, whenever they choose to disclose them, but also requested by us, because we deem such contribution essential to prompt definition of the "Indicated Plan" for industrial

builders. The validation of this Plan is pressing. It should naturally have priority, he proceeded, so that its goals and implementation may be the result of a general policy of progress, rather than a consequence of decisions adopted in connection with other complementary industries, whose orientations should be guidelines for the construction industry.

Dr. Melo closed his presentation by saying that the Colombian Government was anxiously waiting the results of this Inter-American Conference "Where it must be said that without savings there is no development".



Peter M. Kimm.

Mr. KIMM joined the Colombian hosts in welcoming all Delegates. He added that it had been his privilege to participate in most of these Inter-American Conferences.

Then he mentioned the urban problems affecting in particular the cities of developing countries which are growing at incredible rates which have absorbed 400 million new residents in the period 1950-1975 and in

the last 25 years of this century are supposed to absorb almost one billion more.

He also referred to the problems which now affect the housing finance institutions of this Continent, facing at present severe restrictions due to the unprecedented increase in interest rates.

He pointed to inflation as the main cause for this situation and said that restrictions will disappear if inflation is brought under control.

Next, he repeated his confidence that the steps now being taken to solve the present problems will make it possible, in a near future, to provide a decent shelter for all families in every country represented at this XIX Inter-American Conference. But this task, he added, requires the will to do it, a will that can only be produced by the national decision-making process wherein many of the Delegates in attendance play a role and may have an actual opportunity to participate.

He ended by putting on record his trust that the work to be carried out in the course of the XIX Inter-American Conference would "better equip all of us to meet these responsibilities".

Mr. LAWTON first pointed out that the U.S. Savings and Loan System was facing a critical situation, manifest in negative balances which in 1981 may reach amounts as high as one billion dollars.

He attributed to inflation the principal cause of this circumstance that has deteriorated assets, raised interest rates on loans and brought about a strong, uneven competition.

These circumstances, he specified, are enforcing a structural change in active and passive operations, without knowing yet how many Associations will in the meantime be able to bear such change.

As far as passive operations are concerned, he proceeded, there have been drastic changes, with the promotion of unusually liquid deposits which have fomented fierce competition between financial institutions.

Furthermore, he pointed out that the process of transformation was started in 1975 when the Federal Reserve proceeded to reduce circulation as one of its monetary measures to check inflation.



*Richard S. Lawton.*

The result of said measures manifested themselves as strong fluctuations in interest rates and in the keener awarenesses of the savers to oscillations in the cost of money; all of which brought about within the System a decreased financial mediation, since a large portion of its resources were relegated to new investments by institutions that did not exist before and ones that are not subject to any regulation.

Besides, he noted, Savings and Loans have capital and net reserves amounting to 30 billion dollars, a financial backing more than sufficient for the System to face and overcome this situation.

But, he added, said situation has undoubtedly affected the operational capacity of the Associations.

He quoted, as a sample of this service shortage, the fact that recent statistic indicate only 1.2 million shelter units financed, vs. a yearly demand of 2.5 million units.

He also noted that, for the time being, what is most promising is the recently issued regulation permitting the grant of mortgage credits with adjustable interest rates.

He closed commenting on the soundness of the System and the belief that directing bodies will see it through its present crisis, pulling it out renewed and reinforced. On the other hand, he recalled that, in return for the service rendered to the country, the population itself will demand from its authorities a different attitude by which housing policies may enjoy the priority they deserve.



*José Carlos Mello Ourivio.*

Mr. MELLO OURIVIO said that he had three reasons for feeling particularly pleased

to address this Opening Assembly:

To begin with, because since his nomination as President of the International Savings and Loan Union in October, 1980 this was his first opportunity to address the Savings and Loan Delegates of America.

Secondly, because it is always a pleasure to point out the extreme importance of the private groups oriented towards mobilizing the savings of million of individuals from all social levels and allocating these monies to home financing. He stressed the importance of using savings deposits to fund millions of shelter unit for families throughout the world.

Thirdly, because this Conference in America is the living expression of a strong Savings and Loan movement united under the leadership and guidance of the Inter-American Union, a movement rooted also in countries with a more advanced economy.

He then recalled the significance of Latin American savings and loan system within the respective national housing finance field, and reviewed savings and loan activities since 1775 throughout the world.

Next, he underscored the fruitful exchange of experiences between persons from various countries, as well as the far-reaching social, economic and political influence that savings and loans have had on Continental stability.

He also mentioned inflation as the worst internal enemy, representing a challenge without equal to all nations.

Likewise, he pointed out that it was the Systems' commitment to request the authorities to be watchful, so that when carrying on their anti-inflationary policies they will not underestimate this valuable instrument, savings and loan.

He ended by wishing, in his own name and on behalf of IUBSSA, success to the XIX Conference, which he was attending with a special justified pride.

## PLENARY SESSIONS

The program for the XIX Conference contemplated celebration of seven plenary sessions in the course of which the themes were submitted, matters of general interest were set forth, Work Group agreements were reported, and operations of the U.S. Agency for International Development were explained.

Six plenary sessions took place at the Bocagrande Theater in Cartagena. The seventh plenary session was held at the Cartagena Hilton Hotel.

## FIRST PLENARY SESSION

This session took place on Tuesday, May 5 at 9:00 a.m. It was devoted to hear the Inter-American Union's report, presented by its Secretary General Dr. Ricardo García Rodríguez, and a report delivered by Eng. Eduardo Villate Bonilla on the Colombian experience.

Upon opening this session, Union President Mr. Luis Guillermo Soto drew attention to the fact that he was accompanied on the rostrum not only by the assigned speakers but also by Mr. Lauchlin Currie, eminent economist, Adviser of the Colombia National Planning Department, who participated in preparing the technical groundwork for the Colombian Savings and Home Loan System.

Dr. GARCIA RODRIGUEZ pointed out that, as it is already a tradition in these Conferences, presentations would be preceded by a report from the Inter-American Union, designed to offer an overall view and some comments on the status of the Inter-American Savings and Loan System since the XVIII Inter-American Conference.

To complete this task he specified he would proceed to approach the subject from three diverse standpoints:

1). Regarding America as a whole within which the Systems operate, in order to ascertain its present actual conditions and its future prospects. It does not seem conceivable, he noted, to examine the situation of the Systems without referring to the characteristics, at least the general characteristics, of the environment in which they operate.

2). Regarding the Systems proper, so as to verify their evolution, their difficulties and their advancements experienced over the period.

3). Regarding the Inter-American Union as a permanent institution which groups all national systems of America, contributing to its own progress by, among other means, Inter-American conferences such as this one.

Then he pointed out that a look at the status of Savings and Loan System from the above mentioned standpoints required an in depth analysis that made it impossible to cover in only one session. The analysis would be done during the course of the Conference, according to the program pre-selected for this purpose. "The information I shall supply will be limited to the most characteristic features of the situation with respect to Savings and Loan Systems".

Next he described characteristic events of the year 1980. For example, he pointed out that the international economic scene had shown some decidedly adverse trends, such as lesser economic growth in industrialized countries and an aggravation of the inflationary process in these same nations. We may not forget, he specified, that total production in those countries belonging to the Cooperation and Economic Development Organization (CEDO) grew in 1980 by slightly over 1%, which represents one third of their growth in 1979, already deemed low. In the U.S.A. and other CEDO members, he noted, the production even dropped in absolute terms during the second half of 1980. The lesser growth of



*Ricardo García-Rodríguez.*

industrialized nations, he specified, severely affected world trade; this did not grow in absolute terms during 1980, which had not been the case at world level for more than 12 years. Such a situation, he continued, exerts a particular influence on our Latin American countries, since we should remember that about 70% of Latin American exports and imports correspond to industrialized nations, and should also bear in mind the evolution of the industrialized countries as a group determines most of the conditions providing Latin America with foreign financial aid. It is also advisable to take into account that in 1980 some symptoms reappeared like those of the crisis in 1974 and 1975 when the steady growth observed in the 25 preceding years came to a stop, precisely when Savings and Loan Systems were emerging and developing in Latin America.

At that time, he recalled, the international scene showed a steady economic growth. i.e. the Systems were born under promising circumstances obviously missing in 1980.

With respect to Latin America, he recalled that the GNP had grown in 1980 less than in 1979, the respective growth indices being slightly over 5% vs. 6.3%.

Then he mentioned inflation as another characteristic of the period. He observed that inflation had kept affecting Latin American economies, with an average of 54% in the Region for 1980. He also emphasized that Argentina, Brazil and Peru had surpassed even higher inflation levels while only Guatemala and Haiti exhibited a yearly rate under 10%.

When examining the evolution of Latin American exports and imports, he recalled that exports had risen from 70 billion dollars to 94 billion dollars between 1979 and 1980, in current values. By applying a deflation to these values the growth in absolute terms becomes substantially smaller. He pointed out that over two thirds of said export increase corresponded to oil-exporting countries. Import, on the other hand, rose from 70 billion dollars to 92 billions dollars, with nearly two thirds of this increase corresponding to those nations which do not export oil. These non-oil exporting countries increased their exports by less than 20% and their imports by more than 30%, the deficit in the balance of trade of the Region as a whole thus growing by more than 30%, with a total of approximately 25 billion dollars. These very brief references to the circumstances in which we find ourselves does not appear to be particularly favorable to the development of our activities. Our own Inter-American Savings and Loan Bank has been able to verify this situation, reflected in its policies of investment and fund attraction, when trying to act as a financial mediator for housing. This leads us to think that when we focus on this situation which affects us in our capacity as a home financing and savings system, we must not be so near-sighted as to only see our own specific activity, but we must analyze all the information and all the changes occurring in the area in which we work. Only thus shall we be able to draw valid comparisons of the types of problems and difficulties that may affect a System.

Leaving aside the international scene for the purpose of analyzing the Inter-American Savings and Loan System, he expressed his views and stated that he would speak briefly, since most of the relevant information had already been condensed by the

Inter-American Union in its regular statistical reports, as well as in the publication recently distributed among the Delegates.

Next, he pointed out that, if the figures handled in said reports and if the data supplied at regular intervals reflect actual conditions, "we may see that in our Inter-American System there has been in 1979-1980 a significant change in the number of savers, yet less significant activity in credit management, mobilization of mortgage portfolios and volume of savings. As per those figures, he noted, the number of savers would have risen in Latin America from 32 to 36 millions, along with an insufficient increase in the loans from the portfolio. Thrift deposits would have grown from 19 to 21 million dollars but, if a deflector is applied in view of inflation, the volume of deposits we are talking about has not increased substantially, and the mortgage portfolio has likewise risen from 20.4 to 32.2 billion dollars". Richard Lawton, he recalled, had pointed out in his address last evening the situation effecting the U.S. System and the changes that have occurred in its operational volume and in its projections.

These figures permit us to identify certain characteristics of our present reality. Firstly, the work we are doing continues to be far behind the needs we are called to meet. While our statistics demonstrate the impact of inflation the impact of the drastic demographic growth in our countries evades mere numerical interpretation.

In the second place, the Systems are growing at a slow pace, requiring us to speed up the process of intensifying expanding their scopes of work.

Thirdly, we note that in more than one country the volume of financial assistance required by private Savings and Loan sectors has substantially grown over the past year, which indicates that in order to even out their operations, private institutions have had to ask for outside help in fund raising and loan-granting procedures.

Later on Dr. García specified that analysis of the Inter-American Savings and Loan System should go beyond mere figures, since certain situations exist which are seriously affecting management of money.

In this respect, he made special mention of the phenomenon of inflation likening it to the dog that bites the hand that feeds it. We invented money to simplify transactions

and today it entangles us and the whole world in complicated economies. This makes us often live in a world of fiction, an unreal world where figures rather than values are compared. We compare figures which may have increased and state that numerically more savings deposits and mortgage portfolios exist, but their significance changes as the context within which they are examined changes. Inflation, he went on, is the worst distorter of savings and home financing operations; still more, it causes us to lose our value as savings and loan systems for housing. "How can we expect to retain and increase savings deposits, if we are not even offering in return rates commensurate with the original deposit. And how are we going to grow, if those mortgage portfolios which should be amortizings yield us less return than our original loan, instead of giving us a return which would allow us to continue functioning as a credit-giving organization?"

This situation, he noted, constitutes a basic problem throughout where possibly the only ones who have been able to keep their growth rate, despite the problems derived from inflation and the deterioration of the Systems, are those who are operating in Latin America under monetary correction control or mechanisms, even if these are sometimes insufficient to counteract the distortions produced.

He then called attention to the changes experienced in a national context and the diverse situations which are totally distinct from those prevailing when the system was born. He pointed out that to some extent the Systems have become deprived of the instruments necessary for them to conform to the changes and to the context within which they evolve.

Dr. García emphasized that some Systems exist where operational power is confined to a few operational tactics. Just the savings account or just the house mortgage create a rigid scheme which makes it sometimes very difficult to deal with situations arising from economic variation and changes in our own working environment. Systems must be made aware of the current reality and expand their operational capacities to be able to survive. There is a deep uncertainty confirmed and reiterated in the preliminary sessions of the conference a few days ago in Bogotá about how we should go about defending the Systems, to enable them to favorably compete with

other financiers also engaged in attracting resources. On this point, the need to develop and adopt adequate mechanisms to face these new situations is apparent. Hence, there is a need to diversify operations in order to discover the guiding principles a Savings and Loan System may use in order to effectively and efficiently deal with any problems which might arise.

At the same time Dr. García emphasized that in the search for new operational tactics to deal with these problems, we must look at the very structure of the private institutions, their sphere of operations and their own operational programs. It is not possible to await fiscal funds to help us out of these difficulties. The strengthening of the Systems will be a measure of the Systems' abilities to face and deal with new situations and solve its own problems.

In reference to instrumentation he mentioned in particular mobilization of the mortgage portfolio by means of an adequate structure permitting operation of a secondary market for mortgage credits.

Dr. García alluded to another feature typical of the environment in which the Systems work, namely insufficient understanding of the importance and significance of the tasks which they accomplish. Such lack of awareness, he noted, is found not only in governmental or state spheres but also in other community sectors. It should not be forgotten that the lack of savings and loan programs is something affecting all sectors of the social community.

Savings and Loan activities reach beyond the obvious spheres of influence, affecting others even though this may not be understood. And this fact should be conveyed to private and public sector institutions and groups.

He suggested that many features might be added to those current in the Inter-American System, and stated that these issues would be dealt with in discussions during the course of the XIX Conference.

At the end of his presentation, Dr. García referred back to his third point of discussion, the one regarding the Inter-American Union as a permanent institution.

Making it clear that in this case he would only make some brief observations, he started by recalling that the Inter-American Union was the institution to which all in attendance belonged.

The Union tries to respond to the needs of its members within the Inter-American System. The work being done by the Union need not be repeated in detail, since a report on its activities has already been put at the disposal of all Delegates and the Union Assembly shall dwell on it this evening.

He highlighted one aspect of the Unión's work. This Conference has been organized so that the Union's frame of reference would be expanded and awareness of our realities heightened, he said. Participants from other Continents who are here offer us different visions and acquaint us with information beyond our reach. This Conference is dedicated to the analysis of four topics through which we will seek to address to some extent four basic aspects of the problems we are facing, hoping to address them all and aiming to direct our attention to the issues on which we should concentrate the strongest emphasis. We are also studying the feasibility of an operational diversification that might help surmount present obstacles and open up for the Systems a new development stage. We will dwell on relations with housing, with construction and with shelter supply, in order to really understand the work we hope to accomplish as well as on our relation with Governments which must be made to understand when these institutions need governmental regulation and when their operation and growth is hampered by such regulation.

The expression of this Inter-American Conference is a consequence of the realities we are identifying and the mission that the Inter-American Union wishes to accomplish with you.

Lastly, he took the opportunity to throw some light on a particular point.

He referred to some comments made during the preliminary sessions to this Conference, that implied Savings and Loan Systems are facing a crisis threatening their very existence. "I wish in all truth, he said, to refute such a statement. I categorically reject the possibility that Savings and Loan Systems could cease to exist, because this would mean a misunderstanding of the reality, their having a national and international make-up. Shelter is a basic human need and access to housing for the various social levels should not be denied. Housing has social benefits that reach beyond its physical nature and become an essential

prerequisite for all programs dealing with health, education, family life, sanitation, and general social and political development".

When we foment savings and promote housing, Dr. García continued, we are affecting two vital components of any society. Considering the importance of these actions, it is inconceivable to think that those groups and institutions involved with these activities could cease to exist.

However complex our problems may be, however numerous our difficulties, the reasons for these institutions to exist and for their work to be done must not disappear, and we must join forces so that this situation will not occur. Let us fight for the set of methods we need, let us endeavor to be able to act even against the economic hindrances and against the distortions affecting our domestic realities, let us try to rectify such distortions, let us strive for real access to housing. But we must assume that our fight will lead to success, because the underlying reason is profound and essential to all of society, to every national community that strives to truly be one; nor can we continue to believe the fiction that governments are different and separate from us, since they are just an organization of us all. Therefore, solutions and the means to them, the instruments that have to be devised, have to come from us, the community members. "Consequently", "he remarked", I deny the possibility that survival is at stake. I accept the responsibility we all have to fight and win the battle against the present difficulties. I repeat that, as pointed out yesterday at the Opening Assembly, the key is our will to act, and I think that your coming from various American countries to this meeting in Cartagena, leaving behind your diverse and particular realities and problems, means that you indeed feel committed to the cause and are willing to work through the obstacles and problems affecting its survival".

Dr. García closed his address by stating his trust that the XIX Conference be but one more proof of the Inter-American System's vitality and resolution to surmount any obstacle, and reaffirming his belief that the System will not die and that with a view towards consolidating the American family and strengthening peace in our countries it will contribute to the general welfare of all America.

Eng. VILLATE thanked the group for the opportunity given him to describe the experience of the Colombian Savings and Loan System, as well as the monetary correction mechanism applied in his country.

Next, he emphasized the characteristics of the housing demand, which should be kept in mind when trying to offer solutions, specifying that.

a). It is universal, since shelter is required by all families, in whatever income level, in all countries at whatever level of development;

b). It is growing, since the housing need becomes greater as the population increases and the urbanization process is accelerated. He added that this assertion is confirmed by just observing countries such as Great Britain and the U.S.A. which, despite savings and loan systems dating from over 150 years, have not yet solved their pressing housing problems.

He remarked that on the other hand home loans require in most cases long-term financing under conditions compatible with the buyer's family income.

He likewise insisted on the impossibility to analyze the housing problem without previously defining what is meant by "housing shortage". He pointed out that various approaches exist that do not simply distinguish quantitative from qualitative shortage, but that start from different premises and differ in their approach. Thus, he added, a city planner says that a shortage exist when the number of families is larger than the number of shelter units available at a given moment, while for an economist the shortage is reflected in variances in unit costs. In other words, the higher the unit cost, the less the shortage, the lower the unit cost, the greater the shortage because more people will have access to the housing market and want one if not more units.

But before we can talk about "housing shortage", we must come to an agreement on the definition of "housing". To some people "shelter" is a roof. To others, "shelter" is much more than the physical unit and includes "comforts" and "pleasant environment" as integral to their definition. Depending on the definition of shortage adopted, we may or may not talk about the existing quantitative shortage. Similarly, shortage will depend on the definition of shelter unit accepted. If we define shelter as roof, whatever the roofing material and no



*Eduardo Villate Bonilla.*

matter who owns it, in the case of Colombia it might be said that there is no housing shortage.

On the other hand, he pointed out, it is necessary to determine the future housing demand resulting from population growth and the creation of new families. If we take the figures of our country, he went on, corresponding to the numbers of new families in urban centers with more than 50,000 inhabitants -what might be called urban demand-, we find that migration adds to the population growth. Accordingly, official data supplied by the National Statistics Department indicate that in order to satisfy the housing demand of new families, 1,533 million shelter units would have to be constructed in our country in this decade.

In terms of shelter as "roof", there is probably no shortage, but in terms of "shelter" as an adequate dwelling in a suitable environment, the shortage could be quite large. Using an intermediate definition by which we call unacceptable a shelter unit with little space per individual and no

separate rooms and without sewage or other essential utilities, built from provisional materials, we would find a current housing shortage of approximately 600.000 units.

He went on to say that construction activity is important in the economy, since its scope ranges from public work and infrastructure to urban housing projects and all that they entail.

He pointed out that housing involves only a portion of the construction sector activity and apart from its importance to the economy represents one of the largest expenditures of individual family income.

It seems unnecessary, he added, to point out that a housing program designed to modestly cater to shelter requirements in our country, along with provisions for adequate infrastructure such as roads and public services would no doubt be a great impetus to the economy. It is quite likely that some bottlenecks would present themselves and have to be dealt with, particularly in the production of building materials and in the supply of specialized labor, as it happened in 1972 when our System was born. Many new employment opportunities would open up for the unskilled work-force due to the increase in construction activity.

According to the experience of the savings and loan system in the period 1973-1980, for every 100 square meters of construction, direct employment is provided for 28 individuals, without counting jobs generated in the industrial sector, financial sector as well as related services.

Mr. Villate concluded that an increase in the number of shelter units in the country would not only satisfy this immediate, pressing social need by directly improving the living standard, but also generate additional employment. It would therefore be possible to incorporate the lower income groups into effective demand groups, thus reducing the need for subsidies. In this way, he went on, the System will immediately reach the low-income groups not through credit, but through employment.

With reference to savings, he recalled that this subject has been thoroughly analyzed by the most well-known economists. Savings were defined by them as the difference between income and consumption. The entrepreneurs' savings are measured by the increase in their financial assets compared to the rising value of their

physical assets, while personal savings has shown in most countries a tendency to be used for urban construction, mainly housing, and public savings has been the source of funds for infrastructure.

Within a mixed economic system such as ours, he pointed out, the State is responsible for channeling national savings, to attain a stable national economic growth.

In the period prior to the birth of the savings and loan System in Colombia, in 1972, he mentioned that the reason for founding the System had been not only to stimulate savings per se or to supply low-cost shelter, but also to speed up economic growth. The savings and loan system consequently was a part of the Government's overall economic program for fomenting stable economic growth.

Recalling the conditions prevailing in Colombia at that time (1971-1972), he pointed out that two sectors were identified and chosen as leaders: export and urban construction. The former, exports, was receiving proper stimulus and growing steadily, in particular in areas other than coffee. Urban construction had not developed for many years. The increase in urban construction, he said, was scarcely 10% of the G.N.P. But it was believed that a big demand was being suppressed; that through quick urban growth the industry could count on a large aggregate demand for its development; that construction would provide employment, particularly for non-skilled labor, giving those newly employed new economic mobility; that the imported component of construction was, and would continue to be very small; and that benefits would be obtained through the availability of housing, since this is a basic factor in the living standard.

Making a diagnosis of this situation, he remarked that the chief cause of the construction sector's poor performance seemed to be an inadequate financing, handled mainly by a single institution which obtained limited funds by placing notes at very low interest rates sometimes even negative in real terms.

The national budget could not be made available and if it was the national intention to increase the flow of funds for building, it would be necessary to attract private savings for that purpose. On the other hand, he added, it was difficult to maintain a steady flow of savings for mortgage loans

which are necessarily long-term loans, under unpredictable fluctuations in inflation. At that time financing on the basis of a variable interest rate was studied. England has had a long experience with this and its implementation is under study in the U.S.A. The study showed that these rates are linked to the market rates and not to prices, which lag in their relation to salaries. Thus, a process of analysis and elimination led to the constant value savings and housing system, offering the possibility of automatic adjustment to the variations in the inflation rate which determine increases in salaries and keep interest rates positive. In order to carry out such adjustment a mechanism was devised that consisted of the creation of a unity of measurement termed the constant purchasing power unit (UPAC), a kind of new money whose value in legal currency depends on inflation. The System's accounting would be kept in UPAC, low but positive interest rates being applied to the amounts corrected.

He went on to say that the President of the Republic was granted by the constitution the right to in turn grant special power to the Executive Council to issue two decrees that get up the legal structure for a system to be run by stock companies attracting savings through monetary correction and granting long and medium-long term mortgage guarantees, subject to said correction. With a view to speed up the process commercial banks were permitted to purchase up to 30 percent of the stock owned by the new entities, and to initially put to administer the staff and offices required to initiate operations. Thus, towards the end of the year 1972 the system was born and soon caught on, attracting some 60,000 savers in 1973 whose deposits totaled nearly 4.4 million pesos, or 200 million dollars. At the close of that year, there existed ten Savings and Loan corporations, with branches in the largest cities, which administered a large and growing amount of savings deposits and loans. In other words, in just one year the System had become firmly established.

He continued by saying that monetary correction had been the basic factor in the growth of Savings and Loans, with a simple mechanism oriented towards and guided by the theoretical money - the U.P.A.C.

On the other hand, he recalled that it was proved that for long and medium terms, incomes grow as fast or faster than prices.

He also pointed out that monetary correction permitted the establishment of the balance necessary to attract short-term deposits used for long-term investments within an economy affected by inflation. Monetary correction reinforced the idea of equity between the depositor and the creditor, by correcting the former unfair situation in which the creditor was subsidized by the depositor who received low interest rates.

Monetary correction or indexation has many other advantageous features, besides those already indicated, but in order to be brief Mr. Villate limited himself to call attention to how monetary correction permits expansion of the housing market. In this connection, he pointed out that everybody admitted that the market depends substantially on the value of the monthly amortization, in particular during the initial years of the loan, said value depending, in turn, on the prevailing inflation rate since this rate determines the financial cost.

Furthermore, to defend monetary correction as a way to look at inflation is not defending inflation. A stable money market would be the ideal situation, but in a less than ideal reality, monetary correction is the way to live with inflation. The numerous cases of countries which have not yet adopted monetary correction and keep experiencing a galloping inflation serve as an illustration to those who hold that removal of monetary correction would be sufficient to prevent inflation. Given a specific inflationary situation, monetary correction offers a better solution than variable interest rates and a much better one than fixed interest rates. In short, he indicated, the Colombian experience furnishes enough material for those who may wish to study alternatives to administration of short-term savings deposits and long-term loans for housing finance.

He concluded his presentation with statistical data, stating that at the end of 1980, out of deposits totaling over 83 billion pesos, slightly less than one half were new accounts with the other half corresponding to monetary correction. But still more impressive than this, he specified, is that the total attracted hardly reaches 7.8 billion pesos, if the new deposits are expressed in the value of the peso in 1972.

It seems ironical that biggest obstacle to understanding the savings and loan system with monetary correction is the monetary illusion caused by inflation.

Despite the above, the system has no doubt contributed to overall increase in savings, because it created an awareness of positive interest rates. The system currently links these rates to price increases as compared to previously when a constant value system allowed negative interest rates to be the rule and not the exception.

He also recalled that right after adoption of the constant value, construction experienced a boom; the number of building permits issued rose by more than 300% in the first half of 1973, when compared to the number issued in the last half of 1972. And again in the first half of 1974 the number rose by more than 300% when compared to the first half of 1973 but for lack of a steady growth of resources once monetary correction was in full operation total investment in construction dropped, particularly in 1975, and ever since has represented between 1 and 2 per cent of the GNP. About 20 million square meters equal to 160,000 shelter units have been financed, which gives an average of nearly 20,000 units per year.

Mr. Villate went on to say that the deposits administered by Savings and Loan corporations exceed 107 million pesos, or over 2 million dollars. This means there are more than 1.3 million depositors and between the newly attracted depositors and recovery of the portfolio approximately 600 million pesos weekly (11 million dollars U.S.) are available this year for financing construction.

Another lesson to be drawn from the Colombian experiences, is the advisability to have some regulating body supervising and promoting the System. Colombia's System experienced its greatest growth when such a body existed. When the Savings and Housing Board was eliminated and its responsibilities assumed by the central money agency the depositor received less protection and money earned less interest. High cash reserve requirements were imposed, and monetary correction was kept lower than inflation. He felt certain

that savings and housing policies should have monetary control, but with a certain degree of autonomy.

He regretted that the yearly ceiling held by monetary correction had risen from 170% to a current 210% this being the worst distortion of the constant value system (which no longer deserves to be called constant).

He also regretted that the monetary measures aimed at checking inflation have severely affected the UPAC system. In this respect tight monetary policies had repercussions in reserves which have gone beyond the level technically necessary to meet liquidity requirements.

Savings is by definition anti-inflationary and it has not been dealt with fairly, either from the standpoint of monetary measures or from a fiscal treatment. Hopefully, the experiences that are shared during the course of this Conference will shed some light on how to deal with these matters.

He concluded by emphasizing the need to have a long-term housing policy. Long term policies concerning such important issues as housing require a plan, even the modest one outlined here cannot be carried to completion in such a short time as one presidential term.

A housing and housing finance program -attracting resources and distributing them- should be a national commitment, admitting no modifications under any circumstances or political changes. He went on to say that housing is, due to its characteristics, a subject concerning and involving the entire community. That is why no political platform or development plan may be contemplated that does not consider the housing problem and its solutions, as is the case with other sectors such as health and education because housing is equally a universal necessity and its needs equally are growing.

Mr. Villate concluded by saying that to outline a housing policy was no easy task. However, he was confident that in the course of the XIX Conference guiding experiences would be found and would lead to attainment of an adequate housing policy.

## SECOND PLENARY SESSION

The Second Plenary Sessions was held in the morning of Tuesday, May 5 immediately following the First Plenary Session. During the Session, Mr. Shinichi Ichimura gave a documented analysis of savings and housing finance in Japan.

Mr. ICHIMURA mentioned ten major factors which have contributed to the rapid growth of the Japanese economy: the high rate of private capital accumulated; a marked tendency to save money; a highly educated work force; rapid increase in agricultural productivity; imported technology and improvement in domestic technologies; adequate development of industry; a qualified bureaucracy collaborating with private enterprises, employee loyalty; efficient performance of banks in close connection with private industry; and political stability.

He stressed that in his country internal savings had a definite influence on a high rate of capitalization in proportion to the G.N.P. This rate reached 30.8 in the 1976-1979 period, while at the same time it was 22.3 in France, 21.5 in Germany, 18.2 in the United Kingdom and 17.4 in U.S.A.

He pointed out the stability of government savings and the prevailing importance of family savings to non-profit organizations.

In order to analyze the accelerated growth of the post-War Japanese economy, one must look carefully at Savings. He reminded the group of the role of savings in the three above-mentioned countries, whereas negative rates were found in the U.S.A. and the U.K.

The reasons for increased savings in his country is a controversial matter among economists. The increase could be attributed to the following circumstances: the Japanese tradition of laying special emphasis on work and savings; the Japanese people's desire to gradually improve their living conditions; and the fact that a higher income means more savings.

He pointed out that the motives for saving money are diverse: they depend on family income and vary from one social and age group to another, from rural to urban areas, or from one profession to another. However, the present trend is to accumulate savings so as to have a reserve for old age.

With regard to personal savings, he said that cash deposits predominated, followed by other kinds which are considered less important than in the U.S.A. such as insurance, retirement funds and security deposits.

Savings are attracted into private banks and postal savings offices, the latter having collected almost the same volume as the



*Speaker Shinichi Ichimura.*

former.

He indicated that the competition among financial institutions is regulated by the Finance Ministry. However, postal savings is allowed to pay a higher interest rate, which might account for the high level of development of institutions operating in this field.

The Japanese population has grown more sensitive to interest rates, as well as to safety of their deposits which they put above the liquidity factor.

Among the difficulties facing housing finance, he mentioned the acute shortage of housing units and their high cost. The desire for homeownership is as high as ever.

The state of homeownership in rural areas is not unsatisfactory, with 80 percent of the older generations buying their own homes through mortgage loans.

He went on to say that in Japan home loans started to be significant with the establishment of the Housing Loan Corporation in 1950. Commercial banks only began to grant home loans in 1961. However, he pointed out that after 1965 the volume of

home loans has grown, with credits granted by private banks replacing the high proportion of States loans.

Among those institutions which have taken a lead in home financing, he cited city banks, regional banks, trust banks or funds, whose participation in this endeavor was 16.30/o; 14.20/o and 7.20/o, respectively, in 1977.

He also mentioned that institutions financing small industry, including Mutual Savings and Credit Banks, contributed 7.40/o and 10.70/o respectively in 1977.

To this list he added the participation of the National Federation of Labor Credit Associations and the Home Loan Corporation, accounting for 4.40/o and 6.60/o, respectively in 1977. He added that the total volume of home loans had risen, between 1965 and 1980, from 21.4 to 149.7 trillion yens.

He ascribed this significant increase to the new policy implemented by the Japanese Government whose chief measures may be summed up as follows: raising the ceiling for the loan amount; a loosening up on the restrictions to the borrower's income; special, low interest rates on long-term

home loans; eliminating the pre-requisite of a previous deposit; promotion of trust funds and of the purchase of banking certificates; removal of various requirements in the field of joint guarantees; adoption of special guarantee formulae by companies insuring against damages and by "loan under-writers"; creation, in 1971, of banks especially engaged in home lending as subsidiaries of the commercial banks; and tax exemption of savings deposits destined for housing; extending this same tax exemption on loans granted for home construction or purchase beginning in January 1978.

Mr. Ichimura compared the home loan system in Japan to the system in other countries. In the U.S.A., the United Kingdom and Germany a big part of home finance is carried on by institutions specializing in home finance. In Japan, on the other hand, the commercial banks are doing this job. Long-term interest rates are about the same in Japan and these countries, except for English housing corporation which enjoy a more favorable treatment.

Mr. Ichimura closed by saying that he was highly delighted to have been a speaker at the XIX Inter-American Conference.

### THIRD PLENARY SESSION

The Third Plenary Session took place in the morning of Wednesday, May 6, with presentations by Messrs. William Cleve Brown and Tom J. Hefter on "Thrift and Housing Finance in the U.S.A.". Mr. Hefter illustrated his presentation with slides.

Mr. BROWN began by saying that his purpose was not to lecture on the appropriate steps to increase savings, but to direct and stimulate discussion on the subject among the Delegates.

He said, that he would concern himself with a report on current conditions and

leave to Mr. Tom J. Hefter the task of examining the different methods of marketing currently employed.

Then he pointed out the similarity between Latin American Savings and Loan Systems and U.S. ones, and others. Some solicit deposits of funds from the general

public to lend to families who want to acquire their own homes. Under some, borrowers need not be depositors in order to receive a housing loan. None of the savings and loan systems in America normally offer a savings plan with a guaranteed loan as a method of attracting resources.

Some use financial intermediaries between the sector that deposits the funds and the one that absorbs and uses them.

With regard to juridical structure of the financial institutions, he stated that the associations were predominantly mutual associations though in recent years, he admitted, a significant number of associations are emerging based on share-holding.

Next, he asked about what was happening in the U.S.A. what is the average number of depositors in the Associations, what are management and marketing divisions of these associations doing in order to compete in the System and also why attract new depositors?

He repeated the words of Mr. Norman Strunk "For any business to survive requires that it perform a viable economic function and perform that function efficiently and vigorously. The Savings and Loan System has a long experience and an usually successful ability to attract capital for the home mortgaging market. We will continue to perform better than our competition and play the important social and economic role as provider of home financing.

He continued by saying that inflation in the United States had provoked many changes, particularly within the Savings and Loan business, affecting the very structure of the system as well as the range of services that could be offered.

One of the most immediate effects of inflation has been the growing increase in interest rates causing an incredible competition for funds and forcing investors to change from long-term to short-term investments. Depositors are no longer content with a 5<sup>0</sup>/<sub>100</sub> to 5.1/2<sup>0</sup>/<sub>100</sub> return on their funds. In 1980, we saw dollars deposited in savings accounts and certificates of deposit decline from 63<sup>0</sup>/<sub>100</sub> to 45<sup>0</sup>/<sub>100</sub> of our portfolios, while funds invested in short-term instruments increased from 36<sup>0</sup>/<sub>100</sub> to 54<sup>0</sup>/<sub>100</sub>.

Among the most formidable competitors, said Mr. Brown, are mutual funds -Money Market Funds- that offer higher interest



*Speakers Tom J. Hefter and William Cleve Brown.*

rates that neither commercial banks nor the associations are permitted to offer.

The investor, he added, places his money with the broker who accumulates enough in a pool to purchase a very large certificate of deposit (one million dollars or more) on which a very high rate is negotiated. These certificates of deposits can be sold in the Eurodollar market where rates are often higher than in the domestic market. The broker's profit, he specified, is the difference between the rate negotiated on the Eurodollar market and that promised to the investor.

Another distortion of the system, is that all over the country mortgage banks and real estate companies are buying housing bonds which could result in their monopolizing the housing finance market. However it's still too early to determine the long-term effect of this development.

Another big competitor is the U.S. Government bond that offers additional advantages, such as being free of State and local taxes and, in some cases, sold at

discount prices which even increases their yield.

All of this means, he continued, that our Associations are attracting less savings and struggling to find incentives to help alleviate this problem.

Mr. Brown observed that depositors continue to be attracted to the Money Market certificates, to variable rate certificates and to JUMBO certificates which require a deposit of at least 100,000 dollars and whose interest rates are not subject to regulation.

He remarked that significant attention was being given to comprehensive savings schemes which include pension plans and also to the depositing of mortgage monies into insurance companies that offer pension savings plans. Thus, the big savings and loan institutions must compete in the Eurodollar market.

International branches have been a reality for centuries. He regretted, however, the confinement of Savings and Loans to the national sphere, without the possibility of opening agencies or branches abroad.

In this respect, he reminded the group that Alexander the Great had established an international banking system in the lands he conquered permitting free circulation of money and precious metals. Italian city states provided the European monarchs with the money they needed to finance their wars. Spanish policy in the 16th and 17th centuries authorized free flow of money and goods throughout its territory and its colonies. Yet, it was the British that developed international banking as we know it today. The British Empire traded with its colonies, for commerce was essential to colonial development. Hence, a financial structure was established to serve the needs of business and commerce in a world waiting for the industrial revolution. In this context, England can be said to be the creator of the modern international banking system.

It was less than 20 years ago that multinational banking became a reality in the U.S.A. and began to play an important part in both fund acquisition and the profitability of the commercial bank.

Among the possible reasons for failing to consider multinational branching for savings and loan institutions of the U.S., he mentioned world inflation and the tremendous liquidity of funds in the hands of a few,

and these mostly in the Eurodollar market.

Analyzing future prospects, he pointed out that the many changes occurring would bring about specialized marketing problems, but also offer Savings and Loan Associations opportunities to further test their adaptability.

Among the effects already caused or likely to be caused by the current situation, he mentioned:

1.- An increasing number of mergers required to handle the complexities of modern technology and the management of active and passive operations.

2.- The tendency of Savings and Loan institutions, whose number is constantly increasing, to function more as mortgage banks.

3.- The decision of some associations to become banks, hoping to gain more short-term flexibility and attract more depositors.

4.- An increase in conversion from mutual to stock form, as a way to obtain the additional operating capital.

5.- The possibility for some associations to be included in the European banking market and thus to participate in a world market and attract a larger volume of funds.

He went on to pose the following questions: To what market do we direct ourselves? How do we do it? What do we do?

He specified that in the organization that he worked it was decided to integrate its own marketing staff with marketing specialists.

Within this new team there would certainly be changes in the advertising schemes of the organization and its approach to public relations. Under the supervision of the marketing director, a complete analysis of these functions and restructuring of their ultimate goals would be carried out.

He noted that a majority of institutions have to reassess and adjust their marketing schemes, just like any business selling and service or product.

He concluded with this statement: "If marketing is to have its place in the future and if savings continue to be a basic part of housing finance, one thing that will have singular importance is creativity, creativity in the design of our products, creativity in the delivery of our systems and creativity in our efforts to develop our market.

Mr. HEFTER began by saying that in the financial world savings and loan activity was in a state of flux and quite volatile. He added that the stereotype image of conservative, inflexible financial institutions was gone, replaced by the new image of aggressive, innovative, and extremely flexible ones that take advantage of multidisciplinary knowledge and modern technology.

He said that one of the disciplines of singular importance should be marketing. Market research should be carried out by high trained personnel who keep in constant contact with their clientele and develop new and competitive services that respond to the needs of the clientele and present an innovative and service-oriented corporate image to the community.

He added that many U.S. Associations had not practiced this kind of marketing for quite some time period and that the more traditional institutions had a lot to learn about marketing; SIMSA could be helpful to this purpose.

He also recalled that some years ago SIMSA had written a simple definition of savings institution marketing, designed to develop a common terminology.

"Savings Institution Marketing is a function of management. Its purpose is to identify and to provide those financial services that its customers want or need.

The purposes of marketing are: a) marketing research; b) planning; c) developing financial services; d) developing a system or mechanism to distribute these services (branching included); e) recommending prices; f) seeing to advertising; g) orienting public relations and public affairs; h) promoting sales, and i) training sales people.

He stressed that no one department

could do the job alone. All would have to work together in order to offer the clientele an attractive package.

Later on, he referred to the techniques being used in the United States to attract savings into the Associations.

He showed a television commercial designed to instruct the public in the advantages of savings accounts vs investment in mutual funds, these being security and protection of funds.

The next TV spot he showed instructed how savings deposited with an Association grow and grow.

A third TV spot he showed instructed how it was possible to consolidate and strengthen the financial image of a given Association.

Then he proceeded to exhibit a number of newspaper ads which had been used to attract new depositors and convince depositors to leave their money safely in their accounts. These ads also instructed the depositors and investors as to the various kinds of savings programs or investment they could choose.

Next, he showed a newspaper ad promoting the so-called NOW ACCOUNT which was devised as one answer to competition from banks.

Mr. Hefter then projected a series of slides that called attention to the benefits, such as short-term certificates, credit cards, retirement plans and discounts offered by certain businesses to depositors in a certain Savings and Loan Association.

He closed his presentation by saying that there were dozens of other methods to attract savings, such as free gifts and prizes which attract some savers more than higher yields on their accounts.

#### FOURTH PLENARY SESSION

This plenary took place on Wednesday, May 6. The speaker was Mr. Miguel Allué who spoke on his country's experience in savings and housing finance.

Immediately following the presentation an informative film was shown entitled "Centro de Gaviotas", prepared by the Central Mortgage Bank of Colombia, an institution which has distinguished itself by promoting the use of solar energy in that nation.



*Partial view of the attendants.*

Mr. ALLUE thanked the group on his own behalf and on behalf of the Confederación Española de Cajas de Ahorro for the opportunity offered him to attend the XIX Inter-American Savings and Loan Conference.

He began by saying that he would examine his subject from a macroeconomic or global perspective and then look at specific investment activities.

To discuss savings today, he said, when the economic crisis or at least serious economic troubles do not fall within definite geographic bounds, means to delve into a set of problems of great concern to a large part of the world.

"It is obvious that the ability to attract savings in an economy determines its potential for investment and this depends on the investments' potential for growth. While this may be trivial in prosperous times, it ceases to be such in the present critical situation, affecting many countries, in particular Spain since the mid-1970s".

He went on to say that of the pressing problems which now face the world one could not be unreasonably optimistic. We should be aware of them, which requires a certain amount of realism sometimes difficult to convey to the public because a change in habits of consumption is not easy to accept after the long periods of prosperity and attitudes of consuming reinforced and stimulated by the mass media.

Next, he mentioned the chief problems affecting nations, among which he included:

- A considerable slackening of economic growth.
- A slowing down in the accumulation of capital.
- A drop in the ability to save.
- Severe structural changes in some markets, due to variations of prices and to production processes which become obsolete and intensify crisis in certain sectors, requiring costly restructuring.
- A constant threat of inflation that makes it necessary to have a policy directed to prevent and fight price increase.
- An increase in the number of the unemployed, despite measures taken to prevent them.
- Significant deficits in the balance of



*Speaker Miguel Allué Escudero.*

payments of many countries, especially affected by the rising costs of imported energy.

- A noticeable slowdown in the expansion of international commercial operations.
- Huge differences between the standard of living of developed countries and that of underdeveloped countries which will most likely increase in the future contributing to stimulate a climate of world uneasiness as stated in the recent well-known "Brandt Report".

"In other words", Mr. Allué continued, "Savings in its current status resembles a ship tossed by a violent storm, the recovery of whose balance depends not so much on the decisions of its pilot, who can only ride out the storm but on a general return to normal conditions.

This implies to a certain extent revitalizing savings, without forgetting its primary importance or the need to favor adoption of every measure within our reach to strengthen it.

To strengthen savings, he emphasized, is one of the most important steps in the fight against the current crisis, in order to achieve economic stability and explore investment possibilities on which the present and future economic situation depends.

Decrease in savings capacity has been a common denominator in many countries since the beginning of the 1970's and the energy crisis. With 1973 as a reference, he pointed out that the ability to save - defined as the percent of net savings to available income - clearly showed a decrease in a wide range of countries.

To be specific, he showed that in the U.S.A. the ability to save had fallen from 10% in 1973 to 7% in 1978. In Canada, it dropped from 15% to 5% in the same period. In Japan, where savings ability is high, it dropped from 28% to 20%; in West Germany from 19% to 14%; in Belgium from 19% to 12%; in France from 18% to 14%; in Norway from 17% to 9%; and in Sweden from 16% to 6%, in the same period.

The ability to save, he concluded, has seriously deteriorated at the international level, with the exception of those countries that are leading energy producers. They channel a large part of their earnings from the sale of energy to savings and due to favorable exchange rates and high cost of crude oil have even more money to save.

Referring to the economy of Spain, Mr. Allué said that his country had not escaped a drop in its ability to save and had registered an 18.35% drop in 1973 and saw it drop to a 16% in 1975, and a 14% drop in 1978, and dropped to 11% in 1980. This progressing decrease in the "ability to save" has seriously affected the Spanish economy, most noticeably evident in the construction industry, particularly in home construction.

Spain's gross income had steadily decreased in the 1975-1979 period. The reduction had been variable from year to year, but totaled at the end of said period 8.9% lower than in 1974. The decrease had been greater in the construction industry in which investment dropped 12% from the base year to 1979.

The dynamics of the investment process

didn't allow for a positive balance in 1980, he recalled, since it has to have some time at zero growth. This resulted in an estimated 20% drop in construction investment.

Such an environment has damaged investment since the second half of the 1970s and impaired economic growth in Spain. This becomes evident, he pointed out, if we consider that average yearly growth of Spain's G.N.P. reached 7% in the period 1965-1974 then fell to slightly under 2% in the period 1975 - 1980, inclusive. This 5% defines two periods in Spain's recent economic history and points to the economic upheaval that country now faces.

Spain's economic situation is characterized by decreases in savings, investments and the G.N.P. All of these are affected by inflation which, though somewhat checked since 1977, when at its highest, is still sufficient to place serious obstacles to revitalization of the economy. He stated that in 1980 his country's economic development policies would come up against external limitations due to Spain's balance of payment deficit.

Later on, he said that the task of restimulating the inclination to save would not be an easy task; to formulate a suitable policy and carry out the steps necessary to accomplish it does not depend on unilateral measures, but on the creation of a favorable atmosphere for savings and the offering of specific possibilities to save.

To promote the ability to save with specific measures - chiefly of a fiscal and monetary nature - is a task well-known to Spanish economic policy, yet experience shows that the results have been limited. In principle, this kind of action seems to shift the savers' liking toward one type of investment or another, on the basis of the greater interests offered, rather than to help increase the overall volume of savings under the system, the dynamics of which depends basically on growth of the real income and on eventual success in the fight against inflation. That is why, he proceeded, the best savings-promotion policy unavoidable crosses the meridian of increased productivity, a controlled rise in unit prices, reinforcement of the expanding sector and closer control of the expenditure of the public sector, whose growth is largely due to finance industries in which savings that sector in competition for savings.

Analyzing the sources of net savings in

Spain, he highlighted family saving whose contribution to the Spanish total net savings reached almost 56% over the first half of the 1970's, while net savings deposited by enterprises were 24% and those of the public sector, with a more irregular savings capacity, were 18% - 24% percent.

He added that due to economic difficulties plaguing Spain since 1975, there have been considerable changes in the above mentioned contributions of the various sectors to total net savings in the country. As far as family savings are concerned these have grown by over 60% in 1979. But this increase in family savings is only partially significant, because it only shows the predominance gained by family savings within the overall context of savings, rather than the families "ability to save", which instead of growing has decidedly decreased.

Then he pointed out that this decrease in families' ability to save has had two fundamental causes: first, the eroding effect inflation has on family incomes; second, the effect of increased unemployment on the real income of many Spanish families. A third cause should be added, namely, a certain reduction in the volume of active population, to be construed as withdrawal from the labor market of individuals who give up their search for a job, in view of the difficulty to get one. This fundamentally affects certain complementary family incomes, whose disappearance or reduction has repercussions in the ability of the family to purchase consumer durables or buy a house.

In reference to inflation levels, Mr. Allué went on to say that in the early 1970s the inflation rate, gauged by the cost of living or by the consumer price index, did not go beyond two digits, but already in 1973 it had exceeded that limit by 1.5%. This figure escalated to 24.50% in 1977 and, though substantially lowered, it has not been less than 15%.

As for unemployment, suffice it to say that it rose from 5.68% in 1975 to 12.60% by the close of 1980.

Referring to Spanish institutions where private savings are deposited, he made special mention of commercial banks and savings banks, which attracted 65.6% and 34.4%, respectively, of private savings in 1980. However, if we only consider time deposits, the figures vary, being 59% for commercial banks and 41% for savings banks, post office savings banks included.

Furthermore, he remarked that as to attraction of savings deposits, savings banks show a better balance than commercial banks, both in demand and time deposits. In fact, demand deposits represent 56.7% and time deposits 43.3% for savings banks, while for commercial banks demand deposits represent 25.4% and time deposits 74.6%. One of the fundamental reasons for this difference of more channeling of savings is that those collected by savings banks come from a modest socio-economic stratum and deal more with home mortgaging than commercial banks who do not specialize in this type of financing.

A second point he emphasized was that savings banks have been more seriously effected by the savings crisis than commercial banks, which means they attract less private savings with even the 1% decrease in the amount of private savings deposited in the period 1979-1980 being significant. This was in part caused by savings banks being less able to compete for savings with private banks, unable to pay the same interest rates because they are subject to more obligatory investment requirements.

With regard to the interest rates, he pointed out that in Spain, the financial world has been undergoing a great liberalization since mid-1977. Interest rates are controlled on 6 month deposits of under 1 million pesetas, on demand deposits, and on certain small deposits enjoying a special treatment, labeled "tied savings" whose rates are between 1% and 9%, depending on the type of deposit.

The ceiling on free-allocation deposits amounts to 13% annually and varies with the term and volume of the transaction.

With reference to financing, Mr. Allué made it clear that except for credits subject to a special regulation -which are included in the investment coefficients of savings banks and commercial banks-, there was the liberty to fix any terms. He stressed that within this freedom there existed the obligation to direct some of the loan institution's liabilities to medium and long-term financing, with a minimal 3-year average maturity, or a simple 5-year term. He added that savings banks should put at least 10% of their liabilities into these kinds of loans from May 1984 on, while private banks should begin investing at least 7% of their liabilities into the same

by the end of 1983.

He specified that as for the interest rates on regulated financing operations -with the exception of loans for export and on some special transactions -the current situation leads to a uniform 12<sup>o</sup>/o interest, 11<sup>o</sup>/o in the case of public sector housing. Interest rates on loans for exportation -in which savings banks must 1<sup>o</sup>/o of their computable liabilities- go from 7.5 <sup>o</sup>/o to 10 <sup>o</sup>/o, depending on the type.

With regard to unregulated longterm loans he remarked that the interest fluctuates between 19.5<sup>o</sup>/o or 20<sup>o</sup>/o for private banks and 19<sup>o</sup>/o for savings banks.

In order to channel private savings into certain economic activities, some tax incentives have been established, such as rebates from the income tax. In this respect, he said that the percentages of said rebates are 22<sup>o</sup>/o for government bonds, 20<sup>o</sup>/o for municipal bonds and bonds issued by the national railroads; also 15<sup>o</sup>/o rebates for certain bonds issued by the utility companies.

In order to attract depositors the savings banks devised a lottery system with prizes in cash or in goods, besides the gifts given when an account is opened and on the occasion of a birth or when a child first enters school.

He also pointed out the social benefits savings banks provide, from loans for education and special training to special old-age benefits and even working on the promotion and diffusion of cultural values on regional and national levels.

In reference to construction, he noted that this is a sphere of Spanish economic activity which receives considerable attention. According to the date of the National Accounting Office, in 1970 slightly over 60<sup>o</sup>/o of fixed capital went into construction and this percentage tended to increase in the course of the past decade to more than 65<sup>o</sup>/o in 1978 and 70<sup>o</sup>/o in 1980.

On the other hand, the importance of construction is evidenced by the fact that it was responsible for nearly 19<sup>o</sup>/o of secondary sector of the Spanish economy in 1980, despite the fact that traditionally the economically active population of this sector has been 10<sup>o</sup>/o. In spite of this, the building industry is among those most severely affected by the economic crisis and has suffered a loss of investment more noticeable than in any other economic sphere.

With such a picture it is not surprising that the Spanish Government, in its policy to stimulate the economy and in its endeavor to lower the unemployment rate is stimulating construction activity through public works and housing programs.

On the early 1970's, investment in residential properties represented about 40<sup>o</sup>/o of the total investment in construction. The investment trend in real terms, i.e. pesetas adjusted to the 1970 value, has been to decrease, so that in 1977 (the last operational period for which sufficiently precise data is available) it was 37<sup>o</sup>/o, a figure that has not changed substantially in recent years. However, looking at the decrease in the real value of the peso for housing construction in relation to investment in construction we see that the nominal value of the peso has presented, on the other hand, an increase of 40<sup>o</sup>/o over the same period, putting that figure at 44<sup>o</sup>/o.

This means that home construction is characterized by the following:

- It plays a significant role in the Spanish construction industry:
- It is an important channel into which sizable portion of private savings, in particular of family savings flow. In 1977, investment in residential properties reached nearly 27<sup>o</sup>/o of net savings within this sector, including non-profit organizations,
- It has been more seriously affected by the economic crisis than every other sector, including construction in general;
- It has been severely affected by inflation.

Mr. Allué went on to say that since 1975, when 374,391 shelter units were completed, the tendency of housing has been to decrease, with the exception of a slight recovery in 1979. The number of shelter units completed in 1979 was a little over 65<sup>o</sup>/o of the number completed in 1975.

He pointed out that the decrease in savings was one of the main causes of the present housing crisis. The question might furthermore be asked whether and to what extent other factors commonly influencing the goods and services markets are equally responsible for the housing decline.

In respect to actual housing requirements, he underlined the fact that even promoters-builders are aware of a future negative tendency. A number of studies affirm that over the next 25 years about

6,250,000 new housing units will be built in Spain, at an uneven rate of some 305,000 units per year in a first stage and some 195,000 units per year in the final stage (instead of the simple average 250,000 units per year). This reinforces the conclusion that barring unanticipated events, the "record" year for housing construction in Spain will be 1975.

Among the fundamental causes of such behavior which coincide with those that have already been affecting the housing industry for years are the following.

- Decrease in internal migration.
- Likely slow-down the urban growth-process.
- A rather lasting structural economic crisis that will require much financial support for the reconversion and reorganization of other productive sectors, to the detriment of the availability of home financing.
- Renewal and maintenance of the actual value toward reinforcement of the existing supply.
- Aging of the geographical pyramid.
- Change in the community's consumption habits.
- Reduction of the shortage prevailing in these early 1980s.
- Decrease in the tendency to own a second house.
- Less changing of residence, in view of the difficult economic situation.
- Slowing down of tourism.
- Increasing unbalance between housing supply and demand, due to inadequacy of minimal quality supply at a proportionate price to demand capable to afford same.

The existence of a growing difference between the supply and demand of housing is caused by the discrepancy between the cost of minimal units and the ability of the potential buyer to pay. Referring to this last fact, he pointed out that housing costs have risen more in the last 5 years than other elements such as rents, the index of consumer prices and prices in general of the System. All of this constitutes a serious

barrier to the potential home buyer.

In reference to housing finance, he said that the loan amounts to 70 percent of appraised value of the respective shelter unit, with a maximum 12-year amortization period, plus a three years grace period and a yearly interest of 11<sup>o</sup>/o, in some cases 14<sup>o</sup>/o.

Other factors contributing to rises in the cost of housing have been the increase in the cost of urban lots and the appreciable increase in the wages of construction workers but at the same time a decrease in their productivity.

Furthermore, he specified that savings banks are the chief housing finance agents, with 58<sup>o</sup>/o of their capital in mortgage investment last year, vs. 7.52<sup>o</sup>/o invested by private banks.

Mr. Allué concluded his presentation by referring to the housing policy being implemented in Spain, to its medium-long range goals and to the role assigned to loan institutions.

He said that the Spanish housing policy is being realized in a 3-year plan (1981-1983) with construction of 571,000 shelter units programmed 90,000 by the public sector, 144,000 by state banks, the remaining 377,000 by private and savings banks.

He specified that the goals set up for 1981 would be practically attained, particularly as far as funding commitments are concerned.

The success of the program will ultimately depend upon the demand for housing, which, of course, depends on the general economic situation.

He pointed out that within the framework of the present financial policy an important element is the recently passed Law on the mortgage market, aimed at promoting the issuance of mortgage bonds as a means to attract funds for investment in the housing sector. Through creation of the secondary mortgage market it is hoped to improve financing conditions and by diversification of private funds strengthen savings so very necessary to the Spanish economy.



*Partial view of the attendants.*

#### **FIFTH PLENARY SESSION**

This plenary, chaired by Mr. Luis Guillermo Soto, was held on the morning of Thursday, May 7. Mr. Willi-Dieter Osterbrauck analyzed savings and housing finance in West Germany.

Mr. OSTERBRAUCK began his presentation by stressing the radical crisis for years has affected the West German home-building industry. He said this probably was the worst crisis in the industry of his country, home construction having decreased to one-half of its 1973 figure. He said that from 1970 to 1973 it had been possible to build a large number of shelter units, in particular because the price level could be maintained.

He stressed the fact that home construction was a very important aspect of the construction industry, particularly owner occupied units. He attributed the decline in the construction of rental property to the restrictions imposed on these properties. For this reason traditional investors such as banks and insurance companies have to a large extent withdrawn from the housing rental market.

He pointed out that housing activity in West Germany is likely to continue restrained, at least as compared to its activity in the past. He highlighted these reasons:

— By the end of 1976, nearly 24 million shelter units were available for less than this number of families; hence, each family had the possibility to live in its own home.

— A decrease in the country's population from 62.1 million inhabitants in 1974 to 61.5 million in 1976, while the number of families - therefore the housing demand - has increased.

— The need to better distribute or improve the number of units per capita.

— The probable annual demand for new housing of well over 400,000 units, half of which to replace no longer serviceable or old units and units for single persons or newly married couples.

— The probable demand for a better quality unit, particularly for owner-occupied units, considering owner-occupancy in West Germany is still low compared to neighboring countries.

In summary, the prospects for German Savings and Loan Association are by no means bad. In 1979 they had financed 30.1 percent of the total home construction, ranking third behind savings mortgage banks.

He explained that this circumstance was due to the favorable conditions that these Savings and Loan Associations offer when the financial institutions raised the interest rates on their loans to 11% (due to the high cost of money) and for fixed terms of maximum 5 years, fixed their terms at



*Speaker Willi-Dieter Osterbrauck.*

5 years, the Building Societies still lent at 4.5 - 5% interest for terms of 11 years.

Moreover, he specified that 2/5 of all building funds come from the Savings and Loan Associations, the remainder from other financial institutions.

West German Banks will loan up to 60% of the purchase value of a property, with only a rare exception, and the loan being normally for 30 years.

He noted that financing by Savings and Loan Associations operates on a savings contract basis, for allotment once 40 percent of the money is deposited in the account 40% of it is relegated to pay back the loan. Thus 60% of the loan pays an amortization of 6 German Marks for every 1000 received as a loan.

However, he added, in order to reach lower-income groups, lower down payments are required and during the first few years the owner ends up paying mostly the interest and practically nothing of the principal of the loan.

He added that the depositor may receive an intermediate loan, in order to purchase

his home, from his Savings and Loan Association even before his savings contract time is up, provided that he has already accumulated the 40% required and that he has had his account for at least 18 months. This intermediate loan, he specified, costs less than loans by banks or savings banks. But even before 40% of the loan is accumulated in the account, the depositor can obtain an intermediary loan from his Savings and Loan Association.

He pointed out that payment of interest on the loan could be partially deferred i.e. the borrower pays less interest in the initial periods and makes up the differential later.

He then turned to the significance of owner-occupied properties in a national context and related national policies. 75% of the German population aspire to become home-owners. He said that the housing supply is aided by the Government through various measures, such as aid with public funds, financial incentives, subsidies for the potential buyer and on the cost of the home, and eviction policies to protect the owner.

Many citizens are looking for other

protection by taking out life insurance, health insurance, accident insurance, etc. Anyone who fears that his social security pension will by itself not be enough, may take out additional life or health insurance.

According to statistics, in 1973, 59% of all family savings were invested in personal savings. 33% in bonds for housing and 26% in life insurance policies. The base of the pyramid of monetary accumulation is the savings account.

He specified that the West German government has for long been given a high political priority to policies that encourage accumulation of capital for the working class. This attitude is mainly based on the conviction that private property and the well-being of the community and the individual's ability to help himself are the strongest pillars of economic progress and social stability. This political orientation combines incentives for home-construction and accumulation of savings, old age pension plans are profit-sharing.

He closed his presentation by mentioning the possible creation of a World Housing Bank.



*AID Session: Neal Goodson, Francis Conway, Mario Pita, Peter M. Kimm, Eligio Tomás Franco and Willi-Dieter Osterbrauck.*

### SIXTH PLENARY SESSION

This session was inaugurated on Thursday, May at 10.30 a.m., and was devoted to an examination of AID's involvement in International Housing Finance.

The Chairman was the XIXth Conference's First Vice-President and Director of A.I.D.'s Housing Office, Mr. Peter M. Kimm, who introduced his collaborators: Mr. Francis Conway, Regional Director of A.I.D.'s Housing Office for Central America; Mr. Mario Pita, Regional Director of A.I.D.'s Housing Office for Panama and South America, and Mr. Neal Goodson, Regional Director of A.I.D.'s Housing Office for the Carribean. Also, on the rostrum were the XIXth. Conference's Second Vice-President Mr. Eligio Tomás Franco Flores and Dr. Willi-Dieter Osterbrauck.

Mr. Kimm presented some general background information on the activities of his Office in Latin America and illustrated his presentation with slides.

Next, the Assembly was addressed by Mr. Conway who discussed A.I.D.'s housing programs in Central America.

Afterwards, Mr. Mario Pita described the work done by AID's Housing Office in Panama and South America over the past year. He introduced the housing programs being implemented in Paraguay for low income families and left the floor to Mr. Eligio Tomás Franco Flores, President of the Banco Nacional de Ahorro y Préstamo del Paraguay, who made a presentation with slides.

To begin with, Mr. PETER M. KIMM recalled that at the Inaugural Sessions of this Nineteenth Conference he had commented generally on the very serious problems facing housing finance the world over; howsoever, he was optimistic.

He said that he would take this opportunity to refer to two basic aspects of this situation: the nature of problems affecting the world in the field of housing and the reason why anyone in his right mind could in fact be optimistic.

He indicated, moreover, that as is customary at these meetings, he would refer to the work carried out by AID in the last fiscal year.

He outlined the support given by AID to the building of housing for low income sector on a world wide level.

He pointed out that in the last fiscal year AID had authorized a number of new loans totalling US\$ 175.- million, of which almost half, US\$ 67.- million, had been allocated to the Latin American Region.

In nominal terms this amount was slightly higher than the US\$ 150.- million authorized for the previous fiscal year.

He added, however, that it has been necessary to face various problems arising particularly from pressures generated by the unprecedented increase in interest rates. He indicated that all this had required AID to sign a smaller number of new loan agreements and to reduce the allocation of resources in each one of the areas served.

While approximately US\$ 100 million in loans were made in previous years, he recalled, in the last fiscal year the figure dropped to US\$ 46 million, of which only US\$ 41 million was actually directed towards the resolution of specific problems arising from specific projects.

This clearly smaller loan amount he pointed out was largely attributed to the fact that many financial institutions preferred to wait for interest rates to drop before incurring additional credit obligations.

"We all wish that interest rates would drop", he added, "and that this would occur as soon as possible. However, estimates indicate that interest rates on short term operations will not come down to the levels they were 5 or 10 years ago, and if such decreases do in fact occur, they would be slow and gradual".

Referring to these circumstances, he continued. one adds the position maintained

by many people that consider it indispensable that institutions that manage housing finance operations consider how to live with the high cost of money.

He noted the effect of the increasing profitability of deposit attracting operations as reflected directly on rates of interest determined for loans, especially when these are issued on a long term basis. Thus, he pointed out, if savers are to be paid 13% a year on their deposits, the interest rate on loans will have to be established on the basis of this reality and, obviously, with a higher coefficient. In turn, he continued, as loans are normally offered at 20 or 30 year terms, this necessitates implementing mechanisms that balance assets and liabilities.

A program of guarantees, he reflected, is not free from the previously indicated pressures that weigh so heavily on the housing sector. We expect this situation to improve, yet this should not stop us from considering steps necessary for survival and enabling us to continue to face an economic reality which is not out of our hands to change.

The problems of housing finance concern the world to the extent that within the past 10 weeks, three meetings have been held in different continents with the participation of approximately 50 countries, to review the problems indicated.

In March this year a meeting had been held in Bangkok to examine housing finance with the participation of representatives from 10 countries, including the most outstanding authorities in the field of housing. One of the speakers was Dr. Ernesto Wende, of Bolivia, who referred to the experience in his country and in other Latin American nations.

Mr. Kimm then went on to say that in March the Eighth Meeting of Housing Institutions had been held in Africa, with the participation of delegates from 20 organizations of that continent.

Finally, he said, we find ourselves attending this Nineteenth Inter-American Conference where already some delegates, highly regarded in the housing field of their respective countries, have recognized the uncalculable value of this conference for the variety of alternative methods which have been identified during it to address the current crisis.

Subsequently, he expressed his confidence in that there were solutions to these

current problems due to the existence of a worldwide movement, such as that associated with savings and loan which include intelligent and responsible executives who have contributed undeniably to work towards facing and overcoming obstacles and difficulties. The existence of this movement, he emphasized in addition to the skills of many individuals capable of meeting the daily or periodic obstacles which arise, is enough of a reason to be optimistic about the development of positive solutions to the current problems.

He then referred to the task undertaken by AID last year to redefine the concept of "housing for everyone" with the specific purpose of answering these two questions: What needs to be done to allow every family access to an appropriate home, in any country and under any circumstance? If this is possible, how can this be achieved?

In this regard, he referred to an analytical study of the Central American region which will produce a document that in addition to defining conclusions will include an account of the work done.

He called attention to the significant role which savings and loan system all over the world will play in attaining this coveted target of providing housing to all families on the globe. Moreover, he noted, later on in the session a succinct report would be distributed on activities to be carried out to benefit low income sectors which has been prepared in Paraguay by the Banco Nacional de Ahorro y Préstamo and other savings and loan institutions in that country.

He similarly noted the Paraguayan experience identified with characteristics which would be appreciated in most parts of the world who have built low income housing. To begin with he said, there are two stages involved in building these units: an initial or temporary stage with a potential add-on home and another definite stage directed to meeting the greatest number of needs of the family group. And secondly the project was developed with a minimum of government support.

He recognized, however, that some countries such as the German Federal Republic have created a climate particularly in the area of taxation and the determination necessary to build housing.

Notwithstanding, even if a government subsidy may be convenient and it does not exhibit a multiplying effect, it would

only serve a small group of families and would consequently not allow all possibilities of government assistance to materialize. To support this statement, he noted that the majority of low-income housing has been realized by the users themselves or with the assistance of a construction company.

Mr. Kimm shared a recent experience gained from a housing project for low-income groups in Guayaquil, Ecuador, which enabled 350 thousand new housing units to be built by self-help construction. In this regard, he indicated that the work of the government in the project had been limited to land preparation and earth moving, and in coordinating the different public utilities.

He pointed out that generally speaking, financing had been provided by the users who use their savings to build their own homes.

Mr. Kimm closed his presentation by emphasizing that in the low-income sector, self-help was fundamental to housing programs.

He showed some slides of Guayaquil experience.

Mr. CONWAY began his presentation by referring to the concept of acceptable minimal housing from AID's standpoint. He pointed out that this was a highly changeable term because it was not possible to provide from the start the entire population with a three-bedroom unit. On the other hand, he noted, it is feasible to adopt measures to enable people to gradually improve the habitability of their conditions, particularly to recognize the efforts of thousands of families to secure housing, without resorting to traditional financial vehicles. This minimal or core housing unit, represents the starting point of the so-called informal sector. It consists of securing tenancy of a serviced lot -a lot connected with basic utilities such as water and sewage and includes the materials necessary for building a house.

It is then feasible to improve existing housing without having to resort to building new housing solutions to satisfy family needs.

He noted that in improving human settlements or in the construction of new

units, certain minimum standards had to be applied so that construction costs were not increased. As an example of this, he said that in urban areas a 60 m<sup>2</sup> lot is sufficient and that it is not always necessary to provide your own services when these are provided by municipalities. Likewise, building materials such as brick and cement are not always necessary when they can be adequately replaced by natural or traditional building materials.

Combining all these ideas, he went on to say that in 90% of the cases, it is possible to offer new or reconditioned housing without requiring owners to apply or subsidies.

He indicated, however, that it is not an easy task to transform these ideas into concrete actions. AID has been required to overcome the skepticism of public officials responsible for housing programs and at the same time to secure institutional and procedural means to implement approaches to meet the housing needs of low-income groups.

He indicated, moreover that all this represented an experience which was still in the pilot plan stage and at a relatively reduced scale.

To continue, he referred to a study carried out in the five Central American republics which was based on the following assumptions:

a) That it is possible to provide housing a high percentage of the population, without subsidies, by employing technical standards which recognized reality, while at the same time adopting a concept where housing units were developed in accordance with the efforts of their owners, and

b) That, in this context, it is possible to secure the necessary investment to provide housing for the entire population of the country.

Also, he pointed out the current favorable situation in which the U.S. gives financial assistance to housing programs in this Region, exceeding at this time US\$ 100 million, which is equal to the total amount of previous loans.

Moreover, he noted that according to the study, it was expected that within a period of 20 years (1981-2000) the housing plan would increase its coverage of 30% of the population in urban areas and 15% in rural areas, to 70% and 85%, respectively.

He added that this task would require an enormous effort: to build 3 million units in 20 years, to provide utilities and structurally improve another 3 million existing units and generate investments of US\$ 14.4 million into this sector.

He continued by pointing out that this undertaking was not impossible because 90% of the families involved do not require subsidies and that, in turn, the required investment was only equal to 2.4% of the GNP of the region.

Furthermore, he noted that the study is not only directed to start mass housing programs, but at the same time is directed to orient such programs to the large majority who to some extent do not share the benefits of plans currently being implemented. He stressed that it would be risky or incorrect to assume that the figures the study worked with were precise because they were related to historical data, which were not always exact, and which were collected on different dates and projected over a 20 year period under a series of macro economic and demographic phenomena which are difficult to anticipate.

He concluded saying that the thrust of the study was to replace pessimism with optimism and indecision with solid resolutions and positive actions.



*Partial view of attendants.*

Mr. PITA began by recalling that traditionally AID took advantage of these Inter-American AID conferences to share with the delegates some of its experiences of the previous year.

He specified that during the last year, the efforts of his office had been basically directed to collaborate with institutions participating in the execution of approved projects, under the Housing Guaranty Program. He pointed out that this work shows and has shown the difficulties of being associated with the capital market in the United States, which this last year has shown dramatic and unforeseeable fluctuations.

He continued by saying that did not mean that the program had been shut down because in several cases the participating institutions had advanced resources to implement the project. Moreover, he pointed out that reimbursement of such advances will take place once the relevant loans materialize.

He reviewed the various steps taken by Washington office to facilitate obtaining resources under the guarantee program. He referred specifically to the possibility available to borrowers to negotiate directly with a financial intermediary who used his



*Mario Pita*

experience and connections to become responsible for identifying investment groups that had funds to offer.

He went on to explain the reasons for having extended to the governments, through the Ministries of Finance, the responsibility for loan repayments. In this respect, he stated that even at market rates, guarantee loan funds continue to be more advantageous to borrow than commercial bank funds. The free disposition of dollars and the minimum element of importance required for housing programs, he said, added to the attractiveness of guarantee funds.

Among the major problems, he noted, were the home-financing policies applied in most countries which resulted in lower interest rates than those called for under the guarantee program. Moreover, he indicated that a substantial adjustment in domestic interest rates did not appear feasible for social and political reasons, particularly from the standpoint of the low income sectors.

As a result, he continued, "our efforts have been directed to separating guarantee program costs from the financial costs of institutions and the interest on loans charged to the beneficiaries". The alternative which we have put into practice is to make the government the borrower of the dollars and the equivalent amount in local currency be made available to the sponsoring institutions financing the programs.

Subsequently, he noted the benefits which this new alternative has brought about, indicating that discussions had been taken to the level of the people actually responsible for the development of housing policies. At the same time, the possibility has now been opened to project a flexible financial policy with different rates of interest established in accordance with the payment capacity of the intended beneficiary families.

Furthermore, among the most important future programs he referred to were the new US\$ 8 million loan made to the Banco Nacional de Ahorro y Préstamo del

Paraguay and the US\$ 15 million loan soon to be made available to the Banco Ecuatoriano de la Vivienda.

Moreover, he made reference to the AID support of the activities of the Inter-American Savings and Loan Union through its program of technical assistance to National Savings and Loan Institutions, and its programs of specialized seminars.

Finally, he referred to a two day Inter-American meeting held in July, 1980, in Panama, where various problems found in the housing sector were discussed.

In closing his presentation, he introduced Mr. Eligio Tomás Franco Flores, President of the Banco Nacional de Ahorro y Préstamo del Paraguay, who he asked to relate that bank's experience with low income housing programs.

Mr. FRANCO FLORES, speaking on behalf of the Paraguayan savings and loan system, expressed his appreciation to the Housing Office of AID for the support it has given to the founding of the system. He noted that within its 8 years of existence, the Paraguayan savings and loan system had received two loans from AID. One was for US\$ 3 million to finance housing loans up to US\$ 10,000 per borrower and the other was for US\$ 4 million that limited individual loans up to US\$ 5,000 per borrower. Furthermore, he pointed out that negotiations were well advanced on a new US\$ 8 million loan that, together with local matching funds, would result in an investment of approximately US\$ 10 million.

With figures which demonstrated the success achieved by the Paraguayan savings and loan system, he reiterated that his country's housing policy was directed to meeting the needs of lower income groups.

Finally, he noted that newly financed project activities were being concentrated basically in the interior regions of the country in order to stop migration from rural areas to the city.

## WORKING COMMITTEES

Four Working Committees met during the course of the agenda.

Committees B-1 and B-2 held separate meetings in the rooms of the Cartagena Hilton Hotel, in the afternoon of Tuesday, May 5. Committees B-3 and B-4, met simultaneously, in the indicated rooms, in the afternoon of Wednesday, May 6.

The above mentioned Committees were guided and directed in their debates by the officers mentioned in the first part of these Annals.



*Working Committee: Gastón Mujía, Alfonso Vallejos, Arthur Tonsmeire and Sergio Vergara.*



*Working Committee. Silverio de Zabala, Hugo González, Mario A. Rendón and Hernando Villagómez.*

## SEVENTH PLENARY SESSION

The Seventh Plenary Session was held at the Cartagena Hilton Hotel, in the city of Cartagena, with the purpose of considering the reports of the Working Committees.

To begin with, and at the request of the Fourth Meeting of the Legal Institute, copies of the resolutions adopted during the course of this meeting were distributed to participants.

Resolutions of Committee B-1 were presented by Mr. Roberto Talio, of Argentina. Similarly, Messrs. Gastón Mujía, of Bolivia, Silverio de Zabala, of Venezuela, and Guillermo Heisecke, of Paraguay, reported on the resolutions adopted by Working Committees B-2, B-3 and B-4.

Thereafter, Mr. Guillermo Le-Fort Campos, Head of the Studies, Publications and Technical Assistance Division of the Inter-American Union, in his capacity of Executive Coordinator of the Fourth Meeting of the Legal Institute, read out proposals approved at the indicated meeting.

In turn, the Secretary General of the Inter-American Union and General Secretary of the Ninethhenth Conference, Mr. Ricardo García Rodríguez, recalled that in the Seventeenth Regular Assembly of the Unión, the city of Lima, Perú, had been selected as the site for the Twentieth Inter-American Conference and Eighteenth General Assembly of the Union.

He went over the list of the new Board of Directors of the Union and of the Legal Institute of the Inter-American Union.



*Conclusions Plenary Session: Rapporteurs, Roberto Talio, Gastón Mujía, Silverio de Zabala, Guillermo Heisecke, together with President Luis Guillermo Soto, Secretary General Ricardo García-Rodríguez, and the Chief of Studies, Publications and Technical Assistant Division, Guillermo Le-Fort Campos.*

## REPORTS OF WORKING COMMITTEES

### COMMITTEE B-1

At its meeting held in the afternoon of Tuesday, May 5, Committee B-1 considered the topic "The principal contemporary problems and perspectives on the savings and loan systems".

During the course of this session Messrs. Jesus Rafael Boada, of Venezuela, and Eduardo Iraola, of Peru, presented their positions.

Both panelists emphasized the shortage and greater cost of savings as one of the problems afflicting the systems, which in addition to the increasing operating costs of the institutions adversely affect the institutions' profit and growth.

Subsequent to the indicated presentations, an extended debate and exchange of opinions followed, producing the following conclusions:

- A. That most savings and loan systems were conceived to operate in times of monetary stability and economic growth. That generalized inflation and recession have produced difficult situations, which have led various countries to adopt different measures.
- B. That among such measures directed to facilitate long-term housing loans, monetary correction and the system of variable rates of interest deserve special mention. That the latter, however, is neither sufficient nor adequate vis-a-vis high rates of inflation, since it practically prevents borrowers to meet their repayment installments.
- C. That experience of some countries demonstrates the need to have available means which favorably correlate the cost of savings, such harmony can be attained by using a method of monetary correlation or a mechanism which can anticipate the fluctuation of lending rates on the basis of changes in the interest rates for savings.
- D. That savings and loan institutions must maintain their image as home-loan finance institutions. However, considering their nature of financial intermediaries, they must have operational freedom to be able to compete, at least under the same conditions, with other institutions in the finance market. This way these institutions can use a variety of approaches and means to attract savings and finance loans. In this way the systems will be able to participate more effectively in the finance market in periods of economic growth or decline, in times of inflation or times of monetary instability.
- E. That therefore, and without affecting the basic role of savings and loan systems, they must have operational diversificación to compete more actively in the market, within the framework of a greater rationalization of operating costs and dealing with the real possibilities of survival in the face of the various economic alternatives that cyclically trouble all countries.
- F. That in this context, moreover, the institutions have the obligation to raise their level of productivity by up-dating their technical and administrative methods, with the goal to optimize their results within an adequate legal, economic and operational framework.
- G. That growth of the systems within a scheme such as that previously defined, in addition to the beneficial results it will no doubt generate, shall in turn permit more to the government sector to discuss the needs of the housing finance system.
- H. Bearing in mind that savings and loan systems constitute instruments of social and economic development, promoting savings and financing for housing should have more validity in housing, monetary and economic policies.
- I. That growing rates of inflation make increasingly more difficult the efforts of savings and loan systems and loan systems to attend to lower income sectors. That maximum operational efficiency and greater influence on governmental policies as previously referred to, will contribute to enable the associations to make loans to these sectors or to administer official resources designed for the housing needs of these sectors.

## COMMITTEE B-2

Committee B-2 met in the afternoon of Tuesday, May 5, to examine the subject "Relations between savings and loan systems and the promoters and builders of housing".

Proposals submitted to this Committee intended to answer the following question: What do the savings and loan system, building industry and housing promoters need or expect of each other?

In this presentation, Mr. Pedro Gómez, of Colombia, referred to the basic problems affecting the savings and loan system in his country, as well as to its relation with building and promoting enterprises. He insisted in the necessity to develop a harmonious policy which enables adequate participation of both sectors in the field of housing.

Particularly, he emphasized:

- a. The presence of a stable, duly institutionalized finance policy promoting both housing finance as well as output of new units and adequately protecting all sectors affected by inflation. The clarity of these policies, he indicated, should contribute to cut down costs, improve the image of savings and loan institutions and promote regular and permanent development of home building.
- b. An adequate policy, such as the one outlined, will enable relations between savings and loan institutions and building enterprises to be improved all of which will lead to a greater stability of building enterprises and to the development of new building techniques with a noticeable reduction in costs.

The above statements were the subject of an extensive debate in the Committee. Special emphasis was given to the difficulty to reconcile the interests of both sectors, since finance institutions insist on the need of a lower cost for housing units, while the construction companies exhibit continually higher costs.

However, the second proposal presented by Mr. Alvaro Barreto, of Brasil, showed the reconciliation of both sectors within the Brazilian savings and loan system. The model currently used is one that has continued to improve over its 17 years of operation. It can be inferred that the current scheme has enabled different institutions to co-exist in harmony, despite their different legal formation.

On the other hand, all delegates agreed on the urgent need for the compatible co-existence of savings and loan institutions and building and promoting enterprises. Likewise, it was agreed that such harmony could originate from guidelines or standards that guarantee and appropriate profit to savings and loan institutions without affecting building costs. Such a solution would be possible when regulating financial and operational aspects, while at the same time eliminating ceilings or limits on rates of interest and commissions, leaving the determination thereof to market decisions.

Notwithstanding the foregoing, the need to establish clear controls in the development of the programs discussed was stressed, in order to avoid problems hindering their adoption.

## COMMITTEE B-3

At its meeting held in the afternoon of Wednesday, May 6, Committee B-3 discussed the topic "Implications of the diversification of the operations of savings and loan institutions", with a special view to answer the following question: Can new operations jeopardize the goal of housing finance of the savings and loan systems?

The Committee began its Working Session with the presentation of Mr. Sergio Vergara of Chile who referred to the process of change that has taken place in his country insofar as replacing savings and loan institutions by stock companies, indicating that a multi-bank system has come into operation with eight development banks that make available 40% of their capital for housing loans. Mr. Vergara emphasized, moreover, that as a result of the current political and financial situation, a rigid system had been replaced by a most

flexible one, which enables diversification of operations in the indicated development banks. On the other hand, he noted that the new multibank financial structure has permitted an increase in the loan capacity of these banks, permitting them to offer more service -more efficient service. Mr. Arthur Tonsmeire Jr., of United States, assigned particular importance to the so-called "new" savings and loan operations of the United States associations, which have enabled these institutions to expand their activities to cover even consumer loans for such purchases as automobiles, furniture, home appliances, in addition to school loans, personal loans and home improvement loans.

Mr. Tonsmeire continued to explain that notwithstanding that the indicated diversification had reduced to a certain extent the amount of money available for investment in housing, inflation and high rates of interest had contributed to a dramatic drop in the demand for mortgage financing. As a whole, he indicated that the savings and loan activity will continue to devote its basic and best efforts to housing finance.

In turn, Mr. Alfonso Vallejo, of Colombia, pointed out that in spite of current pressures on the convenience or inconvenience of adopting measures of operational diversification it should not be forgotten that commercial banks and finance institutions as well as housing and savings corporations have their own resources and particular objectives. This does not mean, he added, that savings and housing institutions should become rigid entities, but rather entities provided with a wide range of ongoing activities and efficient services that are consistent with the basic operations of a savings and housing system.

The ensuing debate it was indicated that savings and loan systems, such as in Peru and Argentine, have opted to diversify their loan operations with a priority given to housing loans and secondly to other ends, since housing demand is smaller and the offer is circumstantial.

From experiences indicated and the current Bolivian reality, one may appreciate a certain trend to diversify operations in savings and loan activities, without, evidently, losing the objective of housing finance, although other delegates seemed to feel that in order to be true to housing purposes and objectives, it is convenient to limit operations to housing related loans, whether short or long term.

The conclusion drawn from this work session was the following: that savings and loan systems should concentrate their main efforts on housing finance, with freedom to diversify their credit operations whenever required to face new changes in the national and international contexts in which they carry out their activities, taking into account the economic, social and political realities in which they work and without overlooking their priority in housing finance.

#### COMMITTEE B-4

Committee B-4 met in the afternoon of Wednesday, May 6, to discuss the topic "Relations between the savings and loan systems and the governments", particularly considering the question: "What are the mutual needs and or reciprocal expectations of the savings and loan systems and government?"

This topic was introduced by panelists Messrs. Hernando Villagomez, de Ecuador, and Hugo Gonzalez, of the Dominican Republic. After an extended debate, the Committee reached the following conclusions:

1. That the public and private sectors should work together in order to attain the housing goals which the country has outlined. That the private sector, integrated by the savings and loan institutions, should cater to the savings and investing public and place its resources preferentially in housing loans, safekeeping its autonomy within the savings and loan system, in observance of the standards of the system.

That the official or public sector is composed of the central organization and the superintendent of the institutions. That this sector depends upon the government to establish operating rules and provide financial assistance to savings and loan institutions.

That the superintendent of institutions, on the other hand, supervises the proper operation of the private institutions, in observance of the legislation and norms of the system.

That governments need the financial intervention of the institutions to meet their housing goals, and in turn, the institutions require the financial support of governments to strengthen their credit capacity. This should be accomplished in a continuing and harmonious relationship, since both sectors are meeting a social priority which is to provide appropriate housing for the nation's population, while at the same time performing the economic function of promoting savings and contributing to the growth of the building industry.

2. That savings and loan institutions not only attempt to disseminate their principles and purposes and make relevant government ministries aware of the situation, but also to endeavor to participate on the planning and implementation of national housing and urban development policies, as well as in the monetary and financial decisions of central banks.

3. That the financial support of savings and loan central organization must reflect the housing targets which governments assign to savings and loan systems. Consequently that the national budgets should allocate necessary resources to strengthen the financial capacity of central organizations, as a way of facilitating financial support to the institutions, which should retain in these operations a rate differential in order to guarantee their growth.

4. That governments can support the activities of savings and loan institutions by using them as intermediaries in connection with subsidies extended to low income families and requiring that state enterprises deposit a part of their otherwise uncommitted funds not only in commercial banks but also in savings and loan institutions.

5. That the private savings and loan sector should join its respective league or federation in coordinating efforts and obtaining better access to high official spheres, as will allow them to guarantee their continued operation in spite of eventual political fluctuations.



*José Carlos Mello Ourivia, President; Willi-Dieter Osterbrauck, Assistant President and Norman Strunk, Secretary General of IUBSSA.*



*Partial view.*



*Partial view.*

## GENERAL ASSEMBLY AND MEETING OF THE NEW BOARD OF DIRECTORS OF THE INTER-AMERICAN SAVINGS AND LOAN UNION

The Seventeenth General Assembly of the Inter-American Savings and Loan Union was held Tuesday, May 5, at 6p.m. on the premises of the Cartagena Hilton Hotel, Cartagena.

During the course of the Assembly the Board of Directors of the Inter-American Union for the ensuing period was elected and the following agreed upon:

1. To select the city of Lima, Peru, as the site for the Twentieth Inter-American Savings and Loan Conference, to be held in 1982.
2. To indicate as one alternative site for the Twentyfirst Conference, to be held in 1983, the city of Miami, Florida, United States of America.
3. To list as probable sites for future Conferences, the cities of Maracaibo, Venezuela; and Madrid, Spain.

The new Board of Directors of the Inter-American Union, that met on that same Tuesday, May 5, elected the following persons to the Executive Committee:

President	Mr. Claudio Bovet, United States of America
Past President:	Mr. Luis Guillermo Soto, Colombia
First Vice President:	Mr. Eligio Tomás Franco Flores
Second Vice President:	Mr. Azor Hazoury Tomes, Dominican Republic
Members:	Mr. José Roberto Talio, Argentina
	Mr. Luiz Alfredo Stockler, Brazil
	Mr. Alfredo Tapia García, Perú

## GENERAL ASSEMBLY OF INTER-AMERICAN SAVINGS AND LOAN BANK

The Sixth Regular Stockholders Meeting of Inter-American Savings and Loan Bank BIAPE, was held Monday, May 4, on the premises of the Cartagena Hilton Hotel. As decided by the vote of stockholders, Mr. Eduardo Villate Bonilla, of Colombia, presided over the meeting.

Among matters discussed in this Assembly, a record must be entered in these Annals of Directors elected to replace those whose term of office ended.

The following regular Directors were re-elected: Messrs. José Luis Corvalán, of Chile; Cleto Campelo Meireles, of Brazil; and Elio Soto van der Dijs, of Venezuela. In turn, the following alternate Directors were appointed: Messrs. Patricio Letelier Silva, of Chile; Alvaro Alberto Barreto, of Brazil; and Silverio de Zabala, of Venezuela.



*Alberto Klumb.*

#### CLOSING ASSEMBLY

The Closing Assembly was held at 7.30 p.m. on Thursday, May 7, and was presided over by Mr. Luis Guillermo Soto, who sat at the dais in the company of the following speakers: the First Vice President of the Nineteenth Conference and Director of the Housing Office of AID, Mr. Peter M. Kimm; the incumbent First Vice President of the Union, Mr. Alfred G. Peterson, on behalf of the United States Leagues; the President-elect of the Unión, Mr. Claudio Bovet; the First Vicepresident-elect of the Union, Mr. Eligio Tomas Franco Flores; the Mayor of the city of Cartagena, Mr. Augusto Martínez; the President of the Legal Institute of the Union, Mr. Raúl García Coni; the President of Confederation de Cajas de Ahorro de España, Mr. Miguel Allué; and the Secretary General of the Inter-American Union, Mr. Ricardo García Rodríguez.

The Assembly was first addressed by Mr. Eduardo Villate Bonilla, Exexutive Director of the Instituto Colombiano de Ahorro y Vivienda.

Mr. Alberto Klumb, Executive President of BIAPE next addressed the delegates.

He was followed by the President of the Asociación Nacional de Mutualistas de Ecuador, Mr. Rubén Chalela Costa, on behalf of the Latin American Savings and Loan League.

The next speaker was Mr. Manuel Callirgos Gamarra, Director of Banco de la Vivienda del Perú, who addressed the delegates on behalf the Central Organizations in the Americas.

Finally, the Superintendent of Banks of Colombia, Mr. Francisco Morris, closed the Nineteenth Inter-American Conference.



*Closing Assembly.*

Mr. VILLATE initially raised some considerations on certain important aspects in his opinion, that were generated by discussions during the Nineteenth Inter-American Conference.

In an effort to summarize and as a general and single conclusion of the Conference he indicated that: "The savings and loan systems are half way through a period of unprecedented change".

He added that each country has tried out different solutions and that no generally applicable model is to be found.

Subsequently, he referred to inflation as the main problem affecting all nations, indicating that to offset its harmful effects three routes are being taken:

- a. Monetary correction or indexation;
- b. Subsidies and other forms of government assistance, and
- c. Diversification of operations of savings and loan institutions.

In evaluating the above three means, he mentioned the importance of remembering that the natural vocation of personal savings has been to provide safe and growing resources with which to finance housing for those sectors that do not require subsidies.

To implement this principle, he indicated



*Bank's Superintendent of Colombia Mr. Francisco Morris.*

that it became necessary to satisfy the stipulations of the national interest, which may not always coincide with the interests of savers, credit users and financial intermediaries.

He continued, that while savers basically seek to protect their savings against the eroding effect of inflation, credit users tend to think that there are sufficient funds to provide long term financing and that amortization should remain reasonably proportionate to their income. Financial intermediaries look for an efficient way of managing their particular institutions to obtain operating margins which will enable them to cover their costs and at the same time produce a profit for their stock-holders comparable to that of other investments.

He added that apparently no country has yet discovered the perfect formula to reconcile the interests of the parties engaged in the housing process. However, that this did not prevent the evaluation of some of these formulas to be more successful than others.

He further pointed out that with the monetary correction system, particularly that of Brazil, Colombia and Chile, it has been possible to maintain low and stable interest rates and amortizations compatible with incomes. He noted that the growth of the debit balance as a result of the adjustment has been compensated by the appreciation of real estate, and higher monthly payments and increases in salaries.

Moreover, he indicated that the evolution discussed had brought about favorable results while the adjustment had reflected real rates of inflation. As a result, whenever ceilings have been set on monetary correction, savings have dropped producing other detrimental effects.

He likewise pointed out the convenience of not confusing monetary correction with the system of variable rates of interest. Referring to the latter, he added that it could lead to very abrupt fluctuations which in many cases did not depend on rates of inflation, except that sometimes they imply high amortizations.

In connection with subsidies, he drew attention to the necessity of separating the institutions handling private savings from public agencies responsible for subsidized housing by corresponding plans, since the mixing of funds would adversely affect attraction of savings.

He reiterated his belief that the Colombian savings and loan institutions should continue to be highly specialized entities in the field of savings and housing finance, as long as there are no market conditions which justify a change.

In closing his remarks, he expressed the appreciation of the Colombian savings and loan system in having been given the opportunity to share so many pleasant moments with foreign speakers and delegates in this Nineteenth Conference, and he thanked the many distinguished representatives of the Government of Colombia and the Municipality of Cartagena for their presence at the Inaugural and Closing Assemblies.

Mr. KLUMB began by recalling that BIAPE had been organized under the wing of the Inter-American Union, in its search for solutions to the housing problem and urban development.

He emphasized the need for meeting the demand for housing among the low income groups, which, he said, is not an easy matter because of the limited resources available and their high cost. The main problem was conciliating costs with income of these groups. He reiterated that in any event, formulas had to be found because otherwise we might become tangled up in a serious crisis of unpredictable consequences.

He pointed out that whole situation is further deteriorated by inflation, but that BIAPE was prepared to meet this challenge by attending to the lower income groups, to the maximum possible extent.

In closing, he extended a warm greeting to the members of the savings and loan movement in the Americas, and appealed to them to assist in building a new peaceful and harmonious world.

On behalf of the Latin American Leagues, Mr. CHALELA expressed his appreciation for the warm Colombian hospitality.

He followed by saying that impenetrable natural and imponderable defenses of the city of Cartagena and its history expressed



*Rubén Chalela.*

that "the American spirit is revived without effort, on evoking tradition, culture and heroism".

The Nineteenth Conference had confirmed two realities: the similar problems which afflict the savings and loan systems all over the world and the need to join efforts between the public and private sectors in identifying the best solutions that will meet the historic commitment and respond to the realities of the present and future generations.

Just as Mr. Peter M. Kimm had done before him, he indicated that he also looked into the future with optimism, provided the current challenge is met with vigor and technical prowess.

He referred to the participation in the Inaugural Sesión of the Minister of Economic Development of Colombia, Mr. Gabriel Melo Guevara, and praised his clear concepts on the financial planning and intermediation of the savings and loan systems and, more particularly so, his statement insofar that without savings there is no investment and conversely that

lacking investment there is no economic development.

He concluded his address quoting a passage from a Colombian poem: "noble place of my grandparents; there is nothing like crossing alleys, the times of the cross and the sword".

Mr. CALLIRGOS, on behalf of the Delegation of Peru, expressed his appreciation of the honour extended to his country by selecting the city of Lima as the site for the next Inter-American Conference.

He pointed out that the Twentieth Conference will be the third opportunity Peru will have to host a meeting of this nature. This circumstance committed the Peruvian savings and loan system to exceed its own capacity in repeating the success of previous conferences and thus contribute to strengthen the savings and loan systems in the Americas.

He congratulated those who will have the opportunity to be participants in the Twentieth Conference to appreciate the free and democratic condition which Peru enjoys under the rule of Architect Fernando Belaunde Terry, President of the Republic.

Mr. MORRIS drew attention to the significance of the event now coming to a close. He also pointed out the role of the construction sector in national economies, indicating that it was such that it had become to be regarded as the thermometer with which to gauge national economic performance, in terms of "if all's well with construction, all's well with the economy".

He went on to indicate that this is even more significant in developing countries, since in them tremendous housing shortages appear to be the common denominator, as a result of population growth and the concentration of it in few urban centers -a situation that produces a demand for housing.

Continuing, he specified the following:

- a. That the amount of savings directed to the sector can be increased considerably, if redistributed with real positive rates,

that is to say, interest rates that compensate for the loss of purchasing power of the deposited money;

- b. That higher volumes of savings should immediately reflect higher productivity of the sector, without detriment to the productive capacity of other sectors, and without pressures or inconveniences to the balance of payments, and
- c. That such additional supply should soon be absorbed by a large latent housing demand.

Colombia, he pointed out, considers that growth of savings for construction could be obtained not only beyond the level of national income, this is, at rates higher than actual income increase, but also quite to the contrary could influence massive employment generation, particularly of the less-skilled.

He continued to state that the lack of an institutional system capable of channeling into and responding to policies that promote national savings and lack of mechanisms and incentives established to develop the construction sector made it necessary to create a specialized intermediary whose object was to attract personal savings destined to be used to finance housing programs.

This was, he recalled, the origin of the savings and loan associations in his country.

Later on, he gave an account of the work of the Colombian savings and loan system, and then referred to the responsibility of control which the State has with respect to private institutions, which has its origins in the Constitution of the country.

Control and supervision thus exercised, he said, has made it possible to provide savers and beneficiaries of the credit system, likewise builders, a guarantee of utmost seriousness, solidity and solvency.

Overall regulation of savings and loan associations, includes organizational requirements, limitations on their activity, deposit attracting instruments, including the regulation of their holdings in specific areas of finance.

He continued by saying that notwithstanding the commendable work of institutions such as the Central Mortgage Bank, the National Savings Fund and the Institute of Territorial Credit, has produced

an awareness that the Colombian savings and loan system has the large responsibility of providing resources to an important and specific area of credit market-construction- whose fate is tied to the fate of the savings and loan associations.

On the other hand, he said that it was not believed that the current growth of the system is compatible with the requirements of resources of the building industry. The "Indicative Plan", discussed at this meeting by the Colombian Minister of Development, together with its implementations, among many other things, will show a discrepancy in the arithmetic between one factor and another. However, from that it will contemplate policies designed for financing of the sector in the coming years, with a faithful look at two preoccupations: On the one hand, the growing housing shortage and on the other hand, the magnitude of the employment problem requires a solution capable to absorb the population joining the market, in addition to a margin which guarantees the gradual decline or absorption of part of the considerable number of people deprived of employment over the past decade. As a natural result of all this the building industry and large manufacturing concerns along with small businesses will tend to exert serious political pressures for projects that generate new activities and stimulate production.

To end his address, he reiterated that the "Indicative Plan" will consider very closely the fact that savings and loan associations have performed their function in the field of housing finance and added that if at some time or another the system showed some distortions, when loans for luxury housing were issued, this anomaly was corrected through, provisions that placed a ceiling on maximum finance which could be provided and, more recently, on the price of housing entitled to financing.

He emphasized that the "Indicative Plan" will be fundamentally concerned with providing the lower income sectors with an access to housing.

Mr. Morris, on behalf of the Government of Colombia, closed the Nineteenth Inter-American Conference by conveying to all delegates a deep affection, and a hope for solidarity and peace.



*Union's Executive Committee during the transfer ceremony of the new President. Besides the Committee members are Mrs. Luis Guillermo Soto and Mrs. Claude Bovet.*



*Former President delivers the presidential gavel to the Union's new elected President, Mr. Claude Bovet.*

## INSTALLATION OF NEW PRESIDENT OF INTER-AMERICAN UNION

The installation of the new President of the Inter-American Union took place during a ceremony held after the Closing Assembly of the Conference.

The outgoing President of the Union, and his wife, Mr. and Mrs. Luis Guillermo Soto; the President of the Inter-American Union and his wife, Mr. and Mrs. Claudio J. J. Bovet; the First Vice President of the Union, Mr. Eligio Tomás Franco Flores; Executive Committee Members, Messrs. Luiz Alfredo Stockler, Roberto Talio and Alfredo Tapia; and the Secretary General of the Inter-American Union, Mr. Ricardo García Rodríguez, took their places on the dais.

Incumbent President Soto indicated that he was turning over the presidency of a vibrant institution, as a result of the cooperation received from all members and the Secretariat General. He expressed his appreciation of the honor conveyed to him as the first Colombian to have been asked to preside over the Union, which he attributed to the extraordinary work carried out by the Savings and Loan System in his country.

He then presented Mr. Bovet with the mallet, donated by Mr. Rex G. Baker on stepping down from the chair of the Union in 1977, and with the symbol of power used by the indigenous mayors of the Altiplano to him by Mr. Ernesto Wende in the previous installation ceremony.

The new President, Mr. Bovet, expressed his appreciation of the trust placed in him and indicated that this appointment represented a challenge and an opportunity to contribute further to the Union.

He stated that without at all ignoring the most significant achievements of the Savings and Loan Systems and the Inter-American Union in the last 20 years, "we currently find ourselves at a juncture as radical and fundamental as that in view of us at the start of our institutional life".

He in turn identified inflation affecting all countries as one of the main problems before the systems prompting them to diversify their activities without overlooking their task of housing finance.

He said that he had helped organize the First Conference held in Lima, in 1963, which materialized later in the Inter-American Union in Caracas, Venezuela.

He then put forward the need to encourage a change in the activities of the Union, without detriment to its current work, which would be directed to extend in activity abroad, and its participation in the various national planning, development and financing activities.

As a first step, he proceeded, a closer contact and better understanding is required with central banks; national planning offices; and the urban development, construction, insurance and capitalization sectors in the different countries.

Finally, he reiterated his appreciation of the honor bestowed upon him and expressed his wish that the Savings and Loan Systems in the Americas would work together to forge a new path, in what could be called a new stage of its institutional life after approximately 20 years of existence.



*Folklore night.*

## LIST OF PARTICIPANTS

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- Carlos Alberto Colomar
- Oscar Chapiro
- Raúl García Coni
- Daniel de Pablo
- Daniel de Elizalde
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- Oscar Coronado
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