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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

REGIONAL - ANDEAN DEVELOPMENT CORPORATION

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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June 1, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Regional - Andean Development Corporation

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$15,000,000 to the Andean Development Corporation to assist in financing (a) the United States dollar costs of Borrower's program of subblending for private sector integration projects in the Andean Region and (b) the United States dollar and local currency costs of (i) subloans to finance feasibility studies for private sector integration projects (not to exceed \$500,000), and (ii) a promotional program (not to exceed \$500,000).

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, June 7, 1972.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I-XII

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June 1, 1972

ANDEAN DEVELOPMENT CORPORATION

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SUMMARY AND RECOMMENDATIONS

1. Summary of Loan Proposal

(a) Borrower - The Andean Development Corporation (CAF).

(b) Amount - not to exceed \$15,000,000 for relending to private sector integration projects in the Andean Region (i.e., Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela). The terms will be 30 years with a 10 year grace period. Interest will be paid at 2% during the grace period and 3% thereafter.

-- Up to \$500,000 of the loan may be utilized for sub-loans to finance feasibility studies for private sector integration projects.

-- Up to \$500,000 of the loan may be utilized to finance promotional costs as described in Section III.

-- The loan will finance only the foreign exchange costs of projects except for the \$1,000,000 mentioned above.

The CAF presently has a project list which totals \$412 million (see Annex III). While not all these projects are likely to reach the final approval stage, the list does include 18 proposals in the private sector alone which represent a potential CAF participation of about \$40 million.

CAF progress during its first 6-9 months of operation has been highly satisfactory. It has already approved 8 loans totalling \$7.22 million.

In view of the large amount of loan proposals now being processed and CAF management's proven ability to move swiftly and dynamically, the Project Committee believes that the proposed \$15 million loan will be utilized efficiently and productively and within a reasonable period of time.

The Project Committee recommends a disbursement period of 5 years principally due to A.I.D.'s more narrow definition of an "integration" project compared to the CAF's own policy guideline, and our insistence that all A.I.D. subloans be directed to the private sector only. Effective private sector demand may develop slowly initially

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given the newness of the entire Andean concept. For both these reasons and in order to assist CAF to emphasize truly regional projects in its lending, A.I.D. is complementing its proposed loan with a \$200,000 grant to finance and to institutionalize a project promotion program. In addition and as stated above, up to \$500,000 of the loan will finance promotional costs.

It should be noted that five-year disbursement periods are most common for A.I.D. loans to development banks. The CAF believes that disbursement may be more rapid and has chosen to use a period of approximately three and one-half years in its financial projections.

- (c) Purpose - To accelerate and rationalize economic growth within the Andean Pact region and promote economic cooperation and integration among the member countries, with special regard to the needs of the less-developed members of the region.

In addition, the proposed loan will help establish the CAF as a major banking institution in the region capable of attracting additional resources from other donor countries and international agencies to meet the growing needs of its member countries.

The proposed loan will also serve to promote U.S. interests in the following ways:

1. Within the Andean movement, the CAF is the element most likely to base its decisions on pragmatic economic grounds rather than on politics, because of its role as the developmental agency of the subregion; because of Venezuelan membership in CAF (not in the Andean Group); and because of the participation and influence of foreign capital. Thus a strengthened CAF might better withstand the influence of the more extremist partners and would lend support to moderate elements who tend to be in accord with many U.S. political and economic objectives.

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2. Meaningful assistance to CAF would have a favorable impact on the climate for private investment in the Andean region, by signaling our continuing concern for the growth of the region. Such support would enforce and give meaning to the U.S.G. stated view that significant development cannot take place without the active participation of private interests.

The CAF proposal is based on lending to the private sector only. Substantial support for CAF projected to be provided by the IDB and East European countries can be expected to benefit the public sector directly. Particularly, for this reason, encouragement and support for the private sector via the CAF are clearly in the U.S. interest.

3. The suspension of bilateral A.I.D. programs in some of the member countries makes it particularly desirable that we cultivate those channels of communication still open to us. U.S. assistance to the CAF ensures some U.S. participation in ways that can influence economic development and policies favorably. It will enable us to assist that sector most sympathetic to our interests and maintain working-level contacts. The political effects in the area of such action are positive.

(Please refer to Annex XI for a more detailed discussion of U.S. interests and objectives.)

(d) Brief Description of the Program

The proposed loan will be utilized for relending in the Andean Group under the following major conditions:

- (i) Subloans will be to 100% owned private companies. An exception will be made in the case of the CAF only which will be permitted to own up to 25% of a borrowing company. (IFC equity participation will also be permitted.)

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- (ii) The subloans will be to truly regional projects as outlined in detail in Section III C of the Loan Paper.
- (iii) Subloans will not be made in any industry or for any project in which foreign, private investment is not permitted whether under the terms of the Andean Foreign Investment Code or the laws of the host country in which the sub-borrower is located.
- (iv) Subloans will not be made to inefficient industry (see Section III C).
- (v) Subloans with A.I.D. funds of \$500,000 or more must be approved by A.I.D.
- (vi) The CAF and A.I.D. will review progress under the loan after the disbursement of each \$1,000,000 or such longer period that might be justified to in writing by A.I.D.

2. Background

CAF has been seeking U.S. assistance since its inception in early 1968. Until recently such requests were primarily in the grant area and for the purpose of financing preinvestment studies.

1971, however, was a gearing up year for CAF. In August and September officials of the organization made an exploratory trip around the world in search of sources of development funds. At the conclusion of that trip, CAF President Linares visited high-level State/A.I.D. officials in Washington and requested up to \$15 million for relending within the sub-region. The decision to consider such a loan was made by Secretary Meyer on January 3, 1972. (See Annex XI.)

The IRR was approved in March 1972.

3. Financial Analysis

As of April 30, 1972, the subscribed and paid-in capital of the Corporation is distributed among the signatory countries as follows:

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	<u>Capital Subscribed</u>		<u>Capital Paid - 60%</u>	
	Shares		Shares	
	<u>Series "A"</u>	<u>Series "B"</u>	<u>Series "A"</u>	<u>Series "B"</u>
Bolivia	\$1.0 mil	\$.5 mil	\$.6 mil	\$.3 mil
Colombia	1.0 mil	4.5 mil	.6 mil	2.7 mil
Chile	1.0 mil	4.5 mil	.6 mil	2.7 mil
Ecuador	1.0 mil	.5 mil	.6 mil	.3 mil
Peru	1.0 mil	4.5 mil	.6 mil	2.7 mil
Venezuela	<u>1.0 mil</u>	<u>4.5 mil</u>	<u>.6 mil</u>	<u>2.7 mil</u>
	\$6.0 mil	\$ 19.0 mil	\$ 3.6 mil	\$11.4 mil

The CAF's financial statements are shown in detail in Annex VIII. These are (i) an audited balance sheet for the period ending December 31, 1971; and (ii) projected fiscal year balance sheets, profit and loss statements, and cash flows for the next five years, 1972 through 1976.

The CAF's contribution to its development lending operation consists of cash, roll-over funds, and borrowings from commercial banks. Immediate CAF fund availabilities have been adequate for the initiation of the projects and technical assistance approved to date (disbursements for these activities are estimated at \$5.9 million in 1972 and at \$3.4 million in 1973). None of the projects currently under promotion and development (a total CAF financial input of \$154.6 million) can be funded, however, unless the CAF receives added resources. CAF estimates its 1973 needs for this category to be \$13.8 million. Its 1974 disbursements for projects and studies under development are estimated at \$21.6 million, at \$29.1 million in 1975, and at \$29.4 million in 1976. To meet the financial needs of the greatly increased lending activity generated by the projects now under development, the CAF plans to tap international banking sources for lines of credit and to secure funding from the IBRD and the German International Development Bank, as well as to obtain the \$15 million A.I.D. loan and a \$12.4 million loan from the IDB.

This proposal calls for granting concessional loan terms of 2% during the 10 year grace period and 3% during the 30 year repayment period. Assuming a weighted average of 9% between project and feasibility study loans, this would give the CAF a 7% and 6% spread. However, the CAF will be borrowing from others (i.e., IDB, World Bank, commercial banks, etc.) at an average rate of about 8%. Taking this into account plus CAF lending with its own capital at \$5 million annually, the actual spread on total invested funds is the following:

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	<u>Annual Spreads and Percentages of Total Funds Disbursements</u>			
	1973	1974	1975	1976
A.I.D.	7 (30%)	7 (23%)	7 (17%)	--
CAF	9 (30%)	9 (23%)	9 (17%)	9 (34%)
Others	1 (40%)	1 (54%)	1 (66%)	1 (66%)
Av. Spread	5.2	4.2	3.4	3.7

The above spreads are minimal considering the high costs of start-up and, in this case, promotion.

4. Summary of Andean Integration Progress

Trade among the Andean countries has doubled during the past three years (not counting the substantial increases in petroleum shipments). Nearly all mineral and agricultural products, as well as 70% of industrial production, have already benefited from some duty reductions. An increasing proportion of the trade is in manufactured goods. These trade gains have been achieved despite serious initial administrative difficulties in the implementation of the tariff cuts.

The level of tariff protection against imports from outside the region will not be determined until 1975. A Common Minimum External Tariff has already been defined, but it is not indicative of future protection levels.

Joint industrial development planning has been slow in overcoming initial obstacles. It appears that a concensus is now being reached on the basis of a more selective application of "Sectoral Programs of Industrial Development." Some regional investment plans in the electronic and metal-working industries are expected to be approved by August 1972.

Long-range plans call for an annual industrial production growth rate of 10.9% during 1970-85. (The corresponding rate during 1960-70 was 7.3%). There are still some unresolved strategy questions regarding the attainment of these investment and production increases.

Economic policy harmonization is progressing on schedule. However, a set-back was suffered through a Supreme Court decision in Colombia which ruled that the Andean Foreign Investment Code had been implemented by unconstitutional means. Until this issue is cleared up, certain other joint policy measures may be held up. Except for the heavy investment in petroleum exploration in Ecuador and Peru, the inflow of foreign capital into the region has been slow. The admission of Venezuela to the Pact, which is now under negotiation, would strengthen the integration program considerably.

With exception of the uncertainties surrounding investment decisions in the current political climate, progress to date in Andean economic integration can be considered satisfactory. The most encouraging sign is the increasing sense of pragmatism on part of the Junta and on part of the member governments in facing up to obstacles as they develop in the implementation of the integration agreement.

5. Views of the Country Teams

In the course of field trips during the past 6 months, the Project Committee has noted a great deal of enthusiasm for this loan proposal in behalf of all the country teams involved.

6. Other Lenders

The IDB now has under active consideration a 12.4 million dollar loan to the CAF. This loan will complement the proposed A.I.D. loan and will be usable in the public as well as private sectors. About 6 million of the IDB loan will come from ordinary capital resources and the balance from FSO funds. FSO funds will be used to finance studies and for relending in Ecuador and Bolivia only, the two lesser developed countries in the Region.

The IBRD has expressed interest to the CAF in participating in individual projects; however, it is not contemplating a global loan.

The CAF is negotiating global loans with the Germans and Spanish. Nothing concrete has developed as yet. (These loans may be extended eventually on terms of 10-15 years with interest approximating 6%.) Several other countries will make supplier type credits available.

The Export-Import Bank stated that it had no interest in the proposed project since it clearly required concessionary terms.

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7. Statutory Criteria

The applicable Statutory Criteria has been met.

8. Recommendations

That a loan of up to \$15,000,000 to the CAF on terms of 40 years with a grace period of 10 years and interest at 2% during the grace period, 3% thereafter be approved subject to the following major conditions:

- (a) Relending must be to 100% privately owned companies except that CAF may own up to 25% of a borrowing company. (The IFC may also be an investor.)
- (b) Relending must be directed to regional projects only.
- (c) Relending must be confined to industries and projects in which foreign private investment is permitted.
- (d) Relending to inefficient industry will not be permitted.
- (e) A.I.D. will approve all subloans with A.I.D. funds which exceed \$500,000.
- (f) There will be joint A.I.D./CAF reviews of performance following the disbursement of each \$1,000,000 unless A.I.D. otherwise agrees in writing.
- (g) Such other terms and conditions that A.I.D. may deem advisable.

June 1, 1972

SECTION I - BORROWER

A. Description

1. Legal Status

The Andean Development Corporation (CAF) is an autonomous, international, public development bank created in December 1969 by an agreement of the governments of Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela. The six governments established CAF in order to promote economic integration and development in the Andean region and thereby establish the basis for more progress within the broader LAFTA framework.

2. Functions

In order to achieve the objectives indicated in the Andean Agreement, the CAF has, among others, the following major functions:

- a) To carry out pre-investment studies and to prepare and direct the corresponding projects;
- b) To make known among the member countries the results of its research and studies in order to guide future investments;
- c) To provide, directly or indirectly, technical and financial assistance for the preparation and execution of projects;
- d) To obtain national and foreign credits;
- e) To promote the acquisition and use of resources;
and
- f) To issue bonds or other financial instruments whose distribution may be promoted within or outside the region.

In addition to its role as a regional development finance institution, the CAF will be the central element in the promotion of mergers among Andean firms and in the establishment of Andean multinational enterprises. CAF policies call for it to bring together entrepreneurs and

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professional managers from within and outside the region; to mobilize private and public capital; and to assist in the application of the latest technology to projects it promotes and banks. CAF also offers to existing industry in the region assistance in modernizing, merging, or changing product lines.

3. Organization (Also see Annex I)

The CAF's management is organized in the following manner:

- a) Board of Directors (11): The Board of Directors is the top executive and administrative body of the CAF. It consists of one representative for each of the Class "A" shares held by each of the six member countries and one representative for each of the Class "B" shares held by these countries. Ecuador and Bolivia hold a Class "B" share jointly, and they rotate their memberships annually. The Board of Directors ordinarily meets once a year.
- b) Executive Committee (4): The Executive Committee is an operational body which can make decisions of a current nature. It consists of representatives from three of the six countries (these rotate annually) and the Executive President. The Executive Committee is empowered to approve loans by the CAF to \$3 million and CAF obligations up to the same amount.
- c) The Executive President: The Board of Directors elects the CAF Executive President for a period of five years. He is the organization's legal representative and its highest ranking officer. Sr. Adolfo Linares, a highly respected Bolivian banker and lawyer, is the Executive President of the CAF. He was elected in June 1970 at the first meeting of the CAF Board of Directors.
- d) The Secretary General: The Secretary General insures that the resolutions and directives of the Board of Directors and the Executive Committee are carried out by the CAF staff. He also sees that contracts and other official CAF documentation is correctly classified and registered. The present Secretary General is Gaston Araoz, a lawyer and former Bolivian Ambassador to Venezuela.

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e) Vice President for Administration and Finance
The Vice President for Administration and Finance is nominated by the Executive President and appointed by the Board of Directors. This position is held by Miguel Castillo Blanco, a Venezuelan economist and former official of the National Development Bank.

f) Vice President for Program and Operations
The Vice President for Program and Operations is also nominated by the Executive President and appointed by the Board of Directors. This position is held by Dr. Enrique Vial Clark, a Chilean engineer and former general manager of CORFO, the Chilean Development Corporation, during the Frei administration.

g) Departments and Offices

The CAF is divided into four departments and three offices, as shown below:

Departments

Promotion
Evaluation
Operations
Programs

Offices

Treasury
Legal
Accounting
Integration

The functions of these Departments and Offices are important in the implementation of the \$15 million loan and are described below.

(i) The Promotion Department participates in the identification and promotion of specific projects. It determines what technical or financial assistance is necessary

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for the development of these projects and assists in the preparation of the project proposals. The Promotion Department also organizes and conducts the series of meetings, seminars, and conferences of regional businessmen and industrial executives which the CAF is sponsoring in order to develop fundable regional projects.

(ii) The Evaluation Department has the primary responsibility for analyzing and evaluating the totality of CAF operations, including the technical and financial aspects of those projects which have been approved for financing.

(iii) The Operations Department supervises the implementation of on-going loan projects. It is responsible for overseeing the meeting of all contractual agreements, of conditions precedent, of construction schedules, and of quality standards. All disbursements under subloans must be approved by the Department, subject to its review of the borrower's compliance with the loan terms.

In addition, the CAF organization contains two special committees whose functions contribute directly to operations. These committees are:

a) The Committee for Coordination and Operations, a consultative body of the Executive President composed of the Vice President of Operations and Finance, the Legal Advisors, the Integration Advisor, the Secretary General, the Director of Operations, the Director of Finance and the Chief of the Program Department. This Committee reviews all loan proposals, operational plans, and administrative matters which are to be presented to the Board of Directors or the Executive Committee. It also prepares for the Executive President status reports on all phases of the CAF's current operations and recommends courses of action responsive to problems and/or issues.

b) The Project Committee consists of the chiefs of the Evaluation and Promotion Department and representatives of the Legal Counsel, the Integration Department, and the Program Department. Its function is to review the analyses and feasibility studies relative to pending projects and to recommend appropriate actions to the Director of Operations. The Committee is also responsible for the preparation of the final loan proposals.

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4. Operating Policies

CAF loans are subject to the following policy rules and regulations:

a) Amount: The minimum amount of a project loan is \$100,000, except for Bolivia and Ecuador for whom it is \$50,000. For feasibility studies, the minimum amount is \$25,000, except for Bolivia and Ecuador where it is \$12,500. Reimbursable technical assistance by the CAF is set at a minimum of \$10,000 in each instance where it is requested.

b) Participation Limit: The CAF does not have any fixed limit on the percentage amount of its participation in individual projects. Its original estimate of a 20% participation seems somewhat modest, however. The total project cost of the eight operations approved to date is \$17,938,000. The CAF participation is \$6,970,000, or roughly 39%. CAF's projections for projects now under development show a CAF participation close to 20%; however it is probable that this figure will be higher, if current operating experience is any guide.

c) Interest Rates and Terms:

(i) Rates:

Feasibility Studies: These rates are fixed by the Board of Directors periodically, according to judgments on such factors as the source and cost of the funds, credit market conditions, administrative costs, the availability of other funds, and the nature of the project. To date, interest rates on the nine CAF loans for feasibility studies have all been at 6%.

Loan Projects: These rates are set primarily on the basis of the feasibility study, but in all cases taking into consideration the factors outlined above. To date, interest rates on the loan projects have ranged from 8.5% to 10.0% and have a weighted average of 8.7%.

Technical Assistance: An amount not to exceed that charged for the corresponding feasibility study and loan project.

(ii) Terms:

Feasibility Studies: A maximum of 6 years with a grace period not to exceed two years.

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Loan Projects: From six to 15 years, depending on the nature of the project, with a grace period not to exceed three years.

Technical Assistance: A maximum of six years and a maximum grace period of one year.

d) Collateral: The CAF requires that the borrower obtain guaranties for 100% of the value of the loan. Preference is given to guaranties by governments or national development institutions, although the CAF will also accept guarantees by well recognized financial institutions and banks. Collateral in the form of a mortgage of the borrower is not accepted.

e) Purpose of Loans: The CAF will make loans for the carrying out of specific projects for production, services, or infrastructure which (1) are of common interest to two or more countries of the area; (2) although locally owned, contribute significantly to a broader subregional market; or (3) involve the reconversion of existing industries in accord with the requirements of an integrated market.

The CAF makes loans for the construction of new plant facilities, the expansion and modernization of industrial plants, the purchase of machinery and equipment, and the establishment of transportation and commercial services. For Bolivia and Ecuador, the CAF may make loans of a national character, if the particular projects will contribute to the equitable participation of these countries in the process of integration and measured development of the subregion.

5. Sublending Procedures:

Essentially, the CAF uses the conventional loan application and review procedures which are followed by the major development banks in Latin America, including appropriate credit checks. During 1971, Price Waterhouse conducted an extensive survey of CAF procedures and developed a comprehensive operational manual which modified to some extent existing CAF operations and gave them a formal basis. The Price Waterhouse plan, which the CAF has accepted practically without change, officially established and gave clear-cut responsibilities to the CAF organization departments. It also set up an elaborate set of regulations and guidelines for the processing of loan applications and

The loan approval process, for instance, calls for the preliminary application to contain a host of information, including technical feasibility and marketing studies, financial projections, credit information, an operational plan, and legal matters. These requirements apply for all requests for CAF participation, whether they be for project and feasibility study loans or for technical assistance grants. (Examples of the required forms are attached as Annex II). Once the application is received, and it is determined that the project's objectives and nature meet the criteria established for CAF assistance, various CAF offices review and comment upon it (principally the Evaluation and Promotion Departments).

If it receives favorable comments, the application proceeds to the Coordinating Committee where a final decision is made. Once the CAF approves the preliminary application, the staff begins an intensive analysis of the project with the borrower. To this end reports containing much more detailed information are prepared, and these are gathered together to form the final feasibility study. During this stage of project development, CAF works closely with the borrower to assist him in identifying those areas in which his project should be modified and in preparing the final loan paper. Examples of this aspect of CAF's technical assistance activity will be discussed in Section III.

When they are completed, the final documents are reviewed by the Vice Presidents for Operations and Finance.

After approval by the Executive President, the project is submitted to the Board of Directors or the Executive Committee for a final decision.

For all its on-going projects, the CAF requires periodic progress reports and a final end-of-project report. The CAF complements these reports with such follow-up activities as plant visits, checks on loan fund utilization and project progress, and the provision of such technical assistance as may be required.

B. CAF Performance to Date

1. Organizational and Promotional Activities

In October and November 1970, the principal members of the CAF staff travelled to each of the six member countries in order to investigate just what projects of an integration nature might exist. From these and subsequent visits CAF put together a list of 81 separate activities, both studies and projects, which the Executive Committee approved as suitable for financing in June of 1971.

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The Board of Directors confirmed this list during its meeting in November 1971. In June 1971 CAF, also increased the size of its staff and contracted Price Waterhouse to do a complete management study and develop an operational manual. This work has been completed and the manual approved by the CAF Executive Committee. In actuality, CAF's operations to date have followed the guidelines laid out in the manual. A review of its procedures for project evaluation and approval, as well as of the actual documents themselves, demonstrates that the CAF performs its operations in a thoroughly professional and impressive manner.

In November 1971, the top CAF staff undertook a mission to many of the developed countries of Europe seeking sources of funds to finance the loan demand its preliminary investigations had uncovered. The team was well received and left excellent impressions on the various banking and governmental officials with whom it met. While several countries offered to participate in CAF financing via suppliers credits, no firm proposals with respect to concessionary financing were forthcoming at that time.

At this date, as the following table demonstrates, CAF is a functioning development finance institution. When the Sectoral Programs for Industrial Development begin to materialize, CAF's operations will multiply many times.

2. LENDING ACTIVITY TO 30 APRIL 1972

A.	<u>Loans Approved</u>	<u>Number</u>	<u>Amount of Loan</u>
	Private Sector	4	\$1.600
	Public/Mixed	4	5.622
	Total	<u>8</u>	<u>\$7.222 million</u>
B.	<u>Loans In Process</u>	<u>Number</u>	<u>Amount of Loan</u>
	Private Sector	18	35.900
	Public/Mixed	17	41.200
	Total	<u>35</u>	<u>\$77.100 million</u>
C.	<u>Feasibility Studies Approved</u>	<u>Number</u>	<u>CAF Contribution</u>
	Loan	9	\$1.202
	Technical Assistance Grant	<u>16</u>	<u>.738</u>
	Total	<u>25</u>	<u>\$1.940 million</u>

<u>D. Studies in Process</u>	<u>Number</u>	<u>CAF Contribution</u>
	4	\$1.770 million
<u>E. Lending Resources</u>	<u>Available</u>	<u>Anticipated</u>
Paid in CAF Capital	15.0	
Remainder CAF Capital		10.0
BID Loan		12.0
AID Loan		15.0
Total	15.0	37.0

SECTION II - BACKGROUND

A. Chronology

The CAF as well as the Andean Subregional Group whose activities it complements, are part of efforts begun in the latter half of the 1950's to foster economic integration in Latin America. The following chronological sketch may serve to clarify the main developments that preceded and accompanied the setting up of CAF.

-- LAFTA. The Latin American Free Trade Association -- was formed with the signature of the Treaty of Montevideo on February 18, 1960. The treaty took effect between seven signatory states on June 1, 1961, and entered into force between all eleven negotiating states (the 10 Republics of South America plus Mexico) by February 8, 1967.

-- LACM. A more far-reaching goal, that of a Latin American Common Market, was launched by the Declaration of Presidents of America at Punta del Este on April 14, 1967.

-- Andean Subregional Integration Movement. Within the Latin American framework, a subregional integration effort was launched among the Andean countries in the mid-1960's. While this was due in part to the lagging pace of LAFTA and LACM and to a desire on the part of the Andean countries to prepare themselves to compete within a wider setting, it should be emphasized that the Andean efforts have always expressly formed a constituent part of the LAFTA ones and this has been unambiguously recognized by LAFTA. On August 16, 1966 Chile, Colombia, Ecuador, Peru, and Venezuela (note that Venezuela participated, Bolivia did not) joined in issuing the Declaration of Bogota. In addition to general goals of subregional economic integration, establishment of a development corporation was discussed.

-- CAF. Came formally into being prior to signature of the Andean pact. CAF was chartered February 7, 1968 by the five countries just mentioned, plus Bolivia. The Treaty of Cartagena, which established the Andean Pact, was signed May 26, 1969 and took effect October 16, 1969.

B. U.S. Involvement to Date

Concurrent with efforts to establish an Andean Sub-regional Group the question of foreign, specifically U.S., assistance arose.

-- In July 1968, we stated that the U.S. was prepared to receive a request for substantial support to an industrial adjustment fund within the CAF framework. This would take the form of a dollar loan of perhaps as much as \$25 million, in addition to appropriate Technical Assistance. This generally-phrased commitment has not to date been taken up.

-- In December 1970 CAF, citing the 1968 statement, asked for a grant of \$2.4 million for preinvestment studies. The request was denied with the explanation that AID funds were depleted for the current fiscal year. CAF was referred to international lending institutions.

-- In January 1971, a grant of \$20,000 was offered to the Junta, the political organ of the Andean Pact, but due to non-substantive factors it has not been made.

-- Presently, an AID-financed \$35,500 Price-Waterhouse Management study of CAF operations is underway.

C. Current Loan Request

1971 was a gearing-up year for CAF. In August and September officials of the organization made an exploratory trip around the world in search of sources of development funds. At the conclusion of that trip, CAF President Linares visited high-level State/AID Officials in Washington and requested \$10-\$15 million for relending within the Andean subregion.

It was left that a decision in principle would be made within the Latin American Bureaus of State and AID on whether to proceed with consideration of CAF's request. If a positive determination resulted, a working level team would visit Caracas for preliminary discussions. Such a determination was made on January 3, 1972, when Assistant

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Secretary Meyer approved ARA-LA recommendations of December 29, 1971; it was concurred in by E in the Department, and by PPC in AID.

Conversations leading to the IRR were held with CAF in Caracas between January 17 and January 21, 1972. These conversations focused principally on seeking agreement from the CAF to three principal pre-conditions to further AID consideration of financial assistance. These conditions were outlined in the policy paper referred to above and were accepted by CAF as follows:

(i) Relending must be confined to enterprises in the private sector;

(ii) Relending should be only in those industries where foreign private investment is permitted and not discouraged;

(iii) Relending must be directed to truly regional projects.

The IRR was approved in March 1972 and a five-man State/AID team completed the intensive review in April.

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Section III. Description of the Program

A. AMOUNT

Not to exceed \$15,000,000 for relending to integration projects as defined below (terms -- 40 years, 10 years grace, interest at 3% to reflect the "seed-capital" nature of this loan). Up to \$500,000 of the loan may be used for subloans to finance feasibility studies for integration projects and up to \$500,000 of the loan may be used to finance promotional costs (described below). It is anticipated that the loan will be fully disbursed within 5 years from the date the Loan Agreement is signed.

With the exception of the \$1,000,000 mentioned above for studies and promotional costs, the loan will finance only the foreign exchange component of projects. The Project Committee gave consideration to financing some project local costs, but based on a review of project requirements as presented in the loan applications in hand, CAF's local currency availabilities through its own equity resources and the anticipated participation by entrepreneurs and others in project financing, it was decided to exclude local cost financing of projects with A.I.D. resources. (Local costs are those expenditures which are effected in the sub-borrower's country.)

The proposed \$15,000,000 loan together with a proposed \$12.4 million IDB loan will help initiate CAF operations on a 1:1 long term debt to equity ratio (CAF paid in equity by 1975 will be \$25 million). While this is a fairly conservative beginning for CAF, given the rather large amount of loan applications already processed and in hand (seen Annex III) and the rather lengthy disbursement period of 5 years, the Project Committee believes it is justified for the following reasons:

- (i) Both the A.I.D. and IDB loans, but particularly the A.I.D. loan, will force the CAF into a much stricter interpretation of "regional" or "integration" projects than that permitted by its own policy determination. This will dilute effective demand somewhat for A.I.D. funds in the short term.
- (ii) The A.I.D. loan is reserved for private enterprise, and many of the projects being submitted during this first year of CAF operation involve public sector participation and/or sponsorship.

In order to assist the CAF to develop a momentum in the formulation of new and truly regional projects in the private sector, A.I.D. is complementing its proposed loan with a \$200,000 grant to help finance the extraordinary promotional costs which we estimate will be required. This program is discussed in more detail below.

Notwithstanding the above, the approximately 50 million initial Financial Plan (25 million equity, 15 million A.I.D., and 12.4 million IDB) will not be sufficient to cover all of CAF's needs during the first 5 years. It is felt, however, that the A.I.D. and IDB loans will put CAF in a better position to seek other favorable credits in Europe and elsewhere, as well as to request additional subscriptions of capital from its members when it has satisfactorily placed all available resources. In order to encourage the CAF to continue to seek additional credits on favorable terms, the loan permits the CAF to go to a 4:1 debt/equity ratio (debt with terms exceeding one year) without further A.I.D. approval.

B. PURPOSE

The principal purpose of the proposal is to accelerate and rationalize economic growth within the Andean pact region and promote economic cooperation and integration among the member countries, with special regard to the needs of the less-developed members of the region.

In addition, the proposed loan will help establish the CAF as a major banking institution in the region capable of attracting additional resources from other donor countries and international agencies to meet the growing needs of its member countries.

The proposed loan will also serve to promote U.S. interests in the following ways:

1. Within the Andean movement, the CAF is the element most likely to base its decisions on pragmatic economic grounds rather than on politics, because of its role as the developmental agency of the subregion; because of Venezuelan membership in CAF (not in the Andean Group); and because of the participation and influence of foreign capital. Thus a strengthened CAF might better withstand the influence of the more extremist partners and would lend support to moderate elements who tend to be in accord with many U.S. political and economic objectives.
2. Meaningful assistance to CAF would have a favorable impact on the climate for private investment in the Andean region, by signaling our continuing concern for the growth of the region. Such support would enforce and give meaning to the U.S.G. stated view that significant development cannot take place without the active participation of private interests.

The CAF proposal is based on lending to the private sector only. Substantial support for CAF projected to be provided by the IDB and East European countries can be expected to benefit the public sector directly. Particularly, for this reason, encouragement and support for the private sector via the CAF are clearly in the U.S. interest.

3. The suspension of bilateral A.I.D. programs in some of the member countries makes it particularly desirable that we cultivate those channels of communication still open to us. U.S. assistance to the CAF ensures some U.S. participation in ways that can influence economic development and policies favorably. It will enable us to assist that sector most sympathetic to our interests and maintain working-level contacts. The political effects in the area of such action are positive.

C. KEY CONDITIONS OF THE LOAN

1. Regional Projects

During negotiation of the subject loan the term "Regional Project" was given both legal and economic significance.

The Project Committee and the CAF discussed at length the possible effect on the CAF of a rupture in A.I.D.'s bilateral relationship with a member country due to the application of one of the provisions of the Foreign Assistance Act which would bar new assistance, or require the suspension of existing assistance. The Project Committee pointed out that any such application would require the CAF either to make no new loans with A.I.D. funds to companies in the affected country, or to stop disbursements with A.I.D. funds on all outstanding subloans to companies located in the affected country. To treat this contingency the Project Committee and the CAF agreed that it would be useful to identify specific areas of lending, which due to the degree of regionality involved, would not be affected by application of any existing FAA sanctions against a particular country. Two such areas were so identified (Nos. a and b below). Both definitions are being reviewed now by A.I.D.'s General Counsel for a final determination. The remaining 5 categories are definitions which were agreed to on economic grounds with the clear understanding that subloans by CAF in these areas might very well be susceptible to Hickenlooper application.

The Project Committee believes that the frank discussions held with the CAF concerning the legal ramifications

of an A.I.D. financed sub-lending program will better permit it to plan for contingencies in the development of its loan portfolio. At the same time, the guidelines established offer CAF complete control and flexibility in the overall management and administration of its available resources.

With respect to the above, therefore, a Regional Project is one of the following:

(a) A project initiated pursuant to and in accordance with any Sectoral Program of Industrial Development, approved by the Commission of the Andean Agreement.

(b) A project which directly relates to the basic purpose of a "Multinational Company" organized pursuant to the permanent provisions of Decision No. 46 of the Commission of the Andean Agreement.

(c) A project consisting of the production of a new item:

(i) When said item is included on the list prepared pursuant to Article 50 of the Andean Agreement as an item not previously produced in the Andean Subregion; and

(ii) When a significant part of the total projected production is intended for export in the CAF subregion. (For purposes of this subparagraph (c)(ii), "significant part" shall mean at least 40% or, when the CAF determines that special circumstances so justify, at least 25%.)

(d) A project consisting of the production of items reserved to Bolivia or Ecuador pursuant to Article 50 of the Andean Agreement.

(e) A project initiated pursuant to and in accordance with the complementation agreement concerning the Petrochemical Industry (Complementation Agreement No. 6), concluded in conformance with the Treaty of Montevideo.

(f) A project which is undertaken pursuant to written agreement between the governments and/or private entities of two or more CAF member countries, said agreement providing for the substantial participation of entities from each of said countries in:

(i) The capitalization of a new company for the purpose of producing new goods or services, or the substantially expanded capitalization of an existing

company for the purpose of substantially increasing the production of goods or services; or

(ii) The production of goods or services.

said goods or services to be sold primarily within two or more countries of the CAF subregion.

(g) A project otherwise national in character when the purpose is to supply the enlarged market of the CAF subregion, and

(i) In the case of the production of items by a new company; when a significant part of the total projected production is intended for export in the CAF subregion. (For purpose of this subparagraph (g)(i) "significant part" shall mean at least 40%, or, when the CAF determines that special circumstances so justify, at least 25%); or

(ii) In the case of the expansion of production by an existing company, when a significant part of the additional projected production is intended for export in the CAF subregion. (For purpose of this subparagraph (g)(ii), "significant part" shall mean at least 50%, or, with respect to a project in Bolivia or Ecuador at least 35%.)

(h) Such other projects as CAF and A.I.D. may agree upon in writing.

2. Private Enterprise

Subloans with A.I.D. funds will be made to 100% privately owned firms. The only exception will be to permit CAF ownership of up to a maximum 25% in order to promote CAF's role in developing a capital market in the area and to fill the expected short-term need for venture capital in the larger undertakings. CAF will be required to spin off to the Andean private sector its ownership in any A.I.D. financed enterprise written three years after the A.I.D. loan has been fully repaid or describe in writing to A.I.D. the attempts made to effect such distribution and the reasons for their failure

3. Foreign Investment

Subloans with A.I.D. funds will not be made in any industry or for any project in which foreign private investment is not permitted whether as a result of a country's implementation of the Andean Foreign Investment Code (The Code) or under the laws of any member country. Mixed, national

or foreign enterprises as defined by The Code will qualify for A.I.D. financing as long as no public investment is involved. Multinational Enterprises which permit up to 40% foreign investment will also qualify.

For purposes of this condition industries which permit no investment from outside the area will be excluded from financing.

4. Economic Efficiency

The Loan Agreement will contain a covenant in which the CAF agrees that inefficient industry will not be financed under the loan. Implementation Letter No. 1 will contain efficiency guidelines as described below.

The Latin Americans industrialization process has been based primarily on the development of import substitution industries. These industries have been accorded a substantial amount of protection from the rigors of international competition by a wide range of tariff and non-tariff barriers. As a consequence, many of the industries are highly inefficient and can only survive behind tariff walls which exist at high levels far longer than any reasonable "period of infancy" could justify.

One of the objectives of this loan is to foster the development of industries which have a reasonable assurance of becoming competitive on the basis of world-wide standards. Both A.I.D. and CAF are anxious to avoid the establishment of more inefficient industries within the subregion. Consequently, as part of the normal project review, CAF will establish to its satisfaction that any project for which A.I.D. funds are to be used will meet certain minimum standards of economic efficiency.

In addition to assuring that the interests of the USG in financing only efficient industries is protected, this review process also contributes to strengthen the institutional capability of CAF, another primary objective of this loan.

The basic guideline for the use of A.I.D. funds is that the industry not be protected from real or potential competition--both domestic and international. The basic elements of protection encompassed by this guideline are tariffs, non-tariff barriers, and restrictions on the establishment of competing firms.

In the area of tariffs, for the purposes of this loan an industry will not be considered efficient if it needs more than 25% tariff protection. If the level of tariff protection

required is higher than 25%, CAF will have to make a specific determination on a case by case basis that the industry is efficient in spite of the higher protection. The 25% figure was picked as being relatively moderate in the Latin American context of generally overvalued exchange rates and high-cost imports.

It is more difficult to establish a minimally acceptable level for non-tariff barriers and restriction on the entry of competing firms. Consequently, where such barriers and restrictions exist, CAF will have to make specific determination, again on a case by case basis, that the industry is efficient in spite of the barrier or restriction.

In all these cases there is a presumption that CAF will seek to have the restrictions reduced or eliminated. Since the actual elimination of trade barriers requires governmental action, which is a time-consuming and difficult process, it does not seem desirable to make the lowering of tariffs a condition precedent for use of the A.I.D. funds. Nevertheless, it is hoped that via this loan the CAF may be able to exercise some influence in seeing trade restrictions reduced or eliminated.

There are a number of circumstances where it may be demonstrated that an industry is efficient or potentially efficient and yet not come within the above basic guideline. The primary justification would be for an "infant industry" which needs a certain level of protection until its able to stand on its own two feet. In such cases, however, the CAF must demonstrate that the infant has some prospects of eventually growing up and that it will not need substantial protection indefinitely. Another example would be if over 25% tariffs or NTBs or other restrictions existed but the CAF could show they were not needed by the industry, e.g., if the industry exports a substantial amount of its production. There are numerous examples of excess "water" in the Latin American tariff structure. In such a case, the CAF would make its best effort to have the unnecessary restrictions eliminated. There may also be cases where an existing industry does require some protection in the immediate future but where it has clear prospects of becoming efficient within a reasonable period of time. A pattern of gradually declining levels of protection would provide evidence of such a situation.

In these and other cases which may arise, A.I.D. will have ample opportunity to ensure that CAF justification of projects on the grounds of economic efficiency will be on terms acceptable to A.I.D. As is noted below,

all subloans over \$500,000 must have prior A.I.D. approval and subloans of less than \$500,000 are subject to the normal A.I.D. post-audit. In addition, as part of the \$1 million reviews also mentioned below, A.I.D. and CAF will review the criteria for assessing economic efficiency used in the loans approved as of that time.

5. A.I.D. Approval of Subloans

A.I.D. will approve all subloans which are made with \$500,000 of A.I.D. funds or more. This follows the pattern established with CABEI and the Caribbean Development Bank. The \$500,000 was negotiated with the CAF on this basis.

A.I.D. approval of subloans proved to be a highly sensitive issue with the CAF given existing suspicions that A.I.D. was seeking a disguised veto authority.

6. Reviews of Progress

A.I.D. and the CAF have agreed to review progress after the disbursement of each \$1 million of A.I.D. funds. The main purposes of these reviews will be to test the regionality and economic efficiency guidelines established above and to ensure that the promotion program is attaining the desired objectives. Naturally, the reviews will also assess overall progress, the CAF's financial situation, the soundness of sub-projects, etc.

If, after the first couple of reviews, it is determined that future reviews need not be so frequent, such agreement will be expressed in writing with a new schedule.

D. Project Development

It is important to recognize the special catalytic effect which the CAF by its very existence has already had on the promotion and development of regional projects among the Andean countries. The CAF, with its overview of the regions' markets, industrial character and potentialities and entrepreneurs, and its knowledge of the project implications of the various regional integration programs set forth in the Treaty of Cartagena and now under development by the Andean Junta, constitutes the only institution able to promote effectively those projects which will advance Andean integration.

The local financial institutions are by their very nature inadequate to the task of effectively promoting and developing projects which cross national borders. The CAF, because of its regional orientation and competence, provides the instrument whereby funds can be directed to a large number of regional industries in collaboration with local banking institutions.

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CAF's monetary and technical resources enable it to play an influential role in determining the specific shape and nature of these projects, not only so that the borrowers take advantage of all marketing and technological opportunities in the region, but also so that the local financial institutions themselves can be encouraged to foster and take part in the type of operations CAF favors.

This interaction between the CAF and the local development banks comprises a significant part of the promotional effect CAF is exercising. In five of the eight sub-lending projects approved thus far, the CAF has enlisted the financial and technical assistance of local banks and development institutions in the respective countries where the projects are located. In most instances, the CAF shared some of the feasibility study and project development costs with the local organizations, as well as participating in the actual lending. The degree of CAF "leverage" in using local development banks effectively is best demonstrated by the following table of approved CAF loans.

<u>LOAN</u>	<u>COUNTRY</u>	<u>TOTAL</u>	<u>CAF</u>	<u>Local Borrower and Banks</u>	<u>ICI</u>
ECUATUN	Ecuador/ Chile	3,246	500	1,706	1,040
TeZulay	Ecuador	1,240	250	805	185
INGESA	Bolivia	450	180	114	156
SALCO	Ecuador	980	120	561	229
ANDEC	Chile/ Ecuador	<u>4,240</u> \$10,156	<u>800</u> 1,850	<u>3,200*</u> 6,386	<u>240</u> 1,920

* includes 1,200 external credits.

CAF officials stress that although to date the industrial development banks they have worked with most extensively are the Ecuadorian Securities Commission (CV-CFN) and the Bolivian Development Corporation (CBF), the CAF has also established close and productive working relationships with development finance institutions in each of the six member countries. For instance, CAF has signed formal working agreements with the CBF and BISA, a private development bank in Bolivia, with a consortium of the nine largest Colombian private financieras as well as with the Colombian Development Institute; with CORFO in Chile; with the CV-CFN in Ecuador; with COFIDE in Peru; and with the Venezuelan Institute of Foreign Commerce (ICE) and the Venezuelan Development Corporation. (One of the Agreements is attached as Annex IV.)

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CAF associations with these institutions, as well as with others, have led to the identification and development of many projects now in the promotional stage. Such projects include acrylic fibers and coke in Colombia; wood products and petrochemical by-products in Ecuador; lubricating oils, construction materials, refrigerator assembly, and non-ferrous metals in Bolivia; African palm, wood products, and fish processing in Peru; furniture assembly and production, heaters and heater valves, motor compressors, and fruit concentrates in Chile; and edible oils, meat production, shipping yard facilities, and the Rio Limon bridge in Venezuela.

Cooperation between the CAF and these institutions has made possible a valuable interchange of information, talent, and resources. Each has its particular and distinct role to play. Rather than creating harmful competition for projects or a duplication of energies, mutual participation by both the CAF and local financial institutions has shown that it produces increased project development and lending activity for both parties.

In addition to the important amounts of formal technical assistance which the CAF provides to certain prospective borrowers in the form of feasibility study grants, the CAF uses its own technical personnel for project identification and development activities which constitute a significant promotional input. Such CAF involvement was the crucial factor in the realization of seven of the eight projects approved for funding to date. In several of these (FANAVISA, Rice Storage facilities, TEZULAY) preliminary plans for feasibility studies were unacted upon until CAF personnel took the initiative by organizing various financing sources and putting the packages together. In others, such as ANDEC, ECUATUN, the Bolivian rice storage facilities, and SALCO, the CAF also assumed the lead role in resolving existing debt and stockholder problems which had theretofore prevented a successful financing. Special CAF missions are constantly visiting existing as well as potential projects. This intensive CAF involvement in every aspect of its program is bringing results. New projects grow out of existing ones; the CAF has already found a very attractive subloan possibility as a result of its SALCO operation.

As important and fruitful as these activities have been, however, the CAF recognizes that its promotion program must be strengthened if it is to take advantage of the myriad of funding possibilities which regional integration offers. In the first instance, the CAF readily admits that a great number of the \$412 million of projects in the development stage require

additional promotion, study, and technical reworking before they reach the bankable stage. To this end, it has requested that A.I.D. provide that a portion of its loan, \$1.0 million, be used for reimbursable feasibility studies and certain promotional costs. A part of the IDB loan will also be available for this purpose.

CAF has developed a plan for a special promotional program, the first parts of which will be funded by a \$200,000 A.I.D. grant. The program should help the CAF to establish effective investment promotion procedures. It will also facilitate the dissemination of information among the Andean Pact organizations, the national governments, and the potential suppliers of financial, technological, and managerial resources. A major objective will be to expose private entrepreneurs in the Andean countries to the possibilities of plant expansion and new regional investment, particularly through the recently decreed "Andean Multinational Enterprise." The program will also establish the CAF as a one-step information source for investors as a whole, a facility which is lacking in each of the individual countries, as well as in the region as a whole.

The specific plan calls for the CAF to organize together with local sponsors, such as the chambers of industry and trade associations, seminars on investment opportunities revealed by the various industry sector studies, as well as the rationalization plans and other development or investment programs proposed by the integration organs. The seminars would be project oriented and concentrate on concrete investment possibilities. The seminar leaders would be the principal consultants which developed the background studies, independent experts in the particular industrial sector, and representatives of the integration organs. The seminars would not only enable the CAF to awaken the Andean investment and industrial communities to the specific opportunities opened to them by the new integration regulations; they would also promote the CAF's standing in the area and contribute to its reputation as a serious promotional and banking entity to whom all interested parties interested in regional activities could turn. The promotional benefits of this program should be very great and should result in a significant expansion in the number of projects appropriate for CAF financial participation.

The size of the proposed A.I.D. loan is based on an estimate of the minimum amount of foreign currency financing the CAF will need to handle bankable subloan projects which meet the criteria established above. Actually, there is no question that the effective demand for credit of this type substantially exceeds the resources open which the CAF can realistically count

on at this time. Of those projects now in the process of development, eighteen concern the private sector alone and represent a total CAF participation of almost \$40 million. As explained earlier, the CAF assumes a twenty percent participation in total project cost. Experience to date has shown this figure to be very low; the CAF has taken a much larger role in project financing (up to seventy percent in one instance, and its average participation to date is close to forty percent). Consequently it is probable that the CAF's funding requirements for projects in the private sector now under development will be greater than anticipated and may indeed be in the neighborhood of \$80 million. In this context, the proposed \$15 million A.I.D. loan is minimal. Examples of six projects in advanced stages of development which the CAF believe will easily qualify for A.I.D. funds are listed in Annex III.

Given the newness of both the CAF and the types of operations it is attempting to put together and finance, progress to date has been surprisingly rapid (see Annex III). The CAF has gotten off to a promising start. The effect of the A.I.D. and IDB loans should be catalytic; they will give the CAF renewed credibility among investing and industrial groups throughout the region which should in itself stimulate the conception and presentation of bankable projects.

This demand is not one which the national financial institutions can or should handle on their own. Limitations on technical and monetary resources prohibit a national development bank from taking on truly regional projects by themselves. There is no question, however, of the important role these institutions will play in assisting the CAF to identify, develop, and fund such operations. The CAF's lending potential and its promotional efforts will lead to greatly increased promotional and lending activity by the national institutions. The partnership with CAF elaborated above should bring about not only new uses for national financial funds in regional projects but also new demands by the ancillary industries which provide support in supplies, services, and equipment.

Promotional costs which will be eligible for A.I.D. financing are as follows:

1. Consultant services to refine and strengthen the CAF's institutional investment promotion program;

2. Costs related to the preparation and execution of promotional seminars (principally consultant services);

3. U.S. publications, research reports, and technical information services; and

4. Contract technicians to promote the development of specific projects.

Section IV. Background and Status of Andean Integration

Summary

The trade liberalization program is on schedule and has produced an appreciable increase in intra-Andean trade. Nearly all mineral and agricultural products, as well as 70% of industrial production, have already benefited from some duty reductions. The policy on tariff protection against imports from outside the region is still undetermined. A Common Minimum External Tariff has already been defined, but it is not indicative of future protection levels. Joint industrial development planning has been slow in overcoming initial obstacles. It appears that a concensus is now being reached on the basis of a more selective application of "Sectoral Programs of Industrial Development."^{1/} There still are some unresolved strategy questions regarding the ways and means of increasing the growth rate in industrial production (1960-70 annual growth rate was 7.3%; goal for 1970-85 is 10.9%). Economic policy harmonization is progressing satisfactorily. However, a setback was suffered through a Supreme Court decision in Colombia which ruled that the Andean Foreign Investment Code had been implemented by unconstitutional means. Until this issue is resolved, the implementation of certain other joint policy measures may be held up. The inflow of foreign capital into the region has been slow due principally to uncertainties associated with the Andean Foreign Investment Code and the political climate in general. The admission of Venezuela to the Pact, now under negotiation, would strengthen the integration program considerably. Chances that Venezuela will accept full-fledged membership, as provided for in the Agreement of Cartagena, are less than even. Except for the uncertainties surrounding investment decisions in the current political climate, progress to date in Andean economic integration can be considered satisfactory. The most encouraging sign is an increasing sense of pragmatism on part of the Junta and on part of the member governments in facing up to obstacles as they develop in the implementation of the integration agreement.

Definition of Terms

Agreement of Cartagena: Agreement, signed on May 26, 1969 by Colombia, Ecuador, Peru, Bolivia and Chile, which initiated the formation of an Andean Common Market.

^{1/} The Sectoral Programs of Industrial Development are plans which seek to assign the production of products which require an enlarged market to specific countries in order to achieve economics of scale.

Commission: Highest organ of the Andean Pact, made up of representatives of the governments of the member countries. The Commission meets three times a year in ordinary session and in extraordinary sessions when petitioned by a member government or by the Junta.

Junta: Permanent secretariat of the Agreement of Cartagena with headquarters in Lima. The Junta has three Members and an international staff of about twenty-six.

Andean Development Corporation: A regional development finance institution established by the governments of Venezuela, Colombia, Ecuador, Peru, Bolivia and Chile. Its charter was signed on February 7, 1968. The Corporation, with subscribed capital of \$25 million, is headquartered in Caracas.

The following discussion of progress and problems in the Andean integration movement has been divided into 5 sections:

- A. Trade Liberalization
- B. Duties on Imports from Outside the Region
- C. Industrial Development Strategy
- D. Economic Policy Harmonization
- E. Foreign Investment Trends

A. Trade Liberalization

The general program of trade liberalization calls for the gradual elimination of all intra-Andean tariffs over a ten-year period. The first step, as of 1/1/71, eliminated all non-tariff trade restrictions and put into effect a uniform tariff level on imports from within the region. This uniform "starting point," established for each individual tariff item, was based on the lowest pre-integration rate in either Colombia, Peru or Chile, but not exceeding 100% ad valorem for any product. Ten percent annual reductions are made from this common starting point until the duties will reach zero by 12/31/80. The first 10% cut was made as of 1/1/72. Fractions in duty rates resulting from these reductions are rounded off downward.

Ecuador and Bolivia have more favorable treatment. Exports from those countries to Colombia, Peru or Chile are freed of all duties in three years (annual reductions of 40%, 30% and 30%) instead of ten. As of 1/1/72, the first 40% reduction went into effect. Ecuador and Bolivia enjoy various additional tariff advantages, including a more liberal time table for the opening of their markets to exports from Colombia, Peru and Chile.

The general trade liberalization program does not cover all products (only about 3,400 out of the approximate total of 5,900 tariff items at a certain level of aggregation). The remainder is roughly divided into two groups: Those freed immediately of all tariffs and those reserved for "Sectoral Programs of Industrial Development."

1. All tariff and non-tariff trade restrictions on the 170 items in the LAFTA "Common List," as well as on some 350 items currently not produced in any of the member countries, were removed in early 1971. The "Common List" includes coffee, bananas, long-staple cotton, fish oil, cacao products and other staples.
2. The approximately 1,980 items or products reserved for Sectoral Programs, some of them currently produced in the region while others are not, are not affected by the regular tariff cutting measures. The Sectoral Programs are to be designed in such a way, however, that the intra-Andean tariffs will be eliminated before the end of the regular ten-year trade liberalization period. Products in this category not "programmed" by the end of 1975 will revert to the general trade liberalization program at the scheduled level of reduced tariffs.

On insistence of some of the signatories, a provision for "Lists of Exception" was included in the Agreement of Cartagena. It permits the member countries to exempt a certain number of products temporarily from duty reduction. (The freeing of these products from intra-Andean tariffs is postponed from 1980 to 1985.) Only products covered by the general ten-year liberalization program can be included in these national lists. Approximately 1,200 products, out of the total of 3,400 in this category, are in one way or another affected by this measure.

Trade among the Andean countries is already responding to the various integration measures. While the annual increase in such trade was only about \$3 million between 1961 and 1969, the annual increase has expanded to over \$20 million between 1969 and 1971. Preliminary trade figures are presented in Table I. Petroleum shipments (\$35.5 million in 1971) are not reflected in the table. Furthermore, the figures do not reflect the fact that the more recent trade increases (in 1971) represented largely industrial products.

An examination of the product categories in which trade increased significantly shows that many of these have not benefited from duty reductions to date. Some of the new trade opportunities are developed simply through increased contact among businessmen.

TABLE I
Andean Group: Intra-Regional Exports ^{1/}
Not Including Petroleum
(Thousands of Dollars, FOB)

	1961	1962	1963	1964	1965	1966	1967	1968	Estimates		
									1969	1970	1971
Bolivia ^{2/}	570	400	241	396	1,243	3,126	2,839	3,678	4,846	4,984	3,474
Colombia ^{3/}	5,247	6,539	4,772	6,812	10,423	15,906	13,294	17,715	23,205	38,005	49,507
Chile	5,529	5,961	5,810	7,569	8,729	10,104	10,704	10,078	10,848	18,743	25,188
Ecuador	7,539	5,909	7,727	10,189	9,998	9,044	11,724	12,225	18,661	17,074	21,402
Perú	18,642	27,434	29,851	34,766	24,328	25,382	14,067	17,603	21,610	21,550	21,808
Total	37,527	46,243	48,401	59,732	54,721	63,562	52,628	61,299	79,170	100,356	121,379

Sources: 1961-1968: Document DT 844 of the Executive Secretariat of LAFTA, Montevideo

1969-1971: Estimates based on various sources

^{1/} Exports, by year, from each Andean Pact member country to the other four.

^{2/} Petroleum exports from Bolivia to the other Andean countries, not reflected in the table, were valued as follows.

1970	\$ 516,000
1971	\$6,739,000

^{3/} Petroleum exports from Colombia to the other Andean countries, not reflected in the table, were valued as follows.

1969	\$14,279,000
1970	\$28,607,000
1971	\$28,822,000

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For Colombia, the Andean region has become the third most important market (after the U.S. and Germany). The most encouraging sign, according to a recent Colombian Government report, is the fact that in 1971 over 50% of all exports to the Andean region (not counting petroleum) consisted of manufactured products. By comparison, less than 20% of Colombian exports to the U.S. are made up of manufactured products.

The enforcement of the tariff cuts and of the removal of non-tariff trade barriers is not, however, without difficulties. At the Commission meeting March 13-18, the Ecuadorean representative, as official spokesman for his government, listed the following examples of improper compliance with Andean Pact rules on part of importing countries.

1. Arbitrary requirements and obstacles in the issuance of sanitation certificates.
2. Delays in the issuance of import permits.
3. Foreign exchange allocation by country or region on the basis of import volume during the previous year. (Reference to Peru.)
4. Failure to take the Common Minimum External Tariff properly into account, as preference margin for regional suppliers, in price comparisons with quotations from non-Andean sources. (Reference to situations where the state handles imports and exports.)
5. Certain administrative acts or differential exchange rates which hinder trade.

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Problems have also been encountered with payments clearances, with violation of origin rules (excessive import content in refrigerators, for example), as well as with pricing policies.^{1/}

These and related difficulties, however, should not be interpreted as a crisis in Andean integration. The governments are quite responsive, sometimes at the level of the Presidency, to take corrective action. As frequently pointed out by integration officials, initial problems were expected to arise and they can be overcome as economic interdependence among the member countries increases. The same Ecuadorean spokesman referred to above expressed this idea as follows:

"Multinational investments and the multilateral or bilateral participation in specific industries or projects will perhaps constitute the best and strongest foundation for Andean trade. In this sense, Ecuador believes that a gradual interrelationship will produce itself among agricultural and industrial interests, multilaterally or between pairs of countries, the resulting benefits of which will far exceed those derived from simple commercial exchange."

^{1/} An example of the pragmatic solutions found to given trade problems concerns the export of canned sardines from Ecuador to Colombia (valued at over \$2.5 million in 1971). One of the special trade concessions granted to Ecuador as country of lesser development was the elimination of duties, as of 1/1/71, on two types of canned fish products. Colombia claims that the tariff elimination was matched by price hikes so that the net effect was a loss in Colombian Government revenues and an "exorbitant" increase in profits of the Ecuadorean exporters. As a first step Colombia complained to the Ecuadoreans, but to no avail. (The latter asked: "Isn't this what integration is all about?") Two other steps, however, did produce results. On the one hand, the Ecuadoreans were informed that a "study" may have to be undertaken to determine whether the types of fish in those cans really corresponded to the classification on which the duties had been eliminated. On the other hand, IDEMA (a Colombian state organ concerned with price support programs and also handling the import and export of certain agricultural staples) imported canned sardines from Europe with little regard for customs duties or for preference margins for regional suppliers. The price of the Ecuadorean sardines dropped and the controversy was resolved.

B. Duties on Imports From Outside the Region

A Common External Tariff (CXT), applicable on imports from outside the region, should be in force by 1980. The intermediate steps are the following:

1. A Common Minimum External Tariff (CMXT) has been approved for all products except for those reserved for "Sectoral Programs of Industrial Development." Tariff rates which are below the CMXT have to be raised to that level in five annual 20% steps. The first of these increases, where applicable, already went into force.
2. The Junta will prepare the proposal for the definite CXT by the end of 1973 and the Commission should approve it by the end of 1975. Between 1976 and December 31, 1980 the member countries will gradually adjust their existing rates to the CXT which should be in force throughout the region at the end of that transition period.

The CMXT has the purpose of establishing a minimum margin of preference for regional production and to facilitate the adoption of the CXT. The former was designed by dividing the universe of tariff items into eleven groups, using as a basis a weighted average of four criteria: degree of technological complexity, grade of elaboration, type of inputs and degree of labor intensity.

Table II provides comparisons between nominal tariffs in the Andean countries, the CMXT and the EEC Common External Tariff. The CMXT is appreciably lower and less unequal (lower standard deviation) than the pre-integration rates in the member countries. The EEC tariffs, of course, are much lower.

What indication does the CMXT give regarding the external tariff that will be finally agreed on? This question is closely tied to the region's overall industrial development strategy, which will be examined in the following section.

TABLE II

Andean Group: Nominal Pre-Integration Tariffs in the Member Countries, the Common Minimum External Tariff (CMXT) and the EEC Common External Tariff
(Unweighted Sector Average)

Sectors	Per Cent						European Economic Community
	Bolivia	Chile	Colombia	Ecuador	Peru	(CMXT)	
Agriculture	77	133	45	125	57	29	
Fishing	25	150	52	102	86	27	
Mining	60	132	20	58	65	11	
Food products	49	268	92	192	92	50	
Beverages	95	388	75	291	208	64	
Tobacco	40	186	143	195	117	42	
Textiles	72	190	67	101	103	60	10
Clothing, shoes	76	283	183	184	210	80	20
Wood products	78	172	115	121	110	47	15
Furniture	53	152	77	116	85	52	15
Paper products	52	173	64	83	88	40	10
Printing	45	160	52	53	71	21	3
Leather products	76	250	86	124	115	45	11
Rubber products	62	170	98	98	78	58	15
Chemicals	34	101	32	52	56	32	14
Petroleum, coal prods.	31	111	33	57	56	35	
Non-metallic mineral products	61	164	72	86	80	42	14
Basic metals	36	87	31	49	67	27	7
Metal products	52	149	56	79	76	46	14
Non-electrical machinery	27	79	35	45	48	43	7
Electrical machinery	42	110	40	56	60	55	15
Transport equipment	42	183	76	81	58	42	13
Other industries	47	164	69	93	90	50	16
Arithmetic average	54	172	70	106	90	43	12
Standard deviation	19	68	37	58	41	15	4

Source: Andean Group: National Tariff Schedules. Europe: Balassa (165 p. 580)
CMXT: Junta del Acuerdo de Cartagena El Arancel Externo Mnimo Comn, mimeo, 1971.

C. Industrial Development Strategy

"Sectoral Programs of Industrial Development" are expected to play a significant role in the integration process. They will primarily cover projects which need the enlarged regional market for adequate economies of scale. The feasibility of such projects will have to be examined not only in terms of available resources, but also in terms of the willingness of the member countries to make their economies increasingly interdependent.

LAFTA Complementation Agreement No. 6, covering thirty-nine products in the petrochemical industry, is a forerunner of Andean Sectoral Programs. Its current status and the experience gained from it are discussed in Appendix I. It generally is considered a success.

Sectoral Programs are expected to be finalized and approved during the coming months in limited areas of the petrochemical, electronic and metal-working industries. It is only natural that differences in points of view have arisen regarding the extent and type of programming. Although all member countries seem to be convinced that coordinated investment can produce significant net gains, a country's views on integration strategy are conditioned by its relative level of development, by contrasting short and long term considerations, as well as by differences in philosophical outlook.

A brief presentation follows of the principal arguments for and against extensive use of Sectoral Programs. First, the arguments frequently heard against extensive programming:

1. The reservation of some 1,980 items for Sectoral Program in December of 1970 was a way to overcome a deadlock in negotiations. By placing many items in this category, the interests which feared the immediate effects of programmed tariff reductions were placated. (The intended purpose of Sectoral Programs, of course, is a more rapid, rather than slower rate of tariff reduction.)
2. Even if all the reserved sectors would be "programmed" by the 12/31/75 deadline, the investment resources are so limited that most of the program would not be implemented.
3. As many new investment projects as possible should be internationally competitive, thereby not only providing foreign exchange from exports, but also

supplying low-cost inputs for other industrial operations or low-cost final products for the regional consumer. To build up the infrastructure, service industries, etc., for such plans or industrial complexes may be difficult within the context of Sectoral Programs. (Although such is not the intent in the Agreement of Cartagena, Sectoral Programs may in practice have an import substitution bias.)

The defenders of wide application of Sectoral Programs tend to reason along the following lines:

1. Ecuador and Bolivia will have very few chances to develop industries if the Andean Pact restricts itself to reducing trade barriers.
2. Some basic guidelines and disciplines must be established in all key sectors of production so that the use of labor-intensive technology and respective research will be encouraged. While free market forces can play an important role in fomenting efficiency, the overall investment orientation must respond to the socio-economic conditions in the region. (Example given: Japan deliberately developed its own technology in agricultural mechanization which permitted modernization without sudden or excessive problems of unemployment.)
3. The region must pursue a policy of balanced industrial growth in order to provide not just the products and services for further development, but also to adjust the work force to industrial employment discipline and to increasing productivity. An integrated metal-working industry can, at this stage of development in the Andean region, be a particularly important stepping-stone toward further industrial growth and specialization. Sectoral Programs can offer the needed incentives to channel both public and private resources into the required directions.
4. These Programs are essential if the Andean Group is to achieve a level of development which will permit it to negotiate effectively and participate productively in the broader LAFTA context.

The question of external tariff protection has some relationship to attitudes toward Sectoral Programs. Those in favor of applying Sectoral Programs only in key areas tend to prefer a

relative low CXT. Those favoring more generalized programming see the need for tariffs, particularly in the metal-working industry, of between 40% and 80%. The latter argue along the following lines. Internal prices in the U.S. for petrochemical products, for example, are about 30% above world prices. In Germany the price differentials are even bigger. The same holds true for some other industries. If the most developed countries in the world see the need for direct or indirect protection of this kind, how could a region that just starts its industrialization program have only 20% to 40% protection against world market competition? It would be unrealistic to base an industrialization program on such an assumption.

It is encouraging to note the pragmatic solutions which are being found to reach consensus on industrial development policy. An initial Sectoral Program in the electronics industry will reportedly have the following characteristics:

1. Some basic component groups which can be manufactured most efficiently in large-scale production runs would be assigned to given countries within Sectoral Programs. Strict deadlines would be established for the completion of feasibility studies and for commencement of commercial production.
2. All finished products (TV sets, radios, tape recorders and other consumer goods), as well as certain components, would be removed from the reserved list and included in the general trade liberalization program. They would have their intra-Andean duties adjusted to the current level of liberalization (in 1972: 10% below the common "starting point" on imports from Colombia, Peru and Chile and 40% below that point for imports from Ecuador and Bolivia). Special origin rules would be established to assure minimum regional content.
3. Industrial electronic equipment and other complex electronic devices would remain reserved for Sectoral Programs for negotiation at a later time.

The initial program in the metal industry will reportedly be more extensive. Some 60 to 70 families of products are to be covered. The following types of products would not be assigned to specific countries, but would instead revert to the general trade liberalization program in the same way as the finished products in the electronics sector program:

1. Products not dependent on economy of scale considerations for efficient manufacture.

2. Products already manufactured in two or more countries.
3. Products manufactured with simple or easy to acquire technology.

With the untried innovations of the Andean Pact, the long-term industrial development outlook in the region is not very clear. The Junta's preliminary industrial growth projections toward 1985 are presented in Table III. Table IV expresses these projections in terms of the relative role of Sectoral Programs. As will be noted in that table, only 28% of total production is projected to correspond to programmed investments.

"Rationalization programs" (in Table IV) imply the following. The Agreement of Cartagena envisions these for products or sectors in the general trade liberalization category where excessive recourse to "Lists of Exception" and other obstacles limit trade and competition. The Junta currently has rationalization programs in the textile and ceramics industries under study. These programs will primarily encourage specialization among existing firms. Coordinated investments might also be promoted. Intra-Andean technical assistance programs, from firm to firm, would be encouraged as part of rationalization.

As a final note, there are indications that investment and trade linkages will be encouraged with the non-Andean LAFTA countries. In addition to the credit lines which the Andean Development Corporation is negotiating, there are some existing LAFTA mechanisms which would be effectively employed. The general origin rules of LAFTA still apply within the Andean Pact framework. Components from Argentina, for example, incorporated into finished products in Bolivia, could be marketed in the Andean region as wholly Bolivian products. Although it is unlikely that the larger LAFTA countries will seek or be offered some type of associate membership in the Pact, there are a number of ways to develop mutually advantageous association. For the Andean integration planner these associations could have considerable value in avoiding the pitfalls of import substitution in a closed economy.

TABLE III

Andean Group: Industrial Production
Growth Rates. Projection to 1985

Sectors	Value of Production (Millions of Constant 1960 Dollars)			Growth Rates	
	1960	1970	1985	1960-70	1970-85
A. Principally consumer goods	<u>2,456</u>	<u>4,747</u>	<u>16,569</u>	6.8	8.7
20 Food products	936	1,938	6,471	7.5	8.3
21 Beverages	303	530	1,459	5.8	7.0
22 Tobacco	97	148	392	4.5	6.7
23 Textiles	522	985	3,389	6.6	8.6
24 Clothing, shoes	246	491	2,173	7.2	10.4
25 Wood products	61	92	285	4.1	7.8
26 Furniture	49	91	310	6.3	8.5
28 Printing	105	224	784	7.9	8.7
29 Leather products	75	99	364	2.8	9.0
39 Misc. industries	62	149	942	9.1	13.1
B. Principally intermediate goods	<u>1,084</u>	<u>2,266</u>	<u>12,657</u>	7.6	12.2
27 Paper products	101	208	1,211	7.4	12.5
30 Rubber products	90	160	1,028	5.9	13.2
31 Chemicals	323	673	3,734	7.6	12.1
32 Petroleum, coal products	222	491	2,509	8.2	11.5
33 Non-metallic mineral prods.	191	350	1,582	6.2	10.6
34 Basic metals	157	384	2,593	9.3	13.6
C. Metal-working industries	<u>373</u>	<u>934</u>	<u>8,313</u>	9.6	15.7
35 Metal products	159	373	2,164	8.9	12.4
36 Non-electrical machinery	42	152	1,885	13.7	18.3
37 Electrical machinery	74	194	1,814	10.1	16.0
38 Transport equipment	98	215	2,450	8.2	17.6
TOTAL	3,913	7,947	37,539	7.3	10.9

Source: "Bases Generales para una Estrategia Subregional de Desarrollo",
Junta del Acuerdo de Cartagena, March 1972

TABLE IV

Andean Group: Projection of IndustrialProduction to 1985

(Millions of Constant 1960 Dollars)

Sectors	Projected Value of Production, 1985	Sectoral Programs		Rationalization Programs		General Trade Liberatization Program	
		Value	%	Value	%	Value	%
20 Food products	6,470	300	5	1,300	20	4,870	75
21 Beverages	1,460	-	-	-	-	1,460	100
22 Tobacco	390	-	-	-	-	390	100
23 Textiles	3,390	-	-	1,390	40	2,000	60
24 Clothing, shoes	2,170	-	-	900	40	1,270	60
25 Wood products	280	-	-	80	30	200	70
26 Furniture	310	-	-	60	20	250	80
28 Printing	780	-	-	260	30	520	70
29 Leather products	360	-	-	100	30	260	70
39 Misc. industries	940	90	10	350	40	500	50
A	16,550	390	3	4,440	27	11,720	70
27 Paper products	1,210	1,000	80	-	-	210	20
30 Rubber products	1,030	-	-	100	10	930	90
31 Chemicals	3,730	2,200	60	370	10	1,160	30
32 Petroleum, coal products	2,510	-	-	-	-	2,510	100
33 Non-metallic	1,580	160	10	500	30	920	60
34 Basic metals	2,590	1,800	70	-	-	790	30
B	12,650	5,220	40	970	7	6,460	53
35 Metal products	2,160	860	40	650	30	650	30
36 Non-electrical machinery	1,885	1,500	80	190	10	195	10
37 Electrical machinery	1,815	1,100	60	350	20	365	20
38 Transport equipment	2,450	1,700	70	240	10	510	20
C	8,310	5,160	60	1,430	17	1,720	23
TOTAL	37,510	10,770	28	6,840	20	19,900	52

Source: "Bases Generales para una Estrategia Subregional de Desarrollo",
Junta del Acuerdo de Cartagena, March 1972

D. Economic Policy Harmonization

The third key element in the Andean Pact, together with trade liberalization and Sectoral Programs of Industrial Development, is economic policy harmonization. This part of the integration program is also on schedule, but is overshadowed by certain legal problems in Colombia. The Supreme Court of that country declared that the Andean Foreign Investment Code (AFIC) had been implemented by unconstitutional means. Until this matter is cleared up, all joint policy measures requiring a similar type of implementation action as the AFIC are in suspense. The statute for Andean Multinational Enterprises, for example, may not be put in force for the time being even though it has been approved by the Commission.

The settlement of this legal question in Colombia is therefore of some importance. The Colombian Government plans to take not just the AFIC, but the Agreement of Cartagena as a whole for ratification to Congress in order to clear up the legal status of all current and future implementation measures flowing from it. Since Congress does not reconvene until July, and since ratification will probably not be unopposed, a period of uncertainty lies ahead.

There is, however, sustained support for the Andean Pact in all member countries. Even where drastic changes in government have occurred, such as in Bolivia, the integration program has been practically unaffected. The constitutionality issue in Colombia seems to be seen, generally, as a legalistic obstacle which will be overcome in one way or another.

Following is a listing of the principal policy measures already in process of implementation (item 1), approved by the Commission (item 2) and in the process of being designed and negotiated (items 3 to 13).

1. Trade liberalization, minimum external tariff, and industrial development policies. (These areas account for most of the integration effort to date. They have been discussed in separate sections.)
2. The principal additional policy measures approved by the Commission to date are the following:
 - a. A multilateral agreement among the Andean countries on double taxation, as well as a common format for double taxation treaties with non-Andean countries.
 - b. Initial policy measures to promote increased trade in agricultural products.

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- c. Policies on commercial competition (unfair trade practices).
 - d. The Andean Multinational Enterprises statute. (A brief description of this statute is given in the section on foreign investment.)
 - e. Initial steps toward the harmonization of industrial promotion legislations in the member countries.
 - f. Regulations to facilitate tourist transit by automobile.
 - g. The basic structure of a uniform Andean tariff classification (NABANDINA).
3. The harmonization of instruments and mechanisms of foreign trade regulation is under study. To be approved by the Commission by the end of 1972.
 4. Commercial expansion measures and a system of regional export promotion are under study. To be approved by the Commission by the end of 1972.
 5. The creation of a "judicial organ," a legal entity which will settle disputes, is under consideration.
 6. Common legislation for the merger of firms for the purpose of forming Andean Multinational Enterprises is under study. Junta to submit a proposal before the end of the year.
 7. A common statute for Andean Multinational Enterprises in the services sector is under study. Junta to submit a proposal before the end of the year.
 8. A proposal for the harmonization of monetary and exchange rate policies and instruments is under preparation in the Junta. An initial proposal will be submitted in June at the joint meeting of Andean Central Banks' representatives and the Andean Monetary and Foreign Exchange Policy Council.
 9. Proposals for direct and indirect policy measures to promote the development and adaptation of technology, as well as on its procurement from abroad on favorable terms, are to be presented during the latter part of

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the year. Detailed comparative studies are under way on the experience in this field on part of Japan, some Socialist countries, Italy and India.

10. Rules are to be developed before the end of the year for better procedures to cover public procurement needs out of regional production. (Facing up to the problem of duty-free importation on part of state agencies.)
11. A proposal on industrial property rules has been presented to the Commission, but has not yet been approved.
12. A proposal is to be presented before the end of 1972 regarding animal and vegetable sanitation regulations.
13. Various policy proposals are under study to improve and rationalize land, ocean and air transport among the member countries.

Policy coordination touches on sensitive issues. Mechanisms were therefore created to facilitate contact not only between the Junta and the member governments, but also among the member governments themselves. Seven "Councils" have to date been set up: (1) Planning Council, (2) Monetary and Foreign Exchange Council, (3) Finance Council, (4) Fiscal Policy Council, (5) Foreign Trade Council, (6) Tourism Council, and (7) Social Affairs Council. The driving force, of course, is the Junta itself.

The argument is often advanced that the Andean Pact will reinforce and add continuity to development policies in the member countries. Not only does the Pact provide a long-term development plan, but also the "international commitment" to carry out the program. Changes in government and the pressures of special interest groups may in the future, it is claimed, have a less disruptive influence on the countries in the region. The joint negotiating strength of the member countries, in political and economic terms, also holds great appeal.

E. Foreign Investment Trends

The new trade opportunities generated to date by the Andean Pact involve mostly consumer goods. The increased production requires very little new investment since there is considerable underutilized capacity. New investment opportunities will become apparent once the items reserved for "Sectoral Programs of Industrial Development" are included in the integration process. The first of these programs are expected to be in force by October, 1972. As pointed out in the section on industrial development strategy, some of the currently "reserved" items will be included in Sectoral Programs, while others will revert to the general trade liberalization category (programmed duty reductions to zero by 12/31/80).

New investment opportunities will be an important stimulant to the inflow of capital, but the prevailing "investment climate" will be an even more important determinant. This climate is similar for both domestic and foreign private investment capital in each country.

The issuance of the Andean Foreign Investment Code (AFIC) has had an expected, initial negative psychological effect. However, within the context of structural changes currently taking place in the region, other issues will have greater long-range effect on the volume and type of investment in the region. The AFIC is, in effect, "what a country wants to make of it." In Colombia it is presently not in force; in Bolivia it has been interpreted and applied (in a decree dated 12/10/71) in a way which is quite opposed to its intent; in Chile and Peru it is overshadowed by other rules and regulations affecting investment. Please refer to Annex VII for a Harvard Business School Review of the AFIC and its possible impact on future investment. The general conclusion reinforces the view that it will not by itself be a deterrent. (Also see Appendix II for an outline of the provisions of the AFIC and Annex VI which contains the AFIC in its entirety.)

The principal issues are control (over key enterprises and over key sectors of the national economy) and cost (of foreign financing and technology). Supply and demand, as well as reassessments of the respective self-interests, are likely to have greater significance than a predetermined set of academic rules. On the one hand, the need for extensive foreign capital and technology will become acute as soon as the most vital and dynamic economic sectors are incorporated into the integration process. On the other hand, the changing environment requires a reassessment of costs and benefits on part of potential suppliers of these inputs. As an example, the types of petroleum

exploration contracts recently signed between foreign oil firms and the Peruvian state entity PETROPERU are quite different from the concessions negotiated ten years ago in Latin America. Foreign participation in manufacturing ventures may also undergo some change.

The attitudes of foreign investors toward these changes differ greatly. On the one hand, some foreign-owned companies may have to forego Andean market privileges if they prefer not to commit themselves to a sale of stock to local investors. (Example: a shipment of flashlight batteries from a foreign-owned firm in Colombia to a distributor in Peru was recently held up.) On the other extreme, a Belgium producer of galvanized wire conditioned investment in a plant in Ecuador on participation of the Ecuadorean Government in the venture, principally because the plant will have a semi-monopoly position.

The present overall outlook for increased investment of either domestic or foreign private capital is questionable. However, there are indications that the integration organs and the member governments will tend to be flexible and pragmatic if and when the integration-related investment programs fail to get off the ground. The constitution of "Andean Multinational Enterprises"^{1/} may be made more attractive and the badly abbreviated "rights" of foreign capital under the AFIC may be interpreted more assuringly in the contracts negotiated with individual companies. Some hope is placed in the response of non-traditional capital and know-how suppliers to the opportunities offered within the enlarged regional market.

Of the latter, Japan is viewed with certain expectation. That country is indeed taking considerable interest in the region, particularly in Peru. However, it is taking a pragmatic, resource-oriented approach and its response to the Andean investment priorities may well be disappointing. Spain is showing some interest and it is suggesting "dual nationality" for its corporations. It is rendering some technical assistance, but actual investments will probably be very few. The economic significance of capital and technology inflow from the Socialist bloc countries is also likely to remain limited.

^{1/} The AME's, which can have up to 40% foreign equity participation, must have stockholders from two or more Andean countries. These enterprises have the same rights as national companies in each member country. Their establishment through merger of existing firms will be given special encouragement.

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The argument is sometimes advanced in integration circles that the "multilateralization" of economic relations should not merely be viewed in geographic terms, but also in terms of size and type of firms. The argument goes that in contrast to the large international corporations, medium-sized firms in the U.S. and Europe would prefer clearly defined business relations and investment programs in which they would not necessarily have controlling interests.

The issue of "control" always looms very large. A Colombian Embassy official in Quito, commenting on Colombian investments in Ecuador, indicated that in none of five ventures currently under negotiation will the Colombian interests be in the majority, "in order to avoid problems in the future."

An analysis of the investment climate for domestic, private capital in the individual Andean countries gives a close approximation of restrictions on foreign capital. However, where a deterioration of the investment climate sets in, it tends to be more pronounced in the beginning for foreign capital, but becoming more pronounced for domestic private capital at a later stage. For example, in Venezuela, which is not even a member of the Pact as yet, seriously restrictive measures against foreign capital are under consideration by both government and opposition parties. There is little or no encroachment on domestic private capital. In Peru, on the other hand, the most serious problem for both foreign and domestic investors is the "Industrial Community" (gradual transfer of majority ownership in plants to the workers). Already in Peru some industrialists claim that the foreign investor may have more safeguards than his domestic counterpart.

The implications for a continued role for domestic private entrepreneurship are rather serious. Foreign capital may tend to associate with state enterprises, as is already becoming noticeable in Peru. (Such joint ventures, for example, contribute debt certificates rather than equity stock to the "Industrial Community.") On the other hand, there also are indications that private entrepreneurship may be increasingly recognized as a valuable domestic resource.^{1/}

In summary, many contradictory trends are apparent at this time. As the demand for entrepreneurship and for investment capital, both domestic and foreign, will become critical,

^{1/} The Peruvian Government is increasing its support for the private sector through the state development corporation COFIDE. Furthermore, on 4/28/72 Peru named a private industrialist as one of the two Members, for Peru, on the Board of Directors of the Andean Development Corporation.

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important policy decisions will have to be made in the individual countries. For the foreign investor, and for foreign countries as such, flexibility and adjustment to the changing environment and to the changing conditions of competition will be particularly important.

APPENDIX I

LAFTA Complementation Agreement No. 6
(Petrochemical Industry)

This Agreement was entered into by Colombia, Peru, Bolivia and Chile on July 25, 1968, ten months before the Agreement of Cartagena was signed. However, the negotiations toward the formation of the Andean Pact were already well advanced and the LAFTA "big three" (Brazil, Argentina and Mexico) agreed to abstain from participation in this Complementation Agreement. The latter can, in fact, be considered a forerunner of the Andean "Sectoral Programs of Industrial Development."

The signatories committed themselves in this Agreement to "dissuade, not promote or not permit" investment in their own territories in projects assigned to another country. Regarding tariffs among the signatory countries, these are reduced by 20% per year and are, in the case of new projects, eliminated at the time of initiation of commercial production. The country to which a given product is assigned does not have to reduce its own tariffs. (This last clause encountered objections and will probably not be included in the new Andean Sectoral Programs.)

The tariffs on imports of the respective products from third countries were fixed as follows: 15% ad valorem on primary products, 25% on intermediate products and 50% on end products. The tariff on end products can be lowered to stimulate efficiency, but the preference margin can not drop below 25%.

Two major new investment projects under this program have already been completed and went into production early this year: a caprolactam plant in Colombia (investment of \$45 million) and an acrylic fiber plant in Peru (investment of \$20 million). The expansion of both plants is already under study. Colombia is advancing two additional projects (\$22 million) and Chile has feasibility studies contracted out (Lummus Engineering Co.) on three of the projects assigned to it (\$40 million). Less advanced is the work on two additional projects in Peru.

This program can be considered a success. It is generally agreed that without the Complementation Agreement these investments would not have been made.

Some important lessons about intra-Andean marketing and about tariff protection (preference margins) are being learned from this program and will probably influence the design of new Sectoral Programs. One of the products already manufactured (in Chile) at the signing of the Complementation Agreement, and included into it, was Pentaeritritol. The base price, under the terms of the Agreement, was calculated "on the basis of normal import prices." Taking the average price in the producer countries, plus conference freight rates, a base price of \$620 per ton was arrived at. Since Pentaeritritol is an end product, qualifying for a preference margin of 50%, a fixed import duty of \$310 was established. Since then the world price has dropped considerably and the effective preference margin has consequently increased. This, of course, contradicted the intent of the Agreement.

Now that the acrylic fibers and caprolactam production facilities have come on stream, the determination of the base price has become a serious issue. Peru has finally settled the acrylic fibers price with Chile within the context of a two-year trade agreement. The first shipment has already been made. Negotiations with Bolivia are under way. (The Peruvian plant is German-owned with Peruvian public and private minority participation.)

Chile is also the principal initial market for caprolactam. This is an intermediate product with a preference margin of only 25%. Negotiations between the Colombian firm (a Colombian-Venezuelan joint venture with a 10% Dutch participation in the form of technology input) and Chile are still in progress.

The Andean Sectoral Program in petrochemistry, currently under negotiation, would absorb and expand the LAFTA Complementation Agreement. The assignments granted under the latter would be respected. Ecuador, which did not sign the initial Agreement, would, of course, participate in this Sectoral Program.

APPENDIX II

ANDEAN FOREIGN INVESTMENT CODE

1. Introduction

The Andean Foreign Investment Code is an agreement between the governments of the five Andean Subregional Group countries which establishes common standards for foreign investment in the area. It applies to all investors who are not nationals or residents of the member states, and to new as well as existing investments. The code entered into force on June 30, 1971.

The code was designed with the clear intent of establishing new and stricter operating regulations for foreign investment in the Group countries, and to establish national authority and control over it. The framers wished to protect what they consider to be a potentially large and attractive market from foreign domination, and to insure that the member countries would not be drawn into a mutually disadvantageous race to outbid one another in attracting foreign capital and technology. Ideally, this would be done without impeding the flow of vital foreign resource inputs.

2. Summary of Principal Provisions

The following is a summary of the principal provisions of the code.

A. Definitions

1. National Enterprise: One formed in the recipient country in which national investors have over 80 percent of equity, with that percentage reflected in the technical, financial, administrative, and marketing management. (Art. 1)

2. Mixed Enterprise: One with 51-80 percent equity and management in hands of national investors, or those with State participation of less than 51 percent but in which the State has the determining voice in management. (Art. 1, 36)

3. Foreign Enterprise: One with less than 51 percent equity in hands of national investors. (Art. 1)

4. National Investor: The State, national natural persons, national non-profit juridical persons, national firms, and natural foreign persons with at least one year uninterrupted residence in the country, who renounce the right to re-export capital and remit profits. (Art. 1)

B. Registration Requirements

1. Existing foreign investment must be registered with the competent authority of the national government by December 31, 1971. (Tem. Art. B)

2. New foreign investment (that made on or after July 1, 1971) must receive permission from the competent national authority, with indications of the time and conditions under which the investment will be sold to national investors and the manner in which the value of the foreign shares at the time of sale is to be determined. (Art. 2, 31)

C. Divestment

1. Existing foreign enterprises not willing to forego the trade liberalization benefits of the Andean Pact must agree to become mixed enterprises within 15 years in Colombia, Chile, and Peru, and 20 years in Bolivia in Ecuador. (Art. 28)

2. New enterprises must agree to progressive transformation in the same frame, and must meet fixed initial and intermediate levels of national participation. Those which export 80 percent of their production need not divest but they will not be eligible for trade liberalization benefits unless they do so. (Art. 30, 34)

3. Subregional participation, i.e., from another member country, is considered national for purposes of divestment, and effective State control may be accepted in lieu of actual majority participation. (Art. 30, 36)

4. Foreign enterprises operating in fields specified in Chapter III of the Code on "Sector Norms" (see next section) are exempt from the divestment requirements, but are otherwise subject to the Code, including the special restrictions imposed by Articles 40 through 43. (Art. 39)

D. Sector Norms

1. Member countries may designate certain activities which they consider sufficiently served by existing industry and permit no new direct investment in them. They reserve sectors to national or mixed firms as they see fit, as may the Commission (of the Andean Group). (Art. 3, 38)

2. New direct foreign investment contracts in the extractive industry sector may be made only for the next ten years. They are subject to a time limitation of twenty years and to other conditions, including the prohibition of depletion allowances, but are not subject to the 14 percent limitation profit remittance. (Art. 40)

3. New direct foreign investment in public utilities is not permitted. (Art. 41)

4. New direct foreign investment in the fields of finance (including banking and insurance), public media, or domestic transportation and marketing is not allowed, and existing firms must agree to sell 80 percent of stock to national investors within three years. (Art. 42, 43)

5. The above regulations for specific sectors are tempered by a provision which allows their waiver when member countries deem "special circumstances" to exist. (Art. 44)

E. Profits, Finance and Investment

1. Foreign firms may remit profits of up to 14 percent a year, at the prevailing exchange rate. Member countries may grant "other treatment" on profit remittance in the basic products sector, and may petition the Commission to authorize higher percentages. (Art. 37, 11, 40)

2. Investment capital may be repatriated on liquidation or divestment, at the prevailing rate of exchange. (Art. 7 - 11)

3. Reinvestment must be made under the rules applying to new investment, and may not be made in shares previously held by national investors except when bankruptcy is imminent and other conditions are met. Member countries may make blanket authorizations for reinvestment of up to 5 percent of profits. (Art. 12, 3, 4, 13)

4. Foreign firms will have access to domestic short-term credit only. (Art. 17)

5. Member countries will not guarantee funds borrowed abroad by foreign firms in which the State does not participate. Foreign loans must be obtained at prevailing rates and require prior authorization. (Art. 15, 14, 16)

F. Technology

1. All new contracts relating to the import of technology must be approved by the competent national authority and must meet strict standards to prevent hidden capital transfers. Existing contracts must be "registered" with this authority. (Art. 18, 19; Temp. Art. E)

2. Prohibited, unless specifically accepted by member countries, are restrictions on factor sources, price levels, volume of production, purchase options, and market restrictions. (Art. 20, 21)

3. No royalties may be paid to affiliate companies. (Art. 21)

4. Contracts relating to licenses, patents, and trademarks, are subject to similar regulations. (Art. 25)

5. The Commission of the Andean Group may declare given products or processes non-patentable and decide on the treatment of privileges already granted. (Art. 26)

G. Miscellaneous and General

1. No instrument relating to foreign investment or transfer of technology may contain clauses which either allow the subrogation by States of the rights of their national investors, or remove possible disputes from the jurisdiction of the recipient country. (Art. 51)

2. No country may grant foreign investors rights or concessions in excess of those specified in the Code, nor may they offer more favorable treatment than that offered national investors. (Art. 33, 50)

3. Member countries which judge themselves harmed by duty-free imports of products from other countries may petition the board for authorization to take corrective measures. (Art. 49)

4. All bearer corporate shares must be converted into nominative shares by June 30, 1972. (Art. 45)

5. A treaty designed to avoid double taxation will be framed by the Commission by November 30, 1971. (Art. 47)

6. Pending the formulation of a common investment incentive scheme, member countries will not establish new incentive programs of their own. (Temp. Art. H)

3. Reaction to the Code

During 1971 the journal "Inter-American Economic Affairs" published two articles which discussed the reaction of American businessmen to the code. Both articles were based on empirical research done by graduate students in schools of business administration; the first by a student at Georgetown and the second by a group of students at Harvard.

Both studies showed that the most controversial feature of the code and the one which has provoked the most criticism of it is the divestment requirement. This criticism is generally summed up in the remark "you don't go into business to go out of business." The studies also seem to indicate, however, that the objections to the divestment feature of the code were primarily ones of principle and company policy and were not based on any objective analysis of the impact of this feature on the likely flow of resources to the area. The evidence presented indicates that divestment may possibly work for most industries and a priori rejection of the concept would be a function of company policy or principle and not as a result of shortcomings on the part of the Andean Group or any specific joint venture.

A number of the criticisms of divestment appeared to be based on the assumption that 100% divestment would be required but the code clearly provides for continued minority participation by the divesting firm. By having an initial clear period in which to operate a business as a full or majority owner and ultimately accepting a position as minority partner for the life of the enterprise is not going "out of business." An arrangement of this kind can be a highly profitable and viable business venture if the initial period is long enough. Retention of a substantial minority interest after divestment, up to and including 49%, would enable the minority U.S. partner to have a significant voice in the management and profits of the enterprise while ensuring for the host country that the foreign partner's interest is sufficient to maintain necessary technology transfer.

Another criticism of the divestment requirement is that at the time of sell-out there may be no local investor available and the U.S. firm may have to sell at depressed prices. Article 31 of the investment code takes this issue into account in establishing the provision that the formula for determining the value of the shares and the system for ensuring their transfer to locals will be established during the negotiations preceding the initial investment decision. In this way, the firm will know how the shares will eventually be sold before it makes its investment.

Although the divestment feature of the code seems to be the primary focus of concern to American businessmen, there are other features of the code which may also serve as a disincentive to foreign investment within the subregion. Within the norms for certain sectors, the elimination of a depletion allowance for tax purposes in the basic products sector and the requirement for rapid divestment in the case of marketing and banking firms are harsh measures. Article 44 gives the recipient country the right to establish different norms in these sectors, however, if special circumstances exist. The restrictions on profit remittances and the lack of access to long term local credit sources may also limit the overall profitability of any investment however, here too the code makes provision for exceptions to the general rules.

In general the code establishes an elaborate bureaucratic process to oversee the implementation of its many provisions and the true impact of the code will depend in most instances on how this implementation process is carried out.

4. Implementation of the Code

The member countries have implemented the code to varying degrees and in varying ways. Despite the fact that the Code has been placed formally in effect in all five countries, it is clear that it is being implemented in accordance with each country's perception of its own interests. For example, recent Bolivian press reports indicated that that country's implementing regulations would be "simple, concrete and above all in accord with the needs of the country and its institutions."

Moreover, the Code itself is susceptible to change. Indeed it has been amended twice since its adoption in December 1970. In each instance there was a net movement in the direction of moderation. In short, the process of implementation is complicated and continuous, as Code provisions find their way into domestic law and regulation.

5. Conclusion

It may well be, as members of the business community have postulated that political pressures won out over economic considerations in framing the Code, or it may be that the member countries simply overestimated foreign investors' willingness or ability to adjust to what has been termed "discipline of national economic policies." The Code does not establish the long-sought "rules of the game" in that it does not bear equally on both sides; the discipline which the member countries apply to themselves in the form of assurances to investors is minimal.

There exists the danger that the new regulations will reduce the inflow of foreign capital and technology into the subregion. It may also be that the countries have underestimated the burden and disadvantages of buying out foreign investment under the divestment features of the Code. Even if investors were eventually to accept the Code constraints, valuable time could be lost or the region could be more burdened by investments designed for a quick payout than is presently the case. Application of certain provisions against existing firms could constitute breach of agreements or effective expropriation and raise legal problems.

Further, investors adapt best in an atmosphere of economic and political stability. The generally underdeveloped conditions and unsettled recent history of the Group countries further complicate the picture.

Nonetheless, the Code specifically projects an important role in the future of the Andean region for foreign private investment, and the expanded structure may well offer new profit opportunities for those companies willing to accept the terms and a minority role after either fifteen or twenty years. The Code lends support to integration by setting norms for uniform treatment of foreign investment throughout the subregion. A prosperous Andean Group could also result in a sizeable market demand for managerial and technological services. At least five major loopholes provide considerable flexibility to the individual countries. In principle, the Code also contemplates compensation for the shares divested in accordance with a basis of valuation determined at the time of investment; this is a better approach than that commonly taken with expropriated companies. If the Code could be used to encourage stability for the investments made under its laws, this too would have a positive effect on foreign investors.

The two empirical studies made to date seem to indicate that although American business is unhappy with a number of the provisions of the Code, no major shift of present investments is likely to occur. A majority of the companies interviewed feel the Code per se will not alter their future investment plans though a "wait and see" attitude was apparent.

If there is an opportunity to make a reasonable return on an investment, the Code by itself is not likely to deter future fund flows. The doubt regarding the investment climate stems as much if not more from the political instability of individual countries of the region than from the Code's provisions.

Section V. Financial Analysis

A. Capital Structure

Authorized Capital -- \$ 100 million

Subscribed Capital -- \$ 25 million

Paid-in Capital -- \$ 15 million

The Corporation's authorized capital is \$100 million, the shares being distributed into series "A" and "B". In addition, the Corporation is authorized to issue series "C" shares. Series "A" shares have a nominal value of \$1 million each, while those of series "B" have a nominal value of \$5,000 each. The balance of both series is to be paid in two consecutive annual installments. Three installments have been fully paid in U.S. dollars.

As of April 30, 1972, the subscribed and paid-in capital of the Corporation is distributed among the signatory countries as follows:

	<u>Capital Subscribed</u>		<u>Capital Paid - 60%</u>	
	Shares		Shares	
	<u>Series "A"</u>	<u>Series "B"</u>	<u>Series "A"</u>	<u>Series "B"</u>
Bolivia	\$1.0 mil	\$.5 mil	\$.6 mil	\$.3 mil
Colombia	1.0 mil	4.5 mil	.6 mil	2.7 mil
Chile	1.0 mil	4.5 mil	.6 mil	2.7 mil
Ecuador	1.0 mil	.5 mil	.6 mil	.3 mil
Peru	1.0 mil	4.5 mil	.6 mil	2.7 mil
Venezuela	<u>1.0 mil</u>	<u>4.5 mil</u>	<u>.6 mil</u>	<u>2.7 mil</u>
	\$6.0 mil	\$ 19.0 mil	\$ 3.6 mil	\$11.4 mil

The CAF's financial statements are shown in detail in Annex VIII. These are (i) an audited balance sheet for the period ending December 31, 1971; and (ii) projected fiscal year balance sheets, profit and loss statements, and cash flows for the next five years, 1972 through 1976.

The CAF's contribution to its development lending operation consists of cash, roll-over funds, and borrowings from commercial banks. Immediate CAF fund availabilities have been adequate for the initiation of the projects and technical assistance approved to date (disbursements for these activities are estimated at \$5.9 million in 1972 and at \$3.4 million in 1973. None of the projects currently under promotion and development (a total CAF financial input of \$154.6 million) can be funded, however, unless the CAF receives added resources. CAF estimates its

1973 needs for this category to be \$13.8 million. Its 1974 disbursements for projects and studies under development are estimated at \$21.6 million, at \$29.1 million in 1975, and at \$29.4 million in 1976. To meet the financial needs of the greatly increased lending activity generated by the projects now under development, the CAF plans to tap international banking sources for lines of credit and to secure funding from the IBRD and the German International Development Bank, as well as to obtain the aforementioned A.I.D. and IDB loans.

B. Financial Statements and Projections

The CAF has prepared its financial projections on the assumptions that it will fund those projects and studies currently in its "approved" and "under development" portfolio (about \$412 million) and will make disbursements of \$102.87 million between 1972-76 for these operations. The probability that some of these projects will not materialize in final bankable form, at least not as they are now envisaged, is more than balanced by the stronger probabilities that the CAF will uncover a host of sound and rapidly implementable projects, once its promotion and development operations increase and the Special Programs for Industrial Development are approved. In addition and as stated previously, it is likely that the CAF will be asked to finance more than the conservative 25% of total project costs used in the projections. In view of the above, A.I.D. believes that the cash flow projections are quite conservative and have agreed to permit an average of about \$9 million a year in excess cash flow to cover such contingencies as well as normal reserves which should run 2 to 3 annually.

CAF further assumes that it will obtain the external credits-- from international development institutions and commercial banks-- to support its projected loan portfolio. It is important to emphasize that the CAF projections made no assumptions for continued lending or borrowing activity beyond that needed to service the present list of projects since future demand is so unpredictable at this stage.

With these assumptions in mind, an analysis of CAF's most recent statements, as well as of the five year projections, shows that:

1. CAF maintains a substantial working capital ratio (liquid assets to short-term liabilities). This ratio falls somewhat as loan disbursements increase, but remains in 1976 at a healthy 2:1 margin.
2. All loans outstanding in the private sector are secured and are guaranteed 100% in dollars by well recognized financial institutions and banks in the countries in which the projects are located.

3. The overall debt to equity ratio of the CAF in 1973 is 1:1. This is low and favorable. The ratio, however, will increase to nearly 3:1 by 1976 as the CAF increases its long term borrowing from other international sources. This ratio assumes that the CAF maintains its present capitalization level. The CAF has indicated, however, its intention to ask its Board of Directors to double its total capitalization from \$100 million to \$200 million, with a consequent increase in paid-in capital from \$25 million to \$50 million. If the Board of Directors approves this proposal, the CAF expects to have \$35 million paid in by the middle of 1976. In these circumstances, the CAF intends to seek further external loans so as to leverage its equity at a 3:1 ratio. This action is in line with the development functions the CAF was created to perform.
4. The CAF estimates that it will show an operating loss of \$267,500 in 1972 and a small net income of \$61,200 in 1973. Once its total lending program is underway, however, profit projections for the following years are substantial and healthy. The CAF plans to amortize its original organization and installation expenses over a period of ten years beginning in 1973, considering that the Corporation's first three years will have been dedicated primarily to pre-operational activities.
5. Surplus and undistributed profits show a steady, healthy and sound growth pattern after full scale operations begin in 1973. The CAF pays no dividends--nor any taxes on income, properties, or other assets in its signatory countries. Consequently, its profits are applied to operations, once adequate provision for reserves has been made.

C. Interest Rate Spread

This proposal calls for granting concessional loan terms of 2% during the 10 year grace period and 3% during the 30 year repayment period. Assuming a weighted average of 9% between project and feasibility study loans, this will give the CAF a 7% and 6% spread during the respective periods. A.I.D. concessional funding is essential to the CAF during its start-up period--a time when operational costs are high relative to returns on operations, particularly in view of the intense promotional program envisaged.

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The above spreads in no way signify what the CAF will be realizing on its total resources. All other external credits (IDB, World Bank, and commercial lines of credit) will cost the CAF at least 8%. A.I.D. funds constitute a significant 42% of the total estimated external credit disbursements in 1973. This percentage diminishes to 21 percent in 1975 and zero in 1976. Resultant CAF spreads for the years 1973 to 1976 appear, therefore, as follows:

	<u>Annual Spreads and Percentages of Borrowed Funds Disbursements</u>			
	1973	1974	1975	1976
A.I.D.	7 (42%)	7 (30%)	7 (21%)	--
Others	<u>1 (58%)</u>	<u>1 (70%)</u>	<u>1 (79%)</u>	<u>1 (100%)</u>
Av. Spread	3.5	2.8	2.3	1.0

In terms of total lending resources, the CAF plans to use its own capital for relending purposes at the rate of \$5.0 million annually 1973 to 1975. Since these funds cost the CAF essentially nothing (the Corporation pays no taxes or dividends), the adjusted spread on total invested funds is the following:

	<u>Annual Spreads and Percentages of Total Funds Disbursements</u>			
	1973	1974	1975	1976
A.I.D.	7 (30%)	7 (23%)	7 (17%)	--
CAF	9 (30%)	9 (23%)	9 (17%)	9 (34%)
Others	<u>1 (40%)</u>	<u>1 (54%)</u>	<u>1 (66%)</u>	<u>1 (66%)</u>
Av. Spread	5.2	4.2	3.4	3.7

The above estimates assume continued CAF paid-in capital inputs beyond the present \$25 million level to a total of \$50 million in 1979. Beyond this point, the CAF will have only its accumulated reserves and portfolio recoveries to balance its high cost commercial funds. It will thus be operating on a very small percentage spread. In these circumstances, the concessionary A.I.D. terms assume major significance, as amortization and interest costs of the IDB and other external lending credits begin to intrude very heavily into CAF operating expenses.

While the administrative costs of using some of the other external credits may be small, the operational, promotional and development costs remain high. These expenses must be met, at least at first, by the spread on the A.I.D. loan. Indeed, if A.I.D. concessional money is not available to the CAF in its initial stages of development, it will be unable to perform its intended development banking role. The figures above lead to the conclusions that other sources of financing--with substantially higher interest rates and shorter amortization periods--would force the CAF to become primarily a commercial, short-term lending institution of the most conservative nature.

An analysis of the effect of a higher A.I.D. loan interest rate, (5% for example), indicates that sufficient funds would not be available to even cover a 2% reserve in its outstanding portfolio until 1975. Of equal concern is the fact that a higher interest rate could severely limit retained earnings and the amount of money available for relending. A.I.D. first loans to the other regional banks (CABEI or the Caribbean Development Bank) were made on similar concessionary terms. The financial objective of such lending is to provide seed capital or quasi-equity in order to get the Bank started in a sound, robust manner. It should be emphasized that our projections are based on an additional input of \$25 million capital (from \$25 million to \$50 million) by CAF's members. If this does not come to pass by 1975/76, the proposed concessionary terms become even more significant. The Project Committee believes that the CAF, like other development banks financed by A.I.D., needs quasi-equity to attract other, more commercial lenders. A.I.D. funds are expected to open several new doors for the CAF in much the same way as they did for CABEI.

D. Repayment Prospects

1. Conversion to Dollars

The CAF requires all sub-loans to be denominated in U.S. dollars and its sub-loan agreements contain the requirement, as a condition to disbursement, that the borrower shall register his loan as a dollar obligation with the local exchange control authority. The sub-loan agreement also provides that the CAF shall have the right to disburse local currencies and that repayment of such amounts may be made in the same currencies. In such cases, the borrower must repay the local currency equivalent of his dollar obligation at the then prevailing rate of exchange. These provisions of the sub-loan agreement are designed to protect against losses arising from

fluctuating exchange rates and to maintain the value of the local currency to the U.S. dollar. Since it will be used principally for foreign exchange costs, the proposed A.I.D. loan will not be effected by local currency exchange fluctuations.

In instances where A.I.D. dollars are disbursed in payment for goods or services of U.S. origin (or other foreign exchange costs), such disbursements are registered by the borrower with the local exchange authority as a dollar obligation which must, of course, be repaid to the CAF in dollars, the borrower being obliged to provide the necessary amount of local currency to purchase the required dollars.

In addition to the loan provision and practices referred to above, it should be pointed out that under the laws of each of the six member countries, foreign currency obligations to the CAF are valid and enforceable in the currencies so stipulated.

2. Conclusion

The CAF is a new regional development bank with total assets of \$10 million as of December 31, 1971. These are expected to reach \$15 million by the end of 1972, an increase of \$5 million, or 50 percent. Total assets projected for the end of 1976 are estimated at about \$100 million.

All sub-loans, whether they be from the private or public sector, are thoroughly analyzed before approval. The former are well secured by collateral and private guarantees and represent no more than 50% financing of each project. The latter are guaranteed by the borrowing Andean government.

Equally important, the CAF, despite its newness has been operating since mid-1971. It has received substantial financial and political support from the Andean governments. They have a very real stake in the continued success of the CAF, and any inability on the part of the CAF to pay its international creditors would not only undermine the development of the Andean region, but also damage the member countries' own credit standing.

In the final analysis A.I.D.'s security lies in the ability and good faith of the CAF management and its borrowers, and in the quality of the projects that the CAF finances. By the operations which it has already developed, the CAF has demonstrated that it appraises and manages its projects with competence. A.I.D. will monitor the CAF's activities carefully

to confirm that the institution's standards are maintained at a high level. A.I.D. therefore concludes that the repayment prospects of the proposed loan are excellent.

A.I.D. gave consideration to requesting guarantees in its proposed loan to CAF from the member countries in equal proportion. Given the private sector nature of the loan, however, it was believed more advisable to minimize host government involvement.

Section VI. Administration of the Loan

A. Disbursement Technique

On the basis of discussions with the CAF it was decided to affect all disbursement on a reimbursement basis. All requests for reimbursement will include a list of the projects being financed plus the following information for each project:

1. Sub-borrower, nature of business and breakdown of ownership.
2. Country in which located.
3. Brief description of project to be financed including total financial plan and length of disbursement period.
4. Regional category.
5. To facilitate the process of disbursement Implementation Letter No. 1 will permit reimbursement on a three-month basis or for amounts of \$1,000,000 or more, whichever occurs first.

B. Reports

A.I.D. Implementation Letter No. 1 will require quarterly reports only. These reports will include the following information:

1. List of all subloans approved in the relevant quarter with the following information for each:
 - (a) Date approved.
 - (b) Amount and terms.
 - (c) Total financial plan with breakdown of fund sources.
 - (d) Country.
 - (e) Sub-borrower, type of business and breakdown of ownership.
 - (f) Brief description of project.
 - (g) Identification of regional category if A.I.D. financing is involved.
 - (h) Description of how project meets efficiency guidelines if A.I.D. financing is involved.
 - (i) Projected disbursement schedule.

2. List of total loans approved prior to relevant quarter with disbursements to date and projected disbursements with an indication of how actual disbursements compare to original projections.
3. List of loans under consideration for A.I.D. funding with a brief description of the project, its regional nature, amount and country of origin.

C. Monitoring

It is anticipated that this project will be monitored by A.I.D./W with assistance from Robert Fullmer who is State/A.I.D.'s representative for Andean Affairs stationed in Lima, Peru. The \$1,000,000 reviews of progress will be held in Caracas with a probable A.I.D./w team of 2 individuals from LA/DR plus Mr. Fullmer.

D. Implementation

1. Loan Agreement Signing - FH September 1972
2. Meeting Conditions Preceding - LH October 1972
3. Terminal Disbursement Date - September 15, 1977

June 1, 1972

PERSONAL PROFESIONAL

C. A. F.

Funcionarios	Cargo	Fecha de contratación	
Adolfo Linares	Presidente Ejecutivo	11 : VI : 70	Bolivia
Alfonso Londoño Domínguez	Asesor de la Presidencia	8 : III : 71	Colombia
Miguel Castillo Blanco	Vicpresidente de Administración y Finanzas	1 : VIII : 71	Venezuela
Humberto Toro Cardona	Director Financiero	1 : IV : 71	Colombia
Gustavo Alamo	Director de Administración	15 : VI : 70	Venezuela
Alfonso Torres Beltrán	Analista Financiero	15 : X : 71	Colombia
Arnold Schonert Brandt	Economista	24 : VIII : 71	Venezuela
Jesús R. Vaamonde	Contador	1 : V : 71	Venezuela
Enrique Vial Clark	Vicpresidente de Operaciones	1 : XI : 70	Chile
Carlos Barbery	Director de Operaciones	1 : I : 71	Bolivia
Norberto Luis Capurro	Economista adcripto a la División Promoción	1 : I : 72	Argentina
Juan Mario Balcázar	Jefe de la Unidad de Evaluación y Administración de Operaciones	7 : XII : 70	Bolivia
Julio Pérez	Jefe de la Unidad de Programación	15 : VIII : 71	Peru
Germánico Espinosa	Jefe de la Unidad de Promoción	15 : XI : 71	Ecuador
Hugo Molina	Oficial de Proyectos	1 : IX : 71	Ecuador
Jorge García Duque	Oficial de Proyectos	1 : I : 71	Venezuela
Manuel Eduardo Cánepa R.	Oficial de Proyectos	1 : I : 71	Peru
Roberto Fresard Ríos	Asesor Legal	1 : XI : 70	Chile
Juan Enrique Allard P.	Abogado	1 : XI : 70	Chile
Gastón Aráoz	Secretario General	1 : VIII : 70	Bolivia
Blasco Peñaherrera	Asesor de Integración e Informaciones	1 : IV : 71	Ecuador

ASAMBLEA GENERAL

Carache Liaison Officer, Lima

DIIRECTORIO

Linares Executive President
Londono Advisor

PRESIDENCIA EJECUTIVA

Castillo Vice President
Toro Director of Finance
Alamo Director of Administration
Torres Financial Analyst
Schonert Economist
Vaamonde Accountant

Vial Vice President
Barbery Director of Operations
Balcázar Chief, Evaluation
Pérez Chief, Programming
Espinoza Chief, Promotion
Molina Project Manager
García " " " "

Aráoz Secretary General

SECRETARIA GENERAL

- Secretariado CAF, Asamblea y Directorio.
- Documentación.
- Biblioteca.

VICEPRESIDENCIA

ADMINISTRATIVA FINANCIERA

- | | |
|---|---|
| - Administración de Servicios. | - Captación de recursos. |
| - Administración de Personal. | - Promoción Financiera. |
| - Archivo. | - Cobro, custodia, inversión y erogación de fondos de la CAF |
| - Orientación y adiestramiento de personal... | - Ejecución de autorizaciones de desembolso de préstamos, asistencia técnica y otras operaciones. |
| - Organización y métodos. | - Contabilidad Presupuesto. |

Capurro VICEPRESIDENCIA Economist
PROGRAMACION OPERACIONES

- | | |
|---|--|
| - Programación de Operaciones | - Identificación y análisis de proyectos. |
| - Información Técnica-Económica. | - Promoción. |
| - Coordinación Técnica con Organismos nacionales de desarrollo y el Acuerdo de Cartagena. | - Financiamiento de proyectos |
| - Asistencia Técnica. | - Administración Técnica de Operaciones. |
| | - Supervisión y vigilancia de Operaciones. |

Fresard Legal Advisor
Allard Lawyer

ASESORIA LEGAL

Asistencia Jurídica a la Corporación en todo asunto y operación que le sea sometido.

Penaherrera Integration & Information

INTEGRACION

Coordinación con los organos del Acuerdo de Cartagena.
Asesoramiento al Presidente Ejecutivo en materias relacionadas con la Integración de A.L.

ADOLFO LINARES

CURRICULUM VITAE

NACIONALIDAD: Boliviano.

FECHA DE NACIMIENTO: Julio 10, 1917 (La Paz, Bolivia).

ESTUDIOS SUPERIORES: Ingeniería Civil, Electronica
(Universidad de Chile, 1938-1943)

CARGO ACTUAL:
(desde junio 1970) PRESIDENTE EJECUTIVO DE LA CAF.

CARGOS DESEMPEÑADOS:

1944 - 1948 Jefe Departamento de Financiamiento y Construcciones de la Caja Nacional de Seguridad Social, La Paz, Bolivia.

1948 - 1951 Asesor del Directorio de la Caja Nacional de Seguridad Social, La Paz, Bolivia.

1951 - 1954 Gerente y accionista mayoritario de la Empresa de Construcciones Civiles Adolfo Linares & Cía. Ltda. La Paz, Bolivia.

1954 - 1956 Director de Estudios y Proyectos de la Comisión Nacional de Coordinación y Planeamiento, La Paz, Bolivia.

- 1956 - 1957 Miembro del Consejo de la Comisión Na
cional de Coordinación y Planteamien
to, La Paz, Bolivia.
- 1957 - 1958 Asesor del Vice Presidente de la Comi
sión Nacional de Coordinación y Planea
miento, La Paz, Bolivia.
- 1958 - 1964 Presidente de la Corporación Boliviana
de Fomento, La Paz, Bolivia.
- 1964 - 1965 Presidente Directorio Empresa Nacional
de Electricidad, La Paz, Bolivia.
- 1965 - 1966 Oficial de Préstamos para Argentina
Banco Interamericano de Desarrollo (BID)
Washington, D.C.
- 1966 - 1967 Subjefe de Préstamos para Argentina
Banco Interamericano de Desarrollo
(BID) Washinton, D.C.
- 1968 - 1969 Coordinador Técnico Programas (BID)
Cuenca del Plata
Buenos Aires, Argentina.
- 1970 Presidente Corporación Andina de Fomen
to.

ACTIVIDAD PROFESIONAL:

Presidente de la Sociedad de Ingenieros de Bolivia.

Presidente de la Cámara Nacional de Constructores de Bolivia.

ACTIVIDADES EN EL SECTOR PRIVADO:

Director de la Caja Nacional de Seguridad Social (Representante del sector privado).

Director del Instituto Nacional de Vivienda (Representante del sector Privado).

Director de la "Sociedad General de Comercio" (empresa privada).

Director de la Compañía Boliviana de Seguros S.A. (empresa privada).

ACTIVIDAD DOCENTE Y UNIVERSITARIA:

Catedrático de las Escuelas de Ingeniería Civil, Ingeniería Industrial y Arquitectura de la Universidad Mayor de San Andrés, La Paz, Bolivia (Tecnología de las Construcciones; Máquinas Eléctricas; Luminotecnia y Acústica).

Ayudante de Catedrático en la Escuela de Ingeniería de la Universidad de Chile (Jefe de Ayudantes de Cálculo; Geometría Analítica; Química Analítica y Electrónica).

Vice-Presidente de la "Organización Educativa Boliviana" (educación secundaria).

ACTIVIDADES INTERNACIONALES:

Miembro de la Delegación Boliviana a la Conferencia Económica

ca de la Organización de los Estados Americanos (OEA), Buenos Aires, Agosto 1958.

Miembro de la Comisión Orientadora de Política Económica Internacional del Ministerio de Relaciones Exteriores de Bolivia.

Miembro del Consejo Consultivo del Ministerio de Relaciones Exteriores de Bolivia.

Representante de Bolivia ante la Comisión Mixta-Peruana para Estudio del Aprovechamiento de Aguas del Lago Titicaca.

Representante de Bolivia a la Primera Reunión Técnica de Vivienda y Planeamiento (OEA)-Bogotá.

Representante de Bolivia a la Reunión de Nuevas Fuentes de Energía (FAO- Roma, Italia).

Gobernador por Bolivia a las Asambleas de Gobernadores del Banco Internacional de Reconstrucción y Fomento (BIRF): 1960 Washington; 1961 Viena; 1962 y 1963 Washington; 1964 Tokio.

Gobernador Suplente por Bolivia a las Asambleas de Gobernadores del Banco Interamericano de Desarrollo (BID) en 1961 y 1964).

ACTIVIDADES DE OPERACIONES DE PRESTAMOS PUBLICOS INTERNACIONALES:

Gestor, por encargo del Gobierno de Bolivia, de los siguien

tes préstamos públicos internacionales:

BID	US\$ 10.0 millones	Global a la Corporación Boliviana de Fomento (CBF).
BID	US\$ 4.0 millones	Programa de Vivienda CBF.
BID	US\$ 9.1 millones	Programa Colonización CBF.
BID	US\$ 1.1 millones	Desarrollo rural (Ministerio de Asuntos Campesinos).
BID	US\$ 3.5 millones	Empresa Nacional de Electricidad.
BID	US\$ 15.0 millones	Empresa Nacional de Electricidad.
Gobierno del Japón	US\$ 3.5 millones	Ingeniero Azucarero de Bermejo CBF.
BID	US\$ 4.5 millones	Agua Potable Cochabamba y Oruro.
BID	US\$ 1.5 millones	Programa de Riego de Villamontes.
BID	US\$ 1.5 millones	Ampliación de la Fábrica de Cemento de Sucre.

COMO FUNCIONARIO DEL BID PARTICIPO EN EL ANALISIS Y NEGOCIACION DE LOS SIGUIENTES PRESTAMOS:

ARGENTINA:

- Agua Potable rural.
- Hospital - Escuela.

- Mejoramiento de la enseñanza metalúrgica.
- Desarrollo del Valle de Rio Dulce - Colonización - Energía - Riego.
- Preinversión, preparación de proyectos;
- Renovación urbana.
- Carreteras de integración en Bolivia y Chile.
- Agua y energía eléctrica, ampliación varias centrales.
- Interconexión eléctrica Acaray - Misiones.
- Electrificación rural.

BRASIL:

- Construcción planta hidroeléctrica de 1.760.000 KW - Ilha Solteira.
- Fortalecimiento de la enseñanza de ciencias básicas (9 Universidades).
- Ampliación y mejoramiento de la enseñanza de escuelas técnicas en 14 Estados.
- Crédito para industrias de procesamiento de productos agrícolas Banco de Brasil.
- Red de carreteras principales en el Nordeste de Brasil.
- Ampliación del sistema de agua potable de Sao Paulo.

Ampliación de la mayor compañía productora de mineral de hierro del Brasil, en el Estado de Minas Gerais.

- Créditos a ELECTROBRAS - Varios proyectos de centrales eléctricas y líneas de transmisión.
- Estudios de viabilidad de un aeropuerto para aviones supersónicos.

Estructuras Metálicas, 5° año Ing.
Industrias, 6° año Ing.

Director Escuela Ingeniería UC, años 1956 - 1957 - 1958.

TRABAJOS EFECTUADOS:

Organizador Junta Adelanto Arica en 1959.

Miembro Comisión 5 personas que prepararon Sistema Ahorro y Préstamo en vigencia para la Cámara Chilena de la Construcción.

Negociador Gobierno US\$ 110 millones para proyecto minero El Teniente en EE. UU. año 1969.

Miembro Comisión Negociación Deuda Externa en Europa en 1964.

Negociador en Europa financiamiento proyecto telefónico en ejecución (200.000 nuevos teléfonos)

Negociador principales financiamientos externos para proyectos nacionales durante 1965 - 1968 en EE. UU. y Europa (Celulosa Arauco y Constitución - Préstamos Banco Mundial - Eximbank - Interamericano - Privados Gobierno Español, Francés e inglés).

Asesor N.U. para creación oficinas promotoras de proyecto países en desarrollo - 1967.

EMPRESA PROPIA: 1954 - 1956, Empresa Constructora INVEC.

Directorios: (Ex y Actuales)

En representación CORFO;

Instituto Fomento Pesquero

Forestal

Servicio Cooperación Técnica.

Instituciones Cooperación Inversiones

Comité Ejecutivo CORFO.

Comité de Política Arancelaria.

Empresas Compañía Aceros del Pacífico.

Maestranza Antofagasta

Chile Film

Celulosa Arauco

Celulosa Constitución

Industrias Forestales

Famae

Cemento Juan Soldado.

Otros Directorios:

Cámara Chilena de la Construcción

Salas Reyes y Cia.

Asoc. de A. y P. B. O'Higgins.

Presidencias:

Soc. Química y Minera del Norte

Petroquímica Chilena

Comisión Draw-Back

Comisión Electrónica Nacional

Directores en el Extranjero:

Chilena Nitrae (En representación CORFO)

Ecuatoriana de Atún (En representación CORFO)

National Association of Home Builders (en re-
presentación Cámara C. de la Const.)

Chilena Trading N.Y.

Gobernador Alterno Bco. Interamericano.

CONGRESOS:

Ier. Congreso Interamericano de la Vivienda,
Bogotá - 1958.

Congreso Preparatorio ALALC Córdoba - 1958.

Reunión Banco Interamericano - México 1957.

Reunión Banco Mundial y Fondo Monetario
Rio de Janeiro - 1967.

Conferencia países en Desarrollo en Minsk-Ru-
sia - 1963.

Presidente Delegación Chilena al Congreso Mun-
dial de Pesca en Lima - 1962.

Congreso Internacional Industrial con 1965.

CURRICULUM VITAE

NOMBRE: MIGUEL CASTILLO BLANCO

LUGAR DE NACIMIENTO: Maracaibo, Estado Zulia

FECHA DE NACIMIENTO: 20 de Febrero de 1935

ESTADO CIVIL: Casado

NUMERO DE HIJOS: Cuatro (4)

FORMACION ACADEMICA:

- 1959 Título de Economista de la Universidad de Pennsylvania en Filadelfia, Penna., U.S.A.
- 1961 Curso de Post Grado sobre "Programación del Desarrollo Económico" en el Centro de Estudios del Desarrollo (CENDES) de la Universidad Central de Venezuela y Naciones Unidas.
- 1968 Seminario sobre Transformación Industrial de Productos Agropecuarios en Berlín, República Federal Alemana, auspiciado por la Fundación Alemana para los países en vías de desarrollo.
- Curso PERT-CPM en el Instituto Politécnico Nacional.

IDIOMAS: Castellano - Inglés

- ACTIVIDADES:
- 1959-60 Economista adscrito al Dpto. de Unidad de Estudios (Estudios Sectoriales) C.V.F.
- 1962 Secretario-Ejecutivo de la Comisión Pro-Desarrollo del Estado Lara, en representación de la C.V.F.
- 1963 Representante de la C.V.F. en los Estados Lara, Yaracuy, Falcón y Portuguesa.
- Instructor colaborador del Centro de Formación Comercial del INCE en Barquisimeto.

ACTIVIDADES:
(Continuación)

- Integrantes del Equipo de Visita de las Zonas Industriales de Estados Unidos y Canadá.
- 1964 Miembro Individual de la Sociedad Venezolana de Planificación.
- 1965 Miembro Individual de la Sociedad Venezolana de Planificación.
- Miembro del Comité de Programación de la Fundación para el Desarrollo de la Región Centro Occidental de Venezuela (FUDECO).
- Observador en Asamblea de Fedecámaras en Mérida, Maracaibo, Valencia, Barquisimeto y Caracas.
- Miembro Fundador de la Asociación Regional de Ejecutivos, Edo. Lara.
- Asesor de la Misión de Industriales del Estado Lara en Bogotá, Colombia.
- 1966-67 Miembro de la Regional Science Association, - U.S.A.
- Miembro Fundador del Colegio de Economistas del Estado Lara.
- Delegado de la C.V.F. en el Congreso Interamericano de Planificación (Caracas).
- Miembro del Directorio de la Compañía para el Desarrollo Industrial de Barquisimeto (COMBIDAR C.A.)
- 1968 Director del Central Sisalero "El Cují, C.A."
Presidente del Central Sisalero "El Cují, C.A."
- 1969-70 y 71 Presidente de la Asociación Regional de Ejecutivos del Estado Lara.
- Sub-Gerente de Servicios Técnicos de la Corporación Venezolana de Fomento hasta el 1-6-71.

**ACTIVIDADES:
(Continuación)**

Gerente-Encargado de la C.V.F. en tres (3) oportunidades durante este período.

Miembro Asociación Venezolana de Ejecutivos. Caracas.

Miembro de la Comisión de Estudio del Banco del Hogar.

Miembro de la Comisión Nacional de Pesca.

Miembro de la Junta Directiva del Centro Simón Bolívar, C.A.

Miembro del Directorio de la Comisión Nacional de Financiamiento a la Pequeña y Mediana Industria (CONAFIN).

Director-Suplente de la Corporación Nacional de Hoteles y Turismo (CONAHOTU).

Miembro de la Misión Económica en Centro-América, presidida por el Canciller Arístides Calvani.

Miembro de la Misión Económica en Trinidad, presidida por el Canciller Arístides Calvani.

Delegado de la C.V.F. en el Seminario sobre "Desarrollo Industrial e Integración Económica de los Países Andinos". INTAL., Bogotá, Colombia.



June 1, 1972

NORMA NO. 1CONSULTA PRELIMINAR

Información básica confidencial que debe acompañar a toda consulta preliminar sobre una posibilidad de financiamiento.

a) Sobre el solicitante

- Razón social o nombre de la entidad
- Dirección
- Objeto social o funciones
- Capital autorizado, suscrito y pagado o presupuesto tratándose de entidades públicas.
- Principales accionistas o dependencia jurídica; composición del capital.
- Breve reseña histórica de la empresa.

b) Sobre el crédito

- Valor solicitado
- Destino del crédito
- Garantías ofrecidas

c) Sobre el proyecto

- Descripción, objeto y relación con el proceso de integración.
- Insumos, mercados y producción
- Inversión y financiamiento del proyecto
- Estado actual de los estudios de viabilidad técnico-económico.

d) Realización de estudios

En el caso de que la consulta de financiamiento se haga con destino a realizar un estudio, se debe aclarar el objeto y alcance del mismo y, si es posible, indicar sus términos de referencia.

NORMA NO. 2

INFORMACION QUE DEBE CONTENER UNA SOLICITUD PARA UN
PRESTAMO DE EJECUCION

1. Información sobre el solicitante

- 1.1 Nombre y dirección de la entidad solicitante
- 1.2 Nombre y dirección de la persona o personas que representan al solicitante en aspectos relacionados con la tramitación del préstamo.
- 1.3* Anexar el Documento Constitutivo y/o el Estatuto Social de la entidad solicitante e informe legal sobre su capacidad jurídica para contraer obligaciones
- 1.4* Estructura orgánica de la entidad; accionistas
- 1.5* Breve descripción de actividades que realice la entidad o empresa e instalaciones que posea; anexar el último informe anual de la empresa.
- 1.6* Administración de la entidad (técnica, contable, auditoría, etc.), incluyendo información sobre los principales ejecutivos.
- 1.7* Anexar balances auditados y estados de ganancias y pérdidas de los 3 últimos años, referencias bancarias y comerciales, en su caso.
- 1.8 Otros préstamos en tramitación.

2. Información sobre el proyecto

- 2.1 Anexar el estudio de pre-factibilidad o de factibilidad del proyecto, e incluir cualquier información o comentario que aclare los objetivos del proyecto.
- 2.2 Comentarios sobre aspectos técnicos, económicos, financieros y comerciales que pudiesen actualizar el estudio de factibilidad o ajustarlo al alcance que se requiere.
- 2.3 Relación del proyecto con el proceso de integración del área CAF.

*No se aplica cuando el solicitante es un organismo nacional de desarrollo.

2.4 Efectos del proyecto para el país (balanza de pagos, utilización de mano de obra, otros efectos económicos o sociales).

3. Información sobre la solicitud

3.1 Monto y clase de monedas solicitadas

3.2 Plazos y períodos de gracia solicitados

3.3 Intereses y otras condiciones solicitadas

3.4 Garantías propuestas (descripción)

3.5 Sistema como se propone cubrir el mantenimiento del valor de la moneda.

3.6 Anexar carta del Gobierno emitida a través del organismo oficial apropiado, asignando la prioridad del proyecto dentro de los planes de desarrollo del país.

4. Información sobre la ejecución del proyecto

4.1 Calendario actualizado para la ejecución del proyecto

4.2 Procedimiento para la ejecución del proyecto, incluyendo información sobre procedimientos para contratación de servicios y adquisición de bienes, para la supervisión técnica y administrativa del proyecto, entrenamiento del personal, etc.

4.3 Presupuesto y financiamiento del proyecto; fuente de fondos y calendario de inversiones.

4.4 Distribución de inversiones en moneda local y extranjera

4.5 Inversiones y trabajos ya iniciados para el proyecto

4.6 Aplicación específica del préstamo que se solicita a la CAF, por tipo de monedas.

4.7 Cálculo de resultados financieros para los tres primeros años de operación, plan de amortización del préstamo.

4.8 Reajuste de costos y de la rentabilidad en base a tasa interna de retorno a las condiciones financieras actualizadas.

NORMA NO. 3

INFORMACION QUE DEBE CONTENER UNA SOLICITUD PARA UN
PRESTAMO DE PREINVERSION

1. Información sobre el solicitante

- 1.1 Nombre y dirección de la entidad o persona natural solicitante.
- 1.2 Nombre y dirección de la persona o personas que representan al solicitante en aspectos relacionados con la tramitación del préstamo.
- 1.3* Anexar el Estatuto Social de la entidad solicitante e informe legal sobre su capacidad jurídica para contraer obligaciones crediticias.
- 1.4* Estructura orgánica de la entidad; accionistas
- 1.5* Objeto de la entidad y breve descripción de actividades
- 1.6* Administración de la entidad (técnica, contable, auditoría, etc.), incluyendo información sobre los principales ejecutivos relacionados con el proyecto objeto del préstamo.
- 1.7* Anexar balances auditados y estados de ganancias y pérdidas de los tres últimos años, referencias bancarias y comerciales.
- 1.8 Otros préstamos en tramitación.

2. Información sobre el proyecto

- 2.1 Anexar el Estudio de Pre-factibilidad del proyecto, si lo hubiere, o una descripción del mismo.
- 2.2 Anexar los Términos de Referencia del estudio que se propone llevar a cabo.
- 2.3 Relación del proyecto con el proceso de integración del área CAF.
- 2.4 Efectos probables del proyecto para el país (balanza de pagos, utilización de mano de obra, otros efectos económicos o sociales).

*No se aplica cuando el solicitante es un organismo nacional de desarrollo.

3. Información sobre la solicitud

- 3.1 Monto y clase de monedas solicitadas
- 3.2 Plazos y períodos de gracia solicitados
- 3.3 Intereses y otras condiciones solicitadas para el estudio
- 3.4 Garantías propuestas (descripción)
- 3.5 Sistema como se propone cubrir el mantenimiento del valor de la moneda.
- 3.6 Anexar carta del Gobierno emitida a través del organismo oficial apropiado, asignando la prioridad del proyecto dentro de los planes de desarrollo del país.

4. Información sobre la ejecución del proyecto

- 4.1 Calendario actualizado para la realización del estudio
- 4.2 Procedimiento para la realización del estudio, incluyendo información sobre procedimientos para contratación de servicios y para la supervisión técnica del estudio.
- 4.3 Presupuesto y financiación del estudio, fuente de fondos y calendario de gastos.
- 4.4 Distribución de gastos en moneda local y extranjera
- 4.5 Gastos y trabajos ya iniciados para el estudio
- 4.6 Aplicación específica del préstamo que se solicita a la CAF, por tipo de moneda.
- 4.7 Programas financieros para la ejecución del proyecto en caso de ser éste factible, o para el estudio de factibilidad en caso de tratarse de un préstamo para prefactibilidad.

NORMA NO. 4

INFORMACION QUE DEBE CONTENER UNA SOLICITUD PARA UNA
ASISTENCIA TECNICA O PARA UN ESTUDIO DE LA CAF

1. Informe sobre el solicitante

- 1.1* Nombre y dirección de la entidad o persona natural solicitante.
- 1.2* Nombre y dirección de la persona o personas que representan al solicitante en aspectos relacionados con la tramitación del préstamo.
- 1.3* Objeto de la entidad y breve descripción de actividades.

2. Información sobre el proyecto

- 2.1 Anexar una descripción de los objetivos y alcances del proyecto.
- 2.2 Anexar los Términos de Referencia del estudio que se propone llevar a cabo.
- 2.3 Relación del proyecto con el proceso de integración del área CAF.
- 2.4 Ventajas probables del proyecto o de la asistencia técnica para el país o la sub-región.

3. Información sobre la solicitud

- 3.1 Monto aproximado de la asistencia técnica solicitada o del costo del estudio.
- 3.2 Otras condiciones solicitadas para la asistencia técnica o para la realización del estudio.
- 3.3* Anexar carta del Gobierno emitida a través del organismo oficial apropiado, asignando la prioridad del proyecto dentro de los planes de desarrollo del país.

4. Información sobre la ejecución del proyecto

- 4.1 Calendario actualizado para la realización de los trabajos

*No se aplica cuando el solicitante es la Unidad de Promoción de la CAF.

- 4.2 Procedimiento para la realización de los trabajos incluyendo información sobre procedimientos para contratación de servicios y para la supervisión técnica de los trabajos.
- 4.3 Presupuesto y financiación de los trabajos, fuente de fondos y calendario de gastos.
- 4.4 Distribución de gastos en moneda local y extranjera
- 4.5 Gastos y acciones ya efectuados para la asistencia técnica
- 4.6 Programas para completar los trabajos en caso de que los estudios o la asistencia técnica muestren las ventajas del proyecto.

NORMA NO. 5

ALCANCE DE UN ESTUDIO DE FACTIBILIDAD

1. Información general

- 1.1 Descripción química o física del producto terminado
- 1.2 Otras características, marcas, normas comerciales, etc., relacionadas con dicho producto.
- 1.3 Ubicación dentro de la nomenclatura NABALALC

2. Estudios de mercado

- 2.1 Determinación del mercado actual del producto y de sus derivados o subproductos (a nivel nacional, subregional y/u otros países).
- 2.2 Análisis de precios a nivel nacional, subregional e internacional.
- 2.3 Evaluación de los factores que afectan la demanda (calidad, uso final, etc.).
- 2.4 Proyecciones de la demanda a 5 y 10 años
- 2.5 Tendencias de los precios y valor de la demanda a 5 y 10 años.
- 2.6 Comparación de la demandada con la que se obtiene en otros países del Grupo Andino.

3. Estudio Técnico

- 3.1 Procesos de fabricación y/o elaboración del producto; breve descripción de los mismos, ventajas, disponibilidad de tecnologías, etc.
- 3.2 Proceso seleccionado; justificativos técnico-económicos para la selección.
- 3.3 Diagramas de flujo, balance de materiales, requerimientos de servicios (agua, energía eléctrica, vapor, etc.).
- 3.4 Materias primas y subproductos, especificación, disponibilidad local, nacional y/o subregional; análisis de reservas si fuese necesario.

4. El proyecto propuesto

- 4.1 Descripción detallada de la planta y/o instalaciones
- 4.2 Normas de diseño y especificación de los equipos
- 4.3 Costos de construcción y de mantenimiento; inversiones totales requeridas.
- 4.4 Localización seleccionada y alternativa; costos
- 4.5 Otros datos técnicos del proyecto (datos climatológicos, de suelos, etc.).
- 4.6 Programación y cronograma de ejecución del proyecto

5. Estudio económico

- 5.1 Determinación de costos fijos y variables
- 5.2 Flujos de inversiones y de fondos; flujo de divisas
- 5.3 Curvas de susceptibilidad a los insumos principales
- 5.4 Punto de equilibrio y tasa interna de retorno
- 5.5 Capitalización de los costos y de los beneficios; comparación beneficios y costos.
- 5.6 Análisis de beneficios indirectos (nivel ocupacional), efectos económicos en la zona, país y/o subregión.
- 5.7 Análisis impositivo
- 5.8 Programa de inversiones en relación a financiamientos; costos de capital de trabajo y otros.

6. Estudios complementarios

- 6.1 Cuadros y diagramas complementarios
- 6.2 Aspectos de integración
- 6.3 Aspectos comerciales y arancelarios; sistemas de distribución y ventas.

- 6.4 Control de calidad y asistencia técnica para ejecución del proyecto, administración de la planta o fábrica, y para la comercialización o venta de los productos.
- 6.5 Rentabilidad nacional y efectos sobre balanza de pagos
- 6.6 Observaciones y recomendaciones; sugerencias para la implementación del proyecto (técnicas, financieras e institucionales).

LIST OF PROJECTS AND STUDIES
(Public or Mixed Underlined)

ANNEX III
Page 1 of 9

PROJECTS APPROVED	TOTAL INVESTMENT	PRIVATE, PUBLIC AND OUTSIDE	CAF	LOCAL CURRENCY	TERMS %/YEARS
1. <u>Rice Storage Facilities - Bolivia</u>	1,850	550	1,300	564	8.5/15
2. <u>Tuna Processing Plant - Ecuador (ECUATUN)</u>	3,246	2,746	500	1,758	8.5/10
3. Tea Production and Processing - Ecuador (TE EULAY)	1,240	740	500	1,000	8.5/10
4. <u>Steel Laminating Plant - Ecuador, Chile (ACEROS ANDEC)</u>	4,240	3,440	800	1,640	10/10
5. Plate Glass Factory - Ecuador (FANAVISA)	1,854	1,054	800	950	8.5/10
6. Bicycle Assembly - Bolivia (INGESA)	450	270	180	176	10/10
7. CACAO Processing Facilities - Ecuador (SALCO)	980	860	120	300	8.5/6
8. <u>Rio Limon Bridge - Venezuela/ Colombia</u>	<u>5,079</u>	<u>2,057</u>	<u>3,022</u>	<u>4,738</u>	<u>8.5/15</u>
TOTALS	17,938	10,966	7,222	11,146	

PROJECTS IN PROCESS	TOTAL INVESTMENT	PRIVATE AND OUTSIDE	CAF	LOCAL CURRENCY	TERMS %/YEARS
1. <u>Expansion Caprolactama Factory - Colombia - Venezuela</u>	22,000	19,000	3,000		
2. <u>DMT Chemical Plant</u>	20,000	19,000	1,000		
3. <u>Petrochemical Plant - Bolivia</u>	70,000	56,000	14,000		
4. <u>Petrochemical Plant - Ecuador</u>	31,000	25,000	6,000		
5. Synthetic Fibers - Bolivia	3,000	2,000	1,000		
6. Pigments and Dye Stuffs Plant - Bolivia	4,500	3,500	1,000		
7. <u>Powdered Metal Plant - Bolivia</u>	2,000	1,000	1,000		
8. Subgrahed Artefact Industries	14,000	11,200	2,800		
9. Article 50 Projects - Bolivia	14,000	11,000	3,000		(approximately 70% of these projects will be private)
10. Article 50 Projects - Ecuador	8,700	6,700	2,000		(approximately 60% of these projects will be private)
11. Sectoral Enterprises - Textiles	1,000	--	1,000		

PROJECTS IN PROCESS	TOTAL INVESTMENT	PRIVATE AND OUTSIDE	CAF	LOCAL CURRENCY	TERMS %/YEARS
12. Sectoral Enterprises - Canned Goods	300	---	300		
13. Sectoral Enterprise - CACAO	1,000	---	1,000		
14. <u>Lubricating Oils</u> - Bolivia	4,000	3,000	1,000		
15. <u>Pesticides</u> - Bolivia	7,000	5,500	1,500		
16. Edible Oils - Regional	17,000	14,000	3,000		
17. Acrylic Fibers - Colombia	6,000	4,500	1,500		
18. Machine Tools - Regional	30,000	25,000	5,000		(Approximately 60% of these projects will be private)
19. Acrylic Fibers - Peru	7,000	5,500	1,500		
20. <u>Coke Production Plant</u> - Colombia	28,000	25,000	3,000		
21. Projects related to expansion 21. Projects related to expansion Petroleum Industry - Ecuador	25,000	20,000	5,000		(Approximately 60% of these projects will be private)
22. Projects in Pharmaceutical Field - Regional	12,000	9,500	2,500		
23. Cement Plant - Ecuador	15,000	12,000	3,000		
24. <u>Rubber Production</u> - Ecuador	3,000	2,500	500		

PROJECTS IN PROCESS	TOTAL INVESTMENT	PRIVATE AND OUTSIDE	CAF	LOCAL CURRENCY	TERMS %/YEARS
25. Construction Steel - Bolivia (IBAHSA)	1,000	530	470		
26. <u>Fish Processing and Marketing - Peru</u>	16,000	13,000	3,000		
27. Agro-Industrial Projects - Bolivia	5,000	4,000	1,000	(Approximately 75% of these projects will be private)	
28. <u>Fish Industry - Regional</u>	15,000	12,000	3,000		
29. Agro-Industrial Projects - Regional	<u>25,000</u>	<u>20,000</u>	<u>5,000</u>	(Approximately 75% of these projects will be private)	
TOTALS	411,760	331,850	79.910		

STUDIES APPROVED - LOANS	TOTAL COST	CAF	TERMS/YEARS
1. Article 50 Projects - Bolivia	575	262	6/6
2. Refrigerator Assembly - Bolivia	200	60	6/6
3. Non-Ferrous Metals - Bolivia	120	192.5	6/6
4. Article 50 Projects - Ecuador	225	112.5	6/6
5. Selva Alegre Cement Plant - Ecuador	400	200.0	6/6
6. Agroindustrial Projects - Bolivia	320	265.0	6/6
7. (DEMA) Fish Product Marketing - Colombia	60	42.0	6/6
8. Development of Phosphates - Peru	600	420.0	6/6
9. Construction Materials - Bolivia	<u>564</u>	<u>73.4</u>	<u>6/6</u>
TOTALS	2,289	1,201.5	

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STUDIES APPROVED - TECHNICAL ASSISTANCE GRANTS	TOTAL COST	CAF CONTRIBUTION
1. Development Petroleum Industry - Ecuador	180	50.0
2. Electrification Resources - Quito, Ecuador	3	3.0
3. Pharmochemical - Regional	230	230.0
4. Commercialization of Food Products - Regional	49.5	49.5
5. Stregthening of Agroindustry Institutions - Regional	12.0	12.0
6. Regional Air Transport System	65	65
7. Multinational Fish Enterprise - Regional	10	10
8. Multinational Sea Cargo System	45	45
9. Coke Production - Regional	79.7	49.9
10. Standardization Telephone Industry - Regional	2.5	2.5
11. Development Petrochemical Industry - Regional	92.0	92.0
12. Technological Assistance and Coordination	132.0	32.0
13. Andean Fund - Regional	18.5	15.5
14. Multinational Reinsurance Agency - Regional	27.5	27.5
15. Studies by Ministry of Agriculture - Bolivia	3.7	3.7
16. Artesan Industries - Regional	<u>8.0</u>	<u>8.0</u>
TOTALS	898.4	738.4

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<u>STUDIES BEING DEVELOPED</u>	<u>TOTAL</u>	<u>CAF</u>
Powdered Metal - Regional	60	40
Basic Chemicals - Regional	300	200
Industrial Expansion Modernization	30	30
Sectoral Program Projects	<u>22000</u>	<u>1,770</u>
TOTALS	2,390	1,770

EXAMPLES OF CAF PROJECTS UNDER DEVELOPMENT WHICH WOULD
QUALIFY FOR FINANCING WITH A.I.D. FUNDS

1. Construction Steel Plan {IBHASA} - Bolivia
{Total: \$1,000; CAF \$.470}

Enable an existing steel plant to expand its facilities in order to produce steel construction rods which are now being imported into the region. The market for such items within the Andean area is substantial; furthermore, many of the required raw materials would come from CAF member countries.

2. Wood Export Industry - Bolivia
{Total: \$10.0; CAF \$2.0}

The CAF has under active and advanced consideration a series of projects which involve the exportation of fine woods within the Andean region and to Argentina. Foreign investors, including Boise Cascade, have indicated their interest in participating in these ventures.

3. Edible Oils - Ecuador
{Total: \$10.0; CAF \$2.0}

Several entrepreneurs in Ecuador have presented the CAF with a proposal to construct an industrial complex for the integrated processing of various agricultural products, especially African palm, with the object of producing edible oils. The CAF has brought these entrepreneurs together with the private Chilean company COMARSA for the purpose of establishing firm markets in Chile.

4. Projects Deriving From the Petroleum Study - Ecuador
{Total: \$7.0; CAF \$1.5}

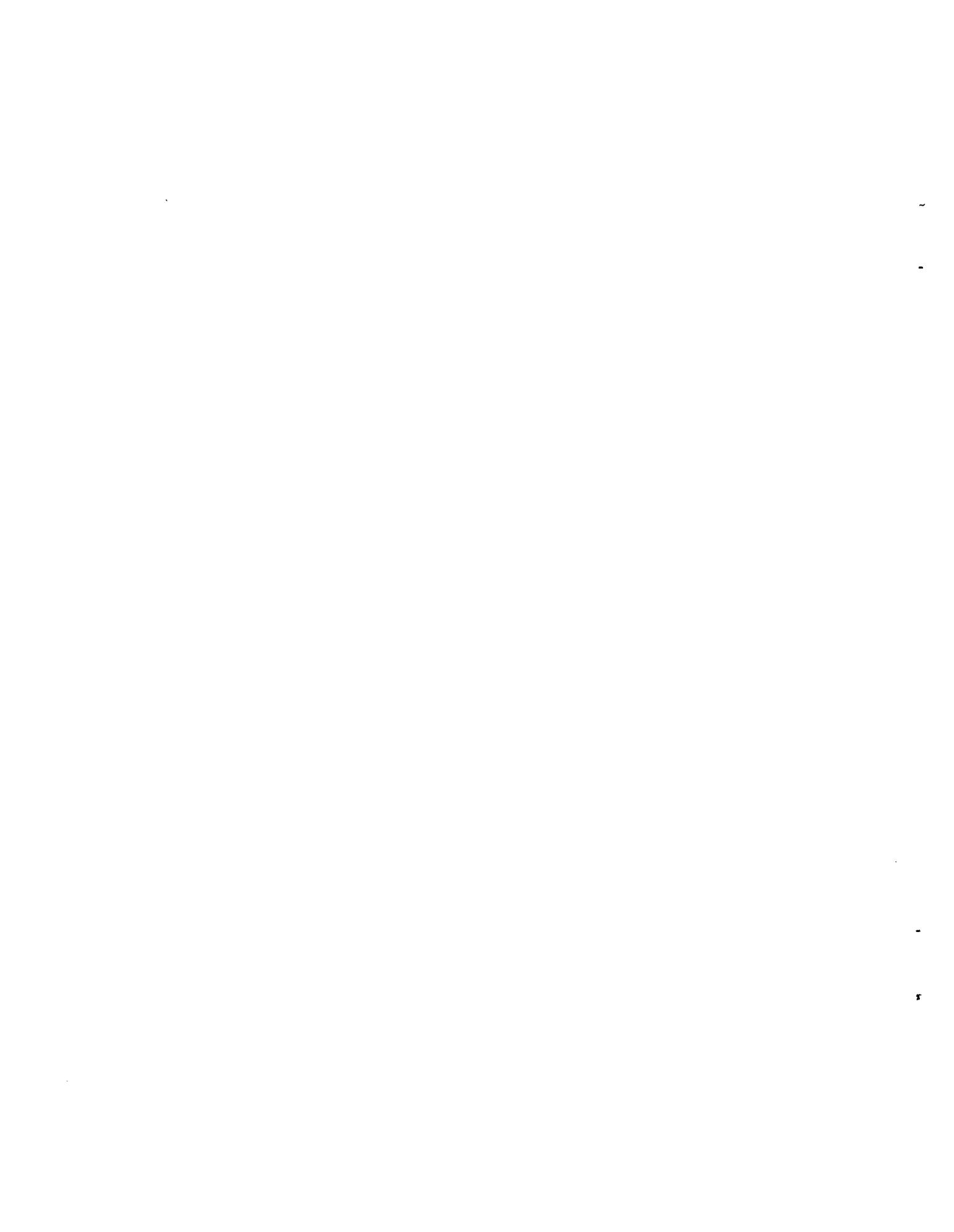
CAF estimates that there will be a private sector demand of at least \$7.0 million for projects in the industrial manufacturing area as a result of the recent petroleum discoveries in Ecuador. It is working with the CV/CFN {National Financial Corporation} to develop these projects and the regional markets their end products will serve.

5. Acrilic Fibers - Peru
{Total: \$7.0; CAF \$1.5}

This project involves the expansion of an existing acrylic fiber plant, so as to increase its capacity from six to 12 thousand tons per year. A regional market demand study has indicated the need for such expansion. Acrylic fibers were assigned to Peru by the sixth complementation agreement of LAFTA.

6. Cement Plant - Ecuador
{Total: \$15.0; CAF \$3.0}

A CAF-financed market study has made a preliminary finding which supports the establishment of a cement plant in the north of Ecuador, near the Colombian border. Private Ecuadorian and Colombian investors will participate in the project; Venezuelan investors have also indicated their interest in joining. The plant will serve Ecuadorian markets and those in the southern regions of Colombia.



CORPORACION ANDINA DE FOMENTO
BOLIVIA - COLOMBIA - CHILE - ECUADOR - PERU - VENEZUELA

ACUERDO DE COOPERACION ENTRE LA
CORPORACION ANDINA DE FOMENTO Y
LAS CORPORACIONES FINANCIERAS PRI
VADAS DE COLOMBIA

La Corporación Andina de Fomento y las corporaciones financieras privadas de Colombia, conscientes de que una cooperación entre ellas contribuiría en forma apreciable al fortalecimiento del proceso de integración de nuestros países, uno de los más efectivos medios en la lucha por el mejoramiento económico, han convenido, de mutuo acuerdo, establecer y desarrollar esta cooperación sobre las bases siguientes:

- A.- Las corporaciones financieras se comprometen a :
- 1) Representar a la CAF en las actuaciones que ésta les encomiende.
 - 2) Informar a la CAF de los proyectos de que tengan conocimiento y que tiendan a impulsar la integración económica de los países del área andina y Venezuela.
 - 3) Suministrar a la CAF la información de que dispongan en relación con los proyectos antes mencionados, en forma compatible con la reserva profesional.
 - 4) Efectuar estudios de pre-factibilidad, factibilidad y otros que la CAF pueda encomendarles y según las condiciones que se acuerden entre la CAF y la entidad respectiva.

- 5) Colaborar con la CAF, dentro de las posibilidades de cada una, en los proyectos que ésta adelanta en Colombia.

B. La Corporación Andina de Fomento se compromete a :

- 1) Cooperar con las corporaciones financieras en los aspectos técnicos y financieros de los proyectos que éstas le sometan y que busquen la integración de los países de la sub-región andina y Venezuela, mediante acuerdo previo en cada caso particular.
- 2) La CAF suministrará a las corporaciones financieras las informaciones de que disponga sobre proyectos que puedan interesar a Colombia, con la misma limitación de reserva profesional, mencionada atrás.
- 3) La CAF colaborará con las corporaciones financieras en la ejecución de estudios de diversa índole que se requieran en relación con proyectos de integración, mediante acuerdo previo en cada caso particular.

Además, la Corporación Andina de Fomento y las corporaciones financieras, a fin de facilitar una mayor preparación y experiencia a sus funcionarios, colaborarán en el establecimiento de programas de intercambio de personal.

ADOLFO LINARES
Presidente Ejecutivo
Corporación Andina de Fomento

IGNACIO COPETE LIZARRALDE
Presidente
Corporación Financiera Colombiana

JOSE GUTIERREZ GOMEZ
Presidente
Corporación Financiera Nacional

BENJAMIN MARTINEZ
Presidente
Corporación Financiera del Valle

EDUARDO ARANGO
Presidente
Corporación Financiera de Caldas

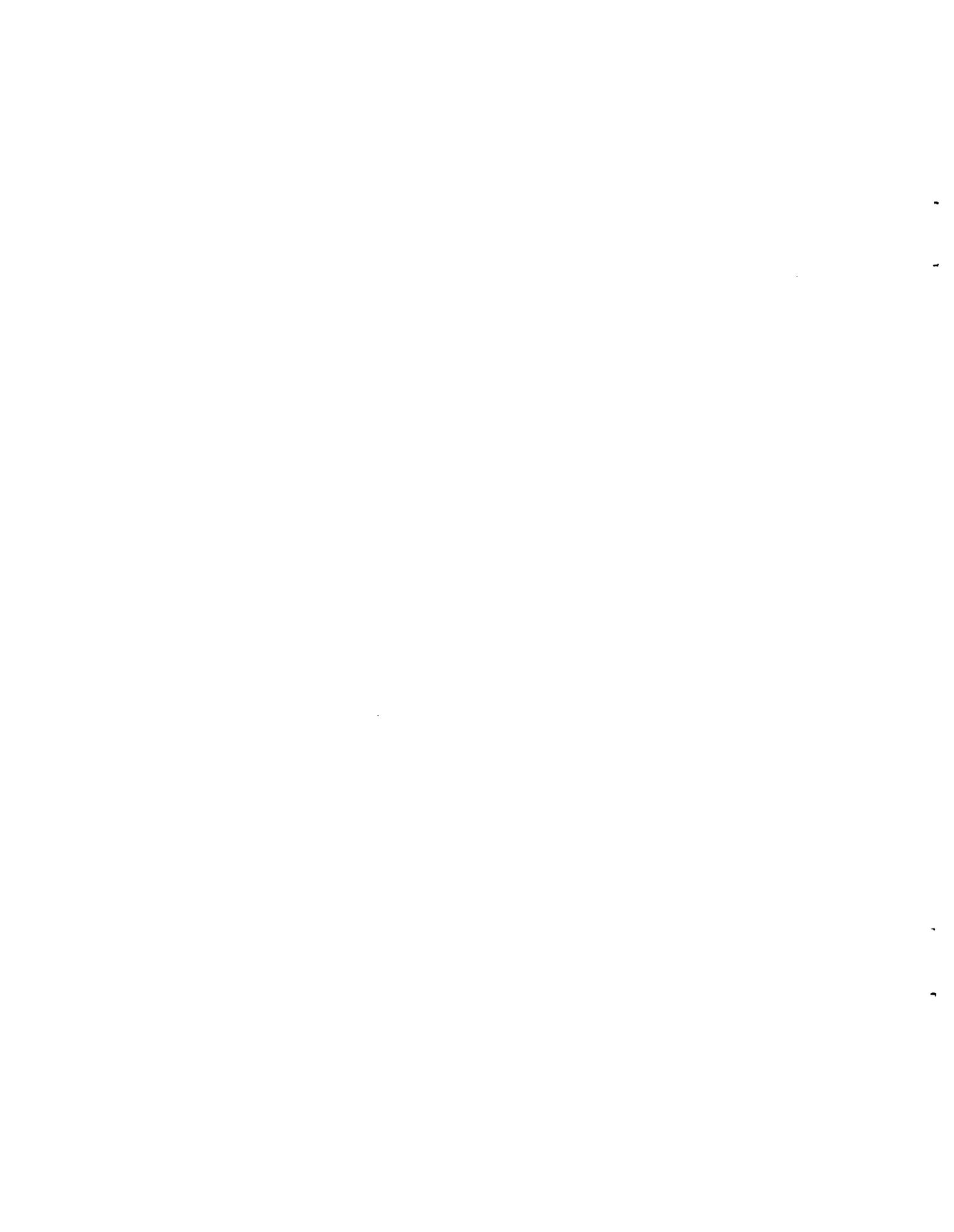
ALVARO JARAMILLO
Presidente
Corporación Financiera del Norte

GERMAN GAVIRIA
Presidente
Corporación Financiera de Occidente

GUSTAVO LIEVANO
Presidente
Corporación Financiera de Santander

ERNESTO ARANGO TAVERA
Presidente
Corporación Financiera del Caribe

SILVIO VILLEGAS NARANJO
Gerente
Grancolombiana Corporación Financiera



June 1, 1972

MEMBER COUNTRY BACKGROUND

The six member countries of the Andean Development Corporation represent a potential economic unit which compares favorably with the individual members of the Latin American big three: Argentina, Brazil, and Mexico. As Table I points out, the CAF members have a combined population of 67.2 million and in 1970 generated a combined GNP of \$32.2 billion.

A. Bolivia

Bolivia is one of the least developed of the Latin American countries. Land-locked, with sections extremely mountainous, it presents formidable geographic barriers which limit transportation and communication facilities and impede economic development. About two-thirds of the population of 4.8 million live in rural areas. Agriculture provides about one-third of the gross domestic product. The country is rich in minerals and the mining sector is the source of the majority of the country's export earnings. Bolivia has access to the sea via the Chilean port of Arica. Railroads financed by Argentina and Brazil facilitate commerce with these two countries.

Mining is the backbone of Bolivia's money economy with tin accounting for about 60% of exports. Antimony, lead, zinc, tungsten, silver, copper and petroleum are other mineral exports. Very little is done in concentrating ores domestically before export; smelting is done almost entirely abroad.

Although the mining sector is of primary importance in terms of the money economy, it employs only about 8% of the population. About two-thirds of the people are engaged in agriculture, mostly on a subsistence level. A large share of this agricultural segment is made up of Indians who have never been absorbed into the money economy.

Manufacturing is largely limited to textiles, foodstuffs, glass, ceramics, cement and leather goods. High transportation costs which restrict access to markets, shortage of power and fuel, and the scarcity of skilled entrepreneurs and technicians have all served to retard the development of industry.

Bolivia's 1970 GNP of \$1.0 billion makes it the poorest member of the Andean group countries. During the period 1964-1970, Bolivia had an average annual rate of growth of

approximately 6 percent. Real GNP growth increased in 1971 by 3.3% compared to 1970's 2.1% increase. This increase was mainly due to the resumption of petroleum exports, made possible when the settlement with Gulf Oil was reached in September 1970. The minerals sector, which is the largest export earner, failed to show any significant gains because of higher production costs, only average world market prices, and the absence of any significant new investment.

The agricultural sector showed modest production increases in 1971, primarily in cotton in the Department of Santa Cruz. The manufacturing sector showed only slight increases, being handicapped by the lowest level of investment in 5 years. Unfavorable GOB policies under Presidents Ovando and Torres and political uncertainty discouraged and demoralized the domestic and foreign private sectors. Even with higher expenditures, the GOB was unable to maintain any sizable public investment program of its own, and depended heavily upon special A.I.D. assistance.

In 1971, the most significant trend was the rapid deterioration of public sector finances. According to the IMF, the GOB budget deficit reached about \$445 million with the unfinanced gap of \$261.7 million being covered by increases in Central Bank borrowing and the floating debt. The large unfinanced gap contributed to an expansion of the money supply, and a 23% increase in net domestic credit relative to the money supply. At the year's end, domestic demand for consumer items began to increase because of the expanded money supply. The cost of living rose by 5.5% in 1971 compared with 3.8% in 1970. Pressures on foreign exchange reserves increased, with an overall \$14.2 million gross drawdown in reserves. Bolivia's actual foreign exchange levels remained at relatively safe levels - \$35 to \$40 million - only because of: {a} a \$8.9 million windfall from the liquidation of excess tin stocks under the third International Tin Agreement and the IMF financing of Bolivia's contribution to the 4th Agreement; and {b} special U.S. emergency assistance in late 1971.

One of the principal requirements of the Bolivian economy which can be addressed by the Andean Development Corporation is the need for a sizeable injection of investment capital to end the relative stagnation in this area of recent years. Recognizing this need, policies of the Bolivian government have served to encourage both new private and public capital inflows. In addition to the favorable investment climate, the recent increase in money supply is responsible for increasing

domestic demand for consumer items, suggesting that sufficient demand pressures are present to support new investment. While some of this demand will no doubt be channeled into imports, the GOB is attempting to maximize increased demand for domestic production in order to minimize pressures on foreign exchange reserves. Two techniques are being utilized to this end. First, the high GOB priority given the Andean Market development includes a mutual lowering of tariffs which will force Bolivian industry to become more efficient and competitive. The actual and potential market for Bolivian industrial products will be greatly increased. More efficient "economies of scale" should result, with a beneficial effect for Bolivian consumers. With increased local efficiency, some Bolivian demand should shift from import to domestic goods. Second, the GOB is expected to institute tighter controls on contraband in general. If successful, some part of domestic demand previously satisfied by contraband imports will shift to domestically produced goods.

The outlook for 1972 is promising if aggregate investment recovers, political stability is maintained, and the GOB's fiscal problem is kept within manageable proportions. Real GDP growth could approach 7 percent. Exports should rise, spurred by the beginning of natural gas exports to Argentina in May. The agricultural sector should continue to register production increases. The manufacturing sector should be able to increase its utilized capacity in response to increased consumer demand, created by the expanding money supply. Further expansion in manufacturing will be dependent upon an improved investment climate, availability of financing, and continued strong consumer demand. If the fiscal deficit can be kept within manageable limits, and substantial external assistance continues, the IMF-predicted balance of payment deficit can be held to a reasonable level.

B. Chile

During the early years of the 60's Chile's economy grew at an average annual rate of about 2.5% per capita. The most significant components of Chile's GDP are wholesale and retail trade and manufacturing; the contribution of the agricultural sector is relatively small. In terms of employment, however, the agricultural sector is most important with the industry and service sectors not far behind. While mining provides employment for relatively few people, minerals account for all but a small percentage of the country's export earnings.

Chile is rich in mineral deposits and ranks third in free world production of copper. Iron ore supports a steel industry and is a major export; the country produces the major proportion of its petroleum requirements.

Following four years of sluggish growth {1967-70}, Chile's economy showed a sharp upturn in 1971 with GDP estimated to have increased by 8.5% in real terms. Chilean authorities succeeded in reactivating the economy by putting into operation the sizable unutilized capacity existing in certain key sectors.

The largest advances were registered in sectors where the rate of utilization of installed capacity was lowest at the end of 1970. Construction activity rose by almost 12-1/2 percent as a result of a substantial increase in government outlays for housing. Manufacturing output also increased by over 12 percent, in line with a sharp rise in private consumption spending. By contrast, mining production rose by less than 6 percent as the large copper companies' output fell substantially short of the targets contemplated in the original expansion program, and agricultural output remained practically at the same level as the previous year. The recovery in overall production activity was accompanied by a reduction in the rate of unemployment which, in the Santiago Metropolitan Area, dropped from 8.3 percent in December 1970 to 3.8 percent in December 1971, one of the lowest ratios recorded since the time when unemployment statistics started to be compiled at the beginning of the 1960's.

The bulk of Chile's industrial infrastructure was established during the 1930's and 1940's to produce substitutes for consumer goods imports which were in short supply during the world-wide depression and World War II. Much of the subsequent growth has continued to be for import substitutes under the cover of import prohibitions and high tariffs. Reflecting these conditions, Chilean industry is heavily concentrated in consumer goods and in intermediate products of relatively easy manufacture. There are a large number of small industries which are unable to take advantage of the economies of large-scale production. In 1967, 96% of the manufacturing establishments in Chile employed 50 people or less.

The major cause of the sharp rise in consumption recently has been liberal wage policy which, together with strict price controls, resulted in a considerable income redistribution in favor of wage earners. There was also a steep acceleration in the rate of government spending, especially for social services and social infrastructure. Tax payments from the large copper companies decreased substantially, in line with a fall in copper prices and an increase in production costs, not offset by exchange rate changes. The public sector deficit financed by the domestic banking system reached E⁰15.5 billion--one quarter of the public sector's total expenditure--as against E⁰1.8 billion in 1970. With credit expansion to the private sector accelerating slightly, over-all domestic credit rose by 114 percent in relation with the stock of money and quasi-money at the beginning of the year.

In the latter part of the 1960's Chile's balance of payments was generally in surplus, principally because of high copper prices. During 1971, however, Chile's balance of payments suffered a sharp deterioration due to adverse developments in both the current and capital accounts. Total exports declined by 7-1/2 percent as an increase in shipments, especially by the small and medium mines, was more than offset by a marked drop in copper prices. On the other hand, imports rose by 10 percent as a large increase in imports of consumer and intermediate goods brought about by the sharp rise in consumer demand was only partially compensated for by a decline in imports of capital goods. As a result, notwithstanding a marked reduction in net invisible payments--mostly attendant upon the cessation of profits remittances by the large copper companies following their nationalization in July 1971--the current account deficit increased by \$95 million. Meanwhile, the balance on capital account--including net errors and omissions--switched from a surplus of \$206 million in 1970 to a deficit of \$170 million in 1971. The major factors of this deterioration on capital account were a large net disinvestment by the large copper companies, reflecting a slowdown in investment activity and an increase in tax liabilities to the Government, a smaller utilization of medium and long-term loans by the public and private sectors, a marked increase in amortization payments due by both sectors, and some acceleration of capital flight.

Given the poor private investment climate in Chile at the present time, it will probably not be a major participator under the proposed loan. Even under the Special Programs of Industrial Development, it is likely that those products assigned to Chile will have at least some public sector participation thus excluding them from financing with A.I.D. resources.

C. Colombia

Colombia's economy is based primarily on agriculture, but has progressed to the stage of considerable local manufacturing for domestic consumption. The country is almost self-sufficient in foodstuffs; wheat is the major food import. In contrast, industrial metals must be imported; specialized manufactures, especially of machinery and equipment, are likewise imported. Colombia's coffee makes up over 70 percent of its total exports; it is a mild type, differing from Brazilian coffee and largely not in competition with it.

Oil is Colombia's second most important product and the country ranks fourth among the Latin American countries producing crude petroleum. It is a major export and the base for a substantial petroleum products industry. While other industrial activities are centered around consumer goods, the production of industrial raw materials is also important.

The government's tax structure is more modern than that of most other Latin American countries; greater reliance is placed on income and profit taxes and less on customs duties. The central bank and banking system is well developed. However, transportation facilities are inadequate. Power production has increased substantially; but is still well below requirements; per capita output is roughly half that of Argentina or of Chile and about equal to that of Brazil.

After three years of steadily improving growth rates, there was a slight slackening of Colombia's economic growth rate during 1971. In 1970 Colombia enjoyed the highest rate of GDP growth in over a decade, an estimated 6.8%. Growth rates had increased steadily since 1967.

In 1971, extremely heavy rains ruined crops and disrupted transport. The expected repetition of high coffee prices did not materialize. Domestic resources had to be rechannelled to repair flood damage and supply emergency farm credit. Inflationary pressures grew and efforts to contain price rises introduced further distortions in the credit structure. On top of this, business confidence was reduced. Vacillating and unclear policy toward agrarian reform reinforced a very conservative spending policy on the part of many commercial farmers and rural landowners.

Despite these adverse factors, preliminary indications show that Colombian GDP grew about 5 - 5.5% in 1971. Industry and commerce led this growth, while agricultural production tended to pull the average down. Fiscal performance on the receipts side was better than expected, due in major part to courageous measures taken in 1971, but current expenditures were somewhat higher than expected. In real terms, revenues increased by an annual average of 11.1% between 1967 and 1971. Along with lower-than-anticipated disbursements on foreign loans the result was that public investment in 1971 was only somewhat higher in real terms than in 1970.

The GOC took a number of important steps in the fiscal field during 1971. Substantial increases in sales and stamp taxes were imposed by executive action in April and receipts from these sources responded very well. The petroleum exchange rate was moved from an artificial 9 pesos/dollar rate to 20 pesos/dollar resulting in an estimated increase of over 200 million pesos in government revenue. Much of the improvement in revenue collections in 1971 came from improved tax administration, and it is more likely than not that this will continue to be a major source of new revenue in the next two years. Means of increasing tax rates and expanding tax bases by executive action appear nearly exhausted with the important exception of customs duties and possible further modification of the petroleum exchange rate.

Imports in 1971, on an arrivals basis, kept up fairly well because of a high licensing rhythm late in 1970 and for the very first part of 1971. However, when it became clear that coffee prices were not going to hold near their 1970 levels, the authorities reduced licensing levels and were assisted in this by the monetary authorities who restricted money supply increases well below the rates of previous years mainly to counteract inflationary pressures. A secondary effect of course was to reduce effective demand for imports. On the export side coffee receipts as stated declined from 1970 levels, but after a rather slow start minor exports reacted well and produced total earnings for the year of US\$298 million, or 25% above receipts in 1970. On the basis of net minor export registrations--probably a better indicator of performance, the increase of 1971 over 1970 was still a very healthy 15%. Disbursements on foreign public loans were considerably lower than expected, however. Still, with reduced payments for imports appearing later in the year, and a late stiffening of coffee prices, Colombia ended the year with an US\$18 million balance of payments

surplus rather than the deficit which had been predicted earlier. Net foreign reserves stood at US\$170 million at the end of the year, and gross reserves stood at US\$265 million or 26% of annual import payments.

The prospects for 1972 are for an improvement in import capacity especially if coffee prices stay at 50 cents per pound or above. Import arrivals for 1972 will fall off somewhat because of reduced licensing in 1971, but can be expected to return to higher levels in 1973. The GOC minor export program should have even better success as the recently-increased value of the tax credit certificate {CAT} becomes a more important benefit to exporters, as world market demand for traditional Colombian agricultural exports such as cotton and sugar remains strong, and especially if the authorities use exchange rate policy as a lever. Disbursements on A.I.D. loans should increase over 1971 performance and those on other foreign financed projects will also move faster especially if fiscal performance improves sufficiently to provide timely counterpart. The picture becomes less clear for 1973 and onwards, but using prudent estimates on coffee earnings and minor export performance, it becomes clear that Colombia will require substantial and increasing gross disbursements on foreign loans if the balance of payments is not to operate as a serious constraint on growth. This will become even more important as the debt payments schedule becomes more of a burden on the balance of payments in ensuing years.

The monetary authorities reacted to inflationary pressures by allowing only a very small expansion of the money supply early in the year, with only a slight relaxation in the second half. Even though total expansion of the money supply was only 11.2% during 1971, bank credit did increase by about 15%. In January the Monetary Board in an unusual move passed a resolution limiting bank portfolio expansion to 4.6% during the first quarter of 1972. With a very restrained growth in money supply and a limited credit expansion, the first call on regular bank credit resources has been for commercial and agricultural purposes. In addition, the composition of bank credit has shifted somewhat toward longer term lending. The extra-bank or street market has supplied a large percentage of what has been available for industrial working capital, and to some extent consumer durables financing, all at very high rates of interest.

It is expected that Colombia will be a major sub-borrower under the A.I.D. loan to CAF given the apparent GOC intention to control bank credit and inflationary pressures at a time when private sector confidence is clearly increasing.

D. Ecuador

Ecuador has a population of 6.3 million. Its GNP in 1971 was \$1.6 billion. GNP grew at the rate of 6.0% for the period 1965-1971, up from the 1965 average of 4.7%.

Ecuador's economy has been primarily agricultural; over half of the population is engaged in raising crops or livestock. Bananas, sugar, coffee and cocoa are the three leading exports and together account for over 80 percent of total exports. Ecuador is the world's leading exporter of bananas. While agricultural diversification is greatly needed, progress along these lines has been slow. Lumber is important in the coastal region and the Sierra; some balsa wood is exported. Ecuador's fishing industry is comparatively new and domestic processing facilities are limited; fresh fish are consumed largely in the coastal area.

Ecuador's agricultural resources are considerable and varied. The coastal plains are suitable for cultivation of tropical crops such as bananas, coffee, cocoa, rice, sugar and cotton. The Sierra plateau produces temperate zone crops such as grains, fruits and vegetables. Large tracts suitable for farming are not currently utilized; about one-twentieth of the total land area is cultivated; an equal amount is in pasture. Almost three-fourths of the area is in forests, over half of which are government-owned. Fishing areas near the Galapagos Islands are among the richest in the world, particularly for tuna. Mineral production is not important and the full extent of resources is unknown. Gold and silver are mined in small quantities. There is a considerable hydroelectric power potential although little has been developed to date.

Ecuador is clearly at a crossroads in its development path. The inflow of resources from the exploitation and export of its recently discovered petroleum resources offers an opportunity for the country to break out of the trap of low savings and low investment which has limited its economic growth. Ecuador's potential as a petroleum producer is rapidly becoming a reality. A pipeline from the eastern oilfields across the Andes to the Pacific will be completed in early 1972.

The present economic situation is characterized by a high level of general business activity and the immediate threat of severe foreign exchange difficulties. The high

level of business activity is a result of both substantial investment in petroleum development and significantly increased Government spending in anticipation of oil revenues.

Increased government spending has resulted in deficit financing through the Central Bank and a heavy increase in import demand. Ecuador's net foreign exchange reserves declined from \$58.7 million on January 1, 1971 to \$24.8 million on December 31, 1971, hitting a low of \$20 million {less than three weeks worth of imports} in mid-December. In the midst of a near-crisis atmosphere, the GOE reestablished the free foreign exchange market, raised prior import requirements, and levied a 50 percent marginal reserve requirement on demand deposits. These actions took the immediate pressure off foreign exchange reserves which recovered to \$24.8 million at year's end. Although Ecuador had a record export year in 1971, a 23 percent increase in imports led to the foreign exchange crisis. The temporary end-of-year recovery has since dissipated as import levels have continued to rise, with reserves falling to \$21 million on March 31, 1972.

In recognizing that the remedies it took were temporary in nature, the Government has been actively seeking a substantial foreign, private loan to bridge the period between the presently impending severe foreign exchange stringency and initial receipt, only a few months off, of petroleum revenues. If the Government is successful in obtaining one or more foreign loans in the near future--and the probabilities are good that it will--there will probably be no need to make further drastic changes in the foreign trade/exchange sector.

The development of the oil industry continues to be of paramount interest. The Texaco-Gulf investment of \$250-\$300 million is nearly completed and production will commence in the second quarter of 1972. It is anticipated that production will shortly reach 250,000 barrels per day and that oil exports in 1972 will be approximately \$100 million {total Ecuadorean exports in 1971, according to license figures, were approximately \$220 million}. Revenues accruing to the Government in 1972 from oil exports could reach \$30-\$40 million.

Apart from T/G's investment, other oil companies are increasing their investments and extensive drilling operations are scheduled for 1972. This drilling should serve to better define the magnitude of oil reserves in the eastern jungles of Ecuador.

Early 1971 signaled an upsurge of economic nationalism, occasioned by the Andean Foreign Investment Code. By mid-1971, however, this tide had been turned and cooler, more objective appraisals were being made of the utility of foreign investment. Although the Code was ratified by Ecuador, events surrounding the ratification made it evident that there was a lack of enthusiasm for many of its provisions. The Government has made extensive use of the Code's built-in flexibility, but has not yet published the necessary implementing regulations. Thus, new foreign investment in Ecuador {excluding the oil industry} has been extremely limited, pending issuance of such regulations.

The problem of presidential succession is the overriding political question of 1972 and can be expected to have a temporary unsettling effect on business conditions. However, radical economic nationalism has probably made less headway to date in Ecuador than in a number of other Latin American countries, and this is reflected in the free enterprise base of her economic system and the relative absence of direct government intervention in economic affairs. All eyes are fixed on the promise of petroleum as a redemption for the mass of Ecuadoreans from their impoverished status. All political contenders publicly recognize the obligation to work toward this goal.

Whatever Government holds power in the latter part of 1972, it seems less than likely it would resort immediately to drastic shifts in the present free-enterprise orientation of the economy or rules of the game. Therefore, Ecuador is expected to be a major participator under the proposed A.I.D. loan to CAF. Like Bolivia, it enjoys certain privileges as a lesser developed member. Furthermore, it is likely to profit greatly from the current wave of exuberance over petroleum.

E. Peru

Peru is rich in mineral resources, exporting large amounts of copper, iron ore, petroleum, silver, lead and zinc. Its rich fish resources have enabled the country to become the world's largest exporter of fishmeal. Agricultural resources are limited and generally underdeveloped. While new lands are available for agricultural use, transportation and other factors

present formidable barriers to their use. With the large growth in per capita GNP and the trend to urbanization, there has arisen a substantial increase in the demand for food. Because food production has failed to expand significantly to meet these needs, the country must import large quantities.

Peru's coastal region with about 11% of the country's total area, contains more than 40% of the population and most of the country's economic infrastructure. Most of the agricultural exports are grown in this region.

Following two years of financial stabilization and economic retrenchment, the Peruvian economy experienced substantial recovery in 1970 with GDP growing at 7.5 percent in real terms. Exceptionally high prices for two major commodity exports {copper and fishmeal} were responsible for a record level of export earnings. Agriculture recovered from the severe drought of previous years, and public investment increased substantially. This public investment revival was made possible by increased income tax collections due to higher copper profits, and as a result of a change in the tax collection system for legal persons. Increased public investment and some repatriation of deposits held abroad served to stimulate considerably internal demand.

For 1971, GNP growth rate is estimated at 5.0 percent. Although more modest than the growth achieved in 1970, this rate represents considerable progress in comparison with the one to two percent growth rates in 1968-1969. Satisfactory growth in agriculture in the face of adverse weather conditions in the first part of the year, and a high level of activity in the manufacturing sector resulting from a continuing strong internal demand, served to offset a reduction in fishing activity, repeated strikes in the mining sector and the decline in prices of major export products.

Agricultural output {including livestock} grew some 2.5 percent in 1971. However, as a result of diseases and unfavorable climatic conditions, a number of important products remained stagnant at the 1970 level, while some others declined.

Mining production was seriously affected during the first part of the year by repeated strikes. The number of working hours lost because of strikes is estimated to have been 60 percent higher in the first seven months of 1971 than in the corresponding period of the previous year. Petroleum production

has been declining as a result of a reduction in the yields of existing wells. The Government is conscious of the negative effects of continuing labor unrest and is presently reviewing its labor policy. Two Decrees have already been issued by the Government in November/December 1971, by which negotiated wage increases in all sectors, including mining, would remain operative for a minimum period of two years, thus contributing to wage stability.

Production in the manufacturing industry expanded by 9.5 percent in 1971. Almost all branches of manufacturing have benefited from the strong internal demand persisting since the last quarter of 1970.

Gross domestic investment in 1971 increased in real terms by 17 percent over 1970. Vigorous growth in manufacturing production since the fall of 1970 appears to have induced some revival in investment activity, in addition to a more intensive use of existing equipment. New private investment seems to have been mainly concentrated in textiles, food and beverage industry, and also in construction. In real terms, public investment increased 14% over the 1970 level.

Gross domestic savings declined in 1971, reflecting primarily the deterioration in the export sector. Most of the decline in savings appears to have been concentrated in the public sector.

The net effect of the decline in public sector savings has been a reduction in the current account surplus. This level, together with the savings in the rest of the public sector, was not sufficient to finance the levels of investment that the Government had intended for 1971. On the other hand, the expansionary effects of government financial policy in 1971 have served to mitigate the depressing impact on the economy of unfavorable export developments. The fiscal management was such that the Government deficit was kept within the limits which could be adequately financed.

Balance of payments results during 1971 were dominated by unfavorable export earnings caused by a decline in export volumes and lower commodity prices. Merchandise exports were 12 percent lower than in 1970, largely as a result of a 20 percent drop in copper prices and a general decline in the price of all other minerals and fishmeal. In addition, strikes

in mining have reduced the volume available for exports of various minerals: iron ore exports declined by about 12 percent, and the volume of lead, silver and zinc exports also experienced reductions. The volume of copper exports {as distinct from production} remained near the 1970 level since the possibility of a continued price weakness in 1972 has led companies to draw on their copper stocks. This has not been the case with other nonferrous minerals for which price expectations have been more encouraging.

It is believed that the Peruvian private sector will try to make active use of CAF funds. There are signs that private sector confidence is growing and the demand for credit should exceed the level of resources available in the country.

F. Venezuela

Venezuela's natural resources are varied and abundant. Its petroleum resources are the most widely known and developed, but uncompleted explorations indicate that mineral, fuel and electric power resources are also plentiful. Iron ore has already become Venezuela's second ranking export. Venezuelan coastline and inland waterways provide ready access to productive fishing grounds. The hydro-electric power potential is large. Per capita gross national product {ca. \$1,000} is the highest in Latin America, largely due to income from the country's extensive petroleum resources.

The contribution of agriculture to the national product is relatively low. In the past this has been partly due to the major emphasis placed on industrial development; however, the country's development plans now place a stress on the attainment of agricultural self-sufficiency. The demand for food is strong, a result of generally high incomes and rapid urban growth. Large food imports are necessary.

The manufacturing sector provides roughly 15% of the national product. A wide variety of light industrial and consumer goods is produced, including paper, paperboard, iron, aluminum and steel products, chemicals, paints, rubber products, and plastics. With many opportunities for import substitution, industrial production experienced a high rate of growth between 1958 and 1965.

Venezuela is by far the largest exporting country in Latin America, its exports totaling more than one-fourth of the total for the 19 Republics; petroleum and petroleum products comprise 93% of Venezuela's exports. Imports are less than half the exports, so that Venezuela runs a consistently large trade surplus.

The growth of real GDP averaged 4.5% from 1964-1969; population rose at an average rate of 3.6% during the same period. The economic development of Venezuela has been based largely upon the production and exportation of petroleum. Venezuela ranks third in petroleum production (after the US and USSR) and is the world's third largest exporter of petroleum after Saudi Arabia and Kuwait. In 1969 the petroleum sector accounted for 67% of fiscal revenue, 93% of export proceeds, and about 23% of GDP.

During 1971 the Venezuelan economy continued a moderately expansive trend and recorded a real growth of about 5% in GDP. The increase is roughly of the same magnitude as the 4.6% growth reported in 1970. Although the physical volume of petroleum production fell by about 4% compared with 1970, its value increased owing to increases in tax rates on the oil industry legislated in December, 1970, and to oil price rises abroad. Government expenditures are still the most important single factor for growth in Venezuela because of petroleum's preponderant role in the economy. Oil revenues provide about two-thirds of total non-borrowed revenues of the central government.

Growth of output in non-oil sectors was generally higher than in the extractive ones. Industrial production, excluding petroleum refining, showed a growth of 7%, and construction reversed the decline suffered in 1969 and 1970. The services sector recorded vigorous growth rates. In the Caracas metropolitan area, retail sales increased by a remarkable 18% over those in 1970. Emerging from the decline suffered in 1970, construction permits rose in value by 14%.

However, despite the upward trend in terms of trade, growing liquidity in the hands of the public, and the stimulus this gave to demand for goods and services, domestic production responded only partially. Consequently, an appreciable portion of the demand sought satisfaction in imported goods.

During the last two years, liquidity in the hands of the public--cash checking accounts, and time and savings accounts--have risen at an unprecedented rate. A major factor has been the increased flow of public expenditures into the money stream as a result of the sharp increase in Government revenues from the extractive industries. A further factor has been a certain reluctance on the part of some investors to make significant new investments in view of uncertainties over oil policy and other public issues.

These and other factors produced an increase of 20% in total liquidity during the year just ended, compared with slightly over 9% in 1970.

A more rapid acceleration of the rate of inflation might have been expected from this powerful surge in the money supply. Instead, and as mentioned above, some of the increase in demand went into imported goods. As a result, retail prices in the Caracas metropolitan area rose by a modest 2.6% during 1972, compared with just over 2% the year before. Wholesale prices rose relatively faster, by 3.6%, reflecting mainly increases in the prices of goods imported from industrialized countries with more rapid rates of inflation. Notwithstanding the large increases in Government expenditure expected to occur this year and next, a continued acceleration in the rise of the price level is unlikely. The Central Bank is now selling special bond issues for the specific purpose of soaking up excess liquidity and thus stemming inflationary pressures.

Owing to the increases in oil revenues already referred to--as well as to some speculative inflows--total gold and foreign exchange reserves of the Central Bank rose by over \$400 million to \$1.5 billion at the end of 1971, the highest level in Venezuela's history.

The current expansive trend will probably continue during the next six months, with overall output rising at around five percent at an annual rate. An increase in the rate of inflation is to be expected as the Bs. 13.4 billion {U.S. \$3 billion} in programmed Government expenditures are sliced into the money stream. Although petroleum production is below last year's level and likely to remain so temporarily, the Government has instituted measures which it hopes will prevent oil revenues from declining. Those revenues could decline, despite measures taken, should the fall in production and exports not be halted soon. If events take this course, there could be an adverse effect on the non-oil sectors of the economy later in the year.

While it is expected that Venezuela will participate under the proposed A.I.D. loan for larger projects, it is believed that the banking system can probably handle most demand for moderate sized investments.

REGIONAL ECONOMIC TIES

A. Trade

Trade between the six member countries of the CAF is still a negligible portion of their total trade. As Table III shows, intra-regional imports in 1970 totalled less than 5 percent of total imports into the region.

B. Transportation

The six countries of the Andean area lack sufficient cheap, dependable, and fast regional transportation that would facilitate rapid expansion of subregional trade in pursuit of economic integration goals. Some interconnections exist, but shipping remains the dominant method. Road, air, and pipeline links have been strengthened considerably and promise to be areas of public concentration over the next 5-10 years. Bureaucratic and mechanical problems beset the railroads.

There are three fundamental axes of subregional transportation:

- {i} Maritime transport along the Caribbean and Pacific coasts;
- {ii} Air services and routes between the principal centers of the subregion which, as in the case of maritime transport formed part of longer and more complex routes {regional, Latin American and inter-continental};
- {iii} The Panamerican highway which at present is the only international land connection between the countries of the Andean Group with the exception of rail lines linking Bolivia with Chile and Peru.

Between these three axes, maritime transport stands out. The most important Andean trade links are between Colombia and Peru, Chile and Peru, and Chile and Ecuador and 85 percent of this trade is carried in ships. The air infrastructure of the region is composed of 24 international airports and over 280 local ones.

In the case of highways, with the exception of a stretch between Santiago and Lima which is totally paved, the infrastructure is still precarious and traffic between Colombia, Peru and Ecuador is minimal throughout a good part of the year. In addition to the poor quality of the roads, the legal structure also inhibits the use of highways for intra-regional trade and often cargo must be offloaded at the border.

Impressive beginnings have been made on bridges linking Andean countries. In 1960-61 Colombia and Venezuela agreed to build two bridges across the Táchira River; one of these, the Simon Bolivar Bridge, was completed in 1965. By an agreement of 1965 another bridge is to be constructed across the Arauca River. The Ruichaca International Bridge between Colombia and Ecuador forms part of the Pan American Highway, as does the Macará Bridge between Ecuador and Peru. Another span between the last-named countries, the Huaquillas-Aguas Verdes, joins a branch of the Pan-American Highway.

C. Telecommunications

All six Andean countries participate in the Inter-American Telecommunications Commission (CITEL), whose activities offer dramatic breakthroughs of barriers to the flow of ideas between the countries of the Andean Subregion and elsewhere. In the particularly promising area of satellite communication, earth stations are at the various stages of planning or completion in four of the six Andean countries--Chile, Colombia, Peru and Venezuela.

D. Monetary Linkages

Articles 89 and 90 of the Regional Integration Agreement specifically address the question of financial matters between member countries. Coordination of national policies on financial matters and payments is called for to the extent required to facilitate the attainment of the objectives of the agreement. To achieve this coordination, specific proposals are to be developed treating the following topics:

- {i} Channeling of the flow of public and private savings of the subregion to the financing of investments intended for the development of industry, agriculture and infrastructure, within the context of the expanded market;
- {ii} Financing of trade between the Member Countries and with those outside the Subregion;
- {iii} Measures that will facilitate the circulation of capital within the Subregion, particularly such capital as is intended for trade, in terms of the expanded market;
- {iv} Strengthening of the system of multilateral compensation of bilateral balances in effect among the LAFTA Central Banks in terms of the needs of subregional trade and the possible establishment of a Subregional Clearing House for payments and of a system of reciprocal credit;
- {v} Guidelines designed to solve any problems to which double taxation may give rise; and
- {vi} Creation of a common reserve fund.

As noted in point {iv} above, the CAF countries are members of the LAFTA clearing and credit agreements. The basic clearing arrangement provides for the negotiation of bilateral {and reciprocal} credit agreements between central banks and for the multilateral clearing of balances which arise from each individual bilateral credit agreement clearing. By reducing the magnitude and frequency of cash transactions between countries, the clearing facility has helped economize on their convertible foreign exchange and has made payments easier and less costly.

Supplementing the clearing agreement, LAFTA countries signed a credit agreement providing support to alleviate temporary liquidity problems. This agreement in effect extends existing arrangements to provide credits to net debtors from net creditors under certain conditions for longer periods.

Structure of GNP by Economic Sector - 1960 and 1969

<u>CAF Members</u>	<u>Agriculture</u>	<u>Mining</u>	<u>Manufacturing</u>	<u>Construction</u>	<u>Transportation, Communication, and Utilities</u>	<u>Trade and Finance</u>	<u>Other</u>
Bolivia 1960	28.9	10.2	13.4	3.8	9.3	12.5	21.9
1969	18.9	12.4	14.9	4.1	9.6	12.6	27.5
Colombia 1960	34.1	3.9	17.3	3.6	7.5	15.7	17.9
1969	27.5	2.3	18.3	4.9	8.0	19.8	19.2
Chile 1960	11.1	9.1	23.3	4.2	6.2	23.8	22.3
1969	7.2	12.1	28.5	4.0	6.5	22.3	18.5
Ecuador 1960	36.8	2.4	15.6	3.9	5.4	14.2	21.7
1969	31.2	2.2	16.6	4.5	5.3	13.8	26.4
Peru 1960	25.4	6.4	17.2	4.1	4.9	15.0	27.0
1969	19.6	5.9	17.4	5.0	6.4	15.9	29.3
Venezuela 1960	7.3	28.7	12.3	6.1	5.1	14.7	25.8
1969	6.8	21.6	13.2	4.4	5.9	14.5	33.6

Source: AID Data Book

May 5, 1972

INTRA-REGIONAL IMPORTS - 1970

Member Countries	Imports From						Total Imports From Region	Total Imports	Regional Imports as Percent of Total
	Bolivia	Chile	Colombia	Ecuador	Peru	Venezuela			
Bolivia	-	0.9	1.1	0.8	2.2	0.0	5.0	150.0	3.3
Chile	1.5	-	11.0	14.9	7.3	43.0	77.7	1,005.1	7.7
Colombia	0.0	5.5	-	10.1	10.4	14.9	40.9	909.3	4.5
Ecuador	0.0	3.0	22.1	-	2.9	10.0	38.0	299.7	12.7
Peru	0.7	11.2	26.7	2.4	-	4.8	45.8	618.9	7.4
Venezuela	0.0	3.9	6.6	0.0	5.4	-	15.9	1,618.9	1.0
Total	<u>2.2</u>	<u>24.5</u>	<u>67.5</u>	<u>28.2</u>	<u>28.2</u>	<u>72.7</u>	<u>223.3</u>	<u>4,601.9</u>	<u>4.9</u>

Source: IMF "Direction of Trade".

Note: Totals at bottom of columns give approximation of that country's exports to the rest.

May 5, 1972

TABLE III

Basic Data

	<u>Argentina</u>	<u>Brazil</u>	<u>Mexico</u>	<u>CAF Members</u>
Population	24.4	77.8	51.7	67.2
GNP	23.8	34.6	33.2	32.2

Population - 1971 - millions

GNP - 1970 - billions

Source: AID Data Book

May 5, 1972

Venezuela

STATISTICAL SUMMARY

Population: 10.8 millions in 1971

(Calendar years)

	1968	1969	1970	1971
Exchange rate: Petroleum Exports	4.40	4.40	4.40	4.30
Other Export Rate	7.78	7.78	7.78	7.38
Gold & Foreign Exchange Selling Rate	4.50	4.50	4.50	4.40
Official Reserves	922	933	1,021	1,522
of which official gold	403	403	384	425
of which dollar holdings	256	278	274	574
of which SDR's	--	--	47	90
IMF Position				NONE
Present Standby				2/29/72
Fund holdings as % of quota				66-2/29/72
Balance of Payments				
Exports (fob)	2,538	2,523	2,656	
Imports (fob)	1,583	1,624	1,780	
Trade with US				
Exports (fob)	933	971		
Imports (fob)	786	775		
Debt Service				
as a percentage of exports of goods and services	1.8	1.8		
US Economic AID services (total)	69.7	4.4	18.7	
Grants	4.8	3.1	2.7	
AID loans	--	--	--	
Ex-Im loans	65.0	1.3	16.0	
PL-480	--	--	--	
Other US economic programs	-0.1	--	--	
GNP				
Growth rate	5.1%	3.8%	5.0%	
per capita GNP 1969 dollars	959	961	973	
Budget - FY ending 12/31				
Revenues	8,775	8,661	9,499	12,090a
Expenditures	10,206	11,350	11,380	12,581a
Balance	-1,431	-2,689	-1,881	-491a
Prices and Production				
Cost of living (1963 = 100)	107.1	109.7	112.0	116.1-Nov.
production index (1963 = 100)	111	111	114	102-Nov.

a = Revised budget estimates.

Peru

STATISTICAL SUMMARY

Population: 14.0 millions in 1971

(Calendar years)

	1968	1969	1970	1971
Exchange rate : Principal	38.70	38.70	38.70	38.70
Other	44.19	43.47	42.39	43.49
Gold & Foreign Exchange	(Millions of U.S.\$)			
Official Reserves	111.2	167.0	329.4	240.2
of which official gold	19.8	24.8	39.7	43.0
of which dollar holdings	34.0	74.3	131.7	66.7
of which SDR's	--	--	14.3	30.9
IMF Position				NONE
Present Standby				2/29/72
Fund holdings as % of quota				103-2/29/72
Balance of Payments				
Exports (fob)	865	863	1,044	
Imports (cif)	614	604	603	
Trade with US				
Exports (fob)	340	299	345	
Imports (cif)	237	186	199	
Debt Service				
as a percentage of exports	22.0	13.8		
of goods and services				
US Economic AID (total)	16.9	28.0	14.1	
Grants	13.4	12.7	17.2	
AID loans	-1.1	--*	-2.9	
Ex-Im loans	4.7	15.3	--	
PL-480	--	--	--	
Other US economic programs	--	--*	-0.1	
GNP				
Growth rate, 1969 dollars	0.7%	1.4%	5.0%	
per capita GNP, 1969 dollars	396	389	396	
Budget - FY ending 12/31		(Millions of Soles)		
Revenues	30,206	33,882	37,480 ^E	
Expenditures	33,625	34,732	40,650 ^E	
Balance	-3,419	-850	-3,170 ^E	
Prices and Production				
Cost of living (1963 = 100)	185.7	196.0	206.3	228.8

* Less than \$50,000

E - Estimate

STATISTICAL SUMMARY

Population: 6.3 millions in 1971

(Calendar years)

	1968	1969	1970	1971
Exchange rate: Official Selling Rate	18.18	18.18	25.25	25.25
Free Rate	22.39	21.08	--	--
Gold & Foreign Exchange	(Millions of U.S.\$)			
Official Reserves	57.3	65.0	83.2	64.7
of which official gold	26.2	22.1	19.0	20.2
of which dollar holdings	16.0	27.1	41.3	19.5
of which-SDR's	--	--	0.1	3.6
IMF Position				NONE
Present Standby				2/29/72
Fund holdings as % of quota				117-2/29/72
Balance of Payments				
Exports (fob)	208	183	218	
Imports (cif)	240	262	247	
Trade with US				
Exports (fob)	90			
Imports (fob)	98			
Debt Service				
as a percentage of exports of goods	9%	11.3%	11.0% ^E	
US Economic AID (total)	13.5	12.8	28.7	
Grants	6.3	6.7	6.3	
AID loans	-0.1	3.2	19.4	
Ex-Im loans	7.5	--	3.0	
PL-480	--	3.2	--	
Other US economic programs	--	-0.3	--*	
GNP				
Growth rate	5.1%	5.5%	9.0%	
per capita GNP, 1969 dollars	274	279	294	
Budget - FY ending 12/31	(Millions of Sucres)			
Revenues	5,558 ^a			
Expenditures	5,875 ^a			
Balance	-317 ^a			
Prices and Production				
Cost of living (1963 = 100)	120.4	128.0	134.6	150.3-Nov.

^E - Estimated

* - Less than \$50,000

a - Budget

Population: 21.8 millions in 1971

(Calendar years)	1968	1969	1970	1971
Exchange rate: Principal selling Rate	16.95	17.93	19.17	21.00
Coffee Export Rate	13.50	14.28	15.28	16.74
Gold & Foreign Exchange	(Millions of U.S.\$)			
Official Reserves	173	221	206	203
of which official gold	31	26	17	15
of which dollar holdings	125.4	148.4	131.0	42.4
of which SDR's	--	--	--	9
IMF Position				
Present Standby ^{1/}				38.0-2/29/71
Fund holdings as % of quota				134-2/29/71
Balance of Payments				
Exports (FOB)	558	608	732	
Imports (CIF)	643	686	844	
Trade with US				
Exports (FOB)	234	238		
Imports (CIF)	324	313		
Debt Service				
as a percentage of exports of goods and services	12.8	11.3	11.2	
US Economic AID (total)	104.7	128.1	127.2	
Grants	15.7	12.9	28.5	
AID loans	72.2	96.1	70.3	
Ex-Im loans	5.9	19.8	13.4	
PL-480	10.8	--	15.4	
Other US economic programs	0.1	-0.7	-0.3	
GNP				
Growth rate, 1969 dollars	5.9%	6.5	6.9	
per capita GNP, 1969 dollars	293	302	313	
	(millions of Pesos)			
Budget - FY ending 12/31				
Revenues	9,017	11,438	13,618	
Expenditures	11,845	13,238	16,192	
Balance	-2,828	-1,800	-2,574	
Prices and Production				
Cost of living (1963 = 100)	167.1	184.0	196.6	214.4
production index				

LIMITED OFFICIAL USE

STATISTICAL SUMMARY

Population: 9.5 millions in 1971

(Calendar years)	1968	1969	1970	1971
	(Escudos per U.S. \$)			
Exchange rate : Trade	7.67	9.98	12.23	15.80
Non-Trade	8.71	11.52	14.35	28.03
Gold & Foreign Exchange	(Millions of U.S. \$)			
Official Reserves	208.4	343.5	388.5	277.8*
of which official gold	46.4	47.5	46.9	46.8*
of which dollar holdings	108.0	220.6	74.6	49.4
of which SDR's	--	--	21.8	38.5*
IMF Position				NONE
Present Standby				2/29/72
Fund holdings as % of quota				100-2/29/72
Balance of Payments				
Exports (fob)	937	1,069	1,247	1,150 ^E
Imports (cif)	743	907	931	1,000 ^E
Trade with US				
Exports (fob)	211	186	177	120 ^E
Imports (cif)	285	349	344	260 ^E
Debt Service				
a percentage of exports	20.2	18.4		
US Economic AID (total)	103.2	100.4	79.2	
Grants	12.1	9.1	11.6	
AID loans	51.0	31.9	14.3	
Ex-Im loans	14.2	30.1	3.3	
PL-480	25.9	29.6	--	
Other US economic programs	--	-0.3	--**	
GNP				
Growth rate	2.9%	2.9%	3.0%	
per capita GNP, 1969 dollars	668	674	682	
Budget - FY ending 12/31	(Millions of Escudos)			
Revenues	10,462	15,431	24,282a	
Expenditures	11,759	16,651	25,514a	
Balance	-1,297	-1,220	-1,232a	
Prices and Production				
Cost of living (1963 = 100)	345	451	598	718 ^E
Manufacturing production index (19 = 100)	116.7	121.6	121.3	

* - October

E - Estimated

Less than \$50,000

- Estimated actuals.

Population: 5.1 millions in 1971

(Calendar years)

	1968	1969	1970	1971
Exchange rate	11.88	11.88	11.88	11.88
Gold & Foreign Exchange	(Millions of U.S.\$)			
Official Reserves	39.5	42.0	45.5	53.5
of which official gold	10.9	11.7	12.7	14.5
of which dollar holdings	20.8	21.2	24.6	5.6
of which SDR's			2.7	2.7
IMF Position				None 2/29/72
Present Standby				106-2/29/72
Fund holdings as % of quota				
Balance of Payments				
Exports	153	182	220 ^E	
Imports	152	167	165	
Trade with US				
Exports (fob)	60	n.a.		
Imports (cif)	64	n.a.		
Debt Service				
as a percentage of exports of goods and services	5.5%	5.7%	10.0%	
US Economic AID (total)	14.7	33.2	5.2	
Grants	5.9	5.6	6.7	
AID loans	4.5	5.1	- 1.5	
Ex-Im loans	-	8.3	-	
PL-480	4.3	14.2	-	
Other US economic programs	-	-	-	
GNP				
Growth rate	6.5%	5.1%	4.1%	
per capita GNP, 1969 dollars	193	198	201	
	(millions of Pesos)			
Budget FY ending 12/31				
Revenues	1,536	1,475	1,600	2,004 ^E
Expenditures	2,264	2,146	2,160	2,750 ^E
Balance	- 728	- 671	- 560	- 746
Prices and Production				
Cost of living (1963 = 100)	142.1	145.3	151.0	159.6 Oct.

~~xxxxxxxxxxxx~~~~xxxxxxxxxx~~

estimated

n.a.- not available

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

AID-DLC/P-1029
ANNEX VI
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LS NO. 21080
R-XX
Spanish

Third Special Meeting
of the Committee
December 14-to 31, 1970
Lima, Peru

DECISION NO. 24

Common regime of treatment of
foreign capital and of trademarks,
patents, licenses, and royalties.

IN VIEW OF Articles 26 and 27 of the Cartagena Agreement and Proposal
No. 4 of the Board; and

WHEREAS:

In the Declaration of Bogotá it was recognized that foreign capital
"can make a considerable contribution to the economic development of Latin
America, provided it stimulates the capitalization of the country where it
is established, facilitates extensive participation of domestic capital in
that process, and does not create obstacles to regional integration";

In the same document the governments proposed the adoption of "standards
that will facilitate the use of modern technology, without limiting the
market for products manufactured with foreign technical assistance and the
coordination of foreign investments with general development plans";

In the Declaration of Punta del Este the Presidents of America stated:
"Integration must be fully at the service of Latin America. This requires
the strengthening of Latin American enterprise through vigorous financial
and technical support that will permit it to develop and supply the regional
market efficiently." And they recognized that: "Foreign private enterprise
will be able to fill an important function in assuring achievement of the
objectives of integration within the pertinent policies of each of the countries
of Latin America;"

The Ministers of Foreign Affairs of the member countries of the Cartagena
Agreement, at their first meeting in Lima, confirmed the conviction expressed
in the Consensus of Vina del Mar that "economic growth and social progress
are the responsibilities of their peoples and that attainment of national and
regional objectives depend fundamentally on the effort of each country;" re-
affirmed their determined support of "the sovereign right of every country
to dispose freely of its natural resources;" adopted as a common policy "to
give preference in the economic development of the subregion to authentically
national capital and enterprises of the member countries;" and recognized
that the investment of foreign capital and the transfer of foreign technology
constitute a necessary contribution to the development of member countries and
that they "must receive guaranties of stability in the measure in which they
really constitute a positive contribution";

DECLARES:

1. The programming of subregional development and the expansion of the market will generate new investment requirements in the various sectors of production. Consequently, it is necessary to establish common rules for foreign investment which will be consistent with the new conditions created by the Cartagena Agreement, in order that the advantages deriving from it may benefit national or mixed enterprises as defined herein.
2. The contribution of foreign capital and technology can play an important part in subregional development and help with the national effort to the extent that it constitutes an effective contribution toward attaining the objectives of integration and reaching the goals indicated in the national development plans.
3. The standards of the common regime must clearly set forth the rights and obligations of foreign investors and the guaranties that will protect foreign investments in the subregion. In addition, they must be stable enough to work for the mutual benefit of the investors and the member countries.
4. The treatment given to foreign capital may not discriminate against national investors.
5. One of the fundamental objectives of the common regime must be the strengthening of national companies, in order to enable them to participate actively in the subregional market.
6. In line with this order of ideas, national companies must have the best possible access to the modern technology and new administrative practices of the contemporary world. At the same time, it is necessary to establish efficient mechanisms and procedures for the production and protection of technology in the territory of the subregion and to improve the terms under which foreign technology is acquired.
7. With the purpose of attaining the objectives set forth herein, common standards must contemplate mechanisms and procedures which are sufficiently efficient to make possible a growing participation of national capital in existing or future foreign companies in member countries, in such a way as to lead to the organization of mixed companies in which national capital has the majority interest and in which national interests will have the capacity to participate definitely in the basic decisions of such companies. When the participation of national capital is represented by contributions of the State or of State enterprises, it may be less than the majority interest, provided its decision-making capacity is guaranteed.
8. In compliance with the general spirit of the Cartagena Agreement and with the provisions of Article 92 thereof, the common regime must set standards "that will compensate for the structural deficiencies of Bolivia and Ecuador and ensure the mobilization and assignment of the resources needed for fulfillment of the objectives contemplated in the Agreement in their favor."
9. The common regime should also tend to strengthen the negotiating capacity of the member countries vis-a-vis other countries, companies which supply capital and technology, and the international organizations which are concerned with these matters.

DECIDES:

To approve the following:

COMMON REGIME OF TREATMENT OF FOREIGN CAPITAL AND
OF TRADEMARKS, PATENTS, LICENSES, AND ROYALTIES

CHAPTER I

Article 1. For the effects of this regime, the following definitions are understood:

Direct Foreign Investment: Contributions, coming from abroad and belonging to foreign individuals or companies, made to the capital of a company, in freely convertible currency, industrial plants, machinery or equipment, and having the right to re-exportation of their value and the transfer of profits abroad.

Likewise, investments in local currency from funds which are entitled to be transferred abroad shall be considered to be foreign investments.

Foreign Investor: The owner of a direct foreign investment.

National Investor: The State, national individuals, national non-profit entities, and the national companies defined in this Article. Foreign nationals with consecutive residence in the recipient country of no less than one year, who renounce before the competent national authority the right to re-export the capital and to transfer profits abroad, shall also be considered to be national investors.

National Company: A company organized in the recipient country, more than 80% of whose capital belongs to national investors, provided that in the opinion of the competent national authority, that proportion is reflected in the technical, financial, administrative, and commercial management of the company.

Mixed Company: A company organized in the recipient country and whose capital belongs to national investors in a proportion which may fluctuate between 51% and 80%, provided that in the opinion of the appropriate national authority, that proportion is reflected in the technical, financial, administrative, and commercial management of the company.

Foreign Company: A company whose capital in the hands of national investors amounts to less than 51% or, if that percentage is higher, it is not reflected, in the opinion of the proper national authority, in the technical, financial, administrative, and commercial management of the company.

New Investment: Investment made after January 1, 1971, in either existing or new companies.

Reinvestment: Investment of all or part of undistributed profits resulting from a direct foreign investment, in the same company which produced them.

Recipient Country: The country in which the direct foreign investment is made.

Committee: The Committee on the Cartagena Agreement.

Board: The Board of the Cartagena Agreement.

Member Country: One of the member countries of the Cartagena Agreement.

Article 2. All foreign investors who wish to invest in one of the member countries must submit an application to the competent national authority, which, after evaluating it, will authorize the investment when it responds to the development priorities of the recipient country. The application must follow the model indicated in Annex No. 1 of the regime.

Upon the proposal of the Board, the Committee may approve common criteria for the evaluation of direct foreign investments in the member countries.

Article 3. Member countries will not authorize any direct foreign investment in activities which they consider are adequately covered by existing companies.

Likewise, they will not authorize any direct foreign investment of which the purpose is to acquire shares, participations, or rights owned by national investors.

Direct foreign investments made in a national company to prevent its imminent bankruptcy are excepted from the provisions of the preceding paragraph, provided the following conditions are met:

(a) That the agency in charge of supervising corporations in the respective country, or its equivalent, verifies that bankruptcy is imminent;

(b) That the company proves that it has granted an option to purchase preferably to national or subregional investors; and

(c) That the foreign investor agrees to place on sale the shares, participations, or rights that he may acquire in the company for purchase by national investors within a period not exceeding 10 years, which period will be established in each case according to the characteristics of the business sector. The authorization issued by the competent national agency shall specify the period of time and the conditions under which that obligation will be met, the way in which the value of the shares, participations, or rights will be determined at the time they are sold, and, if pertinent, the systems by which the transfer of the latter to national investors will be ensured.

Article 4. Authorization for foreign investors to participate in national or mixed companies may be given, provided that it signifies increasing the capital of the company and that the participation in question does not change the company's national or mixed nature.

Article 5. All direct foreign investments shall be registered with the competent national agency, together with the agreement specifying the terms of the authorization. The amount of the investment shall be registered in freely convertible currency.

Article 6. The agency which registers the investment, in coordination with the competent government divisions or bureaus in each case, shall be responsible for supervising the fulfillment of the obligations contracted by foreign investors.

In addition to the functions indicated in other provisions of this regime and those established in the regulations, the competent national agency shall:

(a) Supervise fulfillment of the commitments for national participation in the company's technical, administrative, financial, and commercial management, and in its capital;

(b) Authorize in exceptional cases the purchase of shares, participations, or rights of national or mixed companies by foreign investors, in accordance with the provisions of Articles 3 and 4 of the this regime;

(c) Establish an information and price control system of the intermediate products that may be furnished by suppliers of foreign technology or capital;

(d) Authorize the transfer abroad, in freely convertible currency, of all amounts which companies or investors are entitled to transfer in accordance with this regime and with the national laws of the country concerned;

(e) Centralize the statistical, accounting, information, and supervisory records connected with direct foreign investments; and

(f) Authorize licensing contracts for the use of imported technology, trademarks, and patents.

Article 7. Foreign investors shall be entitled to re-export the invested capital when they sell their shares, participations, or rights to national investors or when liquidation of the company occurs.

The sale of shares, participations, or rights, of a foreign investor to another foreign investor must be previously authorized by the competent national agency and will not be considered as re-exportation of capital.

Article 8. Re-exportable capital is understood to be the capital formed by the total of the original direct foreign investment which is registered and actually made, plus the reinvestments made in the same company in accordance with the provisions of this regime and minus the net losses, if there are any such.

In cases in which there is participation of national investors, the foregoing provisions shall be understood to be limited to the percentage of direct foreign investment in connection with the reinvestments made and with the net losses.

Article 9. In the case of liquidation of the company, the difference between the real value of the net assets and the re-exportable capital as defined in the previous article shall be considered as capital gain and may be transferred abroad after payment of the pertinent taxes.

Article 10. Foreign investors shall have the right to transfer abroad the amounts obtained from the sale of their shares, participations, or rights, after payment of the pertinent taxes.

Article 11. Conversion of the amounts that a foreign investor may have the right to transfer abroad shall be made at the rate of exchange prevailing at the time of drawing the draft.

Article 12. Reinvestment of profits earned by foreign companies shall be considered to be new investments and may not be made without previous authorization and registration.

Article 13. Governments of the member countries may permit reinvestment of the profits received by a foreign company without any special authorization, up to an amount not exceeding 5% per year of the company's capital. In these cases, the obligation to register is still in force.

Article 14. Foreign loans contracted by a company require previous authorization by and must be registered with the appropriate agency.

Global foreign debt limits may be authorized for specified periods. Loan contracts concluded within the authorized global limits must be registered with the appropriate agency.

Article 15. Governments of the member countries shall refrain from endorsing or guaranteeing in any form, either directly or through official or semi-official institutions, external credit transactions carried out by foreign companies in which the State does not participate.

Article 16. Remittances abroad made by companies covering amortization or interest because of the use of foreign credits shall be authorized in accordance with terms of the registered contract.

For foreign loan contracts concluded between the parent company and its affiliates or between affiliates of the same foreign company, the real rate of annual interest may not exceed by more than three points the rate of interest of first class securities prevailing in the financial market of the country of origin of the currency in which the transaction is registered. For external loan contracts other than those indicated above, the real rate of annual interest to be paid by the companies will be determined by the competent national agency, and it must be closely related to the prevailing conditions of the financial market of the country in which the transaction has been registered.

For the purposes of this article, real interest is understood to be the total cost that must be paid by the debtor for the use of the credit, including commissions and expenses of all kinds.

Article 17. In regard to domestic credit, foreign companies shall have access, in exceptional cases, to short-term credit only, in accordance with the terms of the regulations which the Committee may issue on this subject upon the proposal of the Board.

Article 18. All contracts on the importation of technology and on patents and trademarks must be examined and submitted for the approval of the competent agency of the member country, which must appraise the effective contribution of the imported technology, by means of an estimate of probable profits, the price of the goods incorporating the technology, or other specific forms of measuring the effects of the imported technology.

Article 19. Contracts on importation of technology must contain, at least, clauses on the following subjects:

- (a) Identification of the terms of the transfer of technology;
- (b) Contractual value of each of the elements concerned in the transfer of technology, expressed in a form similar to that followed in the registration of direct foreign investments; and
- (c) Determination of the time period involved.

Article 20. Member countries will not authorize the conclusion of contracts for the transfer of foreign technology or patents which contain:

- (a) Clauses by virtue of which the furnishing of technology imposes the obligation for the recipient country or company to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies, or of permanently employing personnel indicated by the company which supplies the technology. In exceptional cases, the recipient country may accept clauses of this nature for the acquisition of capital goods, intermediate products or raw materials, provided that their price corresponds to current levels in the international market;
- (b) Clauses pursuant to which the company selling the technology reserves the right to fix the sale or resale prices of the products manufactured on the basis of the technology;
- (c) Clauses that contain restrictions regarding the volume and structure of production;
- (d) Clauses that prohibit the use of competitive technologies;
- (e) Clauses that establish a full or partial purchase option in favor of the supplier of the technology;

(f) Clauses that obligate the purchaser of technology to transfer to the supplier the inventions or improvements that may be obtained through the use of the technology;

(g) Clauses that require payment of royalties to the owners of patents for patents which are not used; and

(h) Other clauses with equivalent effects.

Save in exceptional cases, duly appraised by the competent agency of the recipient country, no clauses will be accepted in which exportation of the products manufactured on the basis of the technology is prohibited or limited in any way.

In no case shall clauses of this nature be accepted in connection with subregional trade or the exportation of similar products to third countries.

Article 21. Intangible technological contributions shall grant the right to payment of royalties, upon authorization by the competent national agency, but they may not be computed as capital contributions.

When these contributions are furnished to a foreign company by its parent company or by another affiliate thereof, no payment of royalties and no deductions will be allowed for this reason for tax purposes.

Article 22. National authorities will undertake a continuous and systematic task of identification of available technologies on the world market for the various industrial fields, in order to have available the most favorable and advisable alternative solutions for the economic conditions of the subregion, and will forward the results of their work to the Board. This action will be carried on in coordination with the action adopted under Chapter V of this regime in connection with the production of national or subregional technology.

Article 23. Before November 30, 1972, the Committee, upon the proposal of the Board, will approve a program directed toward promoting and protecting the production of subregional technology, as well as the adaptation and assimilation of existing technologies.

This program shall contain, among other elements:

(a) Special tax or other benefits to encourage the production of technology and especially that connected with the intensive use of input items of subregional origin or those designed to make efficient use of subregional productive factors;

(b) Development of exports to third countries of products manufactured on the basis of subregional technology; and

(c) Channeling of domestic savings toward the establishment of subregional or national research and development centers.

Article 24. The governments of the member countries shall give preference in their purchases to products that include technology of subregional origin in such form as the Committee may consider advisable. At the proposal of the Board, the Committee may propose to the member countries the establishment of charges on products which use trademarks of foreign origin for which royalties have to be paid, when generally known or easily accessible technology is used in their production.

Article 25. Licensing contracts for the utilization of trademarks of foreign origin in the territory of the member countries may not contain restrictive clauses such as:

- (a) Prohibition or limitation on the exportation or sale in certain countries of the products manufactured under cover of the trademark concerned, or similar products;
- (b) Obligation to use raw materials, intermediate goods, and equipment supplied by the owner of the trademark or his affiliates. In exceptional cases, the recipient country may accept clauses of this nature provided the prices correspond to current levels on the international market;
- (c) Fixing of sale or resale prices of the products manufactured under cover of the trademark;
- (d) Obligation to pay royalties to the owner of the trademark for unused trademarks;
- (e) Obligation permanently to employ personnel supplied or indicated by the owner of the trademark; and
- (f) Other obligations of equivalent effect.

Article 26. At the proposal of the Board, the Committee may indicate production processes, products, or groups of products, with respect to which no patent privileges may be granted in any of the member countries. Likewise, it may decide on the treatment of privileges already granted.

CHAPTER I

Article 27. The advantages deriving from the duty-free program of the Cartagena Agreement shall be enjoyed only by products produced by national or mixed companies of the member countries and by foreign companies which are in the process of being transformed into national or mixed companies, pursuant to the terms of this Chapter.

Article 28. Foreign companies that currently exist in the territory of any member country and that wish to enjoy the advantages deriving from the duty-free program of the Cartagena Agreement for their products must agree with the competent agency of the recipient country, within three years following the date on which the present regime becomes valid, to their gradual and progressive transformation into national or mixed companies, in accordance with the provisions of Article 31.

At the end of the aforesaid three-year period, there must be in all cases a participation of national investors in the capital of the company of no less than 15%.

The time period in which this transformation must be carried out may not exceed 15 years in Colombia, Chile, and Perú, and 20 years in Bolivia and Ecuador, from the date on which this instrument enters into force.

Upon completion of two-thirds of the time period agreed for the transformation, there must be a participation of national investors in the capital of the said companies of no less than 45%.

Foreign companies that currently exist will be understood to be those that are legally organized in the territory of the country on December 31, 1970.

Article 29. The national agencies responsible for issuing certificates of origin of merchandise shall grant such certificates to products produced by currently existing foreign companies which, within the period of three years referred to in the first paragraph of Article 28, formally express to the government of the recipient country their intention to transform into national or mixed companies.

The products of currently existing foreign companies which do not enter into the agreement to transform themselves into national or mixed companies within the aforesaid three-year period may not enjoy the advantages deriving from the duty-free program of the Agreement, and consequently they will not be issued a certificate of origin by the competent authority.

Article 30. Foreign companies that may be established in the territory of any member country after January 1, 1971, shall agree, in representation of their shareholders, to place on sale for purchase by national investors, gradually and progressively, in accordance with the provisions of Article 31, the percentage of their shares, participations or rights necessary for the transformation of such companies into mixed companies, within a period which may not exceed 15 years in Colombia, Chile, and Perú, and 20 years in Bolivia and Ecuador.

In the case of Colombia, Chile and Perú, the agreement must stipulate a participation of national investors in the capital of the company of no less than 15% at the time production begins, no less than 30% upon completion of one-third of the agreed period, and no less than 45% upon completion of two-thirds of that period.

In the case of Bolivia and Ecuador, the progressive participation of national investors in the capital of the company must be no less than 5% three years after production begins, no less than 10% upon completion of one-third and no less than 35% upon completion of two-thirds of the agreed period.

In figuring the percentages referred to in this Article, any participation of subregional investors or of the Andean Development Corporation shall be computed as national investors.

In all cases the period of 20 years with respect to Bolivia and Ecuador shall start to be counted two years after production begins.

Article 31. Agreements on the transformation of foreign companies into mixed companies must stipulate the following items, among others:

(a) The period of time for compliance with the obligation to transform the foreign company into a mixed company;

(b) The gradual scale for the transfer of shares, participations, or rights to national investors, including in that gradual process, at least, the rules on minimum percentages referred to in Articles 28 and 30;

(c) Regulations that will ensure the progressive participation of national investors or their representatives in the technical, financial, commercial, and administrative management of the company, at least as of the date on which the company begins production;

(d) The method of determining the value of the shares, participations, or rights at the time of their sale; and

(e) The systems that will ensure the transfer of shares, participations, or rights to national investors.

Article 32. The products of foreign companies shall enjoy the advantages deriving from the duty-free program of the Cartagena Agreement during the period of time agreed for their transformation into mixed companies, under the conditions agreed to in the pertinent agreement. If the company should fail to fulfill the obligations of the agreement or if at the end of the agreed period the transformation of the foreign company into a mixed company has not been carried out, its products will cease to enjoy the advantages of the duty-free program, and consequently they will not be covered by certificates of origin.

Article 33. With respect to the matters covered by this regime, the rights established herein for foreign and mixed companies are the maximum which may be granted to them by the Member Countries.

Article 34. Foreign companies, of whose production 80% or more goes into exports to the markets of third countries, shall not be obligated to abide by the provisions of this Chapter. In that case, the products of such companies may not enjoy in any way the advantages deriving from the duty-free program of the Cartagena Agreement.

Article 35. The obligation to place on sale certain percentages of the shares, participations, or rights of foreign companies in favor of national investors referred to in Articles 28 and 30 must contain an option of preference in favor of the State or state enterprises of the recipient country.

Article 36. Mixed companies shall be considered to be those in which the State or state enterprises participate, even if the participation is less than 51% of the capital, provided that the State representation has a determining capacity in the decisions of the company. It shall be the duty of the Committee, at the proposal of the Board, to establish the minimum percentage of participation of the State or of the state enterprises referred to in this article, within the three months following the date on which the present regime enters into force.

Article 37. Upon authorization by the competent national agency, foreign investors shall have the right to transfer abroad, in freely convertible currency, the verified net profits resulting from the direct foreign investment, but not in excess of 14% of that investment annually.

In special cases, the Committee may, upon the request of any member country, authorize higher percentages than that provided in this Article.

CHAPTER III

SPECIAL REGULATIONS BY SECTORS

Article 38. Each member country may reserve sectors of economic activity for national public or private companies and determine whether the participation of mixed companies in those sectors shall be admitted.

Without prejudice to the provisions of other articles of this Chapter, the Committee, at the proposal of the Board, may determine the sectors which all the member countries will reserve for national public or private companies, and determine whether participation of mixed companies shall be admitted in them.

Article 39. Foreign companies in the sectors referred to in this Chapter shall not be obligated to abide by the provisions of the previous Chapter regarding the transformation of foreign companies into national or mixed companies. However, they shall be subject to the other provisions of the common regime and to the special provisions specified in Articles 40 to 43, inclusive.

Article 40. During the first ten years of the life of this regime, the activities of foreign companies in the sector of basic products under the concession system may be authorized, provided the duration of the contract does not exceed 20 years.

For the effects of this regime, the basic-products sector is understood to mean the one comprising the primary activities of exploration and exploitation of minerals of any kind, including liquid and gaseous hydrocarbons, gas pipelines, oil pipelines, and exploitation of forests.

Member countries shall not authorize deductions on account of depletion to be made for tax purposes by companies investing in this sector.

The participation of foreign companies in the exploration and exploitation of liquid and gaseous hydrocarbons shall be authorized preferably in the form of contracts of association with State enterprises of the recipient country.

Member countries may grant foreign companies established in this sector treatment different from that provided in Article 37.

Article 41. The establishment of foreign companies or new direct foreign investment shall not be permitted in the sector of public services. Investments which had to be made by currently existing foreign companies in order to operate under technically and economically efficient conditions are excepted from this rule.

For these purposes, public services are considered to be those that provide drinking water, sewers, electric power and lighting, cleaning and sanitary, telephone, postal, and telecommunications services.

Article 42. New direct foreign investment will not be permitted in the sector of insurance, commercial banking, and other financing institutions.

Foreign banks which currently exist in the territory of the member countries shall cease receiving local deposits in current accounts, savings accounts, or time deposits within a period of three years from the date on which this regime enters into force.

Currently existing foreign banks which desire to continue accepting local deposits of any kind must convert into national companies, for which purpose they must place on sale shares representing at least 80% of their capital to be purchased by national investors within the period of time indicated in the previous paragraph.

Article 43. New direct foreign investment will not be permitted in domestic transportation companies, advertising firms, commercial radio stations, television stations, newspapers, magazines, or companies engaged in the domestic commercialization of products of any kind.

Foreign companies which currently operate in these sectors must convert into national companies, for which purpose they must place on sale at least 80% of their shares for purchase by national investors within a period not exceeding three years from the date on which this regime enters into force.

Article 44. When, in the opinion of the recipient country, special circumstances exist, that country may apply other regulations than those provided in Articles 40 to 43, inclusive.

The products of foreign companies included, in the sectors of this Chapter which do not agree to convert into national or mixed companies, or with respect to which the member countries apply different regulations than those referred to in the previous paragraph, shall not enjoy the advantages of the duty-free program of the Cartagena Agreement.

CHAPTER IV

Article 45. The capital of stock companies or corporations must be represented in registered shares.

Bearer shares that currently exist must be converted into registered shares within a period of one year from the date on which this regime enters into force.

Article 46. When projects are concerned that pertain to products reserved for Bolivia or Ecuador by application of Article 50 of the Cartagena Agreement, the four remaining countries agree not to authorize direct foreign investment in their territories, except as stipulated in contracts signed before December 31, 1970.

Article 47. Upon the proposal of the Board, the Committee shall approve, no later than November 30, 1971, an agreement to avoid double taxation among the member countries.

Within the same period of time, the Committee, acting upon the proposal of the Board, shall approve a model agreement for the conclusion of arrangements on double taxation between the member countries and other nations outside of the subregion. In the meantime, the member countries shall refrain from concluding agreements of this nature with any country which is not a part of the subregion.

Article 48. The member countries agree to keep each other informed and to inform the Board regarding the implementation of this regime in their territories, particularly regarding the rules of Chapter II. Likewise, they agree to establish a continuing system for the exchange of information regarding authorizations for foreign investment or the importation of technology that they may grant in their territories, in order to facilitate a growing harmonization of their policies and to improve their negotiating capacity in order to obtain conditions no less favorable for the recipient country than those that have been negotiated in similar cases with any other member country.

Likewise, they agree closely to coordinate their action in the international organizations and forums which consider subjects relating to foreign investments or the transfer of technology.

Article 49. Without prejudice to the provisions of Articles 79, 81, and 99 of the Cartagena Agreement, any member country which considers that it is being harmed by imports of products from foreign companies made under the duty-free program of the Agreement, may apply to the Board for authorization to adopt the necessary corrective measures to prevent the damage.

Article 50. Member countries shall not grant to foreign investors any treatment more favorable than that granted to national investors.

Article 51. In no instrument relating to investments or the transfer of technology shall there be clauses that remove possible conflicts or controversies from the national jurisdiction and competence of the recipient country or allow the subrogation by the States to the rights and actions of their national investors.

Differences between member countries of this regime in regard to its interpretation or implementation shall be resolved by following the procedure indicated in Chapter II, Section D, On the settlement of controversies, of the Cartagena Agreement.

CHAPTER V

Article 52. In accordance with the provisions of this regime and of Chapter II of the Cartagena Agreement, the Committee and the Board shall have the following powers and duties:

The Committee

(a) To decide on proposals submitted by the Board for its consideration with respect to the treatment of foreign capital, industrial property, and the system of the production and commercialization of technology, in compliance with this regime;

(b) To approve, on the proposal of the Board, the regulations necessary for effective implementation of the common regime; and

(c) To adopt other measures which tend to facilitate the attainment of its objectives.

The Board

(a) To supervise the implementation and fulfillment of the regime and of the regulations approved by the Committee on this subject;

(b) To centralize statistical, accounting, and other types of information relating to foreign investments or the transfer of technology, coming from member countries;

(c) To compile economic and legal information regarding foreign investments and transfers of technology and furnish it to member countries; and

(d) To propose to the Committee the necessary measures and regulations for the effective implementation of this regime.

Article 53. In adopting decisions on the matters covered by this regime, the Committee shall follow the procedures established in Article 11 (a) of the Cartagena Agreement.

Article 54. Member countries shall establish a Subregional Industrial Property Office, which shall have the following functions:

(a) To serve as liaison between the national industrial property offices;

(b) Compile information on industrial property and distribute it to the national offices;

(c) To prepare model licensing contracts for the use of trademarks and patents in the Subregion;

(d) To advise national offices on all matters connected with the implementation of common regulations on industrial property adopted in the regulations referred to in Provisional Article G;

(e) To carry out studies and to submit recommendations to the member countries on invention patents.

Article 55. Upon the proposal of the Board, the Committee shall establish a subregional system for the development, promotion, production, and adaptation of technology, which shall also have the duty of centralizing the information referred to in Article 22 of this regime and distributing it among the member countries, together with the information it obtains directly on the same subjects and on the conditions of the commercialization of technology.

TEMPORARY PROVISIONS

Article A. This regime shall enter into force when all the member countries have deposited in the Office of the Secretary of the Board the instruments by which they put it into practice in their respective territories, in accordance with the provisions of the second paragraph of Article 27 of the Cartagena Agreement.

Article B. Foreign investments existing in the territory of the member countries on the date this regime enters into force must be registered with the competent national agency within the following six months.

These investments shall continue to enjoy the benefits granted by the provisions currently in force in every respect that is not contrary to the this regime.

Article C. Until the regulations called for in Temporary Article G hereof enter into force, the member countries shall refrain from signing unilateral agreements on industrial property with third countries.

Article D. Within the three months following the date on which this regime enters into force, each member country shall designate the agency or agencies that are competent to authorize, register, and supervise foreign investments and the transfer of technology, and shall inform the other member countries and the Board of such designation.

Article E. All contracts on the importation of technology and licenses for the use of trademarks and patents of foreign origin signed prior to the date on which this regime enters into force must be registered with the competent national agency within six months following that date.

Article F. Within six months following the date on which this regime enters into force, the Committee, at the proposal of the Board, shall approve the regulations of the Subregional Industrial Property Office.

Article G. Within six months following the date on which this regime enters into force, the Committee, at the proposal of the Board, shall adopt regulations for implementing the rules on industrial property, which shall cover, among others, the subjects listed in Annex No. 2.

Article H. The member countries agree not to establish incentives for foreign investment other than that contemplated in their industrial development legislation at the time this regime enters into force, as long as the obligation referred to in Article 28, second paragraph, of the Cartagena Agreement, on the harmonization of industrial development legislation, has not been fulfilled.

Likewise, before November 30, 1972, the Committee, at the proposal of the Board, shall adopt the necessary measures to harmonize the system of incentives applicable to the other sectors.

Article I. Within three months following the date on which this regime enters into force, the Committee, at the proposal of the Board, shall determine the treatment applicable to capital belonging to national investors of any member country other than the recipient country.

Within the same period of time, the Committee, at the proposal of the Board, shall determine the rules to be applied to investments made by the Corporación Andina de Fomento (Andean Development Corporation) in any of the member countries.

A N N E X No. 1

GUIDE LINES FOR THE AUTHORIZATION, REGISTRATION, AND
SUPERVISION OF FOREIGN INVESTMENTS

Every application for foreign investment must contain:

I. Identification of the investor.

- (a) Name or firm name;
- (b) Nationality;
- (c) Membership of Board of Directors;
- (d) Composition of personnel and management;
- (e) Economic activity;
- (f) Copy of articles of incorporation.

II. Details of the investment.

(a) Financial resources in foreign exchange or credit;

Currency in which the investment is made;
Capital of national origin;
Capital of foreign origin;
Credit from parent company;
Credit from other sources;
Actual interest to be paid on loans.

(b) Physical or tangible resources, such as:

Industrial plants;
New and reconditioned machinery;
New and reconditioned equipment;
Spare parts;
Loose parts and pieces;
Raw materials;
Intermediate products.

(c) Resources derived from technology or intangibles, such as:

Trademarks;
Industrial designs;
Management capacity;
Technical know-how, patented or not patented;
Possible alternative know-how.

Technical know-how may be presented in the following forms:

i. Objects:

Samples;
Nonregistered models;
Machinery, apparatus, pieces, tools;
Working devices.

ii. Technical documents:

Formulas, estimates;
Plans, drawings;
Unpatented inventions.

iii. Instructions:

Notes on preparation, manufacture, and functioning of the product or the process;

Explanations or practical advice for use;
Technical booklets;
Supplementary explanations of patents;
Manufacturing diagrams;
Supervisory methods;
Amounts to be paid for royalties;
Identification of the recipient of royalties.

III. Requirements which are satisfied:

- (a) Shortage of domestic savings;
- (b) Shortage of foreign exchange;
- (c) Lack of directive or administrative capacity;
- (d) Need of access to scarce technological knowledge;
- (e) Lack of capacity or of commercial contacts for the sale or merchandise in international markets;
- (f) Lack of local entrepreneurial spirit.

IV. Plan for progressive national participation:

- (a) Percentage of shares to be placed in the hands of national investors;
- (b) Period of time and conditions to carry out this transfer;
- (c) Method of determining the value of each such placement.

V. Effects of the new investment:

- (a) Approximate date of beginning of normal operations;
- (b) Operating capacity;
- (c) Exportable production;
- (d) Additional employment generated;
- (e) Importation of raw materials or intermediate products in annual production;
- (f) Use of national input items.

A N N E X No. 2

PROVISIONS OF THE REGULATIONS FOR THE APPLICATION
OF STANDARDS ON INDUSTRIAL PROPERTY

- (a) Determination of the signs, words, symbols, or names that may be registered as trademarks;
- (b) Provisions on ownership of the trademark, procedures for acquiring it, persons holding the right, etc;
- (c) Standard classification of products for trademark purposes;
- (d) Publication and terms of opposition to the registration;
- (e) Priority or right to opposition;
- (f) Use of the privilege;
- (g) Lapse for failure to use;
- (h) Term of the privilege;
- (i) Negotiation of the trademark;
- (j) Standard causes on nullity, failure to renew, cancellation by previous registrations, etc.;
- (k) Classification of patents;
- (l) Determination of the industrial products/processes that may be patented according to the objectives of the global strategy for development of the subregion;
- (m) Conditions of patentability and, particularly, standard criteria to establish the innovation and the industrial application of the patent;
- (n) Owners of the patent;
- (o) Procedure for registration, opposition, method of putting the invention into practice, etc.;
- (p) Term of the privilege; and
- (q) Standards on industrial models and designs.

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ANNEX VI
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(TRANSLATION)

LS NO. 24262
R-XX/R-XXXIV
Spanish

Fourth Special Meeting
of the Commission
June 23-24, 1971
Lima, Peru

DECISION No. 37

Adjustments to the common
regime of treatment of foreign
capital and of trademarks,
patents, licenses, and royalties

IN VIEW OF Decision No. 24; and

WHEREAS:

After the analysis made of the common regime of treatment of foreign capital and of trademarks, patents, licenses, and royalties, it has been agreed that certain adjustments must be made in the substantive part thereof before its entry into force, for the purpose of clarifying its wording and duly harmonizing the text;

This should be done before June 30, date of the aforesaid common regime's entry into force;

THE COMMISSION ON THE CARTAGENA AGREEMENT

DECIDES:

Single Article. The following articles, paragraphs, and subparagraphs of Decision No. 24 shall read as follows:

"Article 3. Subparagraph (c). That the foreign investor agrees to place on sale the shares, participations, or rights that he may acquire in the enterprise for purchase by national investors, in the percentage required to constitute a national enterprise, within a period of not more than 15 years, which period will be established in each case according to the characteristics of the sector. The authorization issued by the competent national authority shall specify the period of time and the conditions under which that obligation will be met, the way in which the value of the shares, participations, or rights will be determined at the time they are sold, and, if pertinent, the systems by which the transfer of the latter to national investors will be ensured."

"Article 17. In regard to domestic credit, foreign enterprises shall have access only to short-term credit, according to the terms and conditions of the regulations that the Commission, at the proposal of the Board, may issue on the subject."

"Article 28. Final paragraph. Currently existing foreign enterprises will be understood to be those that are legally established in the country concerned on June 30, 1971."

"Article 30. Foreign enterprises that may be established in the territory of any member country after July 1, 1971, shall agree, in representation of their investors, to place on sale for purchase by national investors, gradually and progressively, in accordance with the provisions of Article 31, such percentage of their shares, participations, or rights as may be necessary in order that the aforesaid enterprises may be transformed into mixed enterprises, within a period which shall not exceed 15 years in Colombia, Chile, and Peru, and 20 years in Bolivia and Ecuador."

"Article 35. The obligation of foreign enterprises to place on sale certain percentages of the shares, participations, or rights referred to in Articles 3, 28, and 30 shall be supervised by the competent national authority. This obligation shall be fulfilled by sale to private persons, the State, or State enterprises of the recipient country."

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LS NO. 24332
R-XX/R-IV
Spanish

Sixth Regular Meeting
of the Commission
July 12-17, 1971
Lima, Peru

DECISION 37-a

IN VIEW OF Decisions Nos. 24 and 37; and

WHEREAS: It is necessary to coordinate the date after which an investment is determined to be new with the date established for existing investments;

THE COMMISSION ON THE CARTAGENA AGREEMENT

DECIDES:

Sole Article. The following is added to the Sole Article of Decision No. 37:

"Article 1, paragraph 9. New investment: an investment made after July 1, 1971, whether in existing or in new enterprises."

INTER-AMERICAN ECONOMIC AFFAIRS

AUTUMN 1971

How Will Multinational Firms React to the Andean Pact's Decision 24?

Introduction: Decision 24 of the Andean Pact, an attempt to define the nature and extent of foreign investments in the Andean countries, has been the subject of much vigorous criticism, with multinational firms in general voicing fears of a dramatic shift in the investment climate of the Pact countries. While the measure was designed to encourage foreign investment and limit competition among Bolivia, Chile, Colombia, Ecuador and Peru for foreign capital, Decision 24 has been prophesied to failure by the Council of the Americas' recent survey and articles by economists Jack Behrman and Herbert May.¹ With the debate still very much alive within the Colombian, Ecuadorian and Peruvian governments, a group of Harvard Business School students² attempted to discern what pragmatic actions businessmen are taking and are likely to adopt if the Code is ratified. Are the cries of alarm presently voiced by U.S. business justified?

Interviews were arranged with senior executives of 20 North American corporations, all within the Fortune 500, and almost all having investments in the Andean Pact countries as well as other parts of Latin America. The results of the interviews were gathered in confidential discussions with 4 banks, 3 petrochemical companies, 3 mining concerns, 1 insurance company, and 9 manufacturing companies spanning the full range of sophistication in technology requirements.

¹ Herbert May, "An Analysis of 'The Common Regime for Treatment of Foreign Capital, Trademarks, Patents, Licenses, and Royalties,'" Council of the Americas; Jack N. Behrman, "International Divestment: Panacea or Pitfall?", *Looking Ahead* (National Planning Association, November/December 1970).

² Philippe Bouckaert, Paul Christenson, William Cowan, Jesus Dualan, Alfred Duncan, E. Taylor Harmon, Sudhir Kilachand, Marcelo Leon, John Nunley, Thomas Ronal, Direk Schou, Eric Spector, Joseph Tischler, Ahmed Yehia; Faculty Advisor, Vis. Prof. Charles H. Savage, Jr.

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This paper presents the findings of those interviews conducted in April 1971.

The Andean Market: The birth of the Andean Common Market (ACM) brought together Bolivia, Chile, Colombia, Ecuador, and Peru in a union of 50 million people with a combined GNP of about \$20 billion. The May 26, 1969 Treaty of Cartagena which formalized the Common Market into being had among its goals, "to promote the balance and harmonic development of the Member Countries, to accelerate their growth through economic integration. . . ."

The formation of the Andean Common Market was welcomed by a few of the companies we interviewed—with the rest remaining indifferent. On the positive side, companies see the market as a useful channel of effort to relieve the nationalistic pressures building up within the area. A few view the market size of the Bloc as ample to compete with Argentina, Mexico and Brazil within Latin America, and feel that the desired economies of scale will provide a firm base for future growth. Further, some have productive overcapacity now and they feel the slack might better be utilized under a Common Market.

The majority who remain indifferent cite the competing rather than complementary nature of the Bloc products and foresee short-term disruptions, such as the death of Peruvian textiles at the hands of Colombia. They feel the combined Andean Bloc still does not seem very significant in size. Two high technology manufacturers interviewed see no prospects of the region supporting high technology plants based on the area's projected internal demand alone. Significant trade creation is not expected, and even the region's supposed strong points—a large, inexpensive labor pool, for example—are not considered more attractive now than they had been previously.

DECISION 24

Formulation: Interviewed companies are concerned with the manner in which Decision 24 was conceived. The formulators were believed to be academicians moved by theory and ideal rather than by practical consideration of how business really worked. Furthermore, the executives believe the haste with which it was formulated and its loose wording combine to make them highly skeptical about the Decision and its future effectiveness.

Ratification: Of the companies interviewed almost half feel that the Decision will probably not be ratified. They cite a number of reasons. First, it is felt that long-standing rivalries between

THE ANDEAN PACT'S DECISION 24

several of the countries would prevent any agreement. Cultural differences among Pact members are said to run very deep. Second, they question whether any pact can successfully span the political differences between, for example, a socialistic Chile and Colombia with its strong private sector. Third, they do not believe that any of the countries will relinquish their right to control their own development and natural resource utilization even though adopting a common pact. Each country faces different development problems and while the Decision may be an appropriate vehicle for some, it will not be appropriate for all. The example most frequently mentioned was Colombia, where strong anti-Pact feelings are being expressed as people begin to fear that their country will lose more needed foreign investments relative to the other Andean countries. Finally, mention was made by all firms that, given the political instability of many of the countries, no agreement can be made that will satisfy the continually changing governments.

Thus Decision 24 is seen by most as a polemic—a strong declaration of control over foreign investments which will make headlines, boost national pride, give vent to nationalistic desires for power and control over their own destinies, and solidify the power bases of various political leaders.

In this light, the remaining half of the companies interviewed feel the Pact might pass, but again the difficulties mentioned above will limit the Pact to a dramatic statement and nothing else. As one manufacturer put it, "I won't be surprised if it passes, but then I won't be surprised if it stretches like an accordion with all the clauses."

To further explain their feeling that the Decision will become nothing more than a strong statement disguising a negotiation process similar to what exists presently, they refer to various features of the Decision that they feel would be impossible to implement (see below). Also, they mention other features which, if implemented, would stop the inflow of foreign capital and consequently, drastically slow down the economic development of the region. This slow-down, it is felt, will quickly become intolerable and force countries to defect from the Decision or use all the loopholes to secure needed foreign capital. The companies, then, do not feel that the Decision can be fully implemented—their only questions seem to be whether it will fall apart before ratification or only after a period of interrupted flows of foreign investment. The example cited most frequently on the latter possibility is the period of Mexican nationalism earlier in this century which has

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since changed to allow and encourage foreign investment under strong but flexible national controls.

Some fundamental features of the code seen by executives as unenforceable are as follows:

Fade-Out Principle: All companies interviewed express great misgivings concerning the feasibility of the fade out principle. Generally, American companies feel that they do not "invest to divest," or "go into business to go out of business." Factors which seem to worry those companies, who now have large majority interests in subsidiaries are: availability of local capital, time required to find a "suitable partner," the valuation of assets, and the differences in business practices between North Americans and ACM businessmen.

Fifteen of the twenty companies feel that American companies invest for the long term (more than 15 years) and reinvest profits to allow growth of the firm. Their perceptions of ACM partners are that they were more interested in short-term returns and high-dividend payouts. Thus, the search for suitable partners may overrun the allotted time frame, even assuming that partners can be found at all.

It was generally agreed that a sufficient amount of ACM capital does not exist to permit the total amount of fade-outs called for by Decision 24. It is felt that this lack of sufficient capital will generally cause distressed prices and immediate capital losses to multinational firms. Companies were also concerned that the lack of capital might cause low valuation of their assets by member countries, also causing capital losses.

The overriding general conclusion is that fade-out is a mistake. The required actions will adversely affect existing American business in the ACM countries and future direct investment will be drastically reduced.

Joint Venture Feasibility: Attitudes towards joint ventures in the ACM countries seem to be a function of previous company policies and experiences concerning joint venture activities.

Four companies feel that the 100% owned American subsidiary in Latin America generally, and in the ACM countries specifically, is a thing of the past, and that joint ventures will be the formulae for the future. These firms state that all joint ventures are acceptable if the opportunities for profits and dividends are good. Primarily, they seem to be agreeable to joint ventures in manufacturing and other forms of low risk investments. But here again, the perceived differences between American and ACM busi-

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ness expectations cause worry to joint venture proponents. The general feeling is that ACM businessmen desire high dividends and quick returns, and will therefore not invest in long-term projects that are capital intensive with moderate to large degrees of risk.

A few firms expressed a strong preference for 100% ownership. Major reasons stated for this viewpoint were control of processes, efficiency and costs, and the lack of "suitable" local investors.

Another major concern to the companies interviewed is the amount of management time required to form and operate a joint venture. In light of the differences in business philosophy and style between North American and ACM businessmen, it is felt that an excessive amount of time will be required to develop operating policies and to ensure that these policies will be carried out. Most companies consider management their scarcest resource, and feel that this resource would be unduly expended in searching for partners and formulating and operating joint ventures.

The joint venture policy is generally thought, then, to discourage long-term, high-risk investments. This trend, over time, would be detrimental to the economic development of the ACM countries.

Bureaucracy: Executives feel that Decision 24 will generate a greatly expanded bureaucracy within the Bloc. Articles calling for asset valuation, investment registration and technology description are all viewed as precipitating large paperwork and management-time costs in the future.

Anticipated Change in the Business Climate: One of the aims of the Decision was ostensibly to give foreign investors a more certain environment in which to plan. Most of the companies interviewed, however, state that they are now more uncertain than ever of their position. No doubt much of this feeling derives from the deeper message of the Decision: the rising economic nationalism and the increased expectations of the people within the countries involved. These factors in themselves will lead, some expect, to a much more unpredictable environment for foreign investors. On a more concrete level, there is a great deal of uncertainty resulting from the loose drafting of the Decision and the varying interpretations that have already been put on some of the paragraphs by various member countries of the Pact. And, of course, the special provisions of Article 44 leaves the interpretation of the Decision not only in the hands of each country, but also in the hands of each succeeding government. As has been shown in Chile, interpretations change to meet radically differing philosophies.

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This, we were told, would naturally affect the kinds of investments that will be considered. In particular, a number of companies state that speculative investment will increase at the expense of long-term investment. This would result because companies will tend to plan for the worst possible situation, complete nationalization, and therefore tend to emphasize short-term profits rather than long-term capital gains and growth.

In turn, one could expect the eventual reduction in foreign investment and a shortage of local capital. Ironically, those countries with a consistent economic program and a "respect for the laws" will be the ones which are likely to be penalized most severely since they may lose relatively more foreign investment than their neighbors.

The end result, envisaged by some, will be stagnating technologies, a reduction in competition, lower standards of living for the inhabitants, and higher prices. Added to this is the possibility of local skilled labor emigrating as their expectations are frustrated and their potential (and perhaps actual) standard of living reduced.

These then are the perceptions expressed by the majority of executives of the likely actions to be taken by foreign firms, and the effects to be felt following ratification of the Pact. *Their perceptions of the general reactions of foreign investors, however, differ considerably from their individual plans for action, as described below.*

Financial. In its short-term outlook the U.S. financial community remains rather unperturbed by Decision 24. Even if the Decision is ratified, companies forecast real problems in implementation.

This sector does not view the Decision as a good idea and believes that the provisions could have a two-pronged effect. First, the direct restrictions on the banks themselves and, secondly, the effect that a stifled investment climate could have on customers. The banks interviewed ranged through the complete spectrum of degrees of ownership. None of them are really concerned with the direct restrictions. One bank with a high profile continues to build its connections and relationships with those in authority to position itself for the concessions it feels will be forthcoming under Article 44. Many banks have already been willing to accept local investment in varying degrees. One made a policy of not owning more than 20% of a bank before the decision. It feels that representation on the board of directors of a foreign bank is enough to ensure that the venture is being run correctly.

THE ANDEAN PACT'S DECISION 24

This bank, as did one dealing mainly through correspondents, is convinced that the goodwill derived by their presence in Latin America is much more important than total ownership. This is an effort to provide their multi-national clients with complete service, rather than to control the banking in the area. Another bank has adopted a wait and see attitude, but its present position of about 50% local ownership is a flexible one. An official stated that if the Decision were passed, "Chances are we can remain within the Andean area and operate within the provisions of the Decision."

One said that it is possible that his bank could benefit to the extent that the Decision may stimulate expansions of banks rather than merely causing transfer of ownership. Diluting ownership to 20% through expansion would result in a bank much larger than the original. Then the foreign investor would also be able to benefit from the increased power and economies of the larger bank.

The fear of the detrimental effect on the investment climate is more pronounced. All feel that there will be at least a short-run "shrinkage of capital." Their customers, they said, by and large, have adopted a wait-and-see attitude. One sees potential investors divided into two groups. There are those who are reacting emotionally and then those who are taking a more sophisticated approach of trying to figure out how to best take advantage of this rising tide of economic nationalism. There is consensus on the feeling that #24 is an experiment in economic nationalism. One said it would last for 3-5 years, another thought it would last a generation.

All the banks note the importance of experience in the area, and how one must distinguish between the Decision's "form and substance." For the long haul, according to their individual degree of involvement, they feel that the decision, passed or not, will not affect their present strategies very much.

A note of pessimism was sounded by one man for the smaller banks which are rushing into international banking. He feels that the larger banks have their risks spread much further and are better equipped to withstand economic fluctuations. He sees the small bank with only a few large loans outstanding, having a greater risk as enforcement of the provisions of the Decision on a particular customer could prove to be disastrous for the bank.

Only one of the banks had plans for vigorous expansion. Another is thinking in terms of expansion but wishes to see what happens over the short term. The rest are quite content to main-

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tain their present stance of "having their name on the door" where they already are.

The insurance company expresses a desire to stay, even with a minority interest. The nature of its business, it feels, precluded any serious harm from the Decision. Under any ownership conditions, the present company would still benefit from the reinsurance of larger accounts in the States as local companies would not have the money to do this on their own. It feels that the benefits of consistency and dependability will continue to attract multinational companies to a multinational insurance company. They are presently training local managers and looking for "suitable" local partners. Basically, they want to maintain their presence in these countries regardless of per cent ownership.

Manufacturing: Seven of the nine manufacturing companies interviewed expressed their willingness to accept a minority interest in the Andean Pact area if forced by governments to do so. One company which has investments in the area wishes to keep 100% ownership and states it is against divestiture as a matter of policy. This company, however, has made an exception to this policy with joint ventures in other Latin American countries. Another company which had plans to invest in the area has decided to postpone its investment in view of present uncertainties.

Among the companies open to equity participation, two plan to reinvest earnings if permitted to do so under the terms of the Andean Pact and Decision 24. One company plans the expansion of its capital base up to 33% of the original investment through the reinvestment of blocked earnings.

With the exception of one company, none of those interviewed think that joint ventures provide obstacles to transfer of technology. The more crucial issue is that of control of operations should joint ventures become mandatory.

No company sees any immediate opportunity being offered by the Andean Common Market. Apparently, there are long-term opportunities perceived in an enlarged market area and hence, most companies will adopt a strategy of divestiture in order to maintain a foothold in the area. One company has decided to pull out of the area not because of #24, but because the markets presently existing cannot support a scale of operations consistent with the size of its investment.

Over-all, most companies are adopting a "we-will-cross-that-bridge-when-we-get-to-it attitude." Most companies doubt whether the common market will work but these same companies have

THE ANDEAN PACT'S DECISION 24

not precluded divestiture if the resulting Common Market size provides greater advantages than those available by maintaining country markets.

One marketing and distribution company's strategy provides an interesting case of reaction to the present uncertainties engendered by Decision 24. This company acquired a manufacturing company after December 1970 presumably because it sees that applicable provisions of Decision 24 will be interpreted in a manner flexible enough for it to be treated as a manufacturing company subject to 51% divestiture instead of in a distribution company subject to 80% divestiture. In any case, even if Decision 24 were to be rigidly interpreted, the company is prepared to pull back and become a one-country operation exempt from the limitations of the Common Market agreement.

Mining: For the mining industry, divestiture is an old acquaintance with whom they have learned to live quite successfully.

The particular sensitivity of the extractive industries has long caused mineral resources to be considered part of the nation's patrimony—outside the realm of all international agreements. Coupled with the fact that most of the mineral resources extracted from the Andean countries are exported out of the Pact region, it is readily understandable why the Decision would have no particular effect on mining.

In Chile, the mining industry, from 1965, has been into joint ventures with the government. The products of these ventures (which generally were 51% national) were successful. Improved worker morale, freedom for top joint management to conduct operations as they saw fit, and the increased availability of large amounts of capital from sources like the Export-Import Bank, appeared to make the joint venture at least as profitable as the former, wholly owned operation. The recent actions of President Allende in attempting to expropriate the mining concerns should not be tied to rewarding joint venture arrangements which preceded this action. His actions harshly bring one back to the inevitable conclusion that mining is a concern of national politics outside the realm of this Andean Pact or any other.

Petrochemical: The three petrochemical companies interviewed all believe the Pact would have little, if any, effect on their present or future operations. Due to the emotional issue of sovereignty over one's oil resources and the necessity for oil products, it is felt that each country would continue to grant concessions in its own national interest, and would not agree to take any actions towards the oil industry that were inconsistent with national priorities.

INTER-AMERICAN ECONOMIC AFFAIRS

Existing oil contracts with the governments are likely to be respected as they have been in the past, with any new arrangements to apply to future investments. Because of the extremely high capital requirements of the industry and the risks involved in exploration, it is unlikely that the joint-venture principle could even work, due to the lack of available domestic capital. However, should such agreements be encouraged either between local private investors and/or the local governments, the oil companies would respond with flexibility and engage in joint ventures which promised a reasonable return on their capital. The source of tax revenues that the industry provides, coupled with national pride in domestic oil industry, will ensure unilateral decision making by each of the Andean countries. Oil executives expressed the view that the Decision has not influenced their companies' investment decisions in the Andean countries, and is likely to have little effect in the future.

Conclusion: It seems most apparent that although American Business is unhappy with a number of the provisions of the Decision 24, no major shift of present investments is likely to occur. A majority of the companies interviewed feel the Decision per se will also not alter their future plans for their Andean investments, though a "wait and see" attitude was evident. It is interesting to note that the tone of most executives was one of "reacting" to the new regulations, rather than "acting" upon the new opportunities envisioned by the Pact formulators. The size of the new market was not recognized by most to be of particular significance in their investment decisions.

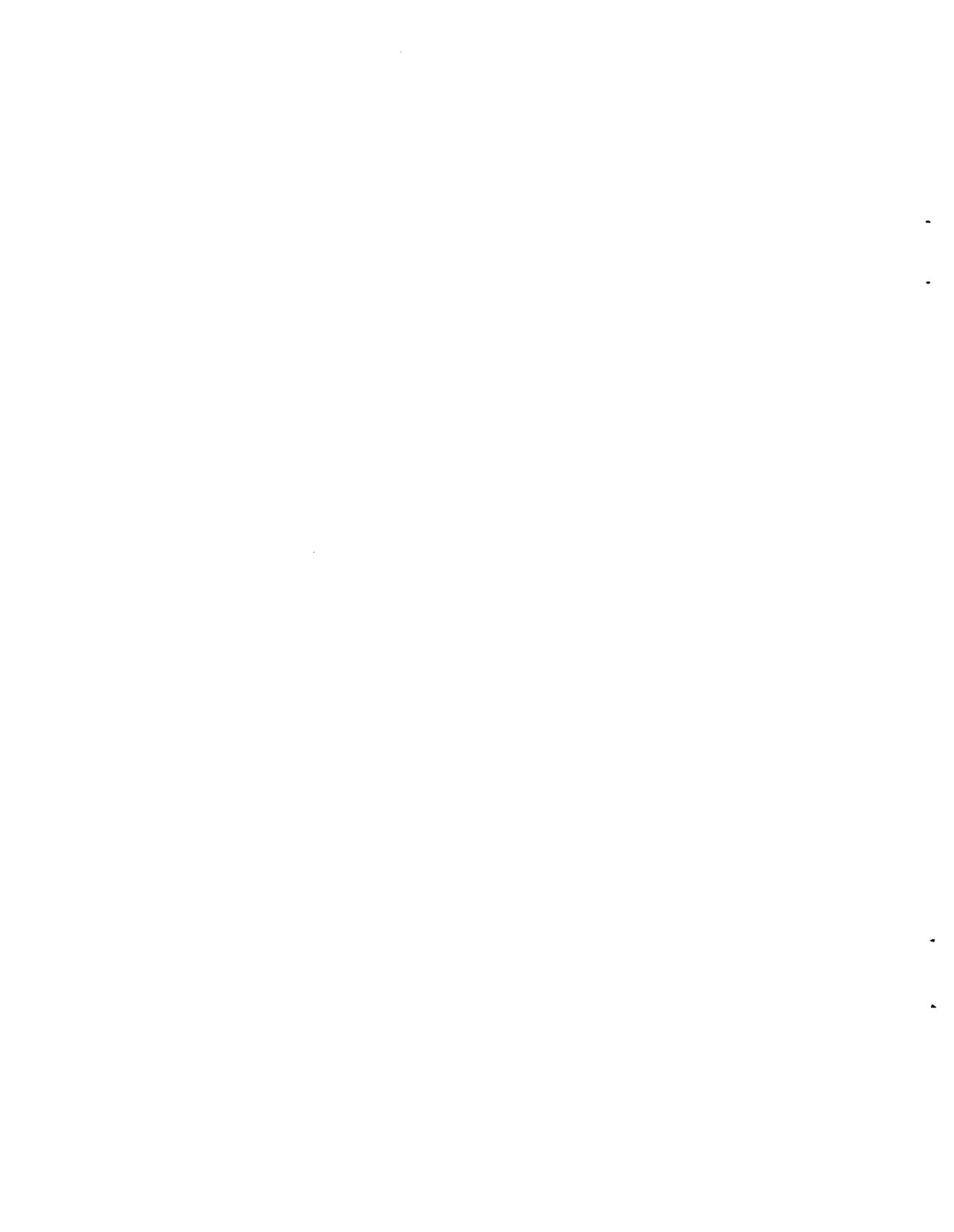
If there is an opportunity to make a reasonable return on their investment, the Decision will not deter future funds flows. The doubts regarding the investment climate stem more from the political instability of individual countries of the region (e.g., with the uncertainties of the path Allende will follow in Chile and Peru's new industrial law) than from the Decision's provision. If #24 eventually strengthens the economic stability and reduces uncertainty of unilateral government decisions regarding investments, the Decision could conceivably be beneficial to foreign investment. Most of the executives interviewed, however, believe that the Decision will never be strictly and consistently enforced.

While most of the executives interviewed agree that economic nationalism is not an ephemeral trend, the realities of increasing local control over national economies is an issue that foreign investors will have to live with in the future, or refuse to invest in Latin America. With one exception, all of the companies inter-

THE ANDEAN PACT'S DECISION 24

viewed said that they could live with a joint-venture relationship if required to do so.

Though many of the executives are basing their opinions upon an expectation of loose application of the Decision's articles, it can be concluded that the pessimism not voiced over Decision 24 will not result in hasty strategic decisions. It appears that everyone is portending dire consequences for the "other guy," but that in fact the Decision is not seriously altering corporate strategies. Most agree that flexibility and sophistication to new approaches will be called for, both by the member governments and foreign investors during the implementation of the Decision. However, adaptability and innovation have always been major strengths of capitalist economies.



CORPORACION ANDINA DE FOMENTO
BALANCE SHEET
(In Thousands US\$ - Actual and Five Years Projection) 1971-1976

	Actual 1) 1971	1972	1973	1974	1975	1976
A ASSETS						
1 Current	9,013.4	8,064.4	9,016.5	14,397.4	19,799.2	23,211.6
Cash and Short-term deposits	8,914.5	7,613.6	7,912.0	9,357.4	11,314.8	9,578.0
Accounts receivable	98.9	450.8	1,104.5	5,040.0	8,484.4	13,633.6
11 Other Assets	1,009.0	6,935.6	22,974.7	39,824.8	64,450.4	86,216.8
Long Term loans	315.1	5,604.4	21,429.9	38,080.0	58,705.6	74,472.0
Furniture and Equipment	94.4	94.4	94.4	94.4	94.4	94.4
Organization costs	484.3	751.8	751.8	751.8	751.8	751.8
Studies and projects	115.2	485.0	698.6	898.6	4,898.6	10,898.6
TOTAL ASSETS	10,022.4	15,000.0	31,991.2	54,222.2	84,249.6	109,428.4
B LIABILITIES AND CAPITAL						
1 Current	22.4	-----	293.2	1,062.4	2,573.6	4,512.8
Loans and lines of credit	-----	-----	293.2	1,062.4	2,573.6	4,512.8
Other	22.4	-----	-----	-----	-----	-----
11 Long Term	-----	-----	11,636.8	27,264.4	48,800.8	63,688.0
Loans and lines of credit	-----	-----	11,636.8	27,264.4	48,800.8	63,688.0
111 Capital and Reserves	10,000.0	15,000.0	20,061.2	25,895.4	32,875.2	41,227.6
Paid-in Capital	10,000.0	15,000.0	20,000.0	25,000.0	30,000.0	35,000.0
Reserves and Retained earnings	-----	-----	61.2	885.4	2,875.2	6,227.6
TOTAL LIABILITIES and CAPITAL	10,022.4	15,000.0	31,991.2	54,222.2	84,249.6	109,428.4
May 4, 1972						
1) From financial statements audited by Price Waterhouse and C ^o .						

CORPORACION ANDINA DE FOMENTO
 PROFIT AND LOSS STATEMENT
 (In Thousands US\$ - 5 years projection) 1972-1976

	1972	1973	1974	1975	1976
<u>INCOME</u>					
Interest and Commissions from Loans	284.7	1.577.0	3.668.5	6.659.7	10.267.3
Interest from Time Deposits	653.8	528.1	435.4	289.6	16.0
<u>TOTAL INCOME</u>	<u>938.5</u>	<u>2.105.1</u>	<u>4.103.9</u>	<u>6.949.3</u>	<u>10.283.3</u>
<u>EXPENSES</u>					
<u>Financial Expenses</u>		408.8	1.286.6	2.553.0	3.974.6
AID	---	62.6	162.6	261.6	300.0
IDB	---	200.0	520.0	840.0	960.0
Other	---	146.2	604.0	1,451.4	2,714.6
<u>Administrative Expenses</u>	<u>1.206.0</u>	<u>1.484.4</u>	<u>1.832.5</u>	<u>2.265.8</u>	<u>2.805.6</u>
Personnel	862.0	1.077.5	1.346.8	1.683.5	2.104.4
Travel and Promotion	100.0	130.0	169.0	219.7	285.6
Services	142.0	163.3	187.7	215.9	248.3
Rent	24.0	26.2	28.8	31.6	34.8
Equipment and Furniture	40.0	46.0	55.2	66.2	79.4
Other	24.0	26.4	29.0	31.9	35.1
Depreciation	14.0	15.0	16.0	17.0	18.0
Amortized Expenses	---	150.7	150.7	150.7	150.7
<u>TOTAL EXPENSES</u>	<u>1.206.0</u>	<u>2.043.9</u>	<u>3.269.8</u>	<u>4.969.5</u>	<u>6.930.9</u>
<u>NET INCOME</u>	<u>(267.5)</u>	<u>61.2</u>	<u>834.1</u>	<u>1.979.8</u>	<u>3.352.4</u>
May 4, 1972 CAF/VPA y F					

CORPORACION ANDINA DE FOMENTO
CASH FLOW
(In Thousands US\$ - 5 Years Projection) 1972-1976

	1972	1973	1974	1975	1976
A SOURCES					
1 <u>Beginning Cash</u>	8,914.5	7,613.6	7,912.0	9,357.4	11,314.8
11 <u>Credit Resources</u>	---	11,930.0	16,690.0	24,110.0	19,400.0
1. IDB	---	4,000.0	4,000.0	4,000.0	---
2. AID	---	5,000.0	5,000.0	5,000.0	---
3. Other Long Term Loans	---	1,465.0	3,845.0	7,555.0	9,700.0
4. Lines of Credit Commercial	---	1,465.0	3,845.0	7,555.0	9,700.0
111 <u>CAF Resources</u>	6,041.2	7,555.9	10,208.4	16,989.3	23,767.7
1. Income from Operations	284.7	1,577.0	3,668.5	6,659.7	10,267.3
2. Recoveries	102.7	450.8	1,104.5	5,040.0	8,484.4
3. Paid-in Capital	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
4. Other Income	653.8	528.1	435.4	289.6	16.0
<u>TOTAL CASH IN-FLOW</u>	14,955.7	27,099.5	34,810.4	50,456.7	54,482.5
B USES					
1 <u>Subloan Disbursements</u>	5,744.0	16,930.0	21,690.0	29,110.0	29,400.0
1. IDB	---	4,000.0	4,000.0	4,000.0	---
2. AID	---	5,000.0	5,000.0	5,000.0	---
3. CAF	5,744.0	5,000.0	5,000.0	5,000.0	10,000.0
4. Other Loans and Credits	---	2,930.0	7,690.0	15,110.0	19,400.0
11 <u>Amortization of Liabilities</u>	22.3	---	293.2	1,062.4	2,573.6
111 <u>Administrative and Operational Expenses</u>	1,206.0	2,043.9	3,269.8	4,969.5	6,930.9
1. Administrative Expenses	1,206.0	1,484.4	1,832.5	2,265.8	2,805.6
2. Financing Expenses	---	408.8	1,286.6	2,553.0	3,974.6
3. Organizational Expenses	---	150.7	150.7	150.7	150.7
1V <u>Studies and Projects</u>	369.8	213.6	200.0	2,000.0	3,000.0
V <u>Investments</u>	---	---	---	2,000.0	3,000.0
<u>TOTAL CASH OUT-FLOWS</u>	7,342.1	19,187.5	25,453.0	39,141.9	44,904.5
<u>ENDING CASH</u>	7,613.6	7,912.0	9,357.4	11,314.8	9,578.0
May 4, 1972 CAF/VPA y F					

REGIONAL INTEGRATION AGREEMENT

THE GOVERNMENTS OF BOLIVIA, COLOMBIA, CHILE,
ECUADOR, AND PERU,

GUIDED by the Declaration of Bogotá and the
Declaration of the Presidents of America; and

ON THE BASIS of the Treaty of Montevideo and
Resolutions 202 and 203 (CM-II/VI-E) of the
Council of Ministers of Foreign Affairs of the
Latin American Free Trade Association (LAFTA);

AGREE, Through their duly authorized pleni-
potentiaries, to conclude the following

SUBREGIONAL INTEGRATION AGREEMENT

CHAPTER I

PURPOSES AND PROCEDURES

Article 1.-- The purposes of this Agreement are
to promote the balanced, harmonious
development of the Member Countries, to accelerate
their growth through economic integration, to
facilitate their participation in the process of
integration provided for in the Treaty of Montevideo
and to establish conditions favorable for converting
LAFTA into a common market, all for the purpose of
bringing about a permanent improvement in the standard
of living of the people living in the subregion.

Article 2.-- The balanced, harmonious development
should lead to an equitable dis-
tribution of the benefits derived from integration
among the Member Countries so as to reduce the
differences existing between them. The results of

the said process are to be evaluated periodically, taking into consideration, among other factors, its effects on the expansion of the total exports of each country, the behavior of each country's balance of trade with the Subregion, the growth of each country's gross domestic product, the creation of new jobs, and the formation of capital.

Article 3.-- In order to attain the objectives of this Agreement, the following measures and procedures shall be employed, among others:

- a) Harmonization of economic and social policies and coordination of the national laws on pertinent matters;
- b) Joint programming, intensification of the sub-regional industrialization process, and implementation of Sectoral Programs of Industrial Development;
- c) A more accelerated Program for Trade Liberalization than the one that is generally adopted within the framework of LAFTA;
- d) A Common External Tariff, the preliminary phase of which will be the adoption of a Common Minimum External Tariff;
- e) Programs intended to accelerate the development of the agricultural sector;
- f) Channeling of resources from within and from outside the subregion to provide the financing of the investments that are required in the process of integration;
- g) Physical integration; and
- h) Preferential treatment for the benefit of Bolivia and Ecuador.

Article 4.-- For purposes of the best possible implementation of this Agreement, the Member Countries shall put forth the necessary effort to obtain appropriate solutions to the problems arising from the landlocked situation of Bolivia.

CHAPTER II

ORGANS TO IMPLEMENT THE AGREEMENT

Article 5.-- The principal organs of the Agreement are the Commission and the Board.

The Committees dealt with in Section C of this Chapter are auxiliary organs.

Section A - The Commission

Article 6.-- The Commission is the supreme organ of the Agreement and is composed of one plenipotentiary from each Government of the Member Countries. Each Government shall accredit one regular representative and one alternate.

The Commission shall express its will through Decisions.

Article 7.-- The Commission shall have the following duties:

- a) To formulate the general policy under the Agreement and to adopt whatever measures are necessary to attain its objectives;
- b) To approve whatever procedures are essential to permit the coordination of the development plans and harmonization of the economic policies of the Member Countries;
- c) To appoint and to remove the members of the Board;
- d) To instruct the Board;
- e) To delegate its powers to the Board when it deems it advisable;
- f) To approve, disapprove, or amend the Board's proposals;
- g) To see that the obligations arising under the Agreement and under the Treaty of Montevideo are harmoniously carried out;

- h) To approve the annual budget submitted by the Board and to determine the contribution of each Member Country;
- i) To issue its own regulations and those of the Committees and to approve the Board's regulations and the amendments thereof;
- j) To suggest amendments of this Agreement to the Member Countries; and
- k) To consider and settle all other matters of common interest.

In the performance of its functions, the Commission shall give special consideration to the situation of Bolivia and Ecuador in terms of the objectives of the Agreement and the preferential treatment provided for them.

Article 8.-- The Commission shall promote concerted action by the countries of the Sub-region vis-à-vis the problems resulting from international trade that affect any of them and shall encourage them to take part in international economic meetings or to belong to international economic agencies.

Article 9.-- The Commission shall have a Chairman, who shall remain in office for one year. That post shall be held by each of the Plenipotentiaries in succession, in alphabetical order of countries.

The first Chairman shall be chosen by lot.

Article 10.-- The Commission shall hold regular meetings three times a year and special meetings when convened by its Chairman at the request of any of the Member Countries or of the Board.

Its meetings shall be held at the Board's headquarters but may be held elsewhere. The presence of at least two-thirds of the Member Countries shall constitute a quorum at meetings of the Commission.

Attendance at meetings of the Commission shall be obligatory, and failure to attend shall be considered an abstention.

Article 11.-- The Commission shall take its decisions by a two-thirds vote of the Member Countries. This general rule shall not apply to the following:

- a) Matters included in Annex I of this Agreement, on which the Commission shall take its decisions by a two-thirds vote and no negative votes.

The Commission may insert new material into the said Annex by a two-thirds vote of the Member Countries;

- b) In the cases listed in Annex II, proposals by the Board must be approved by a two-thirds vote of the Member Countries, provided there are no negative votes. Proposals on which two-thirds of the Member Countries voted affirmatively but which received a negative vote must be returned to the Board for consideration of the preliminary data that gave rise to the said negative vote. Within a period of not less than two months nor more than six, the Board shall again submit the proposal, together with any amendments it deems appropriate, to the Commission for consideration and, in such case, the proposal, as amended, shall be deemed to be approved if it receives the two-thirds vote of the Member Countries and no negative votes, but the vote of the country that voted against it previously shall not be counted a negative vote;
- c) Matters related to the special treatment for Bolivia and Ecuador, which are set forth in Annex III. On these matters, decisions of the Commission shall be adopted by a two-thirds vote, provided one of them is that of Bolivia or Ecuador; and
- d) Appointment of the members of the Board, which must be by unanimous vote.

Article 12.-- The Commission shall consider the proposals of the Board in all cases and, in deciding on them, shall proceed in accordance with the rules set forth in article 11.

Section B - The Board

Article 13.-- The Board is the technical organ of the Agreement; it shall be composed of three members and shall act only with reference to the interests of the Subregion as a whole.

Each of its members shall hold office for three years and may be re-elected. If there is a vacancy, the Commission shall immediately designate a replacement, who shall likewise hold office for three years.

Article 14.-- The members of the Board shall be citizens of any Latin American country; they shall be responsible to the Commission for their actions; they shall act in accordance with the common interest; they shall refrain from any act that is incompatible with the nature of their functions; while in office they may not carry on any other professional activity, whether compensated or not; and they shall not request or accept instructions from any Government entity, national or international.

Article 15.-- The Board shall have the following duties:

- a) To see that the Agreement is implemented and that the Decisions of the Commission are complied with;
- b) To carry out the orders of the Commission;
- c) To submit to the Commission proposals designed to facilitate or accelerate the implementation of the Agreement with a view to attaining its objectives as soon as possible;
- d) To make studies and propose the measures required for the application of the special treatment for Bolivia and Ecuador and, in general, those relating to the participation of the two countries in the Agreement;
- e) To attend the meetings of the Commission, except when the latter deems it advisable to hold private meetings;

However, the Board shall be entitled to take part in the discussion of all its proposals

- at Commission meetings and, particularly, in those referred to under c) and d);
- f) To evaluate annually the results of the implementation of the Agreement and the attainment of its objectives, with special attention to compliance with the principle of equitable distribution of the benefits of integration, and to propose to the Commission appropriate and positive corrective measures;
 - g) To make whatever technical studies the Commission directs it to make and others that, in its judgment, are necessary;
 - h) To exercise the authority delegated to it by the Commission;
 - i) To perform the functions of Permanent Secretariat of the Agreement and to maintain direct contact with the Governments of the Member Countries through the organization designated by each of them for that purpose;
 - j) To formulate its regulations and to submit them or their amendments to the Commission for approval;
 - k) To submit the tentative annual budget to the Commission;
 - l) To prepare its annual program of activities, in which it shall preferably include the tasks the Commission directs it to perform;
 - m) To present an annual report of its activities to the Commission;
 - n) To propose to the Commission the organic structure of its technical departments and such changes as it may deem advisable;
 - o) To hire and discharge its technical and administrative personnel;
 - p) To entrust the execution of specific projects to experts in certain fields;
 - q) To promote periodic meetings of the national agencies that are responsible for the formulation

or implementation of economic policy, especially of those in charge of planning; and

- r) To perform any other duties expressly assigned to it under this Agreement.

Article 16.-- In hiring its technical and administrative personnel, who may be of any nationality, the Board shall take into account only the ability, competence, and reliability of the candidates but shall seek, in so far as it is not incompatible with the foregoing criteria, to have as broad a sub-regional geographic distribution as possible.

Article 17.-- All decisions of the Board shall be unanimous, but it may submit to the Commission for consideration alternate proposals, likewise approved unanimously.

Article 18.-- The Board shall function on a permanent basis and its seat shall be designated by the Governments of the Member Countries whenever they deem it appropriate, after this Agreement is signed.

Section C - The Committees

Article 19.-- The Advisory Committee is the organ through which the Member Countries shall maintain a close connection with the Board. It shall be composed of representatives of all the Member Countries, who may attend the meetings accompanied by their advisers.

Article 20.-- The Advisory Committee shall meet at the Board headquarters when the latter or the Chairman of the Commission convenes it at the request of any Member Country.

Article 21.-- The Advisory Committee shall have the following duties:

- a) To advise the Board and to cooperate in carrying out its work when the latter so requests; and

- b) To examine the Board's proposals before they are considered by the Commission, when the Commission so requests.

The opinions of the members of the Committee shall appear in reports that will be submitted to the Commission and the Board for consideration.

Article 22.-- There shall be a Social and Economic Advisory Committee, composed of representatives of the employers and workers of the Member Countries. During the first year the Agreement is in effect, the Commission shall determine the membership of the Committee, decide how the members are to be appointed, and fix its functions.

Section D - The Settlement of Disputes

Article 23.-- It shall devolve upon the Commission to carry out the procedures in connection with any negotiations, good offices, mediation, or conciliation that may be necessary when differences arise over the interpretation or implementation of this Agreement or the Decisions of the Commission.

If the Member Countries fail to reach agreement, they shall be subject to the procedures established in the Protocol for the Settlement of Disputes, signed on September 2, 1967 in Asunción by the Ministers of Foreign Affairs of the Contracting Parties to the Treaty of Montevideo.

For the purposes provided for in article 16, subsection 3, of that Protocol, the Member Countries declare that there are included in it all the matters covered in this Agreement and in the decisions of the Commission.

For purposes of article 36 of the said Protocol, the Member Countries undertake to take steps to have it ratified as soon as possible.

Section E - Coordination with the
Andean Development Corporation

Article 24.-- In addition to the functions stated in articles 7 and 15, it shall devolve upon the Commission and the Board to maintain close contact with the Board of Directors and the President of the Andean Development Corporation in order to establish satisfactory coordination with the latter's activities and thereby facilitate the attainment of the objectives of this Agreement.

CHAPTER III

HARMONIZING ECONOMIC POLICIES AND COORDINATING
DEVELOPMENT PLANS

Article 25.-- The Member Countries shall adopt a strategy for the development of the Subregion having the following basic goals:

- a) To accelerate the economic development of the Member Countries under equitable conditions;
- b) To increase employment;
- c) To improve the position of the Member Countries and of the Subregion as a whole from the standpoint of foreign trade and the balance of payments;
- d) To overcome the infrastructure problems that limit economic development at the present time;
- e) To reduce the differences in development that exist between the Member Countries; and
- f) To utilize better the progress made in science and technology and to promote research in these fields.

Article 26.-- The Member Countries shall immediately initiate a process to coordinate their

development plans in specific sectors and to harmonize their economic and social policies, with a view to arriving at a joint planning system for the integrated development of the area.

This process shall be carried out in coordination with, and parallel to, the process of formation of the subregional market through the following procedures, among others:

- a) A system of industrial programming;
- b) Special treatment for the agricultural sector;
- c) Planning the physical and social infrastructure;
- d) Harmonizing the foreign exchange, monetary, financial, and fiscal policies, including the treatment accorded to the capital of the Subregion or that from outside the Subregion;
- e) A common trade policy vis-à-vis third countries; and
- f) Harmonizing planning methods and techniques.

Article 27.-- Before December 31, 1970 the Commission shall, at the suggestion of the Board, approve and submit to the Member Countries for consideration a common code on the treatment accorded foreign capital and, among other things, on trademarks, patents, licenses, and royalties.

The Member Countries hereby undertake to take whatever steps are necessary to put this policy into practice within the six months following its approval by the Commission.

Article 28.-- Before December 31, 1971 the Commission shall, at the suggestion of the Board, approve and present to the Member Countries the uniform code to which multinational enterprises are to be subject.

Within the same period the Commission, at the suggestion of the Board, shall approve the directives that will serve as a basis for harmonizing the laws of the Member Countries on industrial development.

The latter undertake to adopt whatever measures are necessary to put this harmonization into practice within six months following its approval by the Commission.

Article 29.-- The Commission shall, at the proposal of the Board, establish whatever permanent procedures and machinery may be necessary in order to achieve the coordination and harmonization dealt with in article 26 by December 31, 1970.

Article 30.-- The Commission, at the suggestion of the Board, shall decide on a program for harmonizing the instruments and procedures to regulate the foreign trade of the Member Countries, which program shall be put into practice by the latter before December 31, 1972. The Common External Tariff, which shall be governed by the provisions of Chapter VI, is excepted.

Article 31.-- In their national development plans and in the formulation of their economic policies, the Member Countries shall include the measures required to ensure compliance with the foregoing articles.

CHAPTER IV INDUSTRIAL PROGRAMMING

Article 32.-- The Member Countries hereby obligate themselves to enter upon a process of industrial development of the Subregion through joint programming in order to attain, among other things, the following objectives:

- a) Greater expansion, specialization, and diversification of industrial production;
- b) Maximum development of the resources available in the area;
- c) The improvement of productivity and the effective utilization of the factors of production;

- d) Utilization of economies of scale; and
- e) The equitable distribution of gains.

Article 33.-- For the purposes indicated in the preceding article, the Commission shall at the Board's suggestion, approve Sectoral Programs of Industrial Development, which will be carried out jointly by the Member Countries.

Article 34.-- The Sectoral Programs of Industrial Development must contain clauses on the following subjects:

- a) Determination of the products forming the subject of the Program;
- b) Joint programming of the new investments on a sub-regional scale and measures to ensure their financing;
- c) Placing plants in the countries of the Subregion;
- d) Harmonizing policies on matters that directly affect the Program;
- e) Liberalization programs that can include different rates for each country and for each product and which, in every case, will ensure free access of the respective products to the subregional market;
- f) Common External Tariff; and
- g) The periods of time during which the rights and obligations under the Program must be kept in force in case of denunciation of the Agreement.

Article 35.-- The Board shall, in every case, propose to the Commission any supplementary measures that are essential to facilitate the implementation of the pertinent Program and, in particular, those that are necessary to ensure the installation of plants allocated as provided for in subsection c) of the preceding article and the effective utilization of the subregional market by the said plants.

Article 36.-- For the existing industries in the Subregion whose products are not included in Sectoral Programs of Industrial Development, the Commission shall, at the suggestion of the Board, promote programs designed to rationalize the production of goods on the basis of the criteria specified in article 32 in those cases in which, in its judgment, that would be possible and advisable for the purposes of the Agreement.

The Board shall submit to the Commission, at least once a year, proposals on the Programs to which this article refers.

Article 37.-- For purposes of the foregoing article, the Board shall take into consideration, among others, the following factors:

- a) The installed capacities of existing plants;
- b) The need for financial and technical assistance for the installation, expansion, modernization, or conversion of industrial plants;
- c) The manpower training requirements;
- d) The possibilities of horizontal specialization agreements between enterprises in the same branch of industry; and
- e) The prospects for the establishment of joint systems for marketing, technological research, or other forms of cooperation between related enterprises.

The Member Countries shall hold regular consultations within the Commission, with the Board attending, on their investment programs in the industries to which this article refers.

Article 38.-- At the suggestion of the Board the Commission may recommend the establishment of multinational enterprises for the installation, expansion, or supplementing of certain industries. The purposes of such concerns shall include working toward more effective utilization of the investment opportunities offered by

the expanded market, toward a better organization and utilization of the productive resources of the Subregion, and toward strengthening their capacity, in order to seek the cooperation of external capital and the transfer of technology.

Article 39.-- When the Board deems it advisable and, in any case, in its annual evaluations, it shall propose to the Commission the measures it considers essential to ensure equitable participation of the Member Countries in all of the Sectoral Programs of Industrial Development, in the implementation of the latter, and in the attainment of their objectives.

Article 40.-- It shall be the duty of the Commission to maintain adequate contact with the Andean Development Corporation and to take steps to obtain the cooperation of any other national or international institutions whose technical and financial contribution it deems advisable to have in order to:

- a) Facilitate the coordination of policies and the joint programming of investments;
- b) Channel a growing volume of financial resources toward the solution of the problems that the process of integration causes the Member Countries;
- c) Promote the financing of specific projects that have been undertaken to implement the Sectoral Programs of Industrial Development; and
- d) Expand, modernize, or convert industrial plants that are affected by trade liberalization.

CHAPTER V LIBERALIZATION PROGRAM

Article 41.-- The purpose of the Liberalization program is to eliminate duties, charges, and restrictions of all sorts on the importation of products coming from the territory of any Member Country.

Article 42.-- The term "duties and charges" shall be understood to mean customs duties and any other charges of equivalent effect, whether fiscal, monetary, or exchange, that are levied on imports. This term does not include duties and analogous charges when they relate to the approximate cost of the services rendered.

The term "restrictions of all sorts" shall be understood to mean any administrative, financial, or foreign exchange measure by which a Member Country impedes or obstructs imports by a unilateral decision. This term does not include the situations provided for in Article 53 of the Treaty of Montevideo.

Article 43.-- For purposes of the foregoing articles, the Board, automatically or at the request of a Member Country, shall determine, in those cases where it is necessary, whether a measure adopted unilaterally by a Member Country constitutes a "duty and charge" or a "restriction."

Article 44.-- The provisions of Article 21 of the Treaty of Montevideo shall apply with respect to taxes, rates, and other internal duties.

Article 45.-- The Liberalization Program shall be automatic and irrevocable, include all products, and shall lead to their complete exemption from duties by December 31, 1980.

The various provisions of this Program shall apply:

- a) To the products forming the subject of Sectoral Programs of Industrial Development;
- b) To the products included, or which may hereafter be included, in the Common Schedule mentioned in Article 4 of the Treaty of Montevideo;
- c) To the products that are not produced in any country of the Subregion, included in the pertinent list; and
- d) To the products not included under the foregoing subsections.

Article 46.-- All types of restrictions shall be eliminated by December 31, 1970.

The restrictions applying to products reserved for Sectoral Programs of Industrial Development are excepted from the foregoing rule, and these restrictions shall be eliminated when the liberalization of these products is initiated under the pertinent program or as established in article 53.

Bolivia and Ecuador shall eliminate all types of restrictions when they start to implement the Liberalization Program for each product in accordance with the procedures established in article 100, but they may replace them by duties and charges not in excess of the lowest level indicated in article 52 a), in which case they shall do it for both the imports from the Subregion and from outside it.

Article 47.-- Within the period stipulated in the foregoing article, the Commission shall, at the suggestion of the Board, determine the products that will be reserved for Sectoral Programs of Industrial Development.

Before December 31, 1973 the Commission, at the suggestion of the Board, shall approve Sectoral Programs of Industrial Development relating to the products that have been reserved in accordance with the foregoing paragraph.

If, at the expiration of the said period, the Board finds it possible to propose Programs with respect to products that have been reserved but not yet included in the Programs already adopted, the period mentioned shall be understood to be extended to December 31, 1975.

Article 48.-- The Commission, at the suggestion of the Board, shall at any time, adopt new Sectoral Programs of Industrial Development and shall determine the pertinent criteria, taking into consideration the experience obtained in the implementation of Chapter IV and considering the importance of industrial programming as a basic procedure for the implementation of the Agreement.

Article 49.-- The products included in the first section of the Common Schedule with which article 4 of the Treaty of Montevideo deals shall be completely exempted from duties, charges, and

restrictions of all kinds 180 days after the entry into force of this Agreement.

Before December 31, 1971 the Commission shall, at the suggestion of the Board, establish the Liberalization Program applicable to the products that are included in the remaining sections of the Common Schedule.

Article 50.-- Before December 31, 1970 the Commission shall, at the suggestion of the Board, prepare a list of the products that are not produced in any country of the Subregion and that have not been reserved for Sectoral Programs of Industrial Development and shall select those that are to be reserved for production in Bolivia and Ecuador, establishing, with respect to these latter products, the conditions and period of time of the reservation.

The products included in the said list shall be completely exempted from duties by February 28, 1971. The exemption of the products reserved for production in Bolivia or Ecuador shall benefit these countries exclusively.

Notwithstanding the foregoing, the Board may, within the period indicated in the first paragraph of this article, propose to the Commission that certain products on the said list be assigned to Colombia, Chile, and Peru. The country receiving the benefit of the assignment shall exempt the pertinent products from duties and charges in the manner established in article 52.

If, at the end of four years from the date on which the assignment was made, the Board ascertains that the country receiving the benefit thereof has not initiated the pertinent production, or that the project is not being carried out, the effects of the assignment shall terminate from that moment on and the country benefited shall immediately exempt the pertinent product from duties.

Article 51.-- At any time after the expiration of the period indicated in the second paragraph of the foregoing article, the Commission may, at the suggestion of the Board, include new products on the list referred to in the first paragraph of the foregoing article. The said products shall be exempted from customs duties 60 days after the date on which their inclusion on the aforementioned list is approved.

When the Board considers it technically and economically possible, it shall propose to the Commission that a portion of the new products be reserved for production in Bolivia and Ecuador and shall, with respect to them, establish the time period for and conditions governing the reservation.

Article 52.-- The products not included in articles 47, 49, and 50 shall be exempted from duties, as follows:

- a) The lowest duty in effect for each product in any of the national tariffs of Colombia, Chile, or Peru, or in their National Schedules on the date the Agreement is signed shall be used as the point of departure, which may not exceed one hundred percent ad valorem of the CIF price of the merchandise;
- b) On December 31, 1970, all the duties that are above the level indicated in the preceding point shall be reduced to the said level; and
- c) The remaining duties shall be eliminated through annual reductions of ten percent each, until they are completely eliminated by December 31, 1980.

Article 53.-- Any products which, after being selected for Sectoral Programs of Industrial Development, are not included in them within the periods provided for in article 47, shall be dealt with in the Liberalization Program in the following manner:

- a) If products are involved which are not produced in any country of the Subregion, they shall be exempted from duties on December 31, 1973 or on December 31, 1975, as the case may be. Without prejudice to the foregoing, the Commission shall, at the suggestion of the Board, select some of these products for production in Bolivia and Ecuador, establishing the conditions and the period of the reservation; and
- b) If products are involved that are included in the procedure described in article 52, which are to begin to be exempted from duties on December 31, 1973, the percentage reduction of duties shall be adjusted to the time still required to complete the period provided for in article 45; those which are to begin to be exempted from duties on December 31,

1975 shall do so through five annual reductions of five, ten, fifteen, thirty, and forty percent, respectively.

In every case, the Member Countries may agree upon a selective exemption of these products from duties provided this is quicker.

If the Board excludes certain products from the aforementioned reservation before December 31, 1975, they shall be assigned at that time to the Liberalization program that applies to them, in accordance with the rules contained in subsections a) and b) of this article.

Article 54.-- The Member Countries shall refrain from altering the levels of duties and charges and from introducing new restrictions of any type on the importation of products originating in the Subregion, which would represent a situation less favorable than the one existing when the Agreement entered into force.

Any changes which Bolivia and Ecuador may make in their tariffs in order to systematize their instruments of trade policy with a view to ensuring the initiation or expansion of certain productive activities in their territories shall be excepted from this rule. These exceptions shall be judged by the Board and authorized by the Commission.

Changes in duties and charges resulting from the replacement of restrictions by duties and charges referred to in article 46 are likewise excepted from this rule.

Article 55.-- Until December 31, 1970 each Member Country may submit to the Board a schedule of products now being produced in the Subregion so that they may be excepted from the Liberalization program and from the process of establishing the External Tariff. Products included in the Common Schedule may not appear in the schedules of exceptions; the schedules of exceptions of Colombia and Chile may not include more than 250 products found in LAFTA Brussels Tariff Nomenclature items; Peru's schedule may not have more than 450 items. If, upon the expiration of the said period, any country has failed to submit its schedule to the Board, it shall be considered to have waived the right established in this article.

Until November 30, 1970 the Commission may at the Board's suggestion, change the number of Items referred

to in the foregoing paragraph.

The products included in the schedules of exceptions shall be completely exempted from duties and charges and other restrictions and shall be included in the Common External Tariff no later than December 31, 1985.

Without prejudice to the foregoing, Peru shall reduce the number of items on its schedule of exceptions to 350 on December 31, 1974 and to 250 on December 31, 1979. The products that Peru eliminates from its schedule of exceptions, pursuant to this article, shall go into the Liberalization Program and be covered by the External Tariff at the proper levels on the aforementioned dates.

In any event, the Board may authorize some exceptions to be maintained beyond the aforementioned period of 16 years for clearly specified cases, establishing the length of the extension and the conditions for exempting them from duties in the future. The extension may not exceed four years, nor may the number of exceptions be greater than 20 Items.

Article 56.-- The inclusion of a product by a Member Country in its schedule of exceptions shall prevent it from enjoying the advantages that are accorded to such product under the Agreement.

A Member Country may withdraw products from its schedule of exceptions at any time. In such case it shall immediately abide by the Liberalization Program and the External Tariff in force for such products, on the terms and conditions and at the levels that apply to that country and shall at the same time begin to enjoy the respective advantages.

In duly specified cases, the Board may authorize a Member Country to add to its schedule of exceptions products that, after being reserved for Sectoral Programs of Industrial Development, were not included in such programs.

In no case may such addition mean an increase in the pertinent number of Items.

Article 57.-- The Board shall consider the possibility of including the products that the Member

Countries have in their schedules of exceptions in the Sectoral Programs of Industrial Development.

Likewise, in the programs that are adopted pursuant to articles 36 and 37, in connection with existing industries, priority shall be given to those whose products appear in the schedules of exceptions in order to enable them to meet subregional competition as soon as possible.

For the purposes provided for in the foregoing paragraphs, the countries concerned shall inform the Board of their intention to participate and shall withdraw the product from their schedules of exceptions in accordance with what is established in the pertinent program.

In the second half of 1974, the Member Countries shall engage in negotiations in order to seek formulas that will make it possible to bring about the gradual exemption from customs duties of the products included in the schedules of exceptions within the period ending December 31, 1985.

Article 58.-- The inclusion of products in the schedules of exceptions shall not affect the exporting of products produced in Bolivia or Ecuador in which there has been a significant volume of trade between the particular country and Bolivia or Ecuador during the past three years or for which there are definite prospects of a significant volume of trade in the immediate future.

The same thing will happen in the future in connection with those products from Bolivia or Ecuador that are included in the schedule of exceptions of any of the Member Countries and with respect to which definite, immediate prospects may arise for exporting them from Bolivia or Ecuador to the country that has excepted them from the trade liberalization.

It shall be the duty of the Board to determine when there is, or there are definite prospects for, a significant volume of trade.

Article 59.-- The Member Countries shall endeavor to conclude jointly Complementations Agreements with the other Contracting Parties of LAFTA in those sectors of production where such agreements can be made,

in accordance with the provisions of the Treaty of Montevideo and the pertinent Resolutions.

Article 60.-- Commitments assumed under the Treaty of Montevideo to implement the Liberalization Program of LAFTA shall take precedence over what is provided for in this Chapter, in so far as they are ahead of it.

CHAPTER VI
COMMON EXTERNAL TARIFF

Article 61.-- The Member Countries hereby undertake to put into effect a Common External Tariff no later than December 31, 1980.

Article 62.-- Before December 31, 1973 the Board shall prepare a Draft Common External Tariff and shall submit it for consideration to the Commission, which shall approve it within the two following years.

On December 31, 1976 the Member Countries shall begin the process of gradually harmonizing the duties applicable in their national tariffs to imports from outside the Subregion with the Common External Tariff; the harmonizing shall be effected on an annual, automatic, and linear basis, so that the process will be completed by December 31, 1980.

Article 63.-- Before December 31, 1970 the Commission shall, at the suggestion of the Board, approve a Common Minimum External Tariff, the chief purpose of which shall be:

- a) To establish adequate protection for subregional production;
- b) To create progressively a subregional margin of preference;
- c) To facilitate the adoption of the Common External Tariff; and
- d) To promote the efficiency of subregional production.

Article 64.-- On December 31, 1971 the Member Countries shall begin gradually to harmonize the duties applicable to imports from outside the Subregion with those established in the Common Minimum External Tariff, in those cases in which the former are lower than the latter, and shall carry out that process across the board, on an annual, automatic basis, so that it will be in full effect on December 31, 1975.

Article 65.-- Notwithstanding the provisions of Articles 62 and 64, the following rules shall be applied:

- a) The rules established in Sectoral Programs of Industrial Development regarding the Common External Tariff shall govern the products included in such programs; and
- b) At any time at which, in compliance with the Liberalization Program, a product is exempted from duties, charges, and other restrictions, the duties established in the Common Minimum External Tariff or in the Common External Tariff, as the case may be, shall be applied to it fully and simultaneously.

If products are involved that are not produced in the Subregion, each country may defer application of the common duties until such time as the Board ascertains that the production thereof has been initiated in the Subregion. However, if, in the Board's judgment, the new production is inadequate to supply the Subregion satisfactorily, it shall propose to the Commission the measures required to reconcile the need to protect the subregional production with the need to ensure a normal supply.

Article 66.-- The Commission may, at the suggestion of the Board, change the common tariff levels to the extent and at such time as it deems advisable, in order:

- a) To adjust them to the needs of the Subregion;
- b) To take into account the special situation of Bolivia and Ecuador; and
- c) To adapt them to those that are established in the Common External Tariff of LAFTA.

Article 67.-- The Board may propose to the Commission such measures as it considers essential in order to create normal conditions of supply in the Subregion.

In order to meet temporary shortages that may affect any Member Country, that country may bring the problem before the Board which shall ascertain what the situation is within a period consistent with the urgency of the case. After the Board verifies the fact that the problem exists, and so informs the country affected, the latter may take measures such as the reduction or temporary suspension of the duties of the External Tariff within the limits required to correct the trouble.

In the cases referred to in the foregoing paragraph, the Board shall request a special meeting of the Commission, if appropriate, or shall inform it of the action taken at its next regular meeting.

Article 68.-- The Member Countries hereby undertake not to change unilaterally the duties that are established in the various phases of the External Tariff. They likewise undertake to hold the necessary consultations among the members of the Commission before assuming commitments relating to tariff matters vis-à-vis countries outside the Subregion.

The Member Countries shall harmonize the commitments referred to in this Chapter with obligations under the Treaty of Montevideo.

CHAPTER VII AGRICULTURAL POLICY

Article 69.-- With a view to adopting a common policy and formulating a plan to serve as a guideline for the agricultural sector, the Member Countries shall harmonize their national policies and coordinate their agricultural development plans, taking into consideration, among other things, the following objectives:

- a) Improvement of the standard of living of the rural population;

- b) Increasing production and productivity;
- c) Specialization for the sake of better use of the factors of production;
- d) Subregional import substitution and diversification and increase of exports; and
- e) The timely, adequate supplying of the subregional market.

Article 70.-- In order to attain the objectives mentioned in the foregoing article, the Commission shall, from time to time and at the Board's suggestion:

- a) Adopt joint agricultural development programs, by product or groups of products;
- b) Adopt common systems for marketing and the conclusion of agreements between the respective governmental agencies on the supplying of agricultural products;
- c) Promote agreements between the national agencies connected with the planning and implementation of agricultural policy;
- d) Take action to promote exports;
- e) Adopt joint applied research programs and programs for technical and financial aid to the agricultural sector; and
- f) Adopt common standards and programs relating to plant and animal health.

Article 71.-- The Commission and the Board shall devise the measures required to accelerate the agricultural development of Bolivia and Ecuador and their participation in the expanded market.

Article 72.-- Even after the period specified in Article 2 of the Treaty of Montevideo, Article 28 of this Agreement, the Resolutions supplementing it, and any provisions amending or replacing them in the

future shall fully apply to the trade in agricultural products included in the Agreement's Liberalization Program.

Article 73.-- Any country that puts into effect the measures dealt with in the preceding article shall immediately inform the Board thereof, and shall transmit a report on the reasons on which it has based itself for applying them.

Any Member Country that considers itself harmed by the said measures may submit its comments to the Board.

The Board shall analyze the case and propose to the Commission such positive measures as it considers advisable in light of the objectives specified in article 69.

The Commission shall decide regarding the restrictions applied and the measures proposed by the Board.

Article 74.-- Before December 31, 1970 the Commission shall, at the Board's suggestion, set up the list of agricultural products for purposes of the application of articles 72 and 73. The said list may be amended by the Commission, at the suggestion of the Board.

CHAPTER VIII COMMERCIAL COMPETITION

Article 75.-- Before December 31, 1971 the Commission shall, at the Board's suggestion, adopt the standards required to prevent or correct practices that may distort competition within the Subregion, such as "dumping," improper price manipulation, operations intended to disturb the normal supplying of raw materials, and others of equivalent effect. Along this line of thought, the Commission will give consideration to any problems that arise from the application of duties, charges, and other restrictions on exports.

It shall be the duty of the Board to see that the said standards are enforced in particular cases that are reported, to which end it shall take into account the need to coordinate them with the provisions of Resolution 65(II) of the Conference of the Contracting Parties of LAFTA and those that supplement or replace it.

Article 76.-- Pending adoption by the Commission of the standards dealt with in the preceding article, any country that considers itself to be affected shall appeal to the Board to have Resolution 65(II) applied.

Article 77.-- Member Countries may not adopt corrective measures without prior authorization from the Board. The Commission shall regulate the procedures for the enforcement of the standards mentioned in this Chapter.

CHAPTER IX SAFEGUARD CLAUSES

Article 78.-- If a Member Country finds itself in any of the situations mentioned in Chapter VI of the Treaty of Montevideo as a result of factors unrelated to the Agreement's Liberalization Program, it may adopt safeguard measures consistent with the provisions of the said chapter and the pertinent Resolutions.

Article 79.-- If the implementation of the Agreement's Liberalization Program causes or tends to cause serious harm to the economy of a Member Country or to an important sector of its economic activity, the said country, may, after obtaining the authorization of the Board, apply temporary corrective measures in a nondiscriminatory manner. When necessary, the Board shall suggest to the Commission measures for collective cooperation designed to overcome the difficulties that have arisen.

The Board shall analyze the situation periodically in order to avoid any extension of the restrictive measures beyond the period when they are strictly necessary or in order to consider new formulas for cooperation if it should be advisable.

Article 80.-- If a currency devaluation by one of the Member Countries disturbs the normal

competitive situation, the country which considers that it has been harmed may present the case to the Board, which shall express its decision briefly and concisely. When the Board has ascertained the existence of such disturbance, the country that has been harmed may adopt temporary corrective measures while the disturbance lasts, within the framework of the Board's recommendations. In every case the said measures may not signify any reduction in the import levels existing before the devaluation.

Without prejudice to the application of the aforementioned temporary measures, any of the Member Countries may request the Commission to decide the matter definitively.

The Member Country which devalued may request the Board, at any time, to review the situation in order to eliminate the aforementioned corrective measures or make them less drastic. The Board's decision may be amended by the Commission.

Article 81.-- No safeguard clauses of any type shall apply to the importation of products coming from the Subregion that are included in Sectoral Programs of Industrial Development.

Nor shall articles 79 and 80 apply to the importation of products coming from the other LAFTA countries, when they are included in the Liberalization Program of the Treaty of Montevideo.

CHAPTER X

ORIGIN

Article 82.-- The Commission shall, at the Board's suggestion, adopt the special guidelines that are necessary for determining the origin of goods. The said guidelines shall constitute a dynamic instrument for the development of the Subregion and must be capable of facilitating the attainment of the objectives of the Agreement.

Article 83.-- It shall be the duty of the Board to establish specific requirements relating to origin for the products that call for this. When the establishment of specific requirements in a Sectoral Program of Industrial Development is necessary, the Board

shall establish them at the time the pertinent program is approved.

Within the year following the establishment of a specific requirement, Member Countries may request of the Board that it be revised and the Board shall express its decision summarily.

If a Member Country so requests, the Commission shall examine the said requirements and make a definitive decision within a period of between six (6) and twelve (12) months from the date they are established by the Board.

The Board may, at any time, automatically or upon request, modify the requirements established under this article in order to adapt them to the economic and technological advancement of the Subregion.

Article 84.-- The Commission and the Board, in adopting and establishing the special guidelines or the specific requirements relating to origin, as the case may be, shall seek to prevent them from constituting an obstacle that would prevent Bolivia and Ecuador from availing themselves of the advantages arising from the implementation of the Agreement.

Article 85.-- The Board shall see that the guidelines and requirements as to origin are complied with in subregional trade. It shall likewise propose whatever measures are necessary in order to solve problems of origin that may hinder the attainment of the objectives of this Agreement.

CHAPTER XI PHYSICAL INTEGRATION

Article 86.-- The Member Countries shall initiate joint action to solve any infrastructure problems that may have an unfavorable effect on the economic integration process in the Subregion. This action shall be exercised chiefly in the fields of power, transportation, and communications and shall include, particularly, the measures required to facilitate border traffic between Member Countries.

To that end, the Member Countries shall favor the establishment of multinational entities or enterprises when that is possible and advisable in order to facilitate the execution and administration of the said projects.

Article 87.-- Before December 31, 1972, the Board shall prepare initial programs in the fields indicated in the preceding article and shall submit them to the Commission for consideration. These programs shall include, in so far as possible, the following:

- a) Identification of specific projects to be included in the national development plans and the order of priority in which they are to be executed;
- b) The measures essential to the financing of any pre-investment studies that are necessary;
- c) The technical and financial assistance needed to ensure execution of the projects; and
- d) The procedures for joint action vis-à-vis the international credit agencies and, particularly, the Andean Development Corporation, to ensure that the financial resources will be provided which cannot be obtained in the Subregion.

The carrying out of these initial programs will mark the start of a continuous process, designed to expand and to modernize the physical infrastructure of the Subregion.

Article 88.-- The programs with which the preceding article deals and the Sectoral Programs of Industrial Development shall include measures involving collective cooperation in order to meet adequately the infrastructure requirements essential to their implementation and shall take into consideration in a special way the situation of Ecuador and the territorial characteristics and landlocked position of Bolivia.

CHAPTER XII
FINANCIAL MATTERS

Article 89.-- The Member Countries shall coordinate their national policies on financial matters and payments to the extent required to facilitate the attainment of the objectives of the Agreement.

For those purposes the Board shall submit to the Commission proposals on the following matters, among others:

- a) Channeling of the flow of public and private savings of the subregion to the financing of investments intended for the development of industry, agriculture, and infrastructure, within the context of the expanded market;
- b) Financing of trade between the Member Countries and with those outside the Subregion;
- c) Measures that will facilitate the circulation of capital within the Subregion, particularly such capital as is intended for the expansion of industry, services, and trade, in terms of the expanded market;
- d) Strengthening of the system of the multilateral compensation of bilateral balances in effect among the Central Banks of LAFTA in terms of the needs of subregional trade and the possible establishment of a Subregional Clearing House for Payments and of a system of reciprocal credits;
- e) Guidelines designed to solve any problems to which double taxation may give rise; and
- f) Creation of a common reserve fund.

Article 90.-- If, as a result of the implementation of the Agreement's Liberalization Program, a Member Country experiences difficulties related to its fiscal revenues, the Board may propose to the Commission, at the request of the country affected, measures to solve such problems. In its proposals, the Board shall take into account the degree of relative economic development of the Member Countries.

CHAPTER XIII

SPECIAL TREATMENT FOR BOLIVIA AND ECUADOR

Article 91.-- In order gradually to reduce the differences in development now existing in the Subregion, Bolivia and Ecuador shall enjoy special treatment that will enable them to attain a more accelerated rate of economic development through their effective, immediate participation in the gains from the industrialization of the area and the liberalization of trade.

In order to attain the objective set forth in this article, the organs of the Agreement shall propose and shall adopt the necessary measures in conformity with the rules thereof.

Section A - Harmonizing Economic Policies and Coordinating Development Plans

Article 92.-- In harmonizing economic and social policies and in coordinating the plans with which Chapter III deals, special treatment and adequate incentives must be established that will offset the inherent deficiencies of Bolivia and Ecuador and will ensure the mobilizing and assigning of the resources that are essential to attain the objectives that the Agreement envisages for their benefit.

Section B - Industrial Policy

Article 93.-- In the industrial policy for the Subregion, special consideration shall be given to the situation of Bolivia and Ecuador in assigning the production of goods on a priority basis for their benefit and in the consequent locating of plants in their territories, especially through their participation in the Sectoral Programs of Industrial Development.

Article 94.-- The Sectoral Programs of Industrial Development shall include exclusive advantages and effective preferential treatment for the benefit of Bolivia and Ecuador so as to enable them to participate effectively in the subregional market.

Article 95.-- The Board, when proposing to the Commission the supplementary measures specified in article 35, shall include exclusive advantages and preferential treatment for the benefit of Bolivia and Ecuador in those cases where it is necessary.

Section C - Trade Policy

Article 96.-- In order to enable Bolivia and Ecuador to share immediately in the benefits of the expanded market, the Member Countries shall irrevocably and exclusively accord them exemptions from duties, charges, and restrictions of all kinds on the importation of products coming from their territories, as provided for in articles 97 and 98.

Article 97.-- For the purposes indicated in the preceding article, products coming from Bolivia and Ecuador shall be governed by the following rules:

- a) No later than December 31, 1973 the products included in article 45 d) shall have free and permanent access to the subregional market. To that end, duties and charges shall be eliminated automatically in three annual, successive reductions of 40, 30, and 30 percent, respectively, the first of which shall take place on December 31, 1971, taking as a point of departure the levels indicated in article 52 a);
- b) The Commission, at the Board's suggestion, shall, before December 31, 1970, approve lists of products that will be exempted for the benefit of Bolivia and Ecuador on January 1, 1971;

- c) The products referred to in article 53 shall be completely exempted from duties and charges for the benefit of Bolivia and Ecuador on January 1, 1974 or January 1, 1976, depending on whether or not they were subject to an extension, as provided for in article 47;
- d) Before March 31, 1971 the Commission shall, at the Board's suggestion, establish a margin of preference in favor of each list of products of special importance to Bolivia and Ecuador and shall determine the periods during which the said margins shall be maintained, which shall be put into effect on April 1, 1971.

The lists to which this subsection refers shall be composed of products included in article 45 d); and

- e) The same procedure as that indicated under subsection d) shall be followed in connection with a list of products which, having been reserved for Sectoral Programs of Industrial Development, were not included in them within the periods established in article 47.

Article 98.-- The exemption of the products on the Common Schedule for which the Member Countries have accorded exclusive advantages in favor of Bolivia and Ecuador shall be in effect exclusively for their benefit. The said exclusivity shall be limited to the country that has accorded the particular advantage.

Article 99.-- The corrective measures referred to in articles 72 and 79 shall be extended to imports from Bolivia and Ecuador only in cases that have been duly authorized and after the Board has ascertained that the serious harm has been caused essentially by the said imports. The Board shall follow, in this matter, the procedures mentioned in the said article 79 and in article 4 of Resolution 173 (CM-I/III-E) of LAFTA.

Article 100.-- Bolivia and Ecuador shall implement the Liberalization Program in the following manner:

- a) They shall exempt the products included in Sectoral Programs of Industrial Development in the manner established in each of them;

- b) They shall exempt products which, having been reserved for the said programs, were not included in them, in the manner and within the period determined by the Commission, at the suggestion of the Board. In order to make such determination, the Commission and the Board shall take into account, basically, the benefits that are derived from the programming and locating referred to in article 93;
- c) The time limit established by the Commission may not exceed by more than five years the one established in article 52 c);
- d) They shall exempt products now or hereafter included in the Common Schedule in the manner and within the time limits specified in the Treaty of Montevideo and in the pertinent Resolutions of the Conference;
- e) They shall exempt products that are not yet produced in the Subregion and which do not form part of the reserve provided for their benefit in article 50 sixty days after the Commission approves the said reserve.

However, they may except from this treatment those products that the Board, automatically or at the request of Bolivia or Ecuador, labels for these purposes luxury or nonessential products.

These products shall, for purposes of their subsequent exemption from customs duties, be subject to the procedure established in f) of this article; and

- f) They shall exempt the products that are not included under the foregoing subsections on the basis of their national tariffs through successive annual reductions of ten percent each, the first one of which will be effected on December 31, 1976. However, Bolivia and Ecuador may initiate the exemption of these products from customs duties in the course of the first six (6) years in which the Agreement is in force.

Article 101.-- The Board shall evaluate from time to time the results obtained by Bolivia and Ecuador in their trade with the other Member Countries and the extent to which they are actually availing themselves of the benefits of the expanded market. On the basis of these

evaluations, the Commission may revise the time limits indicated under subsections c) and f) of the preceding article.

Article 102.-- Bolivia's schedule of exceptions may include products included in not more than 350 Items and in 50 Subitems of the LAFTA Brussels Tariff Nomenclature. Ecuador's schedule may not contain more than 600 items. This number may be modified by the Commission as provided for in article 55, paragraph two.

The products included by Bolivia and Ecuador in their schedules of exceptions shall be completely exempted from duties, charges, and other restrictions no later than December 31, 1990. This time limit may be extended in cases that have been duly authorized by the Board.

With respect to everything else, articles 55, 56, and 57 shall apply to the schedules of exceptions of Bolivia and Ecuador.

The rules set forth in the first paragraph of article 54 shall not apply to the products included by Bolivia and Ecuador in their schedules of exceptions.

Article 103.-- In the preparation of the Programs to which articles 36 and 37 refer, the Commission and the Board shall give special attention on a priority basis to the industries of Bolivia and Ecuador whose products are excepted by the said countries from the Liberalization Program, in order to help enable them to participate in the subregional market as soon as possible.

Section D - The Common External Tariff

Article 104.-- Bolivia and Ecuador shall initiate the process of adopting the Common External Tariff on an annual, automatic, and linear basis on December 31, 1976 and shall complete it on December 31, 1985.

Bolivia and Ecuador shall be obliged to adopt the Common Minimum External Tariff only with respect to the products that are not produced in the Subregion with which Article 50 deals. With regard to these products, they shall adopt the minimum duties through an across-the-board, automatic process that will be carried out in three years from the date on which production of these products is started in the Subregion.

Without prejudice to the provisions of the first paragraph of this article, the Commission may, at the Board's suggestion, decide that Bolivia and Ecuador shall adopt the minimum tariff levels for products that are of importance to the remaining Member Countries, provided the application of the said levels will not cause dislocation for Bolivia or Ecuador.

The Commission may also, at the Board's suggestion, decide that Bolivia and Ecuador must adopt the minimum tariff levels for products whose importation from outside the Subregion may cause serious dislocations for the Subregion.

Article 105.-- Bolivia and Ecuador may establish any exceptions that the Commission, at the Board's suggestion, authorizes them to make to the process of harmonizing their National Tariffs with the Common External Tariff, which will enable them to apply the laws they have in effect on industrial development, chiefly with regard to the importation of capital goods, intermediate products, and raw materials required for their development.

The said exceptions may not be applied, in any case, beyond December 31, 1985.

Section E - Financial Cooperation and Technical Assistance

Article 106.-- The Member Countries hereby obligate themselves to take joint action vis-à-vis the Andean Development Corporation and any other subregional bodies, whether national or international, for the purpose of obtaining technical assistance and financing for the installation, on a priority basis, of plants or industrial complexes in Bolivia and Ecuador.

The funds intended for such projects shall be allocated with a view to the fundamental objective of reducing the existing differences in development between the countries, a marked effort being made to favor Bolivia and Ecuador.

Furthermore, the Member Countries shall take joint action vis-à-vis the Andean Development Corporation to have it allocate its regular and special funds in such a way that Bolivia and Ecuador will receive a proportion substantially greater than that which would result from a distribution of such funds in proportion to their contributions to the capital of the Corporation.

Section F - General Provisions

Article 107.-- In its periodic evaluations and annual reports, the Board shall give special, separate consideration to the situation of Bolivia and Ecuador within the process of subregional integration and shall propose to the Commission whatever measures it deems adequate to improve substantially their possibilities for development and to promote still further their participation in the industrialization of the area.

Article 108.-- With regard to everything not covered in this Agreement, the special treatment for Bolivia and Ecuador fully incorporates the principles and provisions of the Treaty of Montevideo and those of the LAFTA Resolutions for the benefit of Countries of Relatively Less Economic Development.

CHAPTER XIV

ADHERENCE, DURATION, AND DENUNCIATION

Article 109.-- This Agreement may not be signed with reservations and shall remain open for adherence by the other Contracting Parties to the Treaty of Montevideo. Countries of Relatively Less Economic Development which adhere to it shall be entitled to treatment similar to that which is agreed upon in Chapter XIII for Bolivia and Ecuador.

The conditions governing the adherence shall be defined by the Commission, for which purpose it shall take into account the fact that the admission of new members must be in conformity with the objectives of the Agreement.

Article 110.-- This Agreement shall be submitted to the Permanent Executive Committee of LAFTA for consideration and after the Committee has declared that it is compatible with the principles and objectives of the Treaty of Montevideo and with Resolution 203 (CM-II/VI-E), each of the Member Countries shall approve it in accordance with its respective legal procedures and shall transmit the appropriate ratification to the Executive Secretariat of LAFTA.

The Agreement shall enter into force when three countries have transmitted their ratification to the Executive Secretariat of LAFTA.

For the other countries the date of entry into force shall be that of the transmission of the appropriate ratification in accordance with the procedure indicated in the first paragraph of this article.

This Agreement shall remain in force as long as the commitments that are assumed within the general framework of the Treaty of Montevideo do not take precedence over those that are established herein.

Article 111.-- Any Member Country wishing to denounce this Agreement shall so inform the Commission. From then on the rights and obligations arising from its membership shall terminate, with the exception of the advantages received and accorded under the Subregion's Liberalization Program, which shall remain in effect for a period of five years from the denunciation.

The period stated in the foregoing paragraph may be reduced in well-founded cases by decision of the Commission and at the request of the Member Country concerned.

The provisions of article 34 g) shall apply to the Sectoral Programs of Industrial Development.

CHAPTER XV

FINAL PROVISIONS

Article 112.-- The Commission shall, at the Board's suggestion and on the basis of the latter's periodic reports and evaluations, adopt, no later than December 31, 1980, the necessary procedures to ensure the attainment of the objectives thereof after the process of trade liberalization has been completed, and the Common External Tariff has been established. The said procedures shall provide for special treatment for the benefit of Bolivia and Ecuador as long as the present differences in the degree of development exist.

Article 113.-- The advantages stipulated in the Agreement shall not be extended to nonparticipating countries nor shall they create obligations for them.

Article 114.-- The provisions of this Agreement shall not affect the rights and obligations arising from the Treaty of Montevideo and the LAFTA Resolutions, which shall apply suppletorily.

Transitory Provision.-- Any changes in levels that may result from Ecuador's modification of its National Tariff as a result of the adoption of the Brussels Tariff Nomenclature shall be excepted from the provisions of article 54.

ANNEX I

- 1.-- To delegate to the Board such powers as it deems advisable.
- 2.-- To approve amendments of this Agreement.
- 3.-- To revise proposals of the Board.
- 4.-- To approve any guidelines that may be necessary in order to make possible coordination of the development plans and harmonization of the economic policies of the Member Countries.

- 5.-- To approve the program for harmonizing the instruments regulating the foreign trade of the Member Countries.
- 6.-- To approve the physical integration programs.
- 7.-- To expedite the Liberalization Program, by product or by groups of products.
- 8.-- To approve the joint agricultural development programs.
- 9.-- To approve and to amend the list of agricultural products dealt with in article 74.
- 10.-- To approve the measures for collective cooperation set forth in article 79.
- 11.-- To change the number of Items to which articles 55 and 102 refer.
- 12.-- To reduce the number of subjects included in this Annex.
- 13.-- To establish the conditions governing adherence to this Agreement.

ANNEX II

- 1.-- To approve the list of products reserved for Sectoral Programs of Industrial Development.
- 2.-- To approve the Sectoral Programs of Industrial Development.
- 3.-- To approve the rationalization and specialization programs referred to in article 36.
- 4.-- To approve the Common Minimum External Tariff and the Common External Tariff in accordance with the guidelines specified in Chapter VI, to establish the conditions for their application, and to change the common tariff levels.
- 5.-- To approve the list of products that are not produced in any country of the Subregion.
- 6.-- To approve the special guidelines governing origin.

ANNEX III

- 1.-- To approve the list of products for immediate exemption from duties pursuant to article 97 b).
- 2.-- To establish margins of preference and to specify periods during which the list of products of special importance to Bolivia and Ecuador shall be in effect (article 97 d) and e)).
- 3.-- To determine the manner and periods in which Bolivia and Ecuador shall exempt from duty the products reserved for Sectoral Programs of Industrial Development which were not included in them. (Article 100 b)).
- 4.-- To revise the time limits for exempting from duty the products referred to in article 100 c) and f).
- 5.-- To determine the minimum tariff levels that Bolivia and Ecuador will adopt for products of importance of the other Member Countries (article 104).
- 6.-- To approve the list of products not produced, reserved for production in Bolivia and Ecuador, and to establish the conditions and periods of duration of the reserve (article 50).

In witness whereof the undersigned Plenipotentiaries, having deposited their full powers, found to be in good and due form, sign the present Agreement in the name of their respective Governments.

Done in the city of Bogotá, on the twenty-sixth day of the month of May in the year one thousand nine hundred and sixty-nine, in five originals, all equally valid.

For the Government of the Republic of Colombia:

JORGE VALENCIA JARAMILLO

For the Government of the Republic of Bolivia:

TOMAS GUILLERMO ELIO

For the Government of the Republic of Chile:

SALVADOR LLUCH

For the Government of the Republic of Ecuador:

JOSE PONS VIZCAINO

For the Government of the Republic of Peru:

VICENTE CERRO CEBRIAN

June 1, 1972

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CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCEProgress Towards Country Goals1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) *Making appropriate efforts to increase food production and improve means for food storage and distribution.*

The member countries of the Andean Development Corporation (CAF) are making increased and appropriate efforts through agricultural programs to increase agricultural production, and means for storage and distribution.

(2) *Creating a favorable climate for foreign and domestic private enterprise and investment.*

Through the efforts of the CAE and the Andean Commission of the Treaty of Cartagens (the Andean Commission), the Andean countries are making positive efforts to create a favorable climate for foreign and domestic enterprise and investment within the objectives of regional economic integration set forth in the Treaty of Cartagena. Although the recently announced common foreign investment code may have temporarily inhibited foreign investment, member countries seek to develop a favorable

private investment climate both on a national and regional basis.

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(3) Increasing the public's role in the developmental process.

The Andean countries have been working individually and successfully through specific programs to increase the role in the development process. Andean countries active membership in and support of the CAF and its objectives is evidence of their collective support for increasing the public's role.

(4) (a) Allocating available budgetary resources to development.

Andean countries have allocated sizeable portions of their national budgets to top priority national development programs and also support programs of regional development.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 16 and intervention in affairs of other free and independent nations.) (See also Item No. 14.)

No Andean country is diverting resources for unnecessary military expenditures, nor is any Andean country intervening in other countries' affairs. (Peru's military expenditures for 1971-72 were 16% of the total two-year budget.)

(5) Willing to contribute funds to the project or program.

ADC members have contributed, and will continue to contribute, substantial funds to the project. These contributions are considered ample and demonstrative of interest in the project.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

All Andean countries are making progress toward economic, social and political reforms such as tax collection improvements, law enforcement, and land reform. While in Peru freedom of expression and of the press had been somewhat curtailed in recent years, presently all Andean countries are making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

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(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

The Andean countries have been adhering to the principles of the Act of Bogota and the Charter of Punta del Este. Furtherance of the goals of the Treaty of Cartagena, through the efforts of the CAF is in accordance with those principles.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

A major purpose of Andean economic integration is to make the Andean region more attractive to local capital.

Also, recent decrees within Andean countries have had a major impact on the repatriation of foreign capital. (e.g. in Peru, Bolivia, Colombia).

Expansion of existing, and establishment of new, industries producing for enlarged markets should aid in encouraging the return of capital invested elsewhere.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

Andean economic integration is an effective response to these concerns of the people and to the development problems of the region and the projects supported by resources of this loan will provide opportunities for self-help.

B. Are above factors taken into account in the furnishing of the subject assistance?

These factors have been fully considered in assessing this project. The Andean countries strong support to the CAF, whose ultimate objective is to increase the development of the region and the well-being of the individual, is firm evidence that the Andean countries are committed to such goals.

Treatment of U.S. Citizens

- 2. FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

There is no evidence of any such debt owed to a U. S. citizen by any member country of the CAF.

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3. FAA § 620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*

This assistance is not being provided to an Andean country government. Expropriations of property beneficially owned by U.S. citizens occurred in Peru (1968) and Chile (1971). It has been provisionally determined that appropriate steps have been taken by the governments of those countries to discharge their obligations within the meaning of this statute.

4. FAA § 620(o); Fishermen's Protective Act. § 5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

a. *has any deduction required by Fishermen's Protective Act been made?*

a. Not applicable.

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

b. The A.I.D. Administrator has considered denying assistance to Ecuador and has determined not to do so.

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Relations with U.S. Government and
Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?*
- This assistance is not for a productive enterprise. Sub-projects supported by this loan assistance are to concentrate on national and regional markets only. If a problem arises with respect to any proposed sub-project, it will be dealt with in accordance with policies in effect at that time.
6. FAA § 620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?*
- No Andean country has permitted such action.
7. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
- The A.I.D. Administrator has considered such denial of assistance in regard to Peru and Colombia and has determined against such action.
8. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
- No Andean country is in default in payment of principal and interest on any AID loan within the meaning of FAA 620 (q).

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9. FAA § 620(t). *Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?* No Andean country has severed diplomatic relations with the U.S.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?* Bolivia is delinquent in the amount of \$47,671 with respect to U.N. dues obligations. This factor was considered by the Administrator when he recently approved the OYB for Bolivia. The Peruvian government has stated its intention to liquidate its delinquent U.N. obligations. Peru's arrearages were considered in determining the current OYB.
11. FAA § 620(a). *Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?* No Andean country furnishes assistance to Cuba, or fails to prevent its ships or aircraft from carrying cargoes to or from Cuba.
12. FAA § 620(b). *If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?* The Secretary of State has determined that each Andean country is not controlled by the international Communist movement.

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13. FAA § 620(f). *Is recipient country a Communist country?* No Andean country has a Communist government.
14. FAA § 620(i). *Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?* No Andean country is involved in or is planning such subversion or aggression.
15. FAA § 620(n). *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?* No Andean country furnishes goods, or permits ships or aircrafts under its flag to carry goods to North Vietnam.
16. FAA § 481. *Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?* Governments of Andean countries have taken such measures as are within their capacity to control narcotics traffic and are cooperating with U.S. efforts to eliminate production and trade in narcotics.

Military Expenditures

17. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)
- No Andean country spends an excessive amount of its country's budget or foreign exchange reserves for military equipment. Peru and Colombia have previous commitments for purchase of Mirage type jets. No new commitments are planned.

CONDITIONS OF THE LOAN

General Soundness

18. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.
- The proposed terms and conditions of the loan are legal under Andean country's and U. S. laws and are reasonable for the Andean countries at this time.
19. FAA § 251(b)(2); § 251(e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?
- The proposed project appears to be both economically and technically sound, as evidenced by the analysis included in this paper. There are strong assurances that the funds will be used in a sound manner.
20. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- There appears to be an excellent capacity on the part of CAF to repay the loan.

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21. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?
- These funds will be used to make sub-loans for industrial investment. As such, engineering, financial, and other plans as yet have not been prepared; sub-borrowers will prepare these plans in order to qualify for loans. A firm estimate of the cost to the U. S. of the assistance has been obtained, and as with all loans to intermediate credit institutions, a determination has been made that CAF is capable of implementing the loan. Based upon recent performances in Andean countries, there is reasonable expectation that further legislation as may be required under the provisions of the Andean economic integration movement will be forthcoming in member countries which have not yet passed such legislation.
22. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
- Not applicable.
23. FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
- No other financing is available from other free world or public sources on the concessionary terms required for this project. Financial assistance to CAF from the IDB and other free-world sources is under active consideration but will be made under less concessionary terms.
24. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

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Loan's Relationship to Achievement
of Country and Regional Goals

25. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntray Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws.
- This loan will support and directly encourage important areas of economic, political and social development through provision of assistance to the private sector. Goals (s), (b), (c), and (e) will be emphasized through the projects carried out and the resulting economic development of the region.
26. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
- The project is regional in nature and is being executed and coordinated on a regional basis.
27. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
- The activity is closely related to and consistent with other development activities and will directly contribute to the long range objectives of LAFTA and LACM.
28. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
- The activity will directly contribute to the achievement of self-sustaining growth for the CAF member countries. by stimulating the expansion and development of the private sector and industrial base of the region.

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29. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
- This loan will provide financing for new or expanded industry and encouragement of entrepreneurship which will increase employment. Indirectly, this activity will provide the Governments of Andean countries with funds to carry on other programs, e.g. health, education, etc. Through emphasis on the private sector, and resulting stimulus of the necessary institutions which service that sector, maximum participation in economic development on the part of the people will be effected.
30. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- The program recognizes clearly the particular needs, desires and capacities of the region and indirectly supports and furthers the other goals.
31. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- The loan will directly serve to encourage the flow of international trade and aid private initiative, and will indirectly further efforts of the countries to attain the other goals.

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32. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate? The assistance is not being furnished to a newly independent country.
33. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities. The activity is consistent with the findings and recommendations of CIAP.
34. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America. This activity will have no direct effect on the cooperative movement in the Andean region.
35. FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America. This assistance will directly encourage regional development programs through provision of financial resources to a regional corporation which has as its goal the furtherance of regional Andean economic integration. This effort will thereby also contribute to political integration in the area.

Loan's Effect on U.S. and A.I.D. Program

36. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position. The loan will have little effect on the U.S. economy. No effect on areas of labor surplus, and will be furnished in a manner as consistent as possible with improving the U.S. balance of payments position.

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37. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- Through improved economic and financial stability in the region the loan will encourage increased U.S. private trade and investment abroad and the furnishing of goods and services by the U.S. private sector.
38. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
- Any engineering or professional services financed under the loan may be provided by U.S. firms or their affiliates.
39. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
- U.S. small businesses will be invited to participate in cases where formal bidding procedures are required to furnish goods and services under sub-loan projects.
40. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
- No.

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41. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.
- Such technical assistance as may be financed under the loan will be contracted from private enterprise.

42. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
- The entire amount of the loan will go to private enterprise.

Loan's Compliance with Specific Requirements

43. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
- Yes.
44. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
- Not applicable.

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45. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? Yes. Procurement will be from Code 941 countries (excluding the country of the sub-borrower) as permitted by Presidential determination.
46. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? The loan does not finance commodity procurement in bulk.
47. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? Loan agreement will so specify.
48. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? There will be no offshore procurement of any agricultural commodities financed under the loan.
49. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962? The loan does not finance a water or water-related land resources construction project or program.

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50. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable? Any construction contracts financed under the loan will be required, through the loan agreement, to be let competitively to the maximum extent possible.
51. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? The loan agreement will preclude such use of funds.
52. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services. CAF is making a substantial contribution of funds to the project; all of CAF's financial resources, including paid in equity from member countries, will be in dollars.
53. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel? No.
54. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? Yes.
55. App. § 108. Will any loan funds be used to pay U.N. assessments? No.

AID 1240-2 (4-72)

56. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7). Not applicable.
57. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction? No.
58. App. § 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress? No.
59. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? The aggregate value of assistance to the project to be furnished by the U.S. will not exceed \$100 million.
60. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? No excess foreign currency is owned by the U. S. in the region at the present time.

AID 1240-2 (4-72)

61. MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. The loan agreement will provide for compliance with the 50% U. S. flag shipping requirements.



DEPARTMENT OF STATE

Washington, D.C. 20520

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DEC 29 1971

TO: ARA-LA - Mr. Meyer

FROM: ARA-LA - Herman Kleine *HK*
ARA-LA - Daniel Szabo *DS*

SUBJECT: U. S. RESPONSE TO ANDEAN DEVELOPMENT CORPORATION
(CAF) REQUEST FOR ASSISTANCE

A. Introduction

While visiting the Department October 4-7, 1971, officials of the development arm of the Andean Subregional Group, the Andean Development Corporation (Corporación Andina de Fomento - CAF) expressed their interest in a \$10 million to \$15 million loan from AID to be used in relending to the private sector. AID indicated an open attitude. It was agreed that in anticipation of this possibility AID would send a small working-level team to Caracas to discuss CAF operations in some detail and to further explore problems and prospects for AID lending to the CAF. This paper examines political and other aspects which will be important in the consideration of possible lending to CAF.

B. Background - General

The magnitude of assistance discussed within the U. S. Government for Andean integration activities has been reduced sharply since the subregional common market scheme got under way in the late 1960's. In July 1968, the United States Government, in an Aide Memoire to the Colombian Government, offered to consider making a loan of "perhaps as much as" \$25 million toward an industrial adjustment fund of the Andean Development Corporation. The commitment was phrased very generally and no loan resulted.

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GROUP 3

Downgraded at 12-year intervals,
not automatically declassified.

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In December 1970, CAF requested a grant of \$2.5 million for pre-investment studies, citing the 1968 offer. The request was denied, ostensibly because funds were committed for the current fiscal year, and CAF was referred to multi-lateral sources such as the IDB and CIAP. The prevailing view in the Department at the time was that it was premature to come to a decision on the matter, that CAF was not yet able to utilize effectively the amount requested.

In January 1971, a grant of \$20,000 was offered to the Andean Junta, the executive arm of the Andean Subregional Group. Because of non-substantive problems, this grant has not been made.

In mid-1971, a grant of \$35,500 was made to CAF to finance a Price-Waterhouse management study.

The Congressional presentation for FY 1972 and that planned for 1973 referred to the possibility of some additional assistance to CAF. A proposal for use of limited grant assistance of up to \$200,000, was submitted by the regional integration officer in Lima on September 24, 1971, and is still under consideration.

Recent Visit of CAF Officials to the United States.

CAF officials in September-October 1971, led by the Executive President of the organization, Dr. Adolfo Linares, visited the United States, Canada, Western Europe, Eastern Europe and Japan to explore the possibilities of financial assistance from major capital sources. In their visit to Washington, October 4-7, 1971, they inquired about a possible AID loan to CAF of approximately \$10 to \$15 million for relending to the private sector. The proposal was not given detailed study during the visit, although AID indicated an open attitude. The officials also requested U. S. support for pending IDB requests and discussed, in as yet very imprecise form, various possibilities for OPIC involvement in the area. Further, it was proposed, and

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tentatively agreed, to send a small working party to Caracas, possibly as early as December, for more detailed discussions.

CAF officials made favorable impressions on U. S. and other officials whom they have met during this visit. The Germans, for example, reportedly found them to be very practical and aware of economic realities. Our impression is that the CAF people are more oriented toward the private sector and toward economic decision-making and thus more inclined to be sympathetic to U. S. objectives than are their more ideologically-motivated colleagues in the Junta.

C. Problem

The principal issue to be decided is whether the United States national interest in the Andean subregional integration movement is sufficient to warrant a determination in principle to provide the movement with a meaningful level of assistance, given U. S. bilateral problems within the area (particularly with Chile), and given the fact that any loan document with the CAF could not expressly bar all subloans to a named member country.

A positive decision would raise a number of corollary but important questions -- determination of the immediate recipient, the final use, and the level of the assistance, as well as how to deal with the problem of possible participation by Chile or other countries that threaten our interests.

D. Discussion

1) General

We believe the U. S. national interest will best be served by a continuing effort to play a meaningful role in the Andean Subregional Group countries, including Venezuela. The suspension of bilateral aid programs in Chile would

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make it particularly desirable that we cultivate those channels of communication still open to us. Doing so should give us some influence over economic developments, and should enable us to assist that sector most sympathetic to our interests. The political effects in the area of such action are positive.

U. S. support of economic integration in the past has been based on the belief that economic integration can be a major factor in furthering economic expansion and raising per capita GNP.

The Andean subregional movement is at present the most dynamic of the Latin American integration efforts. To the surprise of people who follow hemispheric integration matters, it has met difficult deadlines.

Within the Andean movement, the CAF is the element most likely to base its decisions on pragmatic economic grounds rather than on politics, because of its role as the developmental agency of the Subregion; because of Venezuelan membership in CAF (not in the Andean Group); and because of the participation and influence of foreign capital. Thus a strengthened CAF might better withstand the influence of the more extremist partners.

In the promoting of its regional projects, the CAF will likely develop closer functional ties with investors than will the Junta, and its officers are persons who particularly recognize the value of these relationships and of private investment in the area. CAF has the potential of providing a link between regional projects needing investment capital and outside investors seeking placements for their funds.

There are a number of arguments besides those cited elsewhere and beyond those usually cited in support of economic assistance in general, which argue in favor of some type of assistance to the Andean movement, here referring specifically to CAF:

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a) Meaningful assistance to the CAF would have a favorable political impact on the region, and would lend support to moderate elements who tend to be in accord with many U. S. political and economic objectives.

b) Meaningful assistance to CAF would have a favorable impact on the climate for foreign investment in the Andean region, by signaling our continuing concern for the growth of the region.

c) U. S. assistance brings with it U. S. participation in ways that will influence economic development and policies favorably. Continuing working-level contacts, exposure to U. S. economic thinking and to technological advances will have favorable impacts.

d) A principal CAF request now is for the funds for relending to the private sector. Substantial support for CAF projected to be provided by the IDB and East European countries can be expected to benefit the public sector directly. Particularly, for this reason, encouragement and support for the private sector via the CAF are clearly in the U. S. interest.

There are also arguments against assistance to CAF:

a) Apart from the merits of the case, significant elements of the U. S. Congress and U. S. business may well oppose such assistance because of their opposition to the Andean Foreign Investment Code and their preference for a tough U. S. stand as an effort to force amelioration of the Code.

b) Opposition may also be based on the concern that U. S. assistance through CAF may bring benefits to Chile. The problem of Chile is taken up as a separate point later.

c) Expropriation. U. S. assistance to both Chile and Peru have been affected by the actions of these countries in making expropriations without just compensation. Apart from Chile, the prospect of CAF assistance to Peru may raise additional obstacles to the larger question of cooperation with CAF.

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CAF is the most appropriate available instrument for the conveying of such assistance to the group per se; the primary alternative would be the Andean Junta in Lima, but the Junta is recognized both by the Latins and ourselves as being more "political" and ideologically attuned to the region's various economic nationalisms. It therefore is less desirable than CAF as a conduit for U. S. assistance.

* * *

In the most basic sense, the problem is the political one of our overall relations with the Andean group countries. In an effort which the United States has frequently applauded, these nations are moving without widespread opposition toward increased integration of their economies. To refuse support will not stop the integration movement; to refuse support will be read by Latins as simply another indication of U. S. withdrawal from the scene, particularly in the light of our previous expressions of intent to be helpful.

The basic issue therefore becomes as much or more a political issue as an economic one, although it is that as well. It is the issue of involvement versus withdrawal, the issue of hopefully being in a position to have some influence over the course of events rather than allowing such events to run their own course.

2) End-Use of U. S. Assistance Funds

To permit us to achieve our developmental and political objectives, while enlisting the support of the U. S. private business community, we believe that any sublending program to be considered by AID should be subject to the following conditions:

a) Relending must be confined to enterprises in the private sector. This condition would apparently create no problem for CAF management.

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b) Relending should be only in those industries where foreign private investment is permitted and not discouraged, with preference being given to those operations which involve the largest percentage of private national ownership.

c) Relending should be only in those industries that require extensive transfers of technology and know-how, or where the investment is likely to generate important direct or indirect employment effects. Given resource limitations, it seems desirable to concentrate our lending in areas of economic activity where the U. S. enjoys a marked comparative advantage and/or where the developmental pay-off is likely to be high.

Structuring the program to contain variations of the above elements would make the program more palatable to the U. S. private sector and to Congress and still meet the requirements of the Andean countries which have already acknowledged a need for private foreign investment particularly in those areas which relate to technology and know-how transfers.

The study mission to visit CAF would be instructed to submit its recommendations regarding criteria for end-use, after exploration of the above criteria with CAF.

In addition to the above, an attempt will have to be made to structure the program so as to avoid circumstances where, because of actions taken by a member country, and provisions of the FAA, CAF would be requested to discontinue lending to a member country with AID funds. We cannot at this stage be certain that such a program can be structured. While it is not possible at this time to identify precisely how the program might be structured, one possibility would be to limit all subloans to genuinely regional projects. It is difficult to define what is meant by "regional project"; one must examine each issue on a case-by-case basis. However, as a general guide, a project may be thought of as truly regional if withholding assistance from one country would result in material, substantive interference with the effectiveness of a project.

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3) Level of Aid -- Token or Substantial?

The CAF has requested that a level of \$10-15 million be explored, for relending to the private sector; perforce a relending program to the private sector would require more than merely token U. S. support.

In any event, token aid has outlived its usefulness as the Andean Subregional Group has advanced to the point where it is seeking larger amounts of assistance. It has a paid-in capital of \$10,000,000 (out of a total projected capitalization of \$100 million) and \$3,196,700 has been approved for investment and studies. Even prior to the recent trip there were reportedly good prospects for an unspecified grant from Italy and a \$10 million credit from Argentina.

As a result of the recent trip, Canada has tentatively offered \$400,000 in grant assistance for 1972, as well as some loan financing. Three Corporation requests are currently under consideration with the IDB -- 1) a \$1 million grant for pre-feasibility survey, 2) combination grant and loan assistance for feasibility studies in the amount of \$2 million, and 3) a global loan of \$25 million for sub-lending operations. The IDB has not reacted to these requests. Although it has not received a specific request from the Corporation, the IBRD has told us that it would view positively any regional infrastructure proposals; Bank officials regard the Corporation staff very highly. Poland and the USSR have apparently made loan offers, the latter reportedly reading \$50 million.

Logically, these funding opportunities which seem to be opening up to the CAF raise the question whether additional funds are needed from the United States.

Beyond the paid-in capital of \$10 million the only funds yet assured to CAF appear to be the Canadian grant of \$400,000. While discussions have been initiated with the IDB, a formal request for \$25 million has not yet been

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submitted, much less approved. Moreover, neither the IDB loan, nor, obviously, the East European credits (if realized) would be directed exclusively toward the private sector.

For these reasons, we do not believe that adequacy of funding presents an argument against a U.S. loan for relending to the private sector.

In addition to needing funds, it is likely that CAF means by its request to gauge the U. S. attitude, by deed as opposed to words, regarding Latin initiatives toward regional integration in general -- and CAF in particular. Certainly, U. S. support to CAF at this juncture could be very important in stimulating confidence, and a favorable disposition toward additional financing, on the part of the prospective creditor-donors.

Finally, whether or not CAF chose, as it would have every right to do, to make public an extension of U. S. assistance, it would doubtless cite such action by us in its attempts to elicit commitments from others.

For our immediate purposes, the question of aid levels is inseparable from the question of our response to the request for \$10-15 million loan.

There is also the question of the level of technical assistance for FY 1973 and onwards. (As noted above, the FY 1972 Congressional presentation provides for up to \$200,000 in technical assistance to CAF and an illustrative proposal for use of this amount has been received from the Regional Integration Officer in the field but not yet discussed with CAF.) Should a decision be made, as a result of the Caracas visit of the AID team to support CAF through loans, we would expect to provide some funding for technical assistance, either to be financed directly under the loan or in the form of a grant. The level and purpose of this technical assistance would be commensurate with the long-term nature and expanding scale of CAF activities and

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continuing U. S. assessment of the subregional integration movement.

5) Problem of Chilean Participation

While not eliminating the possibility of Chilean participation, the structuring of the subblending program as described above will certainly minimize such participation but at the same time be taken as a symbol to the Chilean private sector of our continued support. It is important that we not close the door to Chilean private participation as this would only work against us in Latin America and would be interpreted as an abandonment by the Chilean private sector.

Because of these difficult bilateral considerations, it would be necessary to make clear to the CAF that we have little flexibility in negotiating conditions which restrict the use of the funds. If the Government of Chile or any others insist that these conditions be weakened as a condition of CAF acceptance of the loan we would almost certainly be forced to withdraw from the negotiations.

6) Maintenance of Flexibility

The above considerations are based on conditions and prospects as they are seen at the moment. These of course may change -- the CAF may not, for example, flourish. Any commitments we make should bear such possibilities in mind.

E. Conclusion

We believe the United States should actively and sympathetically consider CAF's request for \$10 million to \$15 million in development-loan assistance, as well as be prepared to respond affirmatively to any reasonable

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request for up to \$200,000 in technical assistance from FY 1972 funds. (You mentioned the holding available of up to \$10,000,000 for lending to CAF in your Chicago speech of October 25, 1971.) In the near term our objective would be to demonstrate to Latin Americans our desire to work constructively with them to promote economic development, notwithstanding certain bilateral difficulties we are experiencing. In addition, structuring the subblending program as indicated above serves to demonstrate to the U. S. private sector and to Congress that the Executive Branch still intends to use its best offices to promote private sector initiatives and concepts in the Andean Subregional Group.

F. Recommendation

Based on the above considerations, it is recommended that an AID team be authorized to visit CAF headquarters in Caracas in January 1972 to discuss the possibilities of

- 1) a loan for private sector support using the criteria set forth above;
- 2) should there be a request, in respect to a reasonable requirement not financed through other sources (e.g., the Canadian \$400,000, the IDB or the proposed AID loan), up to \$200,000 in grant technical assistance from FY 1972 funds.

The team would also be authorized to explore with CAF other aspects of their operations and plans as discussed above.

Approve _____

CMW

Disapprove _____

Date _____

11/21/72

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Clearances (in draft):

- E/IFD - Mr. Sidney Weintraub *ill*
- ARA/BC - Mr. John W. Fisher *ill*
- ARA/EP - Mr. Bruce M. Lancaster *ill*
- ARA/NC - Mr. Edward S. Little *ill*
- LA/DP - Mr. Jack I. Heller *ill*
- PPC/PDA - Mr. Antonio Gayozo *ill*
- PPC/DF - Mr. Lawrence H. Berlin *ill*
- OPIC - Mr. Harry Freeman *ill*

m
ill *W* *jos* *fn*
ARA:ECP:DAnderson/LA:DR:LYaeger/LA:GC:IALevy/E:IFD:JABWinder

DRAFT
LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds

Regional: Andean Development Corporation ("CAF")

Pursuant to the authority vested in the Administrator, Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Andean Development Corporation ("Borrower"), of not to exceed fifteen million United States dollars (\$15,000,000) to assist in financing (a) the United States dollar costs of Borrower's program of sublending for private sector integration projects in the Andean Region and (b) the United States dollar and local currency costs of (i) subloans to finance feasibility studies for private sector integration projects (not to exceed \$500,000), and (ii) a promotional program (not to exceed \$500,000) ("Project"). The Loan shall be subject to the following terms and conditions.

1. Interest and Terms of Repayment:

Borrower shall repay the Loan to A.I.D. within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and three (3%) per annum thereafter.

2. Other Terms and Conditions:

(a) Goods, services (except for ocean shipping) and marine insurance financed under the Loan shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book, excluding, in the case of subloans for other than feasibility studies, the country of the relevant sub-borrower. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in Code 941 of the A.I.D. Geographic Code Book, excluding the country of the relevant sub-borrower.

(b) United States dollars utilized under the Loan to finance local currency cost shall be made available pursuant to procedures satisfactory to A.I.D.

(c) Borrower will make subloans only:

- (1) to companies with completely private ownership except for up to 25% ownership by Borrower and/or the International Finance Corporation;
- (2) for regional projects;
- (3) in industries and for projects in which foreign private investment is not excluded by the country of the relevant sub-borrower; and
- (4) to finance efficient industry.

- (d) Except as A.I.D. may otherwise agree in writing
- (1) all subloans financed with \$500,000 or more of Loan funds must be approved by A.I.D.;
 - (2) Borrower and A.I.D. will jointly review performance under the Loan following the disbursement of each \$1,000,000 of Loan funds.
- (e) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Administrator

Date



