ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
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The following table sets forth exports and imports by major commodity groups in recent years.

EXPORTS AND IMPORTS BY MAJOR COMMODITY GROUPS (1)

EXPORTS (F.O.B.) (2)

	1970	1971	1972	1973	1974 (3)	1975 (3)(4)	As a percentage of total exports 1971	As a percentage of total exports 1975 (3)
	(millions of dollars)							
Agricultural Products	$ 422.0	$ 429.6	$ 509.7	$ 625.2	$ 616.7	$ 595.7	31.4%	20.8%
Cotton	123.7	120.1	147.9	166.0	181.9	173.7	8.8	6.1
Coffee	86.[illegible]	81.1	85.8	157.0	154.2	189.2	5.9	6.4
Tomatoes	1[illegible]7.7	90.0	99.1	127.1	94.4	103.7	6.6	3.6
Melon, oranges and watermelon	15.5	16.9	16.3	16.6	16.4	n.a.	1.2	—
Corn, wheat and beans	2.4	19.1	31.3	7.4	0.2	0.5	1.4	—
Other	86.6	102.4	129.3	151.1	169.6	133.6	7.5	4.7
Livestock, meat and poultry	131.3	125.8	188.6	166.3	106.3	55.9	9.2	2.0
Livestock	79.2	74.7	116.7	91.2	56.4	24.6	5.5	0.9
Fresh meat	42.4	42.4	56.5	49.9	24.8	10.6	3.1	0.4
Other	9.7	8.7	15.4	25.2	25.1	20.7	0.6	0.7
Fish	67.8	75.2	88.1	112.1	127.9	120.3	5.5	4.2
Shrimp	62.9	69.1	78.3	100.6	116.5	120.3	5.1	4.2
Other	4.9	6.1	9.8	11.5	11.4	n.a.	0.4	—
Minerals	216.2	187.9	201.9	207.2	499.2	737.3	13.8	25.8
Zinc (ore and metal)	57.4	31.3	37.4	27.6	129.2	87.0	2.3	3.0
Lead (metal)	26.0	19.4	20.7	22.8	63.3	45.7	1.4	1.6
Fluorite	23.9	42.0	41.3	38.2	48.5	49.4	3.1	1.7
Sulphur	16.4	15.8	10.9	18.0	42.6	44.4	1.2	1.6
Petroleum and natural gas	38.4	31.3	21.1	21.0	81.4	435.0	2.3	15.2
Other	54.1	48.1	70.5	79.6	134.2	75.8	3.5	2.7
Manufactured Goods	444.0	544.9	677.0	959.7	1,499.9	1,201.8	40.1	42.0
Sugar and syrup	97.5	102.5	113.0	122.7	192.1	162.2	7.5	5.7
Henequen yarn and other textiles	38.3	50.8	77.7	167.7	267.9	141.1	3.7	4.9
Iron and steel products	37.1	61.2	72.7	43.0	83.2	38.1	4.5	1.3
Processed fruits and vegetables	34.9	32.5	45.2	67.3	82.2	51.5	2.4	1.8
Transportation machinery and equipment	36.6	51.4	82.2	152.8	170.0	269.8	3.8	9.5
Chemicals	8[illegible].4	90.0	102.4	152.3	261.1	204.2	6.6	7.1
Radios and T.V. sets	3.3	6.4	7.6	5.0	14.3	4.0	0.5	0.1
Paper products	19.9	16.1	22.8	31.9	32.3	23.0	1.2	0.8
Glass products	8.5	13.3	18.3	21.6	26.2	25.9	1.0	0.9
Other	86.5	120.7	135.1	195.4	370.6	282.0	8.9	9.9
Unclassified products	—	—	—	—	—	147.6	—	5.2
Total Exports	$1,281.3	$1,363.4	$1,665.3	$2,070.5	$2,850.0	$2,858.6	100.0%	100.0%

Exports and Imports by Major Commodity Groups (1)—Continued

IMPORTS (C.I.F.)

	1970	1971	1972	1973	1974 (3)	1975 (3)(4)	As a percentage of total imports 1971	1975 (3)
	(millions of dollars)							
Consumer Goods	$ 463.3	$ 442.7	$ 608.2	851.0	1,314.1	719.3	19.6	10.9
Food and beverages	115.4	85.2	162.5	322.0	273.5	467.6	3.8	7.1
Automobiles and parts	181.9	199.1	225.5	277.0	399.4	137.7	8.8	2.1
Other consumer goods	166.0	158.4	220.2	252.0	641.2	114.0	7.0	1.7
Producer Goods	1,863.5	1,811.3	2,109.7	2,962.4	4,742.6	5,174.5	80.4	78.7
Raw and semi-finished materials	780.6	796.2	918.2	1,413.8	2,508.5	2,321.6	35.3	35.3
Textile fibers	13.7	12.7	9.5	11.2	12.5	10.2	0.6	0.2
Chemicals and chemical products	142.5	171.3	212.3	259.0	492.2	697.1	7.6	10.5
Fertilizers	6.6	10.7	13.9	13.5	23.2	75.8	0.5	1.2
Pulp and newsprint	35.9	22.0	23.9	65.4	182.7	157.9	1.0	2.4
Iron and steel products	56.2	38.4	41.0	107.1	250.8	102.8	1.7	1.6
Petroleum products	44.1	71.3	100.6	246.7	368.2	291.1	3.2	4.4
Other raw and semi-finished materials	481.6	469.8	517.0	710.9	1,178.9	986.7	20.7	15.0
Capital Goods	1,082.9	1,015.1	1,191.5	1,548.6	2,234.1	2,852.9	45.1	43.4
Agricultural equipment	29.9	23.7	26.1	26.1	58.5	N.A.	1.1	—
Construction equipment	46.7	40.4	61.4	95.4	123.6	119.8	1.8	1.8
Railroad materials	51.8	12.8	18.3	19.2	51.6	217.8	0.6	3.3
Electrical equipment	58.7	51.0	74.0	100.7	98.6	361.7	2.3	5.5
Transportation and communications equipment	184.3	143.9	155.6	217.8	361.3	508.2	6.4	7.7
Other capital goods	711.5	743.3	856.1	1,089.4	1,540.5	1,645.4	32.9	25.1
Unclassified products	—	—	—	—	—	686.4	—	10.4
Total Imports	$2,326.8	$2,254.0	$2,717.9	3,813.4	6,056.7	6,580.2	100.0%	100.0%

(1) Excluding amounts attributable to border trade and exports of silver and in-bond industries.

(2) The export values of the items in this table are based on prices declared in export invoices, except that such values for certain items are adjusted to reflect the average prices reported in United States import statistics and the export value of cotton is based on the quotations for Mexican cotton in the Liverpool market, after deducting freight and other transportation charges. The effect of such adjustments was to increase the amount of total exports in millions of dollars as follows: $196.7 (1970); $183.2 (1971); $243.5 (1972); $249.3 (1973); $184.8 (1974) and $143.3 (1975).

(3) Preliminary.

(4) The data for 1975 cannot be compared to other years for certain items because of the new tariffs for imports and exports.

The United States is Mexico's most important trading partner. According to preliminary figures in 1975, trade with the United States, excluding border trade and exports of gold and silver, accounted for 57.0% and 62.5% of total exports and imports, respectively. It is the Government's policy to diversify Mexico's trade outlets.

According to figures published by the United States Department of Commerce, in 1974 Mexico was the fourth most important customer of the United States, taking about 4.9% of the United States exports in that year. In 1974, Mexico was the fifth most important supplier to the United States, supplying about 3.3% of United States imports. The United States import statistics on which these calculations are based largely exclude border trade.

Balance of International Payments

As measured by increases in international monetary reserves, Mexico has had overall balance of payments surpluses in every year since 1962 except 1965. This has resulted from capital inflows, principally a result of external borrowings, offsetting annual deficits on current account.

During the past five years, imports and payments abroad for purchases of goods and services grew at an annual compound rate of 20.7%, while the rate of increase in exports of goods and services was 16.5%. The current account deficit increased, reaching $3,643.4 million in 1975. According to preliminary data for 1975, exports of petroleum products and of certain agricultural products registered substantial increases. However, due principally to the U.S. recession, the rate of growth in tourism and the exports of manufactured goods slowed down in relation to 1974. During 1975, the rate of increase of imports of goods (8.6%) was smaller than in 1974 (58.8%).

These current account deficits have been financed by substantial increases in foreign borrowings and by continued inflows of private capital for direct investment. The administration is giving high priority to strengthening the balance of payments current account. As indicated elsewhere herein, major efforts are being made to decrease imports of agricultural commodities, and the adverse impact of petroleum products on the balance of trade has already been reversed. In addition, the Government is attaching priority to continued expansion of tourist facilities and a variety of measures to increase the export of manufactured goods. These factors are expected to result in an improvement in the balance of trade.

The Government attaches great importance to its international credit standing and, if necessary, intends to take whatever steps are required to maintain its ability to borrow to finance its current account deficit.

The following table shows the principal items of the balance of payments of Mexico in recent years.

BALANCE OF PAYMENTS

	1970	1971	1972	1973	1974(1)	1975(1)
			(millions of dollars)			
I CURRENT ACCOUNT						
(a) *Credits*						
1. Exports (f.o.b.) (2)	$1,281.3	$1,363.4	$1,665.3	$2,070.5	$2,850.0	$2,858.6
2. Production of Silver	66.4	46.9	51.1	69.8	148.9	140.1
3. Tourism	415.0	461.0	562.6	724.2	842.0	800.8
4. Passenger Fares	39.3	47.3	59.5	63.4	78.1	88.7
5. Border Trade	878.9	966.9	1,057.0	1,207.7	1,372.9	1,518.8
6. In-bond Industries (3)	80.9	101.9	164.7	277.6	443.5	445.9
7. Other	171.3	179.7	240.4	415.2	607.1	450.3
Total Credits	2,933.1	3,167.1	3,800.6	4,828.4	6,342.5	6,303.3
(b) *Debits*						
1. Imports (c.i.f.) (4)	2,326.8	2,254.0	2,717.9	3,813.4	6,056.7	6,580.2
2. Tourism	169.7	172.2	220.4	258.0	334.8	398.0
3. Passenger Fares	53.9	54.3	65.7	72.6	96.8	134.1
4. Border Trade	585.0	612.5	649.3	695.0	819.2	933.6
5. Payments on Direct Foreign Investments	357.5	383.0	451.5	528.4	633.7	699.0
6. Interest	229.2	236.8	261.8	378.5	588.5	778.8
7. Other(5)	156.9	180.7	195.5	257.9	370.9	423.0
Total Debits	3,879.0	3,893.5	4,562.1	6,003.8	8,900.6	9,946.7
Deficit on Current Account	–945.9	–726.4	–761.5	–1,175.4	–2,558.1	–3,643.4
II IMF SPECIAL DRAWING RIGHTS (Allocations)	45.4	39.6	39.2	—	—	—
III LONG-TERM CAPITAL ACCOUNT						
1. Direct Foreign Investment	200.7	196.1	189.8	286.9	362.2	362.3
2. Purchase of Foreign Enterprises	—	—	–10.0	–22.2	–2.1	–25.8
3. Net Transactions in Securities(6)	–7.2	52.0	6.2	–10.3	–59.8	136.8
4. Bank and Other Direct Loans to Official Entities and Private Sector Borrowers(7)						
(a) Public Sector (Net)						
(i) New Loans	799.0	742.2	864.2	1,891.9	2,233.9	3,157.1
(ii) Amortization	–535.9	–455.8	–504.5	–845.3	–561.0	–688.1
New Loans Net	263.1	286.4	359.7	1,046.6	1,672.9	2,469.0
(b) Private Sector (Net)	61.1	164.2	186.3	324.1	326.3	483.3
Total New Loans (Net)	324.2	450.6	546.0	1,370.7	1,999.2	2,952.3
5. Net Changes in Direct Government External Debt(8)	– 2.3	–28.9	37.8	69.9	470.9	460.0
6. Mexican Credits granted	–11.5	–0.7	–16.3	–18.9	–39.5	4.9
Surplus on Long-Term Capital Account	503.9	669.1	753.5	1,676.1	2,730.8	3,890.5
IV ERRORS AND OMISSIONS, AND SHORT-TERM CAPITAL ACCOUNT (NET)	498.7	217.7	233.5	–378.4	–135.8	–82.0
V CHANGE IN FOREIGN EXCHANGE RESERVES OF THE BANK OF MEXICO (Sum of I, II, III and IV)	$ 102.1	$ 200.0	$ 264.7	$ 122.3	$ 36.9	$ 165.1

(1) Preliminary.

(2) Excludes exports by in-bond industries.

(3) Includes only the value added by domestic input.

(4) Excludes imports by in-bond industries.

(5) Includes net imports of gold.

(6) Principally bonds issued by public agencies.

(Notes continued on following page)

(NOTES—*continued)*

(7) Excludes direct borrowing by the Federal Government and includes loans to all other public sector entities, except borrowings evidenced by securities which are recorded under "Net Transactions in Securities".

(8) Includes all direct Federal Government borrowings, whether or not evidenced by securities.

FOREIGN EXCHANGE AND RESERVES

Foreign Exchange Rates and Exchange Control

The unit of Mexican currency is the peso. In April 1954, Mexico, as a member of the International Monetary Fund (IMF), established the value of the peso at 0.0710937 grams of fine gold, with a parity of 12.50 pesos to the U.S. dollar. Since such date, the rate for the U.S. dollar in Mexico has been allowed to fluctuate between 12.49 pesos and 12.51 pesos to the dollar (the official buying and selling rates). Since 1940, the peso has been devalued twice against the U.S. dollar, the first time on June 18, 1949, when the rate of exchange was changed from 4.85 to 8.65 pesos to the U.S. dollar, and the second time on April 19, 1954, when such rate was changed from 8.65 to 12.50 pesos to the U.S. dollar.

Following the Smithsonian Agreement of December 1971 on central rates of exchange and the adoption on May 8, 1972 of a new gold parity of the U.S. dollar, the par value of the Mexican peso became 0.0654810 grams of fine gold. With the adoption of a new gold parity for the U.S. dollar on October 18, 1973, Mexico informed the IMF of its decision to maintain the rate of exchange of the peso to the dollar. Consequently, the value of the peso became 0.0589330 grams of fine gold.

Mexico maintains the free convertibility of its currency and does not impose restrictions on the movement of capital or other international payments. Mexico permits a free internal market in gold, although the right to export gold is reserved exclusively to the Bank of Mexico, the central bank. The Government has encouraged the inflow of external capital for development purposes within Mexico's capacity to service such obligations. Mexico has been a nation with Article VIII status under the Articles of Agreement of the IMF since November 12, 1946. Article VIII stipulates, among other things, that no member shall, without approval of the IMF, impose restrictions on the making of payments or transfers for current international transactions.

Gold and Foreign Exchange Reserves

The following table indicates the gold and foreign exchange holdings of the Bank of Mexico at certain dates from December 31, 1970 to December 31, 1975.

INTERNATIONAL RESERVES OF BANK OF MEXICO

December 31	Gold(1)(2)	Foreign Exchange(3)	IMF Special Drawing Rights	Silver	Total Gross Reserves
			(millions of dollars)		
1970	$311.3	$394.1	$ 47.8	$66.9	$ 820.1
1971	281.1	565.0	88.3	85.6	1,020.0
1972	293.7	756.0	138.7	96.3	1,284.7
1973	313.9	909.6	154.2	29.3	1,407.0
1974	272.8	986.7	157.9	26.5	1,443.9
1975	272.6	1,214.2	100.9	21.2	1,608.9

(1) Includes gold portion of subscription to IMF. All gold valued at $35.00 per troy ounce in 1971, at $38.00 in 1972 and at $42.22 from 1973 to 1975.

(2) Includes currency transactions made by IMF with Mexican pesos to support other member currencies.

(3) Of this amount over 90% was United States dollars.

Preliminary figures indicate that at December 31, 1975 foreign exchange assets of the banking system (other than the Bank of Mexico) were equivalent to 95,550.3 million pesos and that foreign exchange liabilities of these institutions at such date were equivalent to 114,784.7 million pesos.

On January 1, 1970, the first allocation of Special Drawing Rights or SDRs (a liquid international reserve asset or drawing facility, which is allocated and maintained under the authority of the IMF and which is used as a means of obtaining foreign exchange) was made by the IMF. Mexico has received 124.2 million in allocations of SDRs to date. Mexico has granted 37.9 million SDRs in exchange for other currencies which have been used by Mexico, reducing Mexico's total holdings to 86.3 million SDRs as of December 31, 1975.

Mexico is one of the founding members of the IMF. Mexico's present quota as of December 31, 1975 in the IMF is equal to 370 million SDRs, which has been fully subscribed: 92.5 million SDRs in gold and 277.5 million SDRs in pesos. Since 1941, Mexico has maintained an exchange stabilization agreement with the United States Treasury, which was increased on December 27, 1973, from $100 million to $200 million and at January 1, 1976 to $300 million. In addition, the Bank of Mexico signed a swap agreement on August 29, 1975, with the United States Federal Reserve Board for $360 million which agreement was for twice the amount of a similar agreement theretofore in effect and is similar to others in force between the Federal Reserve and the central banks of 13 other major industrial nations and the Bank for International Settlements. The agreements with the United States Treasury and Federal Reserve provide currency exchange facilities available for both countries.

In addition to the international reserves shown in the preceding table, Mexico has additional drawing rights from the IMF (which are subject to various conditions on availability under IMF rules) representing 370 million SDRs under normal drawing right facilities, and the possibility of increasing such drawing facilities to approximately 610.5 million SDRs under its extended fund facilities. Since 1965, the IMF has been using Mexican pesos in operations to support the currencies of other member countries. By virtue of agreements reached in January 1976, Mexico's normal drawing rights of 370 million SDRs will increase 45% (166.5 million SDRs) in the near future.

Subscriptions to International Financial Institutions

Mexico's contribution to the capital of the World Bank is 228,000,000 SDRs, all of which have been fully subscribed. 22.8 million SDRs had been paid in as of December 31, 1975, and the balance of such subscription is callable only if required by the Bank to meet obligations of the Bank for funds borrowed or loans guaranteed by it, and is payable at the option of Mexico in gold, in United States dollars or in the currency required to discharge the obligation for which the call is made. As of December 31, 1975, the World Bank had authorized loans to Mexico totalling $2,197.7 million of which $1,423.3 million had been disbursed and $1,121.8 million remained outstanding.

Mexico has paid in full its subscription of 8.74 million SDRs to the capital of the International Development Association and its subscription of $720,000 to the capital of the International Finance Corporation (IFC), both of which are affiliates of the World Bank. As of December 31, 1975, the IFC had granted credits and made investments in Mexico totaling $69.9 million, of which $33.3 million was outstanding on that date.

Mexico's subscription to the Ordinary Capital of the Inter-American Development Bank (IDB) was, as of December 31, 1975, $456,359,647, one of the largest subscriptions of the Bank's Latin-American members. Of such subscription, $79,980,557 has been paid in cash, and the balance is callable if required to meet the Bank's obligations. As of December 31, 1975, Mexico's contribution to the Bank's Fund for Special Operations was $159,094,000. As of the same date the IDB has authorized loans to Mexico totaling $1,201.3 million, of which $790.3 million had been disbursed and $643.5 million remained outstanding.

FOREIGN INVESTMENT IN MEXICO

It is the policy of the Federal Government that the economic development of Mexico should be financed primarily from internally generated sources, external financing being used only to complement internal capital. Foreign direct investment is welcomed when it does not displace Mexican capital. To that end, preference is given to foreign investors that establish new industries, associated with Mexicans, which introduce new technologies and produce articles for export or in substitution for imports.

Investments by foreigners and the earnings thereon may be freely repatriated. Under Mexican laws foreign investors do not receive any special benefits or exemptions beyond those available to domestic investors, and certain constitutional, statutory and regulatory restrictions apply specifically to foreigners. These restrictions include prohibitions as to ownership of real property in zones along the country's land borders and seacoasts; requirements as to Mexican ownership of enterprises engaged in banking, news dissemination, transportation within Mexico, land settlement, and exploitation of forest and marine products; the reservation of the petroleum and basic petrochemical industry exclusively to Pemex, a public agency; and the establishment in most important activities of various percentages, ranging from 51% to 66%, of equity interest which Mexican citizens must hold depending on the activity.

In 1973 Mexico enacted a "Law to Promote Mexican Investment and Regulate Foreign Investment," which created for the first time in Mexico a registry of foreign investment, and a commission to regulate that investment. The law requires that foreign individuals and corporations with equity investments in Mexico, Mexican companies with any foreign ownership, trusts with foreign beneficiaries established under the new law, and securities representing capital owned by or pledged on behalf of foreigners and any transfers thereof, register with the National Registry of Foreign Investments. Affected companies which do not register may not pay dividends, and affected shareholders failing to register may not receive them.

In 1975, new direct foreign investment (including intra-company items) was $362.3 million compared with $196.1 million in 1971.

Under legislation enacted in 1972 and effective in 1973, concerning the transfer of technology to, and the use of foreign patents and trademarks by, business enterprises in Mexico, no contracts would normally be approved which, among other things, provided for the transfer of technology already in Mexico, sought to impose controls over the management of the recipient company or over its exports, charged a price deemed to be unfair, or required the recipient company to buy equipment or raw materials from a specified source.

MONETARY SYSTEM AND BANKING

Bank of Mexico and Monetary Policy

The central bank and sole bank of issue is the Bank of Mexico (Banco de México, S.A.), which was chartered in 1925. Its functions are established by its Organic Law enacted by the Federal Congress in 1941, which provides that 51% of the Bank's outstanding shares of stock must be owned by the Federal Government. At December 31, 1975, the Bank of Mexico had total assets of 152,000 million pesos.

The Bank of Mexico is the Government's primary instrument for the execution of monetary policy and the regulation of currency and credit. The Bank is authorized by law to regulate directly interest rates payable on time deposits and minimum reserve percentages which banks and financieras (industrial development banks engaged in investment banking and commercial finance operations, in many cases affiliated with commercial banks) are required to maintain and to provide discount facilities for certain types of bank loans. Through these means, the Bank regulates loan operations and investments of banks and is instrumental in channeling financial resources into areas of the economy deemed to require particular encouragement.

Current monetary policy is designed: (1) to reduce inflationary pressures; (2) to increase bank resources; and (3) to reinforce agricultural output through the extension of credit. In order to reach these goals, the Bank of Mexico is empowered to increase the rate of reserve requirements by up to 100% on certain deposit liabilities. In addition, specialized credit institutions have been authorized to increase the rate of interest they pay on certain deposits, and new financial instruments have been created to attract savings. The monetary authorities have also allowed northern border branches of credit institutions to increase the rate of interest they pay on deposits of dollars and have encouraged rediscounting for certain operations.

In accordance with legal requirements the Bank of Mexico, in order to support the value of the peso, must maintain a monetary reserve equal to at least 25% of total currency in circulation and sight obligations of the Bank of Mexico, at least 80% of such reserve to consist of gold or foreign exchange and the remainder to be silver. At December 31, 1975, the ratio of the monetary reserves to currency in circulation and sight obligations was 33.4%, and 98.7% of the reserve consisted of gold, Special Drawing Rights and foreign exchange.

Money Supply

The following table sets forth the money supply at the dates indicated.

MONEY SUPPLY

(millions of pesos)

December 31	Total Money Supply	In Circulation: Notes	In Circulation: Coin	Checking Deposits
1970	49,013	18,487	1,657	28,869
1971	53,060	19,795	2,029	31,236
1972	64,328	24,458	2,320	37,550
1973	79,875	31,729	2,447	45,699
1974	97,474	39,874	2,812	54,788
1975(1)	118,190	48,842	3,451	65,897

(1) Preliminary.

Banking System

Private Financial Institutions. In the private sector, the country's banking system at December 31, 1975, included 108 commercial banks with total assets of 89,778 million pesos; 90 private financieras with total assets of 154,629 million pesos; 25 mortgage banks with total assets of 40,755 million pesos; and various specialized institutions (savings banks, capitalization banks and trust companies) with total assets of 33,226 million pesos.

In recent years there has been a substantial growth in the resources of the foregoing groups of institutions. Between December 31, 1965, and December 31, 1975, demand deposits increased from 18,115.6 million pesos to 72,341 million pesos, and the number of depositors increased from 786,354 to 1,346,931; savings deposits increased from 5,881.2 million pesos to 25,502.7 million pesos and the number of accounts increased from 5,068,722 to 15,608,324; borrowings of the financieras, obtained primarily from the public through loans and sales of bonds and certificates, showed a sizeable increase, from 21,895.6 million pesos to 149,539.7 million pesos; and mortgage bank loans outstanding rose from 5,657.2 million pesos to 39,124.4 million pesos.

Public Financial Institutions. In addition to the Bank of Mexico (and the private financial institutions described above), there are 22 national credit institutions which have been created by the Federal Government to assist or serve specific sectors of the Mexican economy. The total assets of these institutions amounted to 208,139 million pesos as of December 31, 1975. The majority of their capital is subscribed by the Federal Government or by public agencies (including other national credit institutions), and they operate under the supervision of the Ministry of Finance and Public Credit in accordance with specific statutes. The most important of the national credit institutions is Nacional Financiera. Other major national credit institutions are the National Bank of Public Works and Services, the National Foreign Trade Bank and the National Bank for Rural Credit.

The following table sets forth the peso equivalent of the outstanding obligations, at the respective dates indicated, of Nacional Financiera and the National Bank of Public Works and Services payable abroad or in external currencies.

	December 31, 1970	1971	1972	1973	1974	1975
			(millions of pesos)(1)			
External Bonds	1,166	1,492	1,904	1,803	1,609	1,787
External Credits(2)	20,496	22,034	25,238	33,651	47,396	64,895
Guarantees or Endorsements	9,869	10,174	10,236	10,917	16,229	18,144
Total	31,531	33,700	37,378	46,371	65,234	84,826

(1) Includes obligations reloaned to the Federal Government.

(2) Amounts shown include obligations with an original maturity of less than one year which amounted to 4,445 million pesos at December 31, 1974, and 5,889 million pesos at December 31, 1975.

For additional information on Nacional Financiera, see the forepart of this Prospectus.

The following table sets forth certain information as to the financing provided by the banking system as of the dates indicated, together with the classification of loans and investments.

BANKING SYSTEM—LOANS AND INVESTMENTS OUTSTANDING

	December 31,					
	1970	1971	1972	1973	1974	1975(1)
	(millions of pesos)					
Agriculture, mining, forestry and fishing	18,819.4	22,619.2	24,904.5	28,146.3	36,696.7	50,557.6
Energy	9,913.5	13,791.8	17,862.0	17,760.2	16,426.1	16,028.4
Industry	44,944.9	51,828.1	56,859.3	60,870.4	76,651.3	98,794.1
Services and other Activities	22,994.7	25,623.3	26,932.7	32,043.4	37,166.7	47,333.5
Commerce	20,340.5	25,300.9	27,420.4	27,859.9	35,767.2	42,053.8
Government (Federal, Local and Municipal)	13,087.2	14,822.6	19,485.2	25,815.8	29,460.8	35,759.6
Total	130,100.2	153,985.9	173,464.1	192,496.0	232,168.8	290,527.0

(1) Preliminary.

Securities Markets

The greater part of securities operations—mainly in fixed income securities—is conducted through the banking system. Securities transactions on the stock exchanges (in Mexico City, Monterrey and Guadalajara) have been of relatively minor importance.

Some types of private financial intermediaries as well as some of the national credit institutions issue fixed-income securities and place them directly with individuals and institutional investors. The Federal Government issues securities to meet financing requirements for its economic and social infrastructure projects, which are acquired by private credit institutions to comply with legal reserve requirement regulations or by the Bank of Mexico with funds deposited with it to meet cash reserve requirements.

As of December 31, 1975, the amount outstanding of fixed-income securities was 320,900 million pesos. Of this amount, 54.5% were government issues, 31.4% were private banking issues, 11.1% were public banking issues, and 3.0% were issues of private non-financial intermediaries.

The Mexican Congress enacted on December 29, 1974 a law with the objective of revitalizing the securities markets. The main features of this law seek to develop sources of equity and debt for new companies and an improved market for the securities of existing companies.

PUBLIC FINANCE

Prior to 1965, the revenues and expenditures of the public agencies of the Federal Government were accounted for outside the Federal budget and not reflected therein, except to the extent that the Government granted subsidies or capital contributions to, or received income from, such agencies. Under the Federal Revenue Laws since 1965, the budgets of most of the larger public agencies—principally Pemex, the Federal Electricity Commission, social security and other social welfare institutions, National Railways of Mexico, Federal Toll Roads and Bridges, and Aeroméxico (a Government-owned airline company)—are included as part of the budget of the Federal Government.

The combined budget for 1976 of the Federal Government and included public agencies authorizes expenditures of 439,643 million pesos. Of this amount, the Federal Government accounts for 238,043 million pesos and the public agencies for 201,600 million pesos.

Federal Government Revenues and Expenditures

The Federal Government's fiscal year is the calendar year. The expenditure budget of the Federal Government is prepared by the Ministry of Finance and Public Credit and prior to December 15 is presented by the President to the Chamber of Deputies for its approval.

The revenue bill, which is also presented by the President to the Chamber of Deputies, sets forth the revenues which the Federal Government estimates it will receive during the following year. Such bill, which must be enacted by both houses of Congress before December 31, becomes the annual Revenue Law, providing the necessary authority for collecting taxes and contracting loans; however, specific borrowings may also be authorized under special laws adopted by Congress.

The following table presents a summary of the revenues and expenditures of the Federal Government (excluding public agencies) for the year indicated.

SUMMARY OF REVENUES AND EXPENDITURES OF THE FEDERAL GOVERNMENT (1)

(excluding public agencies)

	1971	1972	1973	1974	1975 Budget	1976 Budget
			(millions of pesos)			
Current Revenues(2)	43,735	53,580	67,591	93,179	131,028	153,911
Current Expenditures:						
Direct Administrative Expense	14,151	18,000	23,313	29,670	41,281	54,867
Public Debt Interest and Expense	4,884	5,390	6,614	10,980	13,690	20,159
Transfer Payments (consumer subsidies, social security payments, etc.)	13,691	18,993	26,172	39,690	42,180	53,179
Other Current Expenditures	291	168	261	340	6,385	4,822
Total Current Expenditures	33,017	42,551	56,360	80,680	103,536	133,027
Surplus on Current Account	10,718	11,029	11,231	12,499	27,492	20,884
Capital Revenues (excluding proceeds of loans)	786	673	1,605	898	900	900
Capital Expenditures	17,670	28,962	39,962	47,910	61,828	80,145
Deficit on Capital Account	(16,884)	(28,289)	(38,357)	(47,012)	(60,928)	(79,245)
Budgetary Surplus (Deficit)	(6,166)	(17,260)	(27,126)	(34,513)	(33,436)	(58,361)
Adjustment to cash basis:						
Add: Items in previous year budget payable in current year	—	—	—	—	9,556	14,000(3)
Subtract: Items in current year budget payable in following year	—	—	—	—	(13,000)(3)	(16,000)
Deficit to finance	(6,166)	(17,260)	(27,126)	(34,513)	(29,992)	(56,361)
Gross borrowing:						
Internal	8,538	19,381	28,808	38,224		
External	1,787	2,953	4,874	8,781	(4)	(4)
Total	10,325	22,334	33,682	47,005	41,181	67,232
Amortization of debt:						
Internal	3,536	4,059	4,348	5,693	9,682	9,231
External	1,563	1,659	1,571	1,512	1,506	1,640
Total	5,099	5,718	5,919	7,205	11,188	10,871
Net borrowing(5)	5,226	16,616	27,763	39,800	29,993	56,361
Surplus or (Deficit) including net borrowing	(940)	(644)	637	5,287	1	—

(1) The accounts of the Federal Government are on a cash basis. The figures for the years 1971 through 1974 reflect the cash accounting for those years. The budgets for 1975 and 1976 are adjusted to a cash basis as indicated in the table.

Footnotes continued on following page

Footnotes continued from preceding page

(2) Including taxes, distributed or distributable in part to the state governments as capital expenditure, as follows: 1,601 million pesos (1971); 1,776 million pesos (1972); 7,196 million pesos (1973); 10,934 million pesos (1974); 15,733 million pesos (1975); and 18,673 million pesos (1976).

(3) Items do not agree because they were estimated at different times.

(4) Details not shown in the annual Revenue Law.

(5) Net borrowing in any year does not correspond to the increase in direct Federal Government debt in such year as indicated under Public Debt herein since it does not reflect, among others, transactions such as the assumption by the Government of debts previously incurred by public agencies and adjustments for changes in exchange rates.

The following tables present the revenues and expenditures of the Federal Government (excluding public agencies) for the year indicated.

REVENUES OF THE FEDERAL GOVERNMENT (1)

(excluding public agencies)

	[illegible]70	1971	1972	1973	1974	1975 Budget	1976 Budget
				(millions of pesos)			
Current Revenues:							
Taxes on Income	15,478	16,858	21,010	26,093	36,409	46,200	55,970
Business Income	8,568	8,556	10,564	13,469	20,409		
Personal Income:							
Wages, Salaries and Professional Income	4,808	5,617	6,695	8,134	11,338		
Investment Income	1,242	1,653	2,499	2,931	2,648	(3)	(3)
Accumulated Income	248	361	511	705	930		
Other	612	671	741	854	1,084		
Other Taxes	21,146	23,066	27,347	35,464	51,929	78,528	90,862
Excise Taxes	7,746	9,655	12,474	12,887	20,11[illegible]	34,[illegible]75	38,565
Commercial Receipts Tax	4,360	4,874	5,461	12,769	18,100	24,[illegible]50	28,511
Import Duties	6,392	5,814	6,508	6,255	8,692	11,726	14,575
Export Duties	994	969	964	1,256	1,662	4,400	4,375
Stamp Tax	584	591	658	805	1,025	1,450	1,887
Other	1,070	1,163	1,282	1,492	2,340	2,327	2,949
Other Current Revenues	3,896	3,811	5,223	6,034	4,841	6,300	7,079
Total Current Revenues (2)	40,520	43,735	53,580	67,591	93,179	131,028	153,911
Capital Revenues:							
Capital Revenues (excluding proceeds of loans)	824	786	673	1,005	898	900	900
Proceeds of Loans	10,725	10,325	22,334	33,682	47,005	41,181	67,232
Total Capital Revenues	11,549	11,111	23,007	35,287	47,903	42,081	68,132
TOTAL REVENUES(4)	52,069	54,846	76,587	102,878	141,082	173,109	222,043

(1) The figures from 1971 to 1974 correspond to amounts actually received as they appear in the Public Account, whereas figures for 1975 and 1976 are those of the budget. Since 1972, the budget has included revenues from borrowing.

(2) Includes the following amounts distributable to State governments: 1,601 million pesos (1971); 1,776 million pesos (1972); 7,196 million pesos (1973); 10,934 million pesos (1974); 15,733 million pesos (1975); and 18,673 million pesos (1976).

(3) Details not shown in the annual Revenue Law.

(4) Tax revenues of the Federal Government pledged to secure certain issues of internal public debt aggregated 4,512,943,000 pesos in 1974. Revenues derived from the 10% tax on railway gross receipts, a major portion of which secures the issues of external debt covered by the debt settlement Agreement of 1946, amounted to 383,309,043 pesos in 1974. In addition, certain issues of internal public debt were secured by the Government's dividends on its holdings of Bank of Mexico Series "A" stock, which dividends amounted to 159,406,990 pesos in 1974 and are included in Other Current Revenues shown above.

Expenditures of The Federal Government (1)

(excluding public agencies)

	1970	1971	1972	1973	1974	1975 Budget	1976 Budget
				(millions of pesos)			
Communications and Transportation	6,319	6,868	9,183	12,087	13,222	16,098	18,759
Railroads	2,185	2,427	2,593	2,849	3,670	4,022	5,658
Roads	2,054	2,318	4,024	5,791	5,562	5,785	4,253
Telegraph and Postal Services	856	983	1,206	1,268	1,466	1,804	2,239
Maritime Works	317	295	523	692	824	1,628	1,492
Airports	197	152	212	193	174	215	510
Other	710	693	625	1,294	1,526	2,644	4,607
Development and Conservation of Natural Resources	5,199	5,508	14,261	15,585	24,616	30,008	34,376
Irrigation	2,615	2,752	3,752	5,814	6,911	9,438	11,526
Other	2,584	2,756	10,509	9,771	17,705	20,570	22,850
Promotion, Development and Regulation of Agriculture, Commerce and Industry	10,454	10,015	12,535	18,829	22,347	24,886	35,616
Education and Culture	7,373	8,853	11,148	14,350	19,592	27,437	34,396
Pre-Primary and Primary Schools	3,374	3,664	4,305	5,166	6,687	9,128	11,698
Secondary and Vocational Schools	1,335	1,529	1,645	1,975	2,587	2,939	5,271
Universities, Technical Schools and Professional Schools	1,206	1,495	2,050	2,828	4,563	5,135	10,248
School Construction and Maintenance	759	1,478	1,973	2,697	3,170	4,565	5,073
Other	699	687	1,175	1,684	2,585	5,670	2,106
Hospital Services and Public Assistance	1,906	2,008	3,409	4,334	4,771	6,616	8,483
Health, Medical and Hospital Services	880	1,033	1,743	2,156	2,085	3,062	4,405
Hospital Construction	197	243	563	892	1,073	1,232	910
Other	829	732	1,103	1,286	1,613	2,322	3,168
Social Security	2,467	2,687	3,698	5,507	7,632	10,697	13,091
Government Contribution for Social Security	936	1,159	1,383	1,511	2,223	3,171	2,988
Other	1,531	1,528	2,315	3,996	5,409	7,526	10,103
National Defense	2,557	2,696	3,257	4,080	5,377	6,225	8,579
Military Pay	1,374	1,495	1,744	1,975	2,709	3,677	5,474
Purchase of Equipment	102	120	209	300	379	176	266
Other	1,081	1,081	1,304	1,805	2,289	2,372	2,839
General Administration	7,195	7,070	8,578	14,924	20,049	29,707	39,713
Public Debt Interest and Expenses	4,498	4,884	5,389	6,613	10,980	13,690	20,159
Unclassified	3	98	55	13	4	—	—
Total Expenditures (excluding retirement of public debt)	47,971	50,687	71,513	96,322	128,590	165,364	213,172
Retirement of Public Debt	4,685	5,099	5,718	5,919	7,205	20,744(2)	24,871(2)
Estimated Expenditures to be paid in Following Year	—	—	—	—	—	(13,000)	(16,000)
TOTAL EXPENDITURES	52,656	55,786	77,231	102,241	135,795	186,108	238,043

(1) The figures from 1971 to 1974 correspond to amounts actually spent as they appear in the Public Account, whereas figures for 1975 and 1976 are those of the budget. Since 1972, the budget has included outlays financed by borrowings.

(2) A portion of the amount stated represents debt incurred in the prior year, which when spent during the current year, will be apportioned among appropriated expenditure categories.

Receipts and expenditures of the public agencies for the years indicated are summarized below:

RECEIPTS AND EXPENDITURES OF PUBLIC AGENCIES (1)

	1970	1971	1972	1973	1974	1975 Budget	1976 Budget
			(millions of pesos)				
Receipts:							
Total Current Revenues including Social Security Tax	44,458	48,402	56,603	74,172	107,382	128,244	167,765
Gross Proceeds of Loans	12,514	17,273	15,218	28,562	33,107	32,306	33,835
TOTAL RECEIPTS	56,972	65,675	71,821	102,734	140,489	160,550	201,600
Expenditures by agency:							
Pemex	20,031	23,108	22,260	23,007	37,560	37,765	49,605
Electric Power Companies(2)	11,757	13,977	16,495	21,674	27,121	31,204	32,433
Railway Companies	4,421	5,072	5,034	5,989	7,278	11,659	13,237
Social Security Agencies	11,808	13,921	15,790	18,910	29,191	31,270	39,942
Other Social Welfare Agencies	2,870	3,042	4,711	4,117	4,612	4,537	5,388
Conasupo	3,744	4,350	4,661	7,143	12,360	16,343	22,555
Federal Toll Roads and Bridges	694	483	728	1,102	1,093	1,225	1,329
Aeroméxico	1,060	1,401	1,534	1,806	2,447	2,556	3,129
Airports and Auxiliary Services	196	190	323	321	619	665	827
Proformex	1	1	2	6	48	226	105
Mexican Coffee Institute (3)	—	—	—	1,099	1,893	2,174	4,012
Vicente Guerrero Forestry (3)	—	—	—	24	118	121	166
Guanos and Fertilizers of Mexico (3)	—	—	—	3,852	4,643	6,310	8,029
National Construction of Railway Coaches (3)	—	—	—	933	1,510	2,426	3,683
National Steel (3)	—	—	—	391	611	764	1,198
National Diesel (3)	—	—	—	2,865	3,891	4,585	7,677
Steel Mill Lázaro Cárdenas—Las Truchas (3)	—	—	—	382	1,168	2,007	2,353
Mexican Fishing Products (3)	—	—	—	3,111	4,526	4,453	5,442
Mexican Institute for Foreign Trade (IMCE) (4)	—	—	—	—	—	260	490
TOTAL EXPENDITURES	56,582	65,5[illegible]	71,538	101,792	140,689	160,550	201,600

(1) The figures from 1971 to 1974 correspond to amounts actually spent as they appear in the Public Account; the figures for 1975 and 1976 are those of the budget.

(2) Includes Federal Electricity Commission.

(3) The expenditures of these agencies only came under the control of the budget in 1973.

(4) The expenditures of this agency only came under the control of the budget in 1975.

Of the total budgeted expenditures of public agencies amounting to 201,600 million pesos for 1976, 137,364 million pesos represent current expenditures, 39,413 million pesos represent capital expenditures, and 24,823 million pesos represent amortization of debt.

The share of borrowed resources in the financing of capital outlays, which traditionally has been low for all official agencies, has recently been growing for certain of them, including Pemex and the Federal Electricity Commission. This reflects the inability of current account surpluses to keep pace with growth requirements that existed until prices and tariffs of both agencies were increased during 1974.

Taxation

The Federal tax structure establishes the following principal categories of taxes: a graduated income tax at progressive rates, taxes on the exploitation of natural resources and their derivatives, taxes on manufacturing and commerce, a tax on commercial receipts, a stamp tax, and import and export duties.

Income taxes have generated an increasing portion of the total Federal tax revenues in recent years, rising from 36.5% of Federal tax revenues in 1960 to 41.2% in 1974. A Federal Register of Taxpayers was established in 1962. Partly as a result, the number of income taxpayers registered throughout the country rose from 5,399,622 at the end of 1964 to 12,757,000 in October 1974. As a result of income tax legislation enacted early in 1965, the former schedular system of Federal income taxation, in which income from different sources was taxed at different rates, has been simplified. Income tax for business enterprises, after certain deductions and allowances, is applied at effective rates that increase from 0% on the first 2,000 pesos of taxable income to 42% of total taxable income when that income exceeds 500,000 pesos.

Several tax reforms have been enacted since 1971, aimed chiefly at (a) increasing the Government's share in national income so as to enable it to finance a larger proportion of public investment out of tax resources, (b) promoting exports and achieving a better regional pattern of industrial growth, and (c) improving the efficiency of tax collections. The increase in the Government's share of national income is to be derived from higher and more progressive tax rates on household incomes, higher excise rates on non-essential consumables and certain changes in corporate taxation. The tax measures to improve the regional pattern of industrialization include tax incentives and the supplying of subsidized resources, while the promotion of exports is being fostered mainly by means of import liberalization, technical assistance and credit availabilities. Improvements in tax administration are aimed both at reducing tax evasion and economizing on collection costs.

These tax modifications introduced between 1971 and 1974 have resulted in an increase in the Government's revenues, as a percentage of Gross Domestic Product, from 9.7% to 11.5%. It is estimated that this percentage will rise to 13.5% in 1975.

PUBLIC DEBT

The total direct debt of the Federal Government as of December 31, 1975 represented approximately 19.5% of Mexico's estimated 1975 Gross Domestic Product as compared to 15.4% in 1970. The following table sets forth the Federal Government's direct internal and external debt (all of which is funded) as of the dates indicated.

DIRECT DEBT OF FEDERAL GOVERNMENT
(millions of pesos)

December 31	Internal	External(1)(2)	Total
1970	53,842	10,729	64,571
1971	58,858	11,028	69,886
1972	74,241	12,154	86,395
1973	98,616	16,227	114,843
1974	130,811	23,896	154,707
1975(3)	176,230	34,066	210,296

(1) External debt includes indebtedness to national credit institutions including Nacional Financiera which received funds from external borrowings and reloaned such funds to the Federal Government (see also Note (1) to table: "External Funded Debt of Public Sector") and includes funds transferred to public agencies of Mexico, which debt is to be

(Notes continued on following page)

(NOTES—*continued*)

repaid and serviced by such agencies, being 1,944 million pesos (1970); 1,682 million pesos (1971); 2,348 million pesos (1972); 2,710 million pesos (1973); 5,296 million pesos (1974); and 14,683 million pesos (1975).

(2) Amounts based on rates of conversion prevailing on the dates indicated.

(3) Preliminary.

In addition to its direct debt, the Federal Government has specifically guaranteed the principal and interest payable in respect of certain obligations of public agencies, principally Nacional Financiera, Federal Toll Roads and Bridges, Federal Electricity Commission and National Railways of Mexico. As of December 31, 1975, the outstanding principal amount of such obligations was 34,145 million pesos, of which 19,764 million pesos (equivalent to $1,581.1 million) represented external obligations, substantially all payable in United States dollars, and 14,381 million pesos represented internal obligations payable in pesos. All such guaranteed debt constituted funded debt.

In addition to the specific guarantees granted by the Federal Government for particular obligations of certain agencies (including Nacional Financiera), under the Organic Laws governing three of the principal national credit institutions (namely, Nacional Financiera, the National Bank of Public Works and Services and the National Bank for Rural Credit), the Federal Government (or, in the case of Nacional Financiera, the Nation) is responsible for the external obligations of those institutions. The amount of such obligations outstanding at December 31, 1975, is shown in the table on page 57.

The total external funded debt of the public sector consists of the external portion of the direct indebtedness and guarantees of the Federal Government together with the external funded indebtedness incurred directly or guaranteed by public agencies and public companies for the public sector but not carrying the specific guarantee of the Government. Such public sector debt at December 31 in each of the years 1970 through 1975 was as indicated in the table below.

EXTERNAL FUNDED DEBT OF PUBLIC SECTOR

December 31	Total	Direct Debt of the Federal Government	Debt Guaranteed by the Federal Government(1)	Debt of Other Public Agencies (2)(3)
		(millions of dollars)		
1970	$ 3,260	$ 858	$ 807	$1,595
1971	3,554	882	788	1,884
1972	4,255	972	952	2,331
1973	5,732	1,298	1,013	3,421
1974	7,981	1,912	1,279	4,790
1975(4)	11,520	2,725	1,581	7,214

(1) On behalf of public agencies including Nacional Financiera.

(2) Excludes external debt issued or guaranteed by Nacional Financiera which has been re-loaned to or guaranteed on behalf of private companies amounting at December 31, 1975 to the equivalent of P 4,975 million ($398 million).

(3) Direct debt of, or guaranteed by, Nacional Financiera, the National Bank of Public Works and Services, the National Foreign Trade Bank and other public agencies (principally Pemex, Federal Electricity Commission and National Railways of Mexico) not carrying the specific guarantee of the Federal Government.

(4) Preliminary.

The Revenue Law for 1975 provides that the authorization of the Ministry of Finance and Public Credit is required for any borrowings, external or internal, undertaken by any of the public agencies, including national credit institutions.

The present administration has established strict controls and a high level of coordination concerning participation in international capital markets by public sector entities. It is intended that external financing continue to be used in a supplementary manner in the carrying out of economic development projects capable of generating or saving foreign exchange. At the same time a major effort is being made to contract new loans of the latest possible maturity in order to improve the maturity structure of external public debt.

The following table sets forth the debt service requirements for the indicated periods in respect of the external funded debt of the public sector outstanding as of December 31, 1975.

SERVICE REQUIREMENTS OF EXTERNAL FUNDED DEBT OF PUBLIC SECTOR (1)

(millions of dollars)

Payment Periods	Principal	Interest	Total Debt Service
Due 1976	$ 1,057.4	$1,084.2	$ 2,14[illegible].6
Due 1977	1,305.1	1,012.9	2,3[illegible].0
Due 1978	1,851.8	936.5	2,783.3
Due 1979	1,827.3	862.7	2,690.0
Due 1980	1,771.2	735.9	2,50[illegible].1
Total	7,812.8	4,632.2	12,445.0
Due 1981-1985	2,947.3	1,085.2	4,032.5
Due 1986-1990	675.7	146.5	822.2
Due 1991-1995	69.4	12.1	81.5
Due 1996-2003	14.8	2.0	16.8
Total	$11,520.0	$5,878.0	$17,398.0

(1) Preliminary.

Debt Record

Full debt service has been paid when due on all external debt issued by the Federal Government of Mexico since the adoption of the Constitution of 1917, as well as on all external debt issued by other entities since that time which was assumed or guaranteed by the Government or for which the Government is by law responsible.

As a result of several years of internal disturbance, the entire Federal Government debt outstanding in 1914 went into default in that year. Debt settlement agreements made in the 1920's were not carried out by the Government because of continuing financial difficulties, but in 1942 and 1946 the Government entered into agreements with the International Committee of Bankers on Mexico, representing the United States and European holders of the defaulted obligations. These agreements provided for the settlement of substantially all the direct external debt of the Federal Government, certain other debt assumed or guaranteed by it, and debt of the National Railways, aggregating approximately $464 million principal amount with arrears of interest of $603 million. See Table II under "Tables and Supplementary Information" herein regarding the settlement terms. The holders of more than 99% of the obligations (excluding those held by subjects of or persons within countries at war with the Allied Nations in World War II and those held by persons who failed to register to become eligible for the agreements) assented to those terms. Obligations held by subjects of or persons within enemy countries and by persons who failed to register to become eligible under the agreements became vested in the Mexican Government by a Decree enacted in 1951 which provided that all such obligations belonged to Mexico and extinguished all the rights and claims of the holders of such obligations. Mexico has fulfilled all its obligations which have come due under these agreements and in 1960, in accordance with the terms thereof, prepaid a substantial portion of the outstanding bonds, the holders of which had assented to the agreements. As of January 1, 1975, Mexico had deposited with The Chase Manhattan Bank funds sufficient to acquire all assented bonds.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table I. Internal Debt as of December 31, 1975
(Payable in Pesos)

Bonded Debt:

Title and Annual Interest Rate	Date of Issue	Date of Final Maturity	Principal Amount Outstanding	Remarks
			(thousands of pesos)	
5% Highway Bonds(1)	Feb. 1956	July 1976	17,348	(a)
5% Highway Bonds(1)	Feb. 1957	July 1977	39,546	(a)
5% Highway Bonds(1)	Jan. 1958	July 1978	60,675	(a)
5% Highway Bonds(1)	Feb. 1959	July 1979	80,786	(a)
5% Highway Bonds(1)	Jan. 1960	July 1980	99,928	(a)
5% Highway Bonds(1)	Feb. 1961	July 1981	118,147	(a)
5% Highway Bonds(1)	Feb. 1962	July 1982	135,488	(a)
5% Highway Bonds	Mar. 1963	July 1983	151,994	(a)
5% Highway Bonds	May 1964	July 1984	167,705	(a)
5% Highway Bonds	Apr. 1965	July 1985	182,658	(a)
5% Highway Bonds	July 1966	July 1986	196,891	(a)
5% Highway Bonds	May 1967	July 1987	210,438	(a)
5% Highway Bonds	Aug. 1968	July 1988	223,332	(a)
5% Highway Bonds	Mar. 1969	July 1989	235,605	(a)
5% Highway Bonds	Mar. 1970	July 1990	247,287	(a)
5% Electrification Bonds(2)	Feb. 1956	Oct. 1976	17,348	(a)
5% Electrification Bonds(2)	Feb. 1957	Oct. 1977	39,546	(a)
5% Electrification Bonds(2)	Jan. 1958	Oct. 1978	60,675	(a)
5% Electrification Bonds(2)	Feb. 1959	Oct. 1979	80,786	(a)
5% Electrification Bonds(2)	Feb. 1960	Oct. 1980	99,928	(a)
5% Electrification Bonds(2)	May 1961	Oct. 1981	118,147	(a)
5% Electrification Bonds(2)	Apr. 1962	Oct. 1982	135,488	(a)
5% Electrification Bonds	Apr. 1963	Oct. 1983	151,994	(a)
5% Electrification Bonds	May 1964	Oct. 1984	167,705	(a)
5% Electrification Bonds	Apr. 1965	Oct. 1985	182,658	(a)
5% Electrification Bonds	July 1966	Oct. 1986	196,891	(a)
5% Electrification Bonds	May 1967	Oct. 1987	210,438	(a)
5% Electrification Bonds	Aug. 1968	Oct. 1988	223,332	(a)
5% Electrification Bonds	Mar. 1969	Oct. 1989	235,605	(a)
5% Electrification Bonds	Feb. 1970	Oct. 1989	247,287	(a)
Public Works Bonds (non-interest bearing)	Oct. 1940	Dec. 1990	75,000	(b)
8% Industrial Promotion Bonds	Nov. 1964-65	Nov. 1979	3,893,554	(a)
8% Industrial Promotion Bonds	Dec. 1965	Dec. 1980	4,221,486	(a)
8% Industrial Promotion Bonds	Jan. 1967	Jan. 1982	3,464,826	(a)
8% Industrial Promotion Bonds	Mar. 1968	Mar. 1983	3,857,865	(a)
8% Industrial Promotion Bonds	Mar. 1969	Mar. 1984	4,221,251	(a)
8% Industrial Promotion Bonds	Mar. 1970	Mar. 1985	4,557,222	(a)
8% Industrial Promotion Bonds	Nov. 1971	Nov. 1986	10,028,513	(a)
6% Bonds for Development of Agricultural Production(3)	Aug. 1950	Jan. 2000	268,000	(b)
5% Federal-state Cooperation Bonds	Feb. 1957	Jan. 1977	4,733	(a)
5% Agrarian Debt Bonds(4)	—	—	1,272	—
8% Bonds for Economic and Social Development of the United Mexican States	Dec. 1973	Sept. 1988	23,107,128	—
8% Bonds for Economic and Social Development of the United Mexican States	Mar. 1975	1990(5)	54,019,345	(a)

(Continued)

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table I. Internal Debt as of December 31, 1975—Continued
(Payable in Pesos)

Title and Annual Interest Rate	Date of Issue	Date of Final Maturity	Principal Amount Outstanding (thousands of pesos)	Remarks
PUBLIC INTERNAL DEBT BONDS (non-interest bearing):				
Series D	Sept. 1944	Various 1984	275	(b)
Series E	Sept. 1945	Various 1985	2,700	(b)
Series F	Jan. 1946	Various 1986	3,000	(b)
Series G	Jan. 1952	Various 1992	9,000	(b)
Series H	Jan. 1952	Various 1992	9,000	(b)
Series I	Jan. 1952	Various 1992	4,500	(b)
Series J	Dec. 1932	Various 1994	1,710	(b)
Provisional Certificates			$50,875,000	(a)

Title and Annual Interest Rate	Date of Contract	Date of Maturity	Principal Amount Outstanding(6)	Remarks
Loans:				
LOANS FROM NATIONAL BANK FOR PUBLIC WORKS AND SERVICES:				
For public works, acquisitions and construction (13.5%-14.0%)	Various	Various 1980	1,772,215	(c)
LOANS FROM NACIONAL FINANCIERA:				
For public works and other purposes (6.5%-14.5%)	Various	Various 1980	4,427,343	(c)
OTHER LOANS:				
For acquisitions of land for school construction, other acquisitions, construction, installations and miscellaneous (8.0%-13.8%)	Various	Various 1982	3,069,589	(c)
Total Internal Funded Debt			176,230,183	

(1) Secured by a lien on the revenues from the Federal tax on the sale of gasoline.

(2) Secured by a lien on the revenues from the Federal tax on manufactured tobacco and, in the case of bonds issued in the years 1954-1955, on the dividends on the Series "A" shares of the Bank of Mexico, payable to the Federal Government.

(3) Secured by a lien on the Federal income and excess profits taxes paid by the Bank of Mexico and a lien on the dividends on the Series "A" shares of the Bank of Mexico payable to the Federal Government.

(4) Service on these bonds was suspended in 1931 and was not resumed by reason of subsequent changes in the Agrarian Codes.

(5) Redeemable at the option of the holder at any time during 1990.

(6) Preliminary.

(a) Equal semi-annual or quarterly level debt service payments.

(b) Equal annual redemptions to retire entire issue by maturity.

(c) Various periodic payments to retire indebtedness.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975
(Payable in Foreign Currencies) (1)

Title	Year of Issue	Year of Maturity	Adjusted Principal Amount Outstanding: Assented	Non-Assented	Total	Amortization or Sinking Fund Provisions
			(thousands of dollars)			
PRE-1917 DEBT:						
Bonds originally issued, assumed or guaranteed by Federal Government, subject to debt settlement Agreement of November 5, 1942(2)	1885-1913	(3)	$ 0(4)	$130(5)	$ 130(6)	(7)
Railroad Bonds subject to debt settlement Agreement of February 20, 1946: (8)	1889-1914	(9)		363(10)	363(11)	(12)
Total Pre-1917 Debt				$493	$ 493	—
(equivalent in thousands of pesos)					(6,163)	

(1) Conversions of amounts in foreign currencies are made at the official rate of $1 = 12.50 pesos in effect at December 31, 1975.

(2) Under the Agreement of 1942, bondholders became entitled to receive annual redemption payments aggregating approximately 20% of the original principal amount of their bonds, and both interest in arrears and current interest became payable in substantially reduced amounts.

(3) All the bonds subject to the Agreement of 1942 have original maturity dates prior to the date of this Securities Report, but such maturities were extended to 1963 for the secured bonds and to 1968 for the remainder of the bonds which assented to the Agreement.

(4) All outstanding bonds which assented to the Agreement of 1942 were called for redemption in 1960 and the funds received for such prepayment were deposited with The Chase Manhattan Bank.

(5) Although no provision has been made for payment of the bonds the holders of which registered but did not assent to the Agreement of 1942, the Government includes such bonds in its External Debt at the reduced dollar principal amounts established by the Agreement.

(6) Bonds, the holders of which did not register to become eligible for the Agreement of 1942, in the aggregate original principal amount of $29,760,000, are not considered to be debt of the Government and consequently are not included in the totals, pursuant to the Law Concerning the Disposition of enemy-held Bonds, of December 29, 1951, enacted in view of Mexico's status as one of the Allied Nations in World War II and in accordance with the principles of post-war international reparations. That Law vested in the nation the entire rights and property to any "enemy-held" bonds included in the issues subject to the Agreement of 1942 and extinguished all the rights and claims of holders of such bonds. The securities covered by the Law were defined not only as those bonds which during the War were located in enemy territory or held by enemy nationals but also as those bonds the holders of which had failed to register during the periods provided in the relevant decrees. Prior to 1951 and during a reopened period which finally terminated on November 20, 1953, the Government accorded non-enemy status to certain bonds the holders of which submitted appropriate applications and evidence.

(7) There are no amortization or sinking fund provisions presently in effect for the bonds which did not assent to the Agreement of 1942.

(8) The Agreement of 1946 offered two options to bondholders: Plan A provided for substantially the same treatment as the Agreement of 1942. Plan B eliminated current interest and provided for annual redemption at a fixed annuity at prices rising from 21% of original principal amount in 1946 to 100% in 1974. Payment of debt service on certain of the bond issues was secured by mortgages or other liens, including a lien on the receipts from a 10% Federal tax on gross revenues of the original corporation, National Railways of Mexico, which would revive in favor of the bondholders in the event of any default under the Agreement, but such liens have not been operative because the Federal Government has complied fully with the Agreement.

(9) Pursuant to the Agreement of 1946, 1974 is the final date for the redemption of all bonds accepting Plan B under the Agreement.

(10) Although no provision has been made for payment of the bonds the holders of which registered but did not assent to the Agreement of 1946, the Government includes such bonds in its External Debt at the reduced dollar principal amounts established by the Agreement for holders electing Plan A.

(11) Bonds, the holders of which did not register under the Agreement of 1946, in the aggregate original principal amount of $9,481,000, are not considered to be debt of the Government and are not included in the totals.

(12) There are no sinking fund or amortization provisions presently in effect for the bonds which did not assent to the Agreement of 1946. Amortization provisions for the holders of the bonds who accepted Plan B thereunder are described under Note (8) hereinabove.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975—Continued

(Payable in Foreign Currencies) (8)

Title	Interest Rate	Year Contracted	Year of Final Maturity	Original Principal Amount Contracted (thousands of dollars)	Amount Undisbursed (10) (16) (thousands of dollars)	Principal Amount Outstanding (10) (16) (thousands of dollars)	Amortization or Sinking Fund Provisions
POST-1917 DEBT:							
Bonds of the United Mexican States for Economic Development			Subtotal..	$515,279	—	$404,159	
External Sinking Fund Bonds ...	6¾%	1963	1978	25,000	—	6,000	(1)
External Sinking Fund Bonds ...	6½	1964	1979	25,000	—	6,310	(2)
External Sinking Fund Bonds ...	6¼	1964	1979	35,000	—	11,060	(3)
External Sinking Fund Bonds ...	6½	1965	1980	27,500	—	10,585	(3)
External Sinking Fund Bonds ...	6⅞	1966	1981	15,000	—	6,870	(1)
External Sinking Fund Bonds ...	7¼	1966	1981	10,000	—	4,560	(2)
External Sinking Fund Bonds ...	7	1967	1982	25,000	—	12,050	(2)
External Sinking Fund Bonds ...	7	1968	1980	25,000	—	19,060	(6) (9)
External Sinking Fund Bonds ...	6	1968	1983	11,625	—	15,252	(6) (9)
External Sinking Fund Bonds ...	7	1968	1984	25,000	—	25,922	(7) (9)
External Sinking Fund Bonds ...	8½	1972	1987	40,000	—	40,000	(6)
External Sinking Fund Bonds ...	8⅛	1972	1997	35,000	—	35,000	(6)
External Sinking Fund Bonds ...	7¼	1973	1988	31,000	—	38,120	(9) (11)
External Sinking Fund Bonds ...	7.9	1973	1985	37,674	—	32,750	(9) (12)
External Purchase Fund Bonds ..	8¾	1973	1991	30,000	—	27,500	(13)
External Bonds	10	1975	1980	75,000		75,000	(14)
External Bonds	9	1975	1982	42,480		38,120	(9) (15)
Loans from Export-Import Bank contracted through Nacional Financiera			Subtotal..	36,767	53	8,504	
	5¾	1965	1981	23,750	—	4,487	(4)
	6	1967	1982	3,000	—	1,166	(4)
	5½	1966	1981	1,750	—	459	(4)
	6	1967	1977	3,500	—	615	(4)
	6	1968	1978	4,300	—	1,363	(4)
	6	1973	1983	467	53	414	(4)
Loans from World Bank			Subtotal..	892,300	630,402	191,046	
	5¾	1960	1979	25,000	—	8,805	(4)
	5¾	1961	1981	15,000	—	5,910	(4)
	5½	1963	1984	12,500	—	6,736	(4)
	5½	1963	1984	40,000	—	18,711	(4)
	5½	1965	1985	25,000	—	17,690	(4)
	6	1966	1986	19,000	1,059	14,693	(4)
	6¼	1968	1988	25,000	1,147	22,599	(4)
	6¼	1968	1988	27,500	—	22,924	(4)
	7	1970	1995	21,800	3,911	17,363	(4)
	7¼	1972	1996	22,000	8,904	13,096	(4)
	7¼	1972	1997	20,000	3,289	15,111	(4)
	7¼	1972	1997	500	316	184	(4)
	7¼	1973	1997	90,000	82,123	7,877	(4)
	7¼	1974	1998	25,000	23,890	1,110	(4)
	7¼	1974	1994	90,000	88,715	1,285	(4)
	7¼	1974	1999	47,000	45,944	1,056	(4)
	7¼	1974	1999	77,000	61,104	15,896	(4)
	8	1974	1999	50,000	50,000	—	(4)
	8½	1975	2000	150,000	150,000	—	(4)
	8½	1975	2000	110,000	110,000	—	(4)

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975—Continued

(Payable in Foreign Currencies) (8)

Title	Interest Rate	Year Contracted	Year of Final Maturity	Original Principal Amount Contracted	Amount Undisbursed (10) (16)	Principal Amount Outstanding (10) (16)	Amortization or Sinking Fund Provisions
				(thousands of dollars)			
Loans from Inter-American Development Bank contracted through Nacional Financiera			Subtotal..	$ 802,296	$ 223,932	$ 493,492	
	5¾ %	1961	1981	13,000	—	4,588	(4)
	5¾	1962	1982	5,744	—	2,196	(4)
	3½	1962	1982	9,200	—	3,666	(4)
	2	1962	1982	1,000	—	384	(4)
	2	1963	1983	3,000	—	1,056	(4)
	4	1963	1978	3,791	—	941	(4)
	5¾	1963	1983	1,200	—	500	(4)
	5¾	1964	1984	20,000	—	9,714	(4)
	5¾	1963	1988	25,500	—	14,471	(4)
	2	1963	1992	5,000	—	3,739	(4)
	2	1964	1985	2,100	—	1,019	(4)
	4	1964	1989	9,800	—	6,426	(4)
	3½	1965	1985	4,824	—	2,348	(4)
	4	1966	1991	33,000	—	24,951	(4)
	6	1966	1991	21,000	—	12,803	(4)
	4	1967	1983	5,000	—	3,261	(4)
	6½	1967	1987	13,060	—	8,856	(4)
	8	1967	1992	13,000	—	10,214	(4)
	4	1967	1992	11,080	—	8,503	(4)
	—	1967	2017	500	396	110	(4)
	4	1968	1983	2,500	—	1,563	(4)
	3	1968	1993	34,100	—	28,417	(4)
	7¾	1968	1989	10,500	109	9,619	(4)
	3	1969	1989	1,200	—	1,059	(4)
	7¾	1969	1989	28,986	—	31,674	(4)
	4	1970	1990	9,620	5,031	3,968	(4)
	4	1970	1990	10,440	421	10,019	(4)
	3	1970	1995	26,000	—	26,000	(4)
	8	1970	1990	8,280	462	7,716	(4)
	8	1970	1990	33,500	—	33,994	(4)
	4	1970	1990	11,000	39	10,594	(4)
	8	1970	1990	5,560	—	5,483	(4)
	4	1971	1996	22,000	4,144	17,856	(4)
	4	1971	1991	5,800	3,613	2,187	(4)
	8	1971	1991	14,000	—	14,716	(4)
	8	1971	1991	11,878	—	12,855	(4)
	8	1971	1989	21,433	2,230	18,813	(4)
	8	1972	1992	25,000	2,302	22,698	(4)
	3	1972	1997	35,000	5,520	29,480	(4)
	3	1972	1998	23,100	13,236	9,864	(4)
	8	1973	1995	21,000	10,538	10,462	(4)
	4	1973	1993	10,000	6,595	3,405	(4)
	8	1973	1993	14,000	6,418	7,582	(4)
	3	1974	1999	34,000	23,835	10,165	(4)
	8	1974	1992	43,000	28,214	14,786	(4)
	8	1974	1995	35,000	30,535	4,465	(4)
	4	1974	2000	14,100	11,258	2,842	(4)
	8	1975	2000	8,000	7,194	806	(4)
	3	1975	2000	37,000	20,586	16,414	(4)
	8	1975	1995	45,500	41,256	4,244	(4)
Loans from U.S. Agency for International Development contracted through Nacional Financiera	3½	1964	1985	2,000	100	1,130	(4)

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975—Continued

(Payable in Foreign Currencies) (8)

Title	Interest Rate	Year Contracted	Year of Final Maturity	Original Principal Amount Contracted	Amount Undisbursed (10) (16)	Principal Amount Outstanding (10) (16)	Amortization or Sinking Fund Provisions
				(thousands of dollars)			
Loans from Other Banks and from Suppliers				2,187,334	338,888	1,626,418	
a. 24 loans contracted through Nacional Financiera with Bank of America, Banque Transatlantique, Banque de l'Indochine, Credit Lyonnais, Credit National, Istituto Mobiliare Italiano, The Chase Manhattan Bank and 15 suppliers	4-13¼%	Various 1966-75	Various 1976-95	270,333	23,244	224,974	(4)
b. 29 loans contracted through National Bank of Public Works and Services with Western American Bank, Singer & Friedlander Ltd., The First National Bank of Chicago, First National City Bank, United California Bank, Swiss Bank, Bank of America, First Boston (Europe) Ltd and Kuhn, Loeb & Co.	6½-11½	Various 1966-75	Various 1985	566,650	—	422,511	(4)
c. Loan contracted through National Bank of Foreign Trade with N. M. Rothschild and Sons Ltd.	6-9	1973	1983	63,894	8,862	39,200	(4)
d. 4 loans contracted with other banks through different syndications	8-9½	1974-75	1979-80	1,170,000	300,000	870,000	(4)
e. 36 loans contracted directly with suppliers	6-9	Various 1966-75	Various 1976-89	116,507	6,782	62,983	(4)
Miscellaneous Indebtedness				—	—	6,750	
TOTAL POST-1917 DEBT					1,193,375	2,724,749	
peso equivalent (thousand pesos) (8)						(34,059,363)	
TOTAL FUNDED EXTERNAL DEBT						2,725,242	(5)
peso equivalent (thousand pesos) (8)						(34,065,525)	(5)

(1) Semi-annual sinking fund payments calculated to retire 96% of the Bonds prior to maturity.
(2) Semi-annual sinking fund payments calculated to retire approximately 96% of the Bonds prior to maturity.
(3) Semi-annual sinking fund payments calculated to retire approximately 94% of the Bonds prior to maturity.
(4) Annual, semi-annual, quarterly or monthly amortization calculated to retire loans by maturity.
(5) Of this total, $1,174,659,000 (14,683,237,500 pesos), corresponds to funds transferred to public agencies with financial structures which allow them to satisfy the corresponding amortization service, so that the direct obligations of the Federal Government at this date amounted to $1,550,583,000 (19,382,287,500 pesos).
(6) Annual sinking fund payments calculated to retire the bonds by maturity.
(7) Annual sinking fund payments calculated to retire 88% of bonds prior to maturity.
(8) Conversions of amounts in foreign currencies are made at the official rate of $1 = 12.50 pesos in effect at December 31, 1975.
(9) The principal amounts outstanding having been adjusted to reflect currency devaluations.
(10) Include revaluation, because of changes in parity of foreign currencies.
(11) Annual sinking fund payments calculated to retire 85% of the bonds prior to maturity.
(12) Annual sinking fund payments calculated to retire 60% of the bonds prior to maturity.
(13) Annual purchase fund payments calculated to retire approximately 70% of the bonds prior to maturity.
(14) One payment at the end of the fifth year, with the option to enlarge the term until 1990, for which will be created a Sinking Fund for the Bond redemption.
(15) One payment at the period's end.
(16) Preliminary.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(B) DEBT GUARANTEED BY THE FEDERAL GOVERNMENT

Table III. Guaranteed Internal Debt as of December 31, 1975
(Payable in Pesos)

Guarantee Granted On Behalf Of:	Principal Amount Outstanding(1)
	(thousands of pesos)
Nacional Financiera	7,625,564
National Bank of Public Works and Services	5,340,384
Others (principally certain state governments)	1,415,081
Total Guaranteed Internal Debt(2)	14,381,029

(1) Preliminary.

(2) Excluding the Federal Government guarantee of Savings Bonds issued by the National Savings Institute which are secured primarily by income-producing assets and residually by Government guarantee. The Institute held at January 31, 1976, 3,126,127,249 pesos received from savings bond subscribers, which amount was invested in a corresponding amount of public and private securities.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(B) DEBT GUARANTEED BY THE FEDERAL GOVERNMENT

Table IV. Guaranteed External Debt as of December 31, 1975 (2) (7)

(Payable in Foreign Currencies)

(Thousands of dollars)

Guarantee Granted on Behalf of:	Interest Rate	Year Contracted	Year of final Maturity	Original Principal Amount Contracted	Amount Undisbursed (1)	Principal Amount Outstanding (1)
				$787,175	$32,246	$598,084
Federal Electricity Commission						
Lender—						
World Bank	4½ %	1952	1977	29,700	—	3,111
World Bank	5⅝	1958	1983	34,000	—	17,283
World Bank	5¾	1962	1985	130,000	—	77,775
World Bank	6	1965	1985	110,000	—	80,211
Monterrey Railway, Light & Power Company	3¼	1965	1977	6,897	—	1,146
Mexican Territorial Company	3¼	1965	1977	502	—	83
World Bank	6¼	1968	1988	90,000	—	81,973
World Bank	7¼	1972	1992	125,000	—	125,000
World Bank	7	1970	1990	125,000	—	121,000
Export-Import Bank	6	1969	1982	5,000	—	1,105
Export-Import Bank	6	1970	1982	18,900	—	12,2[illegible]9
Export-Import Bank	6	1973	1991	27,100	—	27,090
Export-Import Bank	6	1973	1981	3,420	—	3,288
Export-Import Bank	6	1973	1990	35,100	—	34,118
Export-Import Bank	8	1974	1980	510	510	—
Export Development Corporation	7½	1974	1985	4,160	4,160	—
Consortium of British Banks	5½	1970	1979	1,040	—	392
Export-Import Bank	6	1975	1994	17,145	17,145	—
Export-Import Bank	6	1975	1984	8,370	8,370	—
Lazard Brothers and Co. Ltd.	7	1975	1985	4,268	—	4,003
Export-Import Bank	8	1974	1982	1,058	1,058	—
Lazard Brothers and Co. Ltd.	7½	1975	1985	5,514	—	4,997
Lincas Electrovertriebs	8½	1975	1980	459	—	375
Skandinaviska Enskilda Banken	8	1975	1985	674	668	—
Skandinaviska Enskilda Banken	8	1975	1985	1,385	—	1,247
Export-Import Bank	7	1975	1979	1,973	335	1,638
				499,292	241,511	239,563
Steel Mill Lazaro Cardenas-Las Truchas-						
Baring Brothers Co.	6½	1973	1988	26,535	11,0[illegible]9	12,158
World Bank	7¼	1973	1988	70,000	12,[illegible]2	57,628
Inter-American Develop. Bank	8	1973	1988	54,000	13,[illegible]9	40,557
Baring Brothers Co.	6–6½	1973	1988	82,075	55,5[illegible]	14,834
Export Development Corp.	7	1973	1988	84,000	—	13,765
Export Import Bank of Japan	7	1973	1987	73,983	45,016	23,759
Istituto Mobiliare Italiano	6¼	1974	1987	18,278	—	17,422
Osterreichische Kontrollbank	7	1973	1987	29,351	10,554	16,347
Credit Commercial de France and Banque Francaise du Commerce Exterieur	6½	1972	1987	97,750	91,872	30,832
Kreditanstalt für Weideraubau	7	1973	1987	13,320	1,462	12,261
				11,000	—	1,391
Mexican Light and Power Company						
World Bank	5⅝	1958	1977	11,000	—	1,391
				224,722	45,571	132,489
National Railways of Mexico						
Export-Import Bank	5½	1965	1976	13,000	—	1,258
Export-Import Bank	6½	1967	1978	10,000	—	2,430
Export-Import Bank	6	1968	1978	20,670	—	5,704
World Bank	7¼	1972	1997	75,000	18,645	56,355
Export-Import Bank	6	1971	1976	3,238	—	3,111
Export-Import Bank	6	1969	1979	5,384	—	1,996
Export-Import Bank	6	1971	1981	7,506	—	7,407
Export-Import Bank	6	1974	1982	32,379	8,728	23,651
Chemical Finance Int.	6½	1971	1976	3,237	—	386
Export-Import Bank	8	1975	1976	13,476	1,907	11,569
Cleveland Trust Co.	10⅞ (4)	1975	1979	511	—	408
General Motors Overseas	8½	1974	1979	6,180	—	4,326
Bankers Trust Co.	12¾ (5)	1974	1979	12,000	—	9,350
The National Bank of Detroit	8⅓ (6)	1975	1979	5,903	53	4,538
Export-Import Bank	8	1975	1985	16,238	16,238	—
				3,985	2,157	701
Pacific Railroad						
Export Development Corp.	6	1971	1982	886	—	583
Export-Import Bank	6	1968	1976	942	—	118
Export-Import Bank	8	1975	1985	2,157	2,157	—
				165,324	—	131,092
Nacional Financiera, S.A.						
Export-Import Bank	5	1960	1977	20,647	—	1,893
The Prudential Insurance Co.	6⅞	1964	1982	20,000	—	19,484
United States Agency for Int. Develop.	¾	1962	2002	41,500	—	34,289

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(B) DEBT GUARANTEED BY THE FEDERAL GOVERNMENT

Table IV. Guaranteed External Debt as of December 31, 1975 (2) (7)—Continued

(Payable in Foreign Currencies)

(Thousands of dollars)

Guarantee Granted on Behalf of:	Interest Rate	Year Contracted	Year of final Maturity	Original Principal Amount Contracted	Amount Undisbursed (1)	Principal Amount Outstanding (1)
United States Agency for Int. Develop.	2%	1964	1994	$ 20,000	$ —	$ 17,795
The Prudential Insurance Co.	6⅝	1967	1985	35,000	—	35,000
Inter-American Development	6	1966	1981	8,177	—	3,763
Inter-American Development	8	1970	1985	10,000	—	8,779
Inter-American Development	8	1973	1977	10,000	—	10,089
Chihuahua Pacific Rail Railway				1,945	1,620	214
Export-Import Bank	8	1974	1985	1,620	1,620	—
Export-Development Corp.	6	1972	1979	325	—	214
Federal Toll Roads and Bridges and Related Services				62,500	—	37,680
World Bank	5¾	1962	1982	30,500	—	15,885
World Bank	5½	1965	1985	32,000	—	21,795
National Warehouses				10,600	—	5,605
Export-Import Bank	4	1960	1980	10,600	—	5,605
Altos Hornos de México, S.A.				44,400	—	17,841
Export-Import Bank	5¾	1963	1978	16,900	—	3,893
Export-Import Bank	6	1967	1980	27,500	—	13,948
Others				673,548	179,820	416,465
Export-Import Bank	5½	1966	1979	56,500	—	7,319
Export-Import Bank	6	1967	1977	6,700	—	543
Export-Import Bank	6	1972	1977	50,000	42,222	5,065
Export-Import Bank	6	1972	1982	2,297	7	2,289
Export-Import Bank	6	1973	1977	15,100	—	15,124
Export-Import Bank	6	1973	1978	45,000	1,979	42,697
World Bank	7¼	1973	1993	110,000	—	110,000
Export-Import Bank	6	1972	1982	6,583	—	5,654
Inter-American Development Bank	2	1964	1994	10,000	—	9,174
Inter-American Development Bank	6½	1964	(3)	5,000	4,298	5,702
Inter-American Development Bank	3	1968	1993	20,000	—	15,909
Inter-American Development Bank	6½	1963	1978	4,900	—	1,851
Inter-American Development Bank	3	1971	1996	32,000	—	32,000
Inter-American Development Bank	7	1971	1978	1,963	—	755
World Bank	6½	1969	1989	65,000	—	61,140
World Bank	7½	1971	1991	75,000	—	73,720
World Bank	7½	1972	1992	35,000	12,225	22,235
Istituto Mobiliare Italiano	6	1967	1976	2,000	—	122
Ebasco Industries	7	1968	1978	10,000	—	3,750
Export-Import Bank	8	1975	1985	2,811	2,811	—
World Bank	8½	1975	1989	50,000	48,584	1,416
Export-Import Bank	8	1975	1980	2,694	2,694	—
Inter-American Development Bank	8	1976	2001	30,000	30,000	—
Inter-American Development Bank	8	1975	1995	35,000	35,000	—
Total Guaranteed External Debt				$2,484,491	$502,925	$1,581,125
(Equivalent in Thousands of Pesos)						(19,764,063)

(1) Preliminary.
(2) Conversions of amounts in foreign currencies are made at the official rate of $1=12.50 pesos in effect at December 31, 1975.
(3) Revolving Credit.
(4) Rate of interest for each six months is calculated on the basis of the U.S. prime rate, plus a differential of ⅞%. This rate is updated every six months.
(5) Rate of interest for each six months is calculated on the basis of the U.S. prime rate, plus a differential of ¾%. This rate is updated every six months.
(6) Rate of interest for each six months is calculated on the basis of the U.S. prime rate, plus a differential of ¾%. This rate is updated every six months.
(7) Excludes certain external debt obligations of Nacional Financiera and the National Bank of Public Works and Services for which the Federal Government (or, in the case of Nacional Financiera, the Nation) is responsible (see "Public Financial Institutions" on page 57).

LEGAL OPINIONS

The validity of the Bonds will be passed upon on behalf of Nafinsa by Dr. Adolfo Maldonado Cervantes, and the validity of the Bonds will be passed upon for the Managers by Messrs. Goodrich, Dalton, Little & Riquelme, Mexico City. In addition, the validity of the Bonds will also be passed upon on behalf of Nafinsa by Messrs. Sullivan & Cromwell, New York, New York, and will be passed upon on behalf of the Managers by Messrs. Shearman & Sterling, New York, New York. As to matters of Mexican law, Messrs. Sullivan & Cromwell and Messrs. Shearman & Sterling will rely upon the opinions of Dr. Adolfo Maldonado Cervantes and Messrs. Goodrich, Dalton, Little & Riquelme. All statements of Mexican law in this Prospectus have been passed upon by Dr. Adolfo Maldonado Cervantes and by Messrs. Goodrich, Dalton, Little & Riquelme, and are made upon their authority.

SUBSCRIPTION, UNDERWRITING AND SALE

Credit Suisse White Weld Limited, Crédit Commercial de France, Dresdner Bank Aktiengesellschaft, Hambros Bank Limited, Kredietbank S.A. Luxembourgeoise, Orion Bank Limited, Société Générale, Swiss Bank Corporation (Overseas) Limited and Banco Internacional, S.A. (the "Managers") have, pursuant to a Subscription Agreement dated 16th June, 1976 agreed with Nafinsa, subject to the satisfaction of certain conditions, to subscribe or procure subscribers for the Bonds at the issue price set forth on the cover page of this Prospectus, plus accrued interest (if any) but less commissions (calculated on the principal amount of the Bonds) of 3/8 per cent. for management and 3/8 per cent. for underwriting and a Selling Group concession of 1¼ per cent. In addition Nafinsa has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Managers to terminate the Agreement in certain circumstances prior to payment to Nafinsa.

The Managers, on behalf of Nafinsa, have invited certain banks, brokers and dealers (the "Selling Group") to subscribe the Bonds at the issue price set forth on the cover page of this Prospectus, plus accrued interest (if any) but less the Selling Group concession of 1¼ per cent. The members of the Selling Group may concede a re-allowance of ½ per cent. out of such concession to recognised securities dealers and a concession of up to 1¼ per cent. to certain associated companies of members of the Selling Group.

The Managers, acting on behalf of Nafinsa, have entered into Underwriting Agreements with, among others, the following Underwriters:

Austria

Creditanstalt-Bankverein
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Österreichische Länderbank Aktiengesellschaft

Bahamas

Bank Leu International Ltd.
Handelsbank N. W. (Overseas) Limited

Belgium

Banque Bruxelles Lambert S. A.
Dewaay & Associés International S. C. S.
Kredietbank N. V.
Peterbroeck, van Campenhout, Kempen S. A.
Société Générale de Banque S. A.

Denmark

Den Danske Bank AF 1871 Aktieselskab
Kjobenhavns Handelsbank

Finland

Bank of Helsinki Ltd.
Union Bank of Finland Limited

France

Banque Arabe et Internationale d'Investissement (B.A.I.I.)
Banque Européenne de Tokyo
Banque Française du Commerce Extérieur
Banque Française de Dépôts et de Titres
Banque de l'Indochine et de Suez
Banque Louis-Dreyfus
Banque Nationale de Paris
Banque de Neuflize, Schlumberger, Mallet
Banque de Paris et des Pays-Bas
Banque Rothschild
Banque Worms
Caisse Centrale des Banques Populaires
Caisse de Dépôts et Consignations
Crédit Industriel et Commercial
Crédit Lyonnais
Crédit du Nord
Finacor
Lazard Frères et Cie.
Morgan Stanley International
Société Séquanaise de Banque
Union de Banques Arabes et Françaises—U.B.A.F.

Germany

Bayerische Hypotheken-und Wechsel-Bank
Bayerische Landesbank Girozentrale
Berliner Handels-und Frankfurter Bank
Commerzbank Aktiengesellschaft
Deutsche Bank Aktiengesellschaft
Deutsche Girozentrale-Deutsche Kommunalbank
Effectenbank-Warburg Aktiengesellschaft
Hessische Landesbank-Girozentrale

Merck, Finck & Co.
B. Metzler Seel. Sohn & Co.
Norddeutsche Landesbank Girozentrale
Sal. Oppenheim jr. & Cie.
Trinkaus & Burkhardt
Vereins-und Westbank Aktiengesellschaft
Westdeutsche Landesbank Girozentrale

Hong Kong

Trident International Finance Ltd.

Italy

Banca Commerciale Italiana
Banca Nazionale del Lavoro
Banco di Roma
Capitalfin Internazional S.p.A.
Compagnia Finanziaria e Intermobiliare S.p.A.
Instituto Bancario Sãn Paolo di Torino

Kuwait

Alahli Bank of Kuwait K.S.C.
Kuwait Financial Centre S.A. K.
Kuwait International Finance Company S.A.K. "KIFCO"
The National Bank of Kuwait S.A. K.

Luxembourg

Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg S.A.
Banque Populaire Suisse S. A. Luxembourg
Campagnie de Banque et d'Investissements (Underwriters) S.A.

Netherlands

Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Bank Mees & Hope NV
H. Albert de Bary & Co. N.V.
Pierson, Heldring & Pierson N.V.

Netherlands Antilles

E. F. Hutton & Co. N.V.

Norway

Andresens Bank A/S
Bergen Bank
Christiania Bank og Kreditkasse
Den norske Creditbank
Fellesbanken A/S

Panama

Trade Development Bank Overseas Inc., Panama

Sweden

Post-och Kredietbanken, PKbanken
Skandinaviska Enskilda Banken
Svenska Handelsbanken

Switzerland

Banca del Gottardo
Clariden Bank
Nordfinanz-Bank Zürich
United Overseas Bank
J. Vontobel & Co.

United Kingdom

A. E. Ames & Co. Limited
The Arab & Morgan Grenfell Finance Company Limited
Julius Baer International Limited
Bank of America International
Bankers Trust International Limited
Baring Brothers & Co., Limited
Cazenove & Co.
Chase Manhattan Limited
Citicorp International Bank Limited
County Bank Limited
Daiwa (Europe) N. V.
Dillon, Read Overseas Corporation
European Banking Company Limited
First Boston (Europe) Limited
Robert Fleming & Co. Limited
Antony Gibbs Holdings Ltd.
Goldman Sachs International Corp.
Greenshields Incorporated
IBJ International Limited
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Lazard Brothers & Co., Limited
Lloyds Bank International Limited
London Multinational Bank (Underwriters) Limited
Manufacturers Hanover Limited
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
Nesbitt, Thomson Limited
The Nikko Securities Co., (Europe) Ltd.
Nomura Europe N. V.
Nordic Bank Limited
N. M. Rothschild & Sons Limited
Salomon Brothers International Limited
Scandinavian Bank Limited
J. Henry Schroder Wagg & Co. Limited
Shields Model Roland Incorporated
Strauss, Turnbull & Co.
Sumitomo White Weld Limited
Union Bank of Switzerland (Securities) Limited
S. G. Warburg & Co. Ltd.
Williams, Glyn & Co.
Wood Gundy Limited
Yamaichi International (Europe) Limited

United States

Arnhold & S. Bleichroeder, Inc.
Blyth Eastman Dillon & Co. International Limited
Kuhn, Loeb & Co. International
Merrill Lynch International & Co.
Smith Barney, Harris Upham & Co. Incorporated
Warburg Paribas Becker Inc.
White, Weld & Co. Incorporated

The Bonds have not been registered under the Securities Act of 1933 of the United States of America and may not be offered, sold or delivered directly or indirectly in the United States (which term includes the territories, possessions and all areas subject to the jurisdiction of the United States of America) or to nationals or residents thereof as part of the distribution of the Bonds. Any reoffers and resales of Bonds in the United States or to nationals or residents thereof after distribution of the Bonds has been completed must be made in compliance with the registration requirements of the Securities Act of 1933 or pursuant to an exemption therefrom; and the availability of any such exemption would depend upon the facts and circumstances existing at the time of such reoffers and resales.

The Managers have represented and agreed that in connection with the distribution of the Bonds, except for offers or sales to Underwriters and to recognised securities dealers who agree and represent that they are subscribing for distribution in conformity with these provisions, they have not offered or sold and will not offer, sell or deliver any Bonds directly or indirectly in the United States or to nationals or residents thereof. Each Underwriter and member of the Selling Group has, in its agreement with the Managers, (a) represented that it is subscribing the Bonds as principal and has not offered or sold, directly or indirectly, any of the Bonds in the United States or to nationals or residents thereof, (b) agreed that it will not offer, sell or deliver, directly or indirectly, any of the Bonds in the United States or to nationals or residents thereof, and, in the case of a United States dealer, that it will sell the Bonds within 90 days after subscription, and (c) agreed that it will deliver to any dealer to whom it sells any of the Bonds a confirmation containing substantially the same provisions. The Managers have further undertaken that each Underwriter or securities dealer who subscribes Bonds will agree that prior to 31st December, 1976 it will not, as principal or agent, offer, sell or deliver, directly or indirectly, in the United States or to nationals or residents thereof any of the Bonds, however acquired by it. However, offers or sales of Bonds may be made on certain conditions to persons outside the United States who are not nationals or residents thereof through United States agents or fiduciaries.

The Underwriters and members of the Selling Group have also agreed with the Managers that they will not within Great Britain offer or sell any Bonds to any person other than to persons whose ordinary business it is to buy or sell securities, whether as principals or agents.

ADDITIONAL INFORMATION

1. The listing on The Stock Exchange will be expressed in dollars (excluding accrued interest). Transactions on The Stock Exchange will normally be effected for settlement in that currency and for delivery of Bonds on the fifth working day after the date of the transaction. Dealings in the Bonds are expected to commence on 17th June, 1976, for deferred settlement on 9th July, 1976. The brokers to the issue are Cazenove & Co. and Strauss Turnbull & Co.

2. The Bank of England has given all necessary permissions under the Exchange Control Act, 1947, in connection with the issue and underwriting of the Bonds. The Bonds will, for United Kingdom Exchange Control purposes, be foreign currency securities as defined in Exchange Control Notice E.C.7 (Second Issue) as amended.

3. To the best of the knowledge of the Directors of Nafinsa, no litigation of material importance is pending or threatened against it.

4. Other than as described herein, no contracts have within the last two years been entered into by Nafinsa which are material in the context of the issue of the Bonds.

5. Mancera Hermanos y Cia., S.C., and Goodrich, Dalton, Little & Riquelme have given and not withdrawn their written consents to the issue of this Prospectus including a copy of their opinions in the form and context in which they are included.

6. Copies of the following documents may be inspected at the offices of Linklaters & Paines, Barrington House, 59-67, Gresham Street, London, E.C.2 during usual business hours for a period of 14 days from the date of this Prospectus:—

(i) a certified translation of the Organic Law of Nafinsa;

(ii) the English text of the audited financial statements of Nafinsa for the five years ended June 30, 1975;

(iii) a draft (subject to modification) of the Fiscal Agency Agreement and a specimen Bond;

(iv) the Subscription Agreement; and

(v) the opinions and written consents of Mancera Hermanos y Cia., S.C., and Goodrich, Dalton, Little & Riquelme.

7. The information set forth herein under the caption "MEXICO" has been provided to Nafinsa by the Ministry of Finance and Public Credit of the Federal Government of Mexico.

8. Copies of Nafinsa's Organic Law and audited annual reports will be available to the Bondholders so long as any Bonds are outstanding at the offices of the Fiscal Agent and of each of the Paying Agencies.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

SCOMM

#9:52

Institution:	International Bank for Reconstruction and Development (World Bank)
Location:	Headquartered in Washington, D.C., U.S.A. Offices in London, Paris, Tokyo. Missions in 20 countries.
Size:	3/31/76 (000's)
Assets:	U. S. $29.5 billion
Capital:	Authorized Capital: U. S. $30.9 billion Paid-in-Capital: U. S. $3.1 billion
Purpose:	Established 6/24/46 pursuant to articles of agreement drawn up at Bretton Woods Conference of July, 1944. Initial membership 29 soverign states. Present membership 127 soverign states. Purpose of World Bank is to function as intergovernmental financial institution to (a) assist in the reconstruction and development of member states by facilitating investment of capital for productive purposes; (b) supplement private foreign investment through guarantees of or participation in private investments; (c) supplement private investment via loans from its own resources or borrowed funds. See "Affiliated Institutions" below.
Source of Funds:	Capital provided by subscriptions of member states and borrowings in international and U. S. capital markets. Supplemented by internal cash flow from lending activities and sale of loans.
Management Structure:	Governed by Board of Governors composed of one from each member state. Executive Directors (20) appointed by Board function as Board of Directors. President selected by Executive Directors and is responsible for all operations. Operations are organized by geographic area, industry, and function. Total employees: approximately 3,500.
Management of Funds:	Internal. All loans to or guaranteed by member states. Loan portfolio monitored with respect to industry and country in relation to worldwide economic conditions. The bank has not suffered any losses on its loans to date and does not take part in debt rescheduling agreements.

Portfolio:	Loans made generally in conformity with 5 principles: (1) loans must be to governments, government agencies or authorities, or if to private enterprises, guaranteed by a government (only member governments eligible); (2) loans must be for productive purposes based on bank analysis; (3) bank must exercise prudence in making loans and consider ability of borrower to obtain foreign exchange necessary for loan service; (4) Bank does not make loans obtainable privately on reasonable terms; (5) use of proceeds supervised by Bank. Since inception, loans totalling $31.1 billion have been made to 95 countries. Current loans outstanding total $27.7 billion. Largest borrowers are Brazil, Mexico, Korea, Yugoslavia, Columbia, Iran, Turkey, Philippines and Nigeria. Loans made for extended terms at fixed rates (1/2% above money cost to Bank adjusted quarterly).
Capital Structure:	Debt 73.2%; Capital Stock 26.8%. Capital Stock funds may only be used for lending with consent of each member state; otherwise such funds must be used for administrative purposes or to support guarantees and borrowings only.
Income:	Generally retained by Bank except portion transferred to International Development Association.
Affiliated Institutions:	International Finance Corporation. Makes loans and investments to private enterprises in member countries without government guarantee. 104 governments are members. Sources of funds are members' subscriptions and loans from Bank. Staff is substantially identical to that of Bank. International Development Association. Purpose is to promote economic development in less developed member countries. 116 countries are members. Loans generally made for terms of 50 years without amortization. Service charge of 3/4% on outstanding balance levied in lieu of interest. Staff substantially identical to that of Bank.

World Bank
Annual Report 1975

The World Bank Group includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). These institutions help to raise standards of living in developing countries by providing financial and technical assistance. The International Centre for Settlement of Investment Disputes (ICSID), sponsored by the Bank, offers a mechanism for solving disputes between governments and foreign investors.

Front cover: Preparing for [illegible] planting in the Ecuadorian Andes

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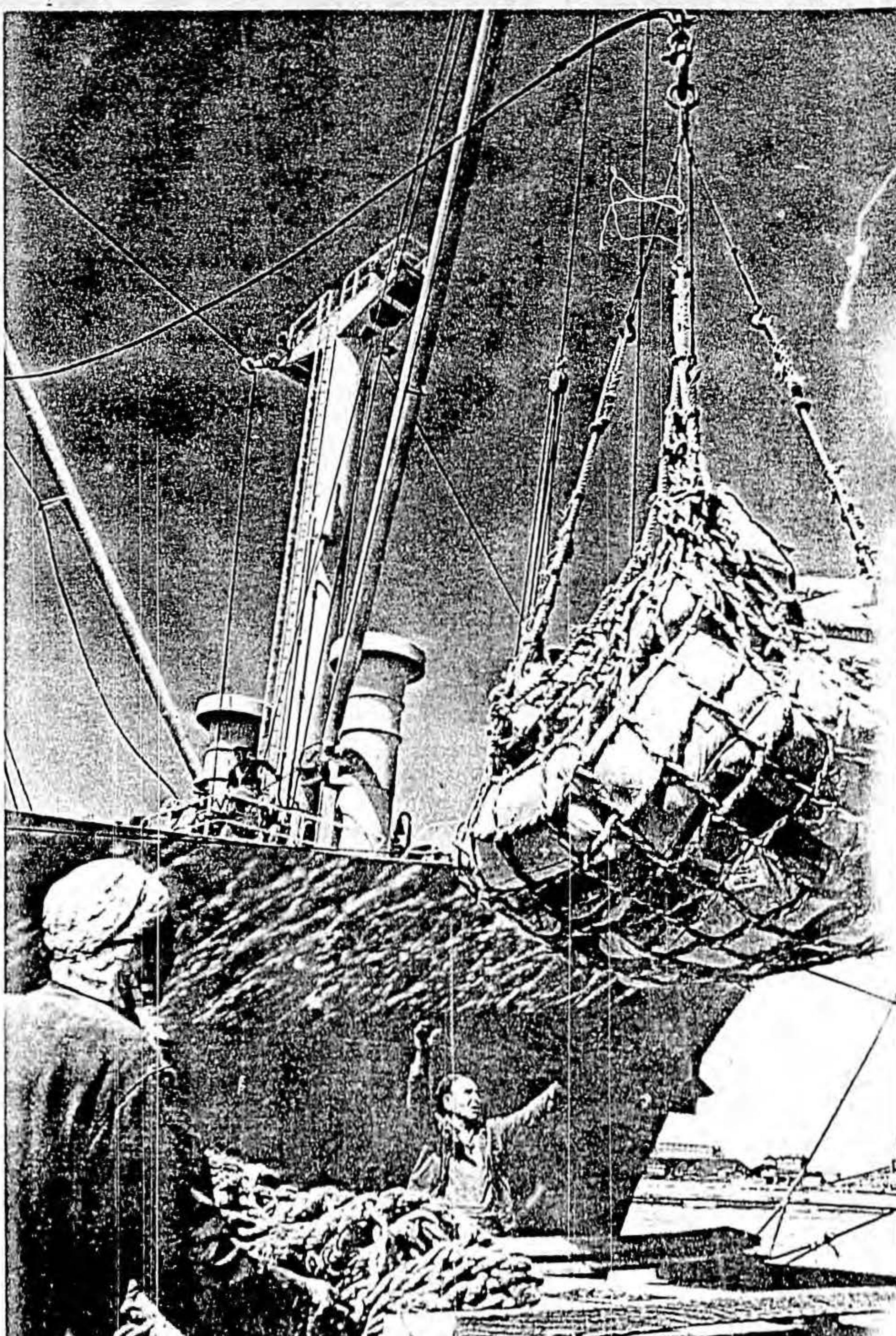
The Executive Directors of the International Bank for Reconstruction and Development and the International Development Association have had prepared this *Annual Report* for the fiscal year July 1, 1974, to June 30, 1975, in accordance with the By-Laws of the two organizations. Robert S. McNamara, President of the Bank and the Association and Chairman of the Executive Directors, has submitted this Report, together with accompanying administrative budgets and audited financial statements, to the Boards of Governors. The Annual Reports of the International Finance Corporation and the International Centre for Settlement of Investment Disputes are published separately.

The Record for Ten Years—1966-75

Amounts in US$ millions

	Fiscal Year									
	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
World Bank										
Operations Approved	37	46	44	82	69	78	72	73	105	122
Loan Amounts[1]	839	777	847	1,399	1,580	1,921	1,966	2,051	3,218	4,320
Countries	29	35	31	44	39	42	40	42	49	51
Disbursements[2]	668	790	772	762	754	915	1,182	1,180	1,533	1,995
Total Income	292	331	356	410	504	578	646	758	929	1,157
Net Income	144	170	169	171	213	212	183	186	216	275
Total Reserves	954	1,023	1,160	1,254	1,329	1,444	1,597	1,750	1,772	1,902
Borrowings: Total	288	729	735	1,224	735	1,368	1,744	1,723	1,853	3,510
Borrowings: Net	64	503	222	698	299	819	1,136	955	990	2,483
Subscribed Capital	22,426	22,850	22,942	23,036	23,159	23,871	26,607	30,397	30,431	30,821
Member Countries	103	106	107	110	113	116	117	122	124	125
Professional Staff	667	734	767	961	1,170	1,348	1,516	1,654	1,752	1,883
IDA										
[illegible] Approved[3]	12	17	16	29	50	51	68	75	69	68
[illegible]ts	284	353	107	385	606	584	1,000	1,357	1,095	1,576
[illegible]	8	13	14	28	33	34	38	43	41	39
[illegible]	267	342	319	256	143	235	261	493	711	1,026
[illegible]rces, [illegible]	1,682	1,767	1,807	2,176	3,182	3,343	4,204	7,019	7,433	11,608
[illegible]	96	97	98	102	105	107	108	112	113	114

[illegible] $100 million in FY1967, $100 million in FY1970, $60 million in FY1972, $40 million in FY1973, $110 million in FY1974, and $50 million in FY1975.
[illegible] on loans to IFC.
[illegible] are counted only once, as Bank operations.



Summary and Background of the Year's Activities

In fiscal 1975, the World Bank Group greatly expanded its lending to developing member nations. Lending and investment commitments totaled $6,108 million, or $1,591 million above the record level set in the previous year. Lending by the Bank accounted for $4,319.7 million, compared with $3,218 million. In absolute terms, the increase amounted to 34%; in real terms (1974 dollars), the increase came to 25%.(1) Commitments by the International Development Association (IDA) were up 44% to $1,576.2 million, as against $1,095 million last year. In [illegible] terms, IDA commitments in the year rose [illegible] over fiscal 1974. The International Finance Corporation (IFC) made investment commitments of $211.7 million (for further details, see the IFC's Annual Report). In addition, the Bank [illegible] one loan of $50 million to the IFC.

Net income by the Bank ($275 million), borrowings ($3,510 million), and disbursements ([illegible] million, including those of IDA),(2) also [illegible] record highs. (For further details, see the "Borrowings and Finance" section on page [illegible].)

[illegible] commitments rose because additional [illegible] were received under the terms of the [illegible] Replenishment. Those resources amount [illegible] approximately $4,500 million over the three-[illegible] 1975-77. The Fourth Replenishment [illegible] effective in January 1975 when the [illegible] States Government officially notified [illegible] of its participation. Under the [illegible] reached by 24 member nations in September 1973, the Fourth Replenishment [illegible] become effective only after 12 donor (or Part I) IDA members had given official notification of their contributions, and when the amount of contributions notified reached $3,500 million, or about 80% of the total.

The Bank continued to expand its assistance to the least developed countries. The expansion was in line with the policy of providing more assistance to the poorest countries and people. Their needs took on additional urgency in a year during which their problems were exacerbated by economic events beyond their control. The poorest countries accounted for 38% of total Bank and IDA commitments, as opposed to 31% in fiscal 1974. In the case of IDA alone, such countries accounted for 84% of commitments.

Agriculture accounted for a record 32% of all commitments (it was 22% in fiscal 1974); lending in the Bank's "traditional" sectors—power, transportation, and telecommunications—continued to decrease as a proportion of the whole (29% in fiscal 1975, compared with 43% in the previous year).

More than half of all Bank and IDA operations for agriculture—involving commitments of nearly $1,000 million—were for rural development projects designed specifically to increase the productivity of the rural poor. In addition, about $80 million was committed for nine education projects whose primary objective is to increase skills in rural areas. About $130 million was committed for the construction of rural roads. Thus, in fiscal 1975, the Bank and IDA committed over $1,000 million specifically for the rural poor, or more than twice the fiscal 1974 figure of less than $500 million.

A World in Uncertainty

During the 12 months covered by this *Annual Report*, the uncertainty in world economic relationships continued—as in the previous year—to cloud the prospects of developing countries. In fiscal 1974, the upheaval in global economic relationships was characterized by accelerated rises in prices of both capital goods and primary commodities, sudden and substantial increases in petroleum prices, food and fertilizer shortages, and the beginnings of recession in the industrial countries.

(1) [illegible] of loan commitments by the Bank is eroded [illegible] inflation occurs over the period of dis[illegible] practice of the Bank to make allowance for [illegible] of commitment. The deflator now used [illegible] lending in real terms is a weighted average [illegible] assumed to be prevailing over the period of [illegible] project. The lack of a deflator for IFC in[illegible] expression of total Bank Group lending [illegible] commitments in real terms.

(2) [illegible] disbursements on loans to IFC.

Note on dollar amounts

Dollar amounts used in the text of this Report for capital of the Bank refer to United States dollars of the weight and fineness in effect on July 1, 1944, while those used for subscriptions and contributions to IDA, with the exception of the Fourth Replenishment, refer to US dollars of the weight and fineness in effect on January 1, 1960. For all practical purposes, these are the same. Unless otherwise specified, all other amounts in US dollars refer to current dollars. One dollar as used for Bank capital and IDA subscriptions and contributions equaled approximately 1.20635 current dollars, as of June 30, 1975. For more detailed discussion, see General Notes to Statistical Annex; Note A, Appendix G, Bank financial statements; and Note A, Appendix F, IDA financial statements.

In fiscal 1975, little relief from the problems of the previous year was found. The year was haunted by the specter of a deepening recession and rapid inflation in the industrialized countries (in combination on a scale unprecedented in the last quarter-century), steady prices for petroleum products (in calendar 197[illegible] the total bill for such products amounted to [illegible]% of the total cost of imports in those developing countries which are not members of OPEC), and by a sharp drop in the prices paid for many of the primary commodities traditionally exported by the developing countries. No country was able to escape the effects of these forces. Even those countries which had, or were able to obtain, the resources necessary to maintain growth rates were significantly affected by the world economic slowdown.

For the 1,000 million people living in lower-income countries,[1] the economic events of the past year have meant that average real incomes have not risen at all. Current projections indicate that their real incomes may grow by less than 1% yearly for the rest of the decade. Not surprisingly, these countries are the ones whose immediate prospects depend to an extent greater than others, on factors largely beyond their control: the weather, the availability of external aid, and international prices for their exports and imports.

Real growth rates in other developing countries remained at about 4% per capita. They were maintained in large part because many higher-income countries were able to borrow substantial amounts from foreign commercial sources, albeit on relatively hard terms.

The recession in the industrialized countries in 1974 and 1975 has sharply affected the developing world. One important result of industrial slowdown and of measures adopted to reduce inflation was a general decline in the prices of major primary commodities (excluding petroleum) supplied by developing countries. This decline came in successive stages throughout 1974; the downward movement of prices rapidly accelerated as 1975 began, and has continued ever since. On the other hand, prices of manufactured goods—which comprise more than two-thirds of the import bill of the developing countries—continued to rise. As a result, the terms of trade of most developing countries worsened. The purchasing power of exports of primary commodities is expected to decline by about 13% in 1975.

Countries with annual per capita incomes of above $200 are particularly affected by the decline in the growth rates of developed countries. The demand for many of the goods and services that earn their foreign exchange—tourism, manufactures, non-ferrous metals, and some raw materials such as rubber, timber, and fibers—is highly sensitive to economic conditions in the industrialized nations. Thus, the ability of the industrialized world to resolve its own economic problems directly affects their export receipts. Latin America has been particularly affected by the downturn in the industrial nations. It is estimated that the decline in manufactured exports from this region could be almost $1,000 million in 1975.

The recent changes in the international situation have also worked against the lower-income countries, particularly those which depend on imports of food and fertilizers and exports of textiles. In addition, exporters of non-ferrous metals and ores have been adversely affected.

The principal response of most developing countries to the crises that have jolted the world economy in the last two years has been to adopt policies to attempt to meet them head on. They have taken dramatic and, at times, extremely harsh measures—at considerable political cost—to alleviate the adverse effects of the international economic climate.

In the Sahelian countries, for example, where economic performance has been affected in large measure by recent droughts, the major response has been to organize emergency food relief programs with the help of external aid. In most of the Sahelian countries, the slender base of resources has left economies with very little room for maneuver.

Countries affected principally by the recession in the industrialized world have also acted with great speed to soften its impact. The Republic of Korea—heavily dependent on the American and Japanese markets for its exports—has adopted a special credit program which provides a large volume of short-term financing to help industries carry larger inventories; preferential rates go to small and medium-sized firms. A "land bank" was established to buy real estate from private firms that need cash to strengthen their finances. Public investment

(1) For purposes of this analysis, developing countries with an estimated annual per capita income in 1972 of less than $200 are classified as "lower-income."

programs for labor-intensive secto : a e being initiated to create employment. Along with a number of countries, its currency was devalued in order to strengthen its balance of payments over the longer run.

Most of the countries especially hit by inflation deployed a wide variety of monetary and fiscal instruments to dampen inflationary pressures. Interest rates were raised, reserve requirements increased, and severe restrictions were placed on the extension of credit by the banking sector. For a short while, many governments cushioned the impact of higher world prices on final consumers by increasing subsidies on crucial commodities. As a result, there were some cutbacks in investment programs. However, to avoid worsening economic problems in the future, governments began to reduce subsidies; they passed on price increases to consumers, and restored investment programs, particularly in those social sectors which can be effective in removing the handicaps of the poorest sections of society. In Kenya and Tanzania, various methods were tried to soften the impact of inflation on the poor. Moderate wage increases in Tanzania were limited to low-paid employees; in Kenya, it was decided that only the lowest-paid would be compensated fully for cost of living increases.

Many developing countries adversely affected by deteriorating terms of trade took steps to redirect production and investment. Egypt and [illegible] were among those that shifted their focus towards better utilization of installed capacity and away from the installation of new capacity. Some countries shifted investment away from infrastructure and towards commodity producing sectors. Many governments increased their investment in food production in order to [illegible] abject form of dependence and to [illegible] the threat of starvation. A number of [illegible]ments—including Ecuador, Bolivia, Ivory [illegible] Pakistan, India, and Sri Lanka—greatly [illegible] up their investments to locate, develop [illegible] exploit domestic energy sources.

[illegible] prospects of developing countries de[illegible] on their resource endowments. [illegible] not, by themselves, make the adjust[illegible] will permit them not only to weath[illegible] economic uncertainties, but also [illegible] growth rates. The need for external [illegible] has grown; the need to examine [illegible] such developing countries can earn [illegible] increased exports has also be[illegible] apparent.

Capital Flows

[illegible] mates indicate that if developing [illegible] a whole, are to reach a growth rate [illegible] ally by 1980—a rate necessary for [illegible] a reasonable degree of economic [illegible] development—through additional [illegible] alone, the amounts required [illegible] massive. Indeed the sums would have to go far beyond any amount likely to be forthcoming—even assuming that economic growth in the industrialized countries is rapid.

Such massive additional capital flows are unlikely for a number of reasons.

In recent years, members of the Organization of the Petroleum Exporting Countries (OPEC)[1] have significantly increased their financial assistance to developing countries and to development institutions, both in terms of commitments and disbursements. The development assistance policies of these countries, particularly for the medium term and long term, are in a process of evaluation. OPEC members have decided to give high priority to domestic development as long as their own per capita incomes are lower than those of the industrialized nations. OPEC commitments and disbursements are likely to be related to their balance of payments. Their current account surplus, which increased dramatically to a level of about $65,000 million in 1974, is not expected to grow significantly for the remainder of the decade. Even assuming a quick recovery by the OECD (Organisation for Economic Co-operation and Development) nations, a number of OPEC members capable of undertaking large programs for domestic development may be in current account deficit by 1980.

Another major source of increased capital flows to the developing world is the DAC (Development Assistance Committee of the OECD) countries.[2] Their concessionary assistance, measured as a percentage of their combined Gross National Product (GNP), has declined from 0.51% in 1963 to an estimated 0.33% in 1974. If a 6% rate of growth in developing countries were to be achieved solely by reliance on larger ODA (Official Development Assistance) flows from DAC countries, concessionary assistance would have to increase to 0.81% of GNP. Present projections, however, indicate that despite the rise in 1974, and despite indications that some countries will either maintain high rates of ODA, or will increase them, flows of concessionary assistance might drop to 0.24% of GNP by 1980.

Capital Flows, OPEC and DAC

Although the statistics on the aid flows from members of OPEC are much less firm than those for the OECD/DAC countries, reports indicate that total commitments by OPEC members rose from $3,000 million in 1973 to $16,000 million in 1974. Reported disbursements also rose rapidly, from about $1,000 million to $5,000 million.

[1] Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Republic, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela

[2] Includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany (Federal Republic of), Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States, and the Commission of the European Communities.

The Flow of Financial Resources from DAC Countries to Developing Countries and Multilateral Institutions: 1970-74

(US$000 millions)

Net disbursements	1970	1971	1972	1973	1974[P]
Total, official and private	15.71	17.94	19.73	24.28	26.70
Total official	7.96	8.95	10.08	11.84	13.42
Official Development Assistance[1]	6.81	7.69	8.54	9.38	11.30
As share of GNP (%)	0.34	0.35	0.33	0.30	0.33
Total private[2]	7.75	8.99	9.65	12.44	13.28

Details may not add to totals because of rounding.

[1] "Official Development Assistance" is fully defined in Statistical Annex Table 3, as is the content of the remainder of official resources, known as "Other Official Flows."

[2] Includes grants by private voluntary agencies.

[P] Provisional.

These figures include both concessionary and non-concessionary resources. In 1974, approximately 40% of disbursements were on concessionary terms. The non-concessionary disbursements included loans to the Bank ($1,460 million) and to the International Monetary Fund's oil facility ($1,220 million, the proportion of the facility lent to developing countries).

Preliminary data from DAC indicate that ODA by DAC members rose by 21% in dollar terms, but very little in real terms in fiscal 1975. The total ODA of $11,300 million (or 0.33% of combined GNP) was the first significant reversal in the downward trend observed so far in the 1970s. All 17 DAC nations increased their outflow of ODA in dollars during the year, and 13 countries[1] also raised it as a share of their GNP. In fiscal 1975, Sweden became the first DAC country to meet the 0.7% of GNP target for ODA which has been accepted by the majority of DAC members.

Total flows for development by DAC members, which include export credits extended by official and private sectors, and direct and portfolio investments, rose 10% in the year to $26,700 million. In real terms, according to DAC estimates, that figure was equivalent to 0.78% of DAC members' combined GNP, the same percentage as in 1973.

Multilateral institutions such as the World Bank have increased their lending commitments in the wake of the worldwide economic malaise. In order to encourage assistance from other sources, the Bank has also increased the scope of its co-financing activities with other bilateral and multilateral agencies. Details of this cooperation are provided in the regional sections and in the "Aid Coordination" section of this *Annual Report*.

Because flows of concessionary assistance can only supplement the finances developing countries themselves raise to fund the means to their developmental ends, other measures must be found if an annual 6% growth rate for the developing countries is to be achieved.

Trade Policies

In this context, it becomes essential to examine trade policies which can add to the export earnings, and hence to the growth, of developing countries.

Over the years, the Bank has increased its support of international commodity agreements, including the provision of technical assistance. In the past, it has entered into consultative arrangements with specialized commodity bodies to ensure that its actions affecting those commodities are consistent with their policies. Recognizing that the stocking of commodities is an important segment of the production process, the Bank has also provided assistance for building foodgrain warehousing facilities in several countries. In fiscal 1975, the management of the Bank reaffirmed its readiness to receive applications for the financing of buffer stocks and to examine each proposal on its merits. It was also recognized that one major issue that may arise stems from the Bank's constitutional need for governmental guarantees that loans will be repaid, and that in the case of international buffer stock authorities, the nature and form of such guarantees would have to be worked out.

Though the entire range of issues dealing with commodity exports, including assistance for financing buffer stocks, has come into the forefront of international discussions, few countries have taken measures to lower the barriers imposed against the imports of primary products from developing countries. The Bank believes, however, that if such barriers were dismantled, impressive short-term export gains could be achieved by developing countries. These additional earnings could, by 1980, equal half the amount of additional foreign exchange needed to lift the growth of developing countries to a rate of 6%.

[1] Australia, Austria, Canada, Denmark, Finland, France, Germany (Federal Republic of), Netherlands, New Zealand, Norway, Sweden, United Kingdom, and the United States.

Bank Loans and IDA Credits Approved in 1974/75, by Region

[illegible]

	Bank loans[1]		IDA credits[1]		Total[1]	
	Number	Amount	Number[2]	Amount	Number[2]	Amount
Eastern Africa						
Ethiopia	–	$ –	4	$ 80.5	4	$ 80.5
Kenya	5	75.5	–	25.5	5	101.0
Lesotho	–	–	1	4.0	1	4.0
Malagasy Republic	1	6.8	1	16.4	2	23.1
Malawi	–	–	2	18.5	2	18.5
Mauritius	1	3.5	–	3.5	1	7.0
Rwanda	–	–	1	8.0	1	8.0
Somalia	–	–	1	8.0	1	8.0
Sudan	–	–	3	53.0	3	53.0
Swaziland	2	10.5	1	5.0	3	15.5
Tanzania	3	54.0	3	37.7	6	91.7
Zaire	1	100.0	2	52.0	3	152.0
Zambia	3	94.1	–	–	3	94.1
	16	$ 344.4	19	$ 312.1	35	$ 656.4
Western Africa						
Cameroon	1	$ 7.5	1	$ 18.2	2	$ 25.7
Dahomey	–	–	1	4.0	1	4.0
Gabon	1	5.0	–	–	1	5.0
Ghana	1	23.0	1	13.6	2	36.6
Guinea	–	–	1	7.0	1	7.0
Ivory Coast	5	76.9	–	–	5	76.9
Liberia	1	4.0	–	–	1	4.0
Mali	–	–	1	24.2	1	24.2
Mauritania	–	–	1	3.0	1	3.0
Nigeria	8	173.0	–	–	8	173.0
Senegal	1	7.0	2	23.0	3	30.0
Sierra Leone	1	7.3	–	5.0	1	12.3
Togo	–	–	1	6.0	1	6.0
Upper Volta	–	–	2	16.5	2	16.5
	19	$ 303.7	11	$ 120.5	30	$ 424.2
East Asia and Pacific						
Indonesia	7	$ 332.0	–	$ –	7	$ 332.0
Korea, Republic of	5	297.5	–	–	5	297.5
Malaysia	3	109.5	–	–	3	109.5
Philippines	7	208.0	–	–	7	208.0
Singapore	1	25.0	–	–	1	25.0
Western Samoa	–	–	1	4.4	1	4.4
	23	$ 972.0	1	$ 4.4	24	$ 976.4
South Asia						
Bangladesh[3]	–	$ –	4	$ 150.0	4	$ 150.0
Burma	–	–	2	45.0	2	45.0
India	2	209.0	10	631.1	12	840.1
Pakistan	1	60.0	2	66.0	3	126.0
Sri Lanka	–	–	3	28.5	3	28.5
	3	$ 269.0	21	$ 920.6	24	$1,189.6
Europe, Middle East and North Africa						
Afghanistan	–	$ –	2	$ 22.0	2	$ 22.0
Algeria	2	48.0	–	–	2	48.0
Egypt, Arab Republic of	4	162.0	1	65.0	5	227.0
Finland	1	20.0	–	–	1	20.0
Greece	2	70.0	–	–	2	70.0
Iran	2	52.5	–	–	2	52.5
Israel	1	35.0	–	–	1	35.0
Jordan	–	–	4	19.5	4	19.5
Morocco	2	48.5	1	14.0	3	62.5
Romania	4	230.0	–	–	4	230.0
Spain	1	33.0	–	–	1	33.0
Syrian Arab Republic	1	80.6	–	–	1	80.6
Tunisia	3	63.5	–	–	3	63.5
Turkey	2	158.0	–	–	2	158.0
Yemen Arab Republic	–	–	3	27.1	3	27.1
Yemen, People's Democratic Republic of	–	–	2	22.5	2	22.5
Yugoslavia	5	263.0	–	–	5	263.0
	30	$1,264.1	13	$ 170.1	43	$1,434.2
Latin America and the Caribbean						
Bolivia	1	$ 32.0	1	$ 7.5	2	$ 39.5
Brazil	5	426.5	–	–	5	426.5
Chile	1	20.0	–	–	1	20.0
Colombia	5	88.0	–	–	5	88.0
Costa Rica	1	41.0	–	–	1	41.0
Dominican Republic	2	29.0	–	–	2	29.0
Ecuador	1	4.0	–	–	1	4.0
El Salvador	1	2.5	–	6.0	1	8.5
Guatemala	1	26.0	–	–	1	26.0
Guyana	1	8.0	–	4.0	1	12.0
Haiti	–	–	1	20.0	1	20.0
Honduras	1	35.0	–	–	1	35.0
Jamaica	3	41.0	–	–	3	41.0
Mexico	4	360.0	–	–	4	360.0
Panama	1	24.0	–	–	1	24.0
Paraguay	2	24.5	1	11.0	3	35.5
Trinidad and Tobago	1	5.0	–	–	1	5.0
	31	$1,166.5	3	$ 48.5	34	$1,215.0
TOTALS	122	$4,319.7	68	$1,576.2	190	$5,895.8

Details may not add to totals because of rounding.

[1] All supplements and amendments are included in amounts, but only those qualifying as separate lending operations are included in number.

[2] Joint Bank/IDA operations are counted only once, as Bank operations.

[3] Excludes Bangladesh consolidation loan and credit.

Bank Loans and IDA Credits Approved in 1974/1975, by Purpose[1]
(US$ millions)

	Bank	IDA	Total
Agriculture			
Afghanistan–agricultural credit	$ –	$ 13.0	$ 13.0
Algeria–area development	8.0	–	8.0
Bangladesh–irrigation	–	27.0	27.0
Bolivia–agricultural credit	–	7.5	7.5
Brazil–area development	23.0	–	23.0
Burma–forestry	–	24.0	24.0
Cameroon–crops	6.5	–	6.5
Cameroon–crops	–	16.0	16.0
Chile–area development	20.0	–	20.0
Colombia–area development	19.5	–	19.5
Colombia–irrigation	21.0	–	21.0
Ethiopia–area development	–	9.5	9.5
Ghana–crops	–	13.6	13.6
Guinea–irrigation	–	7.0	7.0
India–area development	–	83.0	83.0
India–area development	–	24.0	24.0
India–agricultural credit	–	75.0	75.0
India–irrigation	–	45.0	45.0
India–irrigation	–	35.0	35.0
India–agricultural industries	–	34.0	34.0
India–livestock	–	27.7	27.7
India–livestock	–	16.4	16.4
Indonesia–irrigation	65.0	–	65.0
Indonesia–agricultural research	21.5	–	21.5
Iran–agricultural credit	40.0	–	40.0
Iran–fisheries	12.5	–	12.5
Ivory Coast–crops	31.0	–	31.0
Ivory Coast–crops	20.0	–	20.0
Jordan–irrigation	–	7.5	7.5
Kenya–area development	7.5	7.5	15.0
Kenya–forestry	10.0	10.0	20.0
Malagasy Republic–forestry	6.8	6.8	13.5
Malagasy Republic–livestock	–	9.6	9.6
Malawi–area development	–	8.5	8.5
Malaysia–area development	36.0	–	36.0
Malaysia–agricultural research	28.5	–	28.5
Mali–crops[2]	–	2.6	2.6
Mali–livestock	–	13.3	13.3
Mexico–area development	110.0	–	110.0
Mexico–area development	50.0	–	50.0
Mexico–irrigation	150.0	–	150.0
Morocco–area development	–	14.0	14.0
Morocco–irrigation	18.5	–	18.5
Nigeria–area development	19.0	–	19.0
Nigeria–area development	29.0	–	29.0
Nigeria–area development	21.0	–	21.0
Nigeria–irrigation	17.5	–	17.5
Nigeria–crops	17.0	–	17.0
Nigeria–crops	19.0	–	19.0
Nigeria–crops	29.5	–	29.5
Nigeria–livestock	21.0	–	21.0
Paraguay–agricultural credit	–	11.0	11.0
Paraguay–livestock	10.0	–	10.0
Philippines–area development	25.0	–	25.0
Philippines–irrigation	17.0	–	17.0
Senegal–area development	$ 7.0	$ 7.0	$ 14.0
Senegal–irrigation	–	1.0	1.0
Sierra Leone–area development	5.0	5.0	10.0
Spain–livestock	33.0	–	33.0
Sri Lanka–livestock	–	9.0	9.0
Sudan–irrigation[2]	–	20.0	20.0
Tanzania–agricultural industries	–	10.0	10.0
Tanzania–crops	9.0	9.0	18.0
Togo–crops	–	6.0	6.0
Tunisia–irrigation	12.2	–	12.2
Turkey–area development	75.0	–	75.0
Upper Volta–livestock	–	9.0	9.0
Yemen Arab Republic–area development	–	10.0	10.0
Yemen, People's Democratic Republic of–fisheries[2]	–	1.6	1.6
Yugoslavia–agricultural credit	50.0	–	50.0
	$1,221.5	$ 636.1	$1,857.5
Development finance companies			
Algeria	$ 40.0	$ –	$ 40.0
Colombia	5.5	–	5.5
Finland	20.0	–	20.0
Greece	25.0	–	25.0
India	100.0	–	100.0
Indonesia	50.0	–	50.0
Israel	35.0	–	35.0
Korea, Republic of	60.0	–	60.0
Liberia	4.0	–	4.0
Morocco	30.0	–	30.0
Pakistan	–	30.0	30.0
Philippines	30.0	–	30.0
Sri Lanka	–	4.5	4.5
Trinidad and Tobago	5.0	–	5.0
Turkey	65.0	–	65.0
	$ 469.5	$ 34.5	$ 504.0
Education			
Brazil	$ 23.5	$ –	$ 23.5
Cameroon[2]	–	1.2	1.2
Dahomey	–	4.0	4.0
Dominican Republic	8.0	–	8.0
Ecuador	4.0	–	4.0
Ethiopia	–	23.0	23.0
Gabon	5.0	–	5.0
Greece	45.0	–	45.0
Guyana	8.0	4.0	12.0
Ivory Coast	5.0	–	5.0
Ivory Coast[2]	2.2	–	2.2
Jordan	–	6.0	6.0
Korea, Republic of	22.5	–	22.5
Lesotho	–	4.0	4.0
Mauritius	3.5	3.5	7.0
Rwanda	–	8.0	8.0
Senegal	–	15.0	15.0
Somalia	–	8.0	8.0
Sudan	–	10.0	10.0
Swaziland	–	5.0	5.0
Yemen, People's Democratic Republic	–	5.4	5.4

Electric power			
Costa Rica	$ 41.0	$ –	$ 41.0
Honduras	35.0	–	35.0
Indonesia	41.0	–	41.0
Jordan	–	5.0	5.0
Malaysia	45.0	–	45.0
Philippines	61.0	–	61.0
Romania	60.0	–	60.0
Sudan	–	23.0	23.0
Syrian Arab Republic	72.0	–	72.0
Syrian Arab Republic[2]	8.6	–	8.6
Yugoslavia	70.0	–	70.0
Zambia[2]	42.1	–	42.1
	$ 475.7	$ 28.0	$ 503.7
Industry			
Bangladesh–fertilizer	$ –	$ 33.0	$ 33.0
Brazil–iron and steel	95.0	–	95.0
Egypt, Arab Republic of–small industry	40.0	–	40.0
India–fertilizer	109.0	–	109.0
India–fertilizer	–	91.0	91.0
Indonesia–fertilizer	115.0	–	115.0
Jordan–fertilizer	–	1.0	1.0
Mexico–fertilizer	50.0	–	50.0
Philippines–small industry	30.0	–	30.0
Romania–iron and steel	70.0	–	70.0
Tanzania–textiles	15.0	–	15.0
Tunisia–mining	23.3	–	23.3
Turkey–fertilizer[2]	18.0	–	18.0
Zaire–mining	100.0	–	100.0
	$ 665.3	$ 125.0	$ 790.3
Non-project			
Bangladesh	$ –	$ 50.0	$ 50.0
Bangladesh[2]	–	25.0	25.0
Egypt, Arab Republic of	35.0	35.0	70.0
India	–	100.0	100.0
India[2]	–	100.0	100.0
Kenya	30.0	–	30.0
Korea, Republic of	100.0	–	100.0
Sri Lanka	–	15.0	15.0
Tanzania	30.0	–	30.0
	$ 195.0	$ 325.0	$ 520.0
Population planning			
Bangladesh	$ –	$ 15.0	$ 15.0
Philippines	25.0	–	25.0
	$ 25.0	$ 15.0	$ 40.0
Telecommunications			
Burma	$ –	$ 21.0	$ 21.0
Colombia	15.0	–	15.0
Egypt, Arab Republic of	–	30.0	30.0
Ethiopia	–	16.0	16.0
Ghana	23.0	–	23.0
Guatemala	26.0	–	26.0
Pakistan	–	36.0	36.0
Zambia	32.0	–	32.0
	$ 96.0	$ 103.0	$ 199.0
Tourism			
Dominican Republic	$ 21.0	$ –	$ 21.0
Ivory Coast	9.7	–	9.7
	$ 30.7	–	$ 30.7
Transportation			
Brazil–roads	$ 110.0	$ –	$ 110.0
Brazil–railways	175.0	–	175.0
Bolivia–railways	32.0	–	32.0
Cameroon–roads[2]	1.0	1.0	2.0
Egypt, Arab Republic of–ports	50.0	–	50.0
Egypt, Arab Republic of–railways	37.0	–	37.0
Ethiopia–roads	–	32.0	32.0
Haiti–roads	–	20.0	20.0
Jamaica–roads	13.5	–	13.5
Jamaica–air transport	12.5	–	12.5
Kenya–pipelines	20.0	–	20.0
Korea, Republic of–railways	100.0	–	100.0
Malawi–roads	–	10.0	10.0
Mali–roads[2]	–	8.3	8.3
Mauritania–roads	–	3.0	3.0
Pakistan–pipelines	60.0	–	60.0
Panama–ports	24.0	–	24.0
Paraguay–roads	14.5	–	14.5
Philippines–ports	20.0	–	20.0
Sierra Leone–roads[2]	2.1	–	2.1
Swaziland–roads	7.0	–	7.0
Tanzania–roads	–	10.2	10.2
Upper Volta–roads	–	7.5	7.5
Western Samoa–roads	–	4.4	4.4
Yemen Arab Republic–roads	–	9.0	9.0
Yemen, People's Democratic Republic of–roads	–	15.5	15.5
Yugoslavia–ports	44.0	–	44.0
Yugoslavia–railways	93.0	–	93.0
Zaire–roads	–	26.0	26.0
Zaire–ports	–	26.0	26.0
	$ 815.8	$ 172.9	$ 988.7
Urbanization			
El Salvador	$ 2.5	$ 6.0	$ 8.5
Indonesia	25.0	–	25.0
Kenya	8.0	8.0	16.0
Korea, Republic of	15.0	–	15.0
Tanzania	–	8.5	8.5
Zambia	20.0	–	20.0
	$ 70.5	$ 22.5	$ 93.0
Water supply and sewerage			
Afghanistan	$ –	$ 9.0	$ 9.0
Colombia	27.0	–	27.0
Indonesia	14.5	–	14.5
Ivory Coast	9.0	–	9.0
Jamaica	15.0	–	15.0
Singapore	25.0	–	25.0
Swaziland	3.5	–	3.5
Tunisia	28.0	–	28.0
Yemen Arab Republic	–	8.1	8.1
Yugoslavia	6.0	–	6.0
	$ 128.0	$ 17.1	$ 145.1
TOTALS[3]	$4,319.7	$1,576.2	$5,895.8

Details may not add to totals because of rounding.

[1] Operations have been classified by the major purpose they finance. Many projects include activity in more than one sector or subsector.

[2] Amendment/supplement to previous loan or credit, not counted as a separate lending operation.

[3] Excludes Bangladesh consolidation loan and credit.

Progress has been made in improving export possibilities, as exemplified by the recent agreement reached in Lomé defining trade relations between 46 African, Caribbean, and Pacific nations and the European Economic Community. In particular, the mechanism included in that agreement for the stabilization of earnings from 12 commodity exports holds promise for the improvement of trade prospects of many developing countries. As the importance of trade in helping the developing countries meet the needs of their citizens looms ever larger, the trade discussions in various international fora have become all the more important. Trade-related negotiations between developed and developing countries under the auspices of both UNCTAD (UN Conference on Trade and Development) and GATT (General Agreement on Tariffs and Trade) are currently under way.

Increased earnings by developing countries which produce primary commodities are not thwarted only by trade restrictions in the industrial countries. Another constraint is productive capacity in the developing countries themselves. A Bank study indicates that only by investing about $18,000 million (in 1974 dollars) by 1980 to expand production of these commodities could the developing countries take full advantage of the elimination of trade restrictions.

Import liberalization for primary commodities, though significant in overall terms, would nevertheless probably prove to be of limited value to the developing world over the long term. The markets for such products will continue to grow only slowly, as income elasticities are, in most cases, low. Improved long-term export prospects must, therefore, be based largely on trade in manufactures.

Although manufactured goods now account for 25% of the total exports of the developing countries, their share of the world trade in manufactured goods is still only about 6%. Moreover, exports of manufactures from developing countries have grown only marginally faster in value between 1960 and 1972 than total world trade in this category.

Manufactured products from developing countries often face a variety of tariff and nontariff barriers (countervailing duties, quantitative restrictions, and voluntary but negotiated restraints on exports, for instance). In recent years, several industrial countries have begun efforts to phase out domestic industries which cannot compete with manufactured goods from developing countries. Although there are limits to the speed at which this can be done, the Bank believes that the adoption of more liberal policies by developed countries on the importation of manufactured goods is essential to the long-term growth prospects of the developing countries. In the short run, however, increases in exports of manufactured goods by developing countries will be particularly sensitive to the extent of recovery from recession in the industrial world. A Bank study estimates that manufactured exports from developing countries in the period 1976-80 could increase by more than 15% yearly, provided that growth in the OECD countries were to average 6% in the same period.

Even if growth in the industrialized world is slow, petroleum exporting countries might be a significant market for many developing countries. Imports of goods by OPEC members, estimated to be on the order of $43,500 million in 1974 (a figure almost double that of 1973), are projected to increase by as much as 25% annually through 1980. The past share of exports to this group of countries by developing countries has been only 14%; a maintenance of this share would contribute greatly to their ability to pay for their import requirements.

Long-Term Development Needs

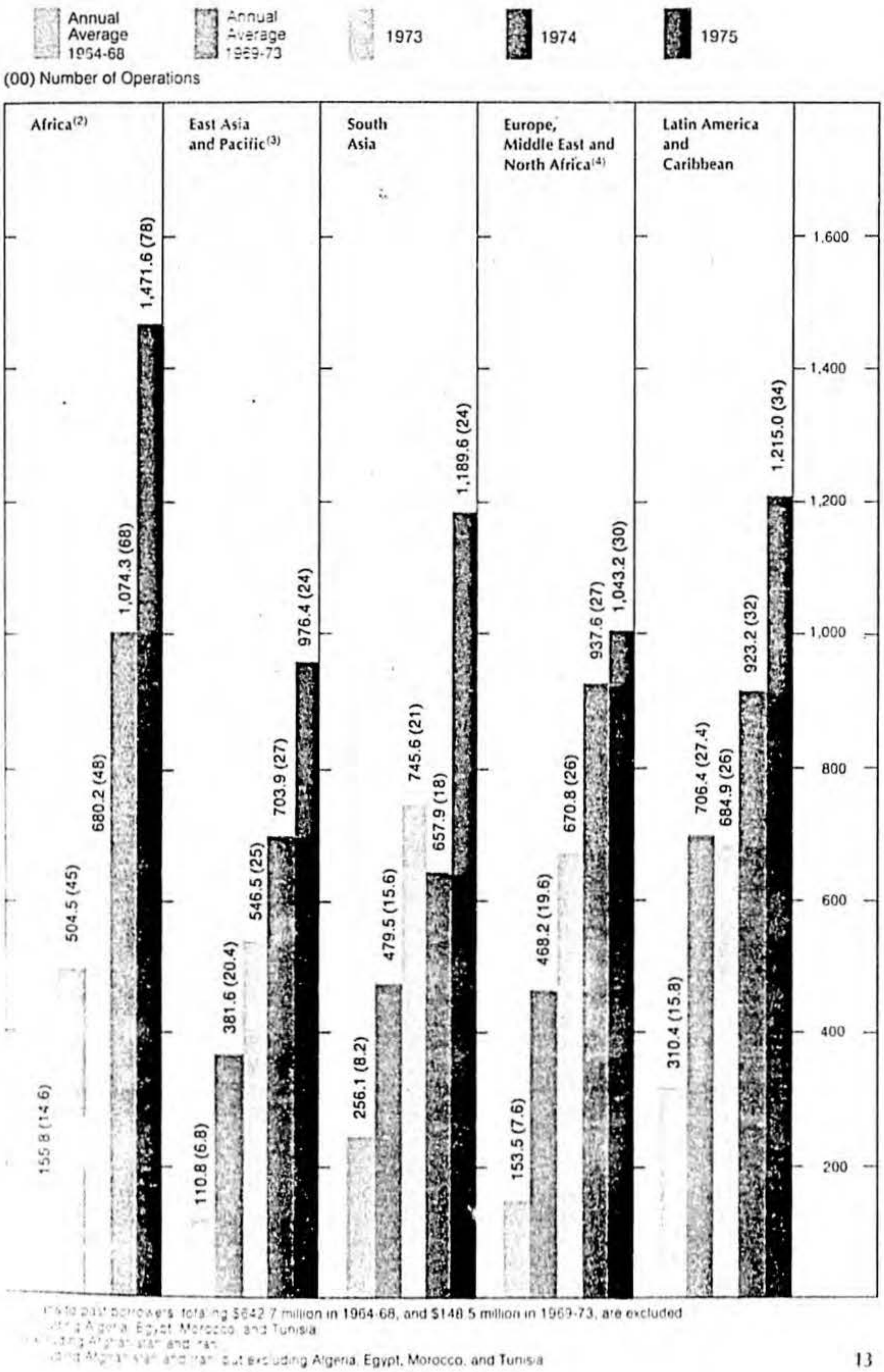
An increase in exports—both of primary commodities and of manufactures—from the developing countries would provide a boost to their stagnating economies. Yet greater earnings through exports cannot be expected to solve the accumulated economic problems and constraints of the developing world.

The fact is that developing countries with annual per capita incomes of above $200 would be the chief beneficiaries of export expansion and trade liberalization. The degree of their current dependence on world trade is far larger than that of the lower-income countries. Since 1974, external finance has been less used as a supplement to domestic savings as terms of trade deteriorated. Export growth can help return rates of domestic savings—and hence, domestic resources available for development programs—to more normal levels. But if long-term development is to proceed—especially for the 1,000 million people living in the lower-income developing countries—much larger capital flows on concessional terms must be provided.

There are but a few developing countries with highly diversified economies which can hope to achieve adequate rates of growth solely through export growth. For the rest, a combination of measures will be needed to enable them to pay for the imports required for sustained development. That combination can be provided only through cooperation among the industrialized, petroleum exporting, and developing countries. Expanded exports to and increased capital flows from OECD and OPEC members can help the developing countries weather the current transitional period of economic disequilibrium. Beyond this period, however, long-term development finance on concessional terms will be needed to help provide developing countries—especially the lower-income ones, whose dependence on foreign trade is relatively small—with the capital needed to finance programs designed to achieve basic development objectives which increasingly are

Bank and IDA: Lending by Geographic Region,[1] 1964-75

(US$ millions. Fiscal years.)



... totaling $642.7 million in 1964-68, and $148.5 million in 1969-73, are excluded
... Algeria, Egypt, Morocco, and Tunisia
... Afghanistan and Iran
... Afghanistan and Iran but excluding Algeria, Egypt, Morocco, and Tunisia

designed to raise the productivity of the poorest groups in their midst.

In response to the worsening economic conditions, global initiatives were launched during the past fiscal year to deal with two of the world's most intractable problems: the deteriorating economic posture of the developing countries, and the continuing threat of disastrous imbalance between food supplies and population.

The Development Committee

In October 1974, following the approval of parallel resolutions by the Boards of Governors of the Bank and the International Monetary Fund, the Development Committee—formally, the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund (IMF) on the Transfer of Real Resources to Developing Countries—was established.

The Development Committee consists of 20 members, generally Ministers of Finance, each appointed for the first two years by one of the 20 countries or groups of countries designating a member of the Bank's Board of Executive Directors. The Committee is required to advise and report to the Boards of Governors, both of the Bank and the IMF, on all aspects of the broad questions of the transfer of real resources to developing countries, and to make suggestions for consideration by those concerned regarding the implementation of its conclusions.

The initial focus of the Committee's work was on the situation of the poorest and the "most seriously affected"[1] developing countries, and on measures by which their needs for the immediate period ahead might be met. In its January 1975 meeting, the Committee requested that the creation of a "special trust fund," providing additional highly concessionary resources, be examined by the Executive Directors of the Bank and the IMF.

The Bank's Executive Directors studied how the need of developing countries, especially the lower-income ones, for quickly-disbursing balance of payments assistance could be met. The need was made more urgent by the knowledge that the rapid commitments of assistance by some OPEC members, much of it fairly quickly-disbursing, might not continue on the same scale, and that the IMF oil facility was scheduled to be phased out.

In view of the character of the urgently-needed assistance for balance of payments relief, the two Boards agreed that if any such trust fund were to be established (its establishment would depend on the availability of additional resources), it should be administered by the IMF, though on longer and more concessional terms than those applying to the existing facilities of the Fund.

The Third Window

At the same January meeting, the Development Committee also requested the Bank to examine the possibility of establishing a "third window," providing development assistance on terms intermediate between those of the Bank and IDA. Indeed, even before that meeting, the Bank had begun to study the feasibility of establishing such a facility.

The response by the Bank to the proposal was affirmative, for it believed that the Third Window could prove a valuable source of capital resources to developing countries.

At its June meeting, held in Paris, the Development Committee unanimously supported the establishment for one year in the Bank of the new intermediate lending facility. The Committee also urged the Bank to proceed with its establishment in the fiscal year beginning July 1, 1975, in order to lend to the developing countries in that year up to $1,000 million in assistance separate from other Bank operations.

The Third Window is essentially an intermediate lending facility whose terms are softened by the availability of interest subsidies. The funds needed to finance disbursements under Third Window loans, which would be made over a one-year period, would have to be borrowed by the Bank. The amount of concessionary resources needed to finance the interest subsidization of such loans depends on both the volume of lending to be undertaken and the terms offered on individual loans. At an intermediate interest rate of 4½%–4% below the Bank's present lending rate—about $225 million in interest subsidization funds would be required to finance the lending of each $1,000 million. Contributions in the form of grants would be voluntary.

The chief beneficiaries of Third Window operations would be those countries with per capita GNPs of less than $375, and especially the lower-income countries. Though many of the lower-income countries could not afford the intermediate terms of Third Window loans—exclusively, at any rate—they would stand to benefit indirectly through a re-allocation to them of IDA funds from some developing countries which can afford intermediate terms. Taking into account both the direct and indirect effects of Third Window lending, the lower-income countries might receive a net increase in total Bank Group assistance of approximately 20%, with an appreciable softening of the average terms of that assistance. The Bank believes, however, that the Window should not be completely closed to countries with per capita incomes higher than $375.

[1] The term "most seriously affected," or MSA, has come into widespread use in the past two years, and denotes those developing countries with lowest per capita incomes that have also been hardest hit by recent world economic events. Identification of MSA countries is among the tasks of the United Nations Emergency Operation. Forty-two countries have to date been incorporated into the MSA list.

World Food Conference

In early November, 130 governmental delegations, as well as a large number of non-governmental and intergovernmental groups, met in Rome in the wake of the serious deterioration of the world food situation. The immediate problems of food and fertilizer shortages were not dealt with in substance, for the Conference had a long-term reference—approximately 10 years—which looked both toward the improvement in persistent, unfavorable trends in food production in the developing countries, and to the establishment of means to cope with emergencies when major crop shortages occur, as happened in 1972 and 1974. The Conference was remarkable for the unanimity with which it endorsed the basic principle that the world's food problems could be solved only through a great and sustained growth in food output in areas in which the great masses of undernourished and vulnerable people live, namely, the developing countries of Asia, Africa, and Latin America.

Delegates agreed to hold subsequent negotiations on four principal subjects:

- the creation of an International Fund for Agricultural Development ("World Food Fund");
- the establishment of a global information and early warning (for potential crop failures) system;
- the reconstitution of the existing Intergovernmental Committee of the World Food Program as a body to coordinate food aid; and
- the creation, at the ministerial level, of a World Food Council of about 25 members to coordinate the activities of a standing committee of the (Food and Agriculture Organization of the United Nations) FAO Council on world food security (which deals with the establishment of food stockpiles), the Intergovernmental Committee of the World Food Program, and a new [illegible] the Consultative Group on Food Production and Investment in Developing Countries (CGFPI).

[illegible] of these actions taken by the Conference [illegible] implications for the work of the Bank. [illegible] XIII, which was sponsored by many [illegible] members, and which recommend[illegible] establishment of the "World Food [illegible] contemplates the disbursal of its re[illegible] international institutions," a term [illegible] cover the Bank, among others. The [illegible] Council, asked by the Conference [illegible] the actions of, make recommen[illegible] and receive reports from "United [illegible] and agencies," will work closely [illegible] Bank, the world's major source of ex[illegible] for direct investment in the agri[illegible]. The proposed activities of the [illegible] as well as its relationship to the Bank, are discussed in the "Inter-Agency Cooperation" section of this *Annual Report*.

The World Food Conference highlighted the importance of taking action to narrow the projected world food gap, and the Bank has begun to take action to assist its members to formulate and implement plans to increase food production. In many cases, such plans might involve some fairly radical changes in pricing and other policies, and the removal of socio-political, institutional, and other constraints. While the emphasis is being put on quick-yielding activities, the Bank is also paying attention to actions which may bring about important, long-term results. The Bank is, for instance, helping some of its members—Bangladesh, India, Indonesia, Iran, Kenya, Nepal, Zaire, and the countries of the Sahel, to name a few—in the use of satellite remote sensing imagery in resource survey and evaluation work, and in all aspects of project planning.

During fiscal 1975, as a result of a comprehensive study of the problems of the rural poor, the Bank gained an improved global perspective of absolute and relative poverty, of where the rural poor are located, and some idea of their production potential. Knowledge of the constraints which impede the fulfillment of this potential has also been increased.

Rural Development

Almost 650 million people in the developing world are considered to live in absolute poverty, existing on annual per capita incomes of not more than \$50. About 100 million more, in relative poverty, have incomes, though above \$50 a year, which are below one-third the national average. Of this total of three-quarters of a billion people, 600 million, or 80%, live in rural areas. Their number is growing by approximately 2% a year.

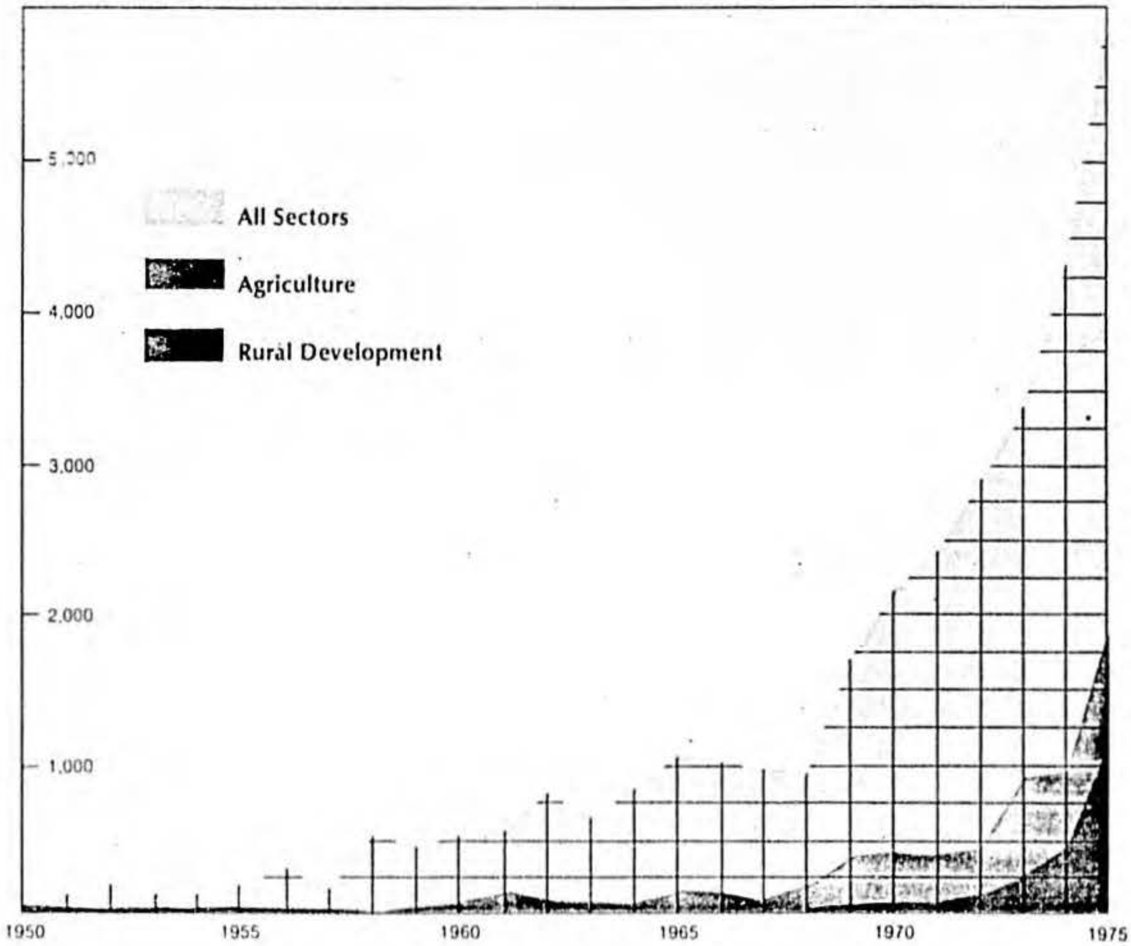
The poverty of the rural poor is reflected in their poor nutrition, their inadequate shelter, and low health standards. Schooling in rural areas is often both inadequate and irrelevant. Rural areas, compared with urban areas, have a smaller share of economic infrastructure, such as domestic water, electricity, and waste disposal. Even when such services exist, the poor often do not have access to them because organization is inadequate, and costs are high.

If the problems of food production are to be alleviated, the rural poor must be made a part of the solution. Because the problems are so complex, complex solutions, cutting across sectoral lines, must be devised to help the rural poor contribute more fully to an increase in output.

The Bank believes that rural development, properly conceived and carried out, need not conflict with the objectives of higher food production. Indeed, studies indicate that small farmers are often more efficient in the use of farm resources than are large farmers. And though it may take longer to increase food out-

Bank and IDA: Lending for All Sectors, and for Agriculture and Rural Development, 1950-75

(US$ millions. Fiscal years.)



put on small farms than on larger units—it is more difficult, for instance, to devise and implement development schemes involving large numbers of smallholders than those affecting only a few large-scale farmers—the Bank has concluded that, in the longer run, increases in food production of the magnitude required to satisfy worldwide demand can only be achieved by helping small farmers increase their productivity and output.

Experience has taught the Bank that, in many instances, a lack of finance alone is not the only factor limiting production among small-scale producers. Frequently, technological, procedural, and manpower constraints thwart the effective use of additional investment.

Overriding these factors, however, is the need, at the national level of government, for a strong commitment to rural development policies. Such commitment is required if the impact of programs designed to attack the problems of rural poverty are to be both effective and broad-based. The Bank is in no position, nor would it want to be, to dictate the design of such programs, for the choice of ways to deal with the problem, and the sequence in which they are used, will necessarily reflect local conditions as well as narrower technical considerations.

In some instances, present policies must change if programs for rural development are to be effective. The Bank's analysis indicates that all too often, government policies discriminate against agricultural production in favor of manufacturing or processing industries; in addition, policies designed to keep food prices low for the large urban market have frequently been adopted to the disadvantage of the small farmer. In other cases, national fiscal policies—through high levels of indirect commodity taxation and low effective rates of income or property taxes, the poor often pay a considerably larger share of their income than the rich, for instance—must be made consistent with the commitment to rural development. Elsewhere, land policies, involving land reform or settlement schemes, to name but two, must be designed to aid the rural poor. Technologies of relevance to and within the means of the smallholder must be made available and promoted.

In those countries where there exists a strong, national commitment to improve the productivity of the rural poor, the Bank has already become a major source of external funds for direct investment in the agricultural sector. It is the Bank's estimate that the rate of growth of output of small farmers can exceed 5% by 1985 if assistance, properly conceived and targeted, is provided. The Bank also knows, however, that some innovative rural development programs will inevitably be unsuccessful. (Risks can be reduced by providing facilities for monitoring and evaluation so that the lessons of experience can be learned.) And, the Bank realizes that its rural development program for the next five years—ambitious as it is—will scarcely keep pace with the additional numbers of the rural poor—some 70 million—who will be born during the same period. A five-year (fiscal 1975-79) lending projection by the Bank foresees commitments of up to $7,000 million for agriculture and rural development projects. Such lending could benefit about 100 million people, of whom 60 million are presently living in either absolute or relative poverty.

The Bank has estimated that over the next 10 years, up to $100,000 million might be required to provide the impetus for sustaining productivity and real income growth among all the rural poor. Because Bank and IDA financing, on average, accounts for but one-half of project costs, the lending projections, if realized, would support a total annual investment program of approximately $2,000 million by fiscal 1979. This alone would represent 20% of the yearly requirement for financing the target of a production increase of 5% by 1985.

The main elements of the Bank's rural development projects will remain largely the same. They will be designed to benefit large numbers of the rural poor, while earning an economic rate of return at least equal to the opportunity cost of capital; they will be comprehensive in their approach to small-scale agriculture, and will provide for a balance between directly productive and other components (where the inclusion of the latter is appropriate); and they will have a low enough cost per beneficiary so that they might be extended to other areas, given the availability of additional resources. At the same time, however, the Bank has recognized that there is a need to develop new approaches to solve the many difficult technical, organizational, and other constraints which hinder the realization of the productive potential of low-income rural people in agricultural and other pursuits. Because increasing food output on small farms takes a long time, the Bank will continue, under appropriate conditions, to help finance projects designed to increase food production and expand exports on medium-scale and large farms.

Education

Bank and IDA lending for education development is but 12 years old; during that period, the perceived objectives of education, and its relationship to development, have changed in much of the developing world. The Bank, too, has periodically re-examined its role in fostering educational development.

Until recent years, overall strategies, including those for education, have been directed toward modern sector activities and educating people for roles in a highly modernized society. This has often resulted in a concern for urban populations and more highly-skilled groups in the labor force which works to the disadvantage of the rural dwellers and other segments of the poor who are engaged in traditional or transitional ways of life.

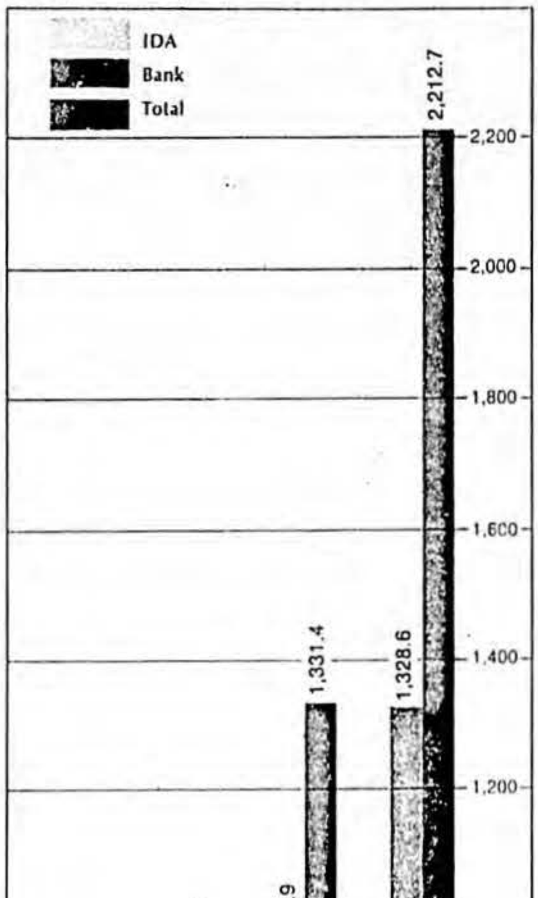
Bank and IDA: Trends in Lending, by Sector
(... fiscal years)

	1973			1974			1975		
	Bank	IDA	Total	Bank	IDA	Total	Bank	IDA	Total
...culture	501.6	436.1	937.7	646.5	309.4	955.9	1,221.5	636.1	1,857.5
...lopment finance companies	268.0	42.0	310.0	309.0	36.2	345.2	469.5	34.5	504.0
...ation	161.6	114.5	276.1	134.4	18.7	153.1	126.7	97.1	223.8
...tric power	174.3	147.2	321.5	755.9	13.5	769.4	475.7	28.0	503.7
...stry	--	67.2	67.2	309.1	109.7	418.8	665.3	125.0	790.3
...project	30.0	195.0	225.0	--	235.0	235.0	195.0	325.0	520.0
...ulation	21.5	--	21.5	--	17.0	17.0	25.0	15.0	40.0
...nical assistance	--	4.0	4.0	16.0	5.0	21.0	--	--	--
...ommunications	157.8	90.0	247.8	66.5	41.4	107.9	96.0	103.0	199.0
...sm	--	--	--	30.6	16.0	46.6	30.7	--	30.7
...portation	520.1	162.3	682.4	733.2	223.8	957.0	815.8	172.9	988.7
...nization	16.0	20.0	36.0	68.0	45.0	113.0	70.5	22.5	93.0
...r supply and sewerage	200.1	78.7	278.8	149.2	24.5	173.7	128.0	17.1	145.1
Total	2,051.0	1,357.0	3,408.0	3,218.4	1,095.2	4,313.6	4,319.7	1,576.2	5,895.8

[illegible]

Bank and IDA:. Lending to Countries with Annual per Capita Income below $200, 1964-75[1]

(US$ millions. Fiscal years.)



[1] Excluding oil exporters with capital surplus

The Bank believes that educational strategies must adapt themselves to and be consistent with broadly-defined development objectives which increasingly are focusing on ways to raise the productivity of the poorest segments of the population. The 750 million people who live today in poverty are, in most cases, the same people for whom education in the past was either inaccessible or irrelevant. Development strategies to increase these people's productivity and incomes cut across many sectors—including agriculture, health, and population, as well as education.

In attempting to promote balanced educational development, the Bank believes that minimum, basic education should be offered to all, as fully and as soon as resources permit, and that further education and training beyond the basic level should be provided selectively to improve the knowledge and skills needed to carry out economic, social, and other developmental roles.

The Bank realizes, however, that new educational strategies to provide relevant training to masses of people cannot be divorced from the various political milieus in which decisions affecting new strategies are developed. In addition, it knows well that there are risks involved for developing nations in embarking on highly innovative policies in such an emotion-laden field as education.

For countries not content with the results of past educational policies, and which wish to redress existing imbalances and irrelevancies, the Bank stands ready to share the risks involved in evolving new educational policies and programs. For others which are yet to determine what direction new educational strategies should take, the Bank has indicated its willingness to assist in financing comprehensive sector studies which broadly assess the degree to which a country's educational system responds to its developmental objectives and needs. The Bank firmly believes, however, that such studies must be undertaken at the initiative of, and carried out by, the countries themselves if the best and most firmly-rooted results are to be achieved.

Almost three-quarters of a billion people above the age of 15 are today illiterate; unless remedial action is taken soon, that number may rise by more than 100 million in 10 years. Such is the magnitude of both the problem and challenge. The Bank is aware that its contribution to educational development—in terms of dollars—is small (though increasing to more than $1,000 million for 80 education projects in the period 1974-78). It believes, however, that through its lending program, combined with its advice, given in continuing dialogues with concerned developing countries on how best their own needs might be met, it can act as a significant catalyst in helping developing countries achieve their goals.

Health

Health programs in developing countries, too, have historically neglected the rural masses. This bias against the provision of adequate health services for the rural poor is manifested in two ways, the Bank has determined. A large proportion of public expenditures on health in developing countries has been allocated to impressive, but expensive modern hospital facilities and highly-trained medical manpower. Both are naturally found in urban centers. Urban dwellers are doubly favored: they also have better sanitation and water supply facilities, higher school enrollment ratios, and superior environmental and personal health services than do their rural counterparts. (People living in urban slums, however, have also largely remained beyond the reach of modern medicine.)

The Bank believes that inefficiencies and inequities in health policies should be removed. The issue is one of more than equity alone; it is also economic, for ill health imposes economic costs by impairing the productivity of both workers and capital goods, and by reducing the availability of labor. To promote economic development, the poorest in developing societies must be permitted and encouraged to become as productive as resources permit. As health conditions and economic development are [illegible]mentally related, the majority of the [illegible]ple cannot be denied access to better [illegible]th care without damaging national devel[illegible]nt prospects.

[illegible]dence indicates that the effectiveness of [illegible]ed resources for health services (govern[illegible] health expenditures in many developing [illegible]es total less than $1 per person) can be [illegible]ed, and that more equitable access to [illegible] care can be ensured if governments [illegible] curtail their considerable expenditures [illegible]pitals and highly-trained personnel, and [illegible] more resources to the staffing of low-[illegible]alth services in areas with few or no fa[illegible]. Preventive medicine—focusing on im[illegible] environmental and public health, per[illegible]alth practices, and nutrition—rather [illegible]ative medicine should be emphasized.

[illegible] the Bank has not directly financed [illegible]onal health infrastructure as such, it [illegible]ed project lending in a number of [illegible] directly affect health, either through [illegible]ision of project components, or [illegible] the overall project itself. These areas [illegible] population and nutrition, education, [illegible]opment, irrigation and drainage, [illegible] services," and especially, water sup[illegible]werage. This effort will continue. In [illegible] the Bank has decided that, within the [illegible] its present lending program, it will [illegible]ally analyze the health conse[illegible] the projects it supports, and seek [illegible]portunities to improve health con[illegible] developing world.

The responsibility for implementing this policy has been assigned to an expanded Office of Environmental and Health Affairs. The Office will:

- —review all Bank lending operations with a view to preventing their possible detrimental effects on health and providing opportunities for health improvements;
- —coordinate the Bank's participation in specific disease control projects;
- —undertake—initially on a highly-selective basis—analyses of the health sector in particular countries;
- —plan and oversee Bank-related research in the sector; and
- —organize and monitor field experiments to test out more effective health care systems.

The Bank is also extending its collaboration with the World Health Organization (WHO), particularly in improving the allocation of national resources devoted to health. Indeed, because the strengths of the two organizations are complementary (WHO has great technical expertise, while the Bank Group has substantial strength in conducting economic analyses), substantial scope exists for collaboration with WHO and other agencies—as has already taken place in the Western Africa onchocerciasis project. Perhaps of even greater importance is the fact that the Bank and WHO, starting from different conceptions of their respective roles in assisting their common member countries, have arrived at a substantial convergence of views as to priorities and methods of approaching the health problems of the poor.

Housing and Urban Transport

In attempting to define solutions to alleviate the poverty that exists in much of the developing world—through rural development, education, and better health care—the Bank also took increasing note during the year that poverty is by no means confined to rural areas.

Estimates by the UN indicate that in 1975, 819 million, or 30%, of the people in developing countries live in cities and towns of over 20,000 habitants; by the end of the century, it is expected that the proportion will have risen to about 42%, and the number of urban dwellers will be 2,200 million. Half will have come from rural areas in search of better employment opportunities. Most will find deficient living conditions in their new surroundings, but though their deplorable conditions may be more visible than those of the rural poor, most migrants, nonetheless, will consider urban living a distinct improvement.

One fact is clear: the services provided to the poor, whether they live in urban or rural areas, fall very far below those provided to the middle classes and the well-to-do. In the area of housing, for instance, the supply of urban land and urban services, such as water, sewerage, and electricity, tends to be strongly skewed toward upper-income groups, leaving the lower-income groups with minimal or non-existent services. Typically, the standards adopted for utility supplies are, in any case, too costly for the poor. The supply of housing for middle-income groups is limited, and housing ostensibly provided for the poor is often usurped by higher-income families. As far as urban transportation is concerned, governmental policies have often worked, unintentionally, to the detriment of the poor. Many, particularly in the poorer cities, cannot afford any form of motorized transport on a regular basis. Ten cents a working day—fairly typical of fares for two bus rides of two or three miles—represents about 10% of an income of $300 a year. Many of the poorer wage earners earn less than that. Nevertheless, facilities for both walking and cycling, in cities of most developing countries, are notoriously poor and are being reduced by the priority accorded to the private automobile. In sprawling, low-density cities, the distances involved often make walking or cycling impractical. "Squatter" housing settlements are periodically demolished, and the poor, unable to build, buy, or rent housing near centers of employment, are pushed to the peripheries of cities where transportation facilities are often non-existent or costly.

A reorientation of existing housing programs, the Bank has concluded, can make a substantial contribution to economic development and social welfare. Though a few developing countries have adopted imaginative programs to serve adequately their growing urban populations, housing conditions in most countries are worse than they need be. The reasons for this state are complex, but basically, they are due to a lack of understanding of the underlying problems and resource constraints which result in the formulation of misguided policy.

It is the Bank's belief that many countries have often chosen to respond to the needs of their urban citizenry by constructing dwellings of such high standards that the broad demand for housing cannot be met. In addition, the costs of such housing are often beyond the reach of the urban poor. This condition, then, is similar to those prevailing in the field of health, where modern hospitals have substituted inadequately for measures designed to help the masses of the people attain better health.

If developing countries were both willing and able to bring the cost of housing down by reducing standards, by encouraging self-help building projects, by encouraging or providing for higher-density construction, by using local building materials, through the provision of fewer private and more communal plumbing and sanitary facilities, and by improving the effectiveness of housing finance institutions, housing conditions could be greatly improved for the poor majority of the city populations. In very large, lower-income cities, the upgrading of squatter areas also appears to hold great promise for alleviating the grossly sub-standard living conditions of the very poor. Positive zoning and land use policies can also be used to influence the locations of residences and places of employment within cities in ways which reduce transport needs and widen the opportunities of poor workers.

As with housing, Bank activities in urban transport will be concentrated in cities where authorities demonstrate a willingness to consider and implement bold measures to adapt their policies to the mounting pressures of rapid urban growth. Priority will be given to projects supplementing basic transport systems which are directed primarily to the needs of the majority who cannot afford an automobile, and for goods traffic. Though consideration will accordingly be given to bus and urban rail systems, including vehicles, repair shops, terminals, and road and track improvements required for efficient functioning, particular attention will be given projects catering to the many cyclists and pedestrians who cannot afford even low-cost public transportation.

The growth of Bank activities in helping to develop and finance urban transportation programs will inevitably be limited by the long preparation times for projects and a general shortage of expertise in the field. The Bank is convinced, however, that increased involvement is inevitable because urban transport is, in many respects, a leading influence on determining physical and social urban patterns. Because inadequacies exist in current methodology for analyzing urban transport problems and designing solutions to them, the Bank will also attempt to stimulate further development of methodologies specifically related to general urban conditions in developing countries.

The effectiveness of Bank assistance can be maximized only if it is placed in the context of an overall urban development program. The Bank believes that such an overall program might include such elements as initiatives to improve land management policies, policies to restrain too rapid development of peak hour automobile use, and both an understanding of market imperfections by the authorities concerned, and a willingness to reduce them over time. Only within such a context can Bank assistance in financing urban transport, "sites and services," the upgrading of squatter settlements, and in building up the capabilities of local housing finance institutions through technical assistance and the provision of "seed capital" to mortgage insurance institutions, be maximized. During the year, increasing attention was given to projects in support of general urban and urban/regional development programs.

Eastern Africa

Current borrowers	Population (000)(1)	Per capita GNP (US$) 1973
Botswana	641	240
Burundi	3,580	70
Ethiopia	26,550	90
Kenya	12,480	180
Lesotho	1,165	120
Malagasy Republic	7,610	140
Malawi	4,833	110
Mauritius	860	350
Rwanda	3,980	70
Somalia	3,042	90
Sudan	17,051	130
Swaziland	459	300
Tanzania	13,974	120
Uganda	10,829	140
Zaire	23,438	90
Zambia	4,646	390

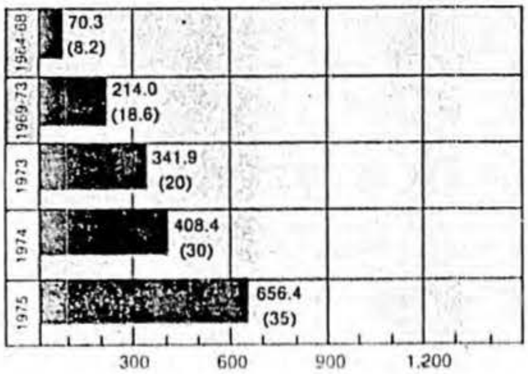
...mated as of mid-1973.

Trend in Lending, 1964-75

(US$ millions. Fiscal years.)

Annual Averages

(00) Number of Operations



...ll the countries in Eastern Africa are heavily ...ndent on the export of a small number of ...ary products to earn the foreign exchange ...uired to pay for the increasing costs of im...ts. In fiscal 1975, as in the past, economic ...ress—or lack of it—in the region's 16 coun...s has been closely linked to the price trends ...ncipal exports. Many countries, which had ...ited from a boom in export commodity ...s through mid-1974, suffered when their ...t earnings fell. Yet unfavorable move...s in the terms of trade only partly explain ...rious difficulties experienced by several ...s. In Ethiopia, Kenya, Somalia, and Tan... continuing drought caused a major set... while Mauritius suffered serious damage ...ars when it was hit by the worst cyclone ...ears. In Ethiopia and Madagascar, the ...to deal with economic problems was af...the political changes, and the organiza... the East African Community were re...d from action by the need to negotiate ...for agreement among the partner ...es.

...harpest setback in export earnings was ...ced by the two countries in the region ...and Zambia—critically dependent on world copper prices. Record high prices reached in early 1974 led to a rapid increase in imports; when copper prices dropped precipitously, the steadily-rising costs of the new level of imports compounded the two countries' economic problems. As a result of the decline in copper revenues, Zambia expects to register a very large budget deficit in 1975. In Zaire, too, rapidly-rising public expenditures outstripped the growth in revenue and fueled a price inflation which reached 30% in 1974. Both Zambia and Zaire experienced sharp declines in their foreign exchange reserves in 1975.

The countries whose principal export is coffee—Burundi, Ethiopia, Kenya, Madagascar, and Rwanda—also faced declining export receipts. The price of coffee, which peaked in early 1974, has fallen sharply in recent months. High prices for sugar benefited two major producers Swaziland and Mauritius, though in the latter country, production dropped by 15% to 20% as a result of cyclone damage. A drop in the price of cotton adversely affected the economies of Sudan and Tanzania.

In Tanzania and Madagascar, the need to import large quantities of food seriously aggravated a balance of payments situation already made difficult by the escalation in the prices of petroleum products and manufactures. By December 1974, Tanzania's foreign exchange reserves had fallen to less than the equivalent of one month's imports. It was then that the Bank approved a quick-disbursing $30 million loan to help enable the country to continue importing raw materials and intermediate goods essential for its development program.

Somalia's predicament was even more precarious during the year. A drought which began in 1973 became acute during 1974, and killed as many as a third of the livestock (some 1 million cattle and 1½ million goats and sheep). Nearly a quarter of a million people were fed in well-organized relief camps. Since livestock is the main source of Somalia's foreign exchange earnings, the drought caused a deterioration in that country's balance of trade. Despite large capital inflows, foreign exchange reserves declined in 1974 and continued to do so in the first half of 1975.

Although the drought also affected southern and southeastern Ethiopia, that country benefited—up to the middle of 1974—from a very favorable trend in its terms of trade. Since then, however, greatly increased prices for its imports have resulted in a moderate decline in Ethiopia's sizeable foreign exchange reserves.

Kenya was very adversely affected by a combination of deteriorating terms of trade and drought. As a relatively large importer of petroleum products, the country was also severely hit by the increased cost of oil. Foreign exchange reserves covered less than two months' imports at the end of 1974, and a residual external financing gap of over $150 million is forecast for 1975. To help maintain investment momentum, the Bank provided a $30 million non-project loan to cover the cost of essential imports while new policies relating to agricultural prices and investments, in particular, are taking effect.

The country of the region registering the highest rate of economic growth during fiscal 1975 was Botswana, where yearly per capita incomes have doubled in less than five years. This rise is due mainly to large investments in the mining sector over the past five years which have enabled it—despite technical difficulties in some projects—to begin exploitation of its diamond, copper, and nickel resources.

Co-financing Arrangements

In an effort to direct additional financial assistance to priority needs in the region, the Bank worked closely with bilateral donors and other international organizations in concluding co-financing arrangements for several projects: in Kenya, Malawi, Mauritius, Rwanda, Somalia, Sudan, Tanzania, and Zaire. Total investments by all co-financers, excluding the Bank and IDA, came to $290 million.

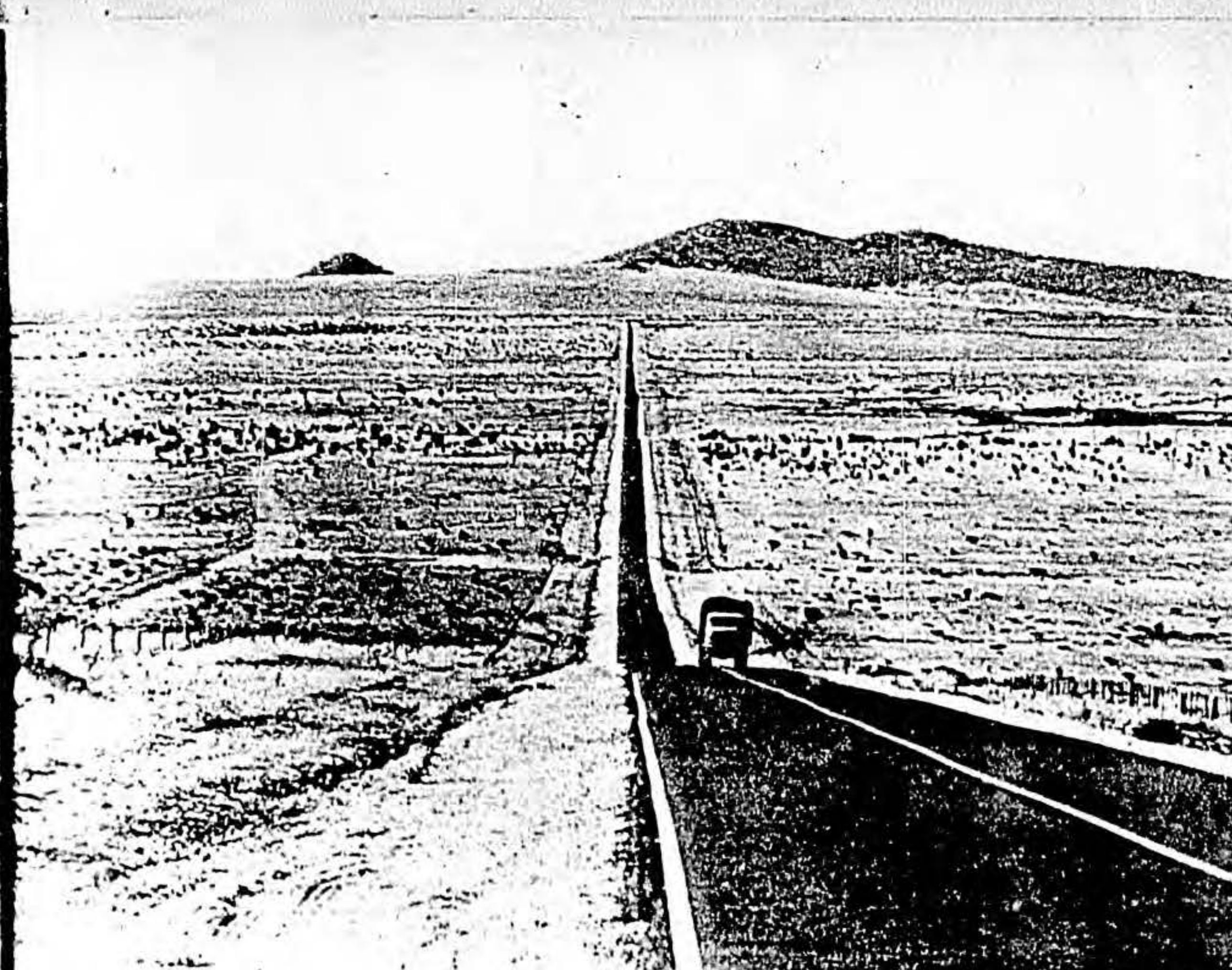
The most notable operation of this kind was a co-financing arrangement between the Bank (a $100 million loan), the Libyan Arab Republic (also a $100 million loan), and the European Investment Bank (a $20 million loan) to assist the expansion of Zaire's State-owned Gecamines mining company, the successor company to Union Minière du Haut-Katanga which was nationalized in 1967. The loans from the three parties will help the company implement a $435 million investment in its copper and cobalt mining facilities.

The loan represented the first Bank (as distinct from IDA) lending to Zaire (with special debt servicing arrangements) since its independence; it also marked the first direct Bank Group involvement in that country's mining sector. Once completed, the project will create 2,000 new jobs, and will raise Zaire's copper and cobalt production by more than 20%, resulting in additional foreign exchange earnings of about $160 million yearly.

Lending to Current Borrowers in Eastern Africa, by Sectors
(US$ millions. Fiscal years.)

	Annual average 1964-68[a]	Annual average 1969-73	1973	1974	1975
Agriculture	$ 5.3	$ 54.5	$145.6	$120.9	$124.2
Education	9.7	23.4	53.3	—	65.0
Industry (including DFCs)	—	15.2	4.0	41.5	115.0
Non-project	—	6.0	30.0	—	60.0
Population	—	—	—	12.0	—
Power	13.2	24.3	—	127.5	65.1
Telecommunications	3.6	9.5	32.5	21.4	48.0
Transportation	38.3	76.7	76.5	82.1	131.2
Urbanization	—	—	—	3.0	44.5
Water supply and sewerage	0.2	4.4	—	—	3.5
Total	$70.3	$214.0	$341.9	$408.4	$656.4
Of which: Bank	$37.8	$107.2	$148.5	$209.9	$344.4
IDA	$32.5	$106.8	$193.4	$198.5	[illegible]

[illegible] not add to totals because of rounding.
[a] Excludes $3.9 million in loans to Rhodesia, and $2[illegible] million to South Africa.



...Bank Group lending for
...ts in the Eastern Africa region
... than half in fiscal 1975.

...k and IDA responded to the econom... confronting the countries of the ... 1975 by increasing their aggre... by 61% over the previous year's to...nding amounted to $656.4 million—...on by the Bank, and $312.05 million ... number of projects assisted also ... in fiscal 1974 to 35 in the year just ...

... the transportation, industrial (in...ing), non-project, education, tele...tions, and urbanization sectors ...eatly. More agricultural and rural ... projects (nine) were approved ...ther sector.

... Agricultural Productivity

... trend in the region towards an ...endence on food imports has ap... years. Given the large agricul... most of the countries, renewed ... to boost production, both ...umption and for export.

... increasingly accepted, both by ... countries of the region, that a minimum investment in economic and social infrastructure, simultaneously provided, is one prerequisite for raising agricultural productivity among the rural poor. Most of the agricultural projects assisted by the Bank and IDA, therefore, included improvements in roads, health facilities, education, and other services. In a number of projects, attempts were made to improve the total rural environment through comprehensive regional development. Perhaps the most noteworthy example is the Kigoma rural development project in Tanzania for which a $10 million IDA credit was approved in August 1974.

To improve rural living standards, the Tanzanian Government has been assisting the half million inhabitants of Kigoma Region to resettle in *ujamaa* villages, thereby facilitating the task of providing economic and social services. The IDA credit is designed to help some 250,000 people, who have established themselves in 135 villages, double (to about $40) their yearly per capita incomes. In mostly individually-owned plots, the people cultivate crops such as maize, beans, cotton, or groundnuts. Agricultural credit will be channeled to the villages through the Tanzania Rural Development Bank, while the Kigoma Cooperative Union will be responsible for buying and collecting village produce.

Though the inhabitants of the 135 *ujamaa* villages are to be the direct beneficiaries, the entire population of the region will also benefit. The project will develop a credit and marketing system, strengthen village-level extension services, facilitate clearing the area of tsetse flies, enable feeder roads to be constructed, and will introduce into the area a program of adaptive agricultural research. The level of social services will be improved through the provision of education and health facilities, and village water supplies. (The United Nations Capital Development Fund is providing $1.5 million for the health and water supply components.)

In Malawi, a third IDA credit, on this occasion for $8.5 million, is assisting the third phase of the Lilongwe Land Development Program which began in fiscal 1968. The newest phase is designed to provide modern agricultural inputs, credit, a stock breeding ranch, water supply and other infrastructure, an intensified extension service, and improved health facilities for about 110,000 farm families cultivating more than 1,500,000 hectares. (The United Nations Capital Development Fund is providing $1.6 million for the health and credit components.)

In Madagascar, a $9.6 million IDA credit will assist cattle producers in the underdeveloped northwest region of the island. Eighty thousand families in 200 villages will benefit from measures to improve pastures, water supplies, schools, mobile health units, and investments in roads. The last mentioned is of particular importance for the rural population is often cut off completely from other parts of the country for six to eight months a year. Intensive veterinary services will be provided, and annual per capita cash incomes are expected to rise from $20 to $30.

Manpower Training

Despite the high priority accorded by governments to the education sector over the past decade, in most countries of Eastern Africa there remains an acute shortage of skilled manpower, particularly in the technical fields. Substantial training components have, therefore, been included in the majority of Bank and IDA education projects in the region. The projects all show a marked movement away from the more formal types of academic training towards basic education programs focusing on the need to provide relevant practical training. For example, IDA credits were made available during the year for 10 nomadic training centers in Somalia, 40 rural education centers in Sudan, and 100 community skill training centers in Ethiopia; all provide vocational training facilities in rural areas for children and adults alike.

About two-thirds of Somalia's 3 million people are nomads who tend their livestock in an arid and generally harsh environment. The literacy rate stands today at about 5%. The Government is striving to increase literacy, and, at the same time, to further the task of nation-building by developing the Somali language using Latin script. In 1971, the Somali language was adopted nationwide as the teaching medium to replace the diverse use of Arabic, English, and Italian. The education project, aided by an $8 million IDA credit, is the first Bank Group operation designed to support the development of a national language and to include a training scheme for nomads.

Ten educational and training facilities for nomads will be constructed. As many as 1,600 children will be enrolled annually in four-year courses, and 2,000 adults will be able, each year, to attend short courses in subjects such as hygiene, agriculture, and animal husbandry.

In pursuit of greater efficiency in education investment, major emphasis is also being placed on low-cost construction in conjunction with self-help techniques. For instance, in Rwanda, an $8 million IDA credit will help finance an innovative program for primary education. Workshops are being added to about 150 village schools, where some 6,000 pupils will be taught agricultural and craft skills. The labor for the construction of the workshops will be contributed by the villagers themselves, following the traditional African pattern of communal action.

Investment in Transport

A fundamental problem facing countries in Eastern Africa is the maintenance and expansion of transport facilities for the movement of goods within the country and for export. Exports from landlocked countries such as Burundi, Rwanda, and Zambia, or from regions such as eastern Zaire, western Uganda, or southern Sudan, may travel 1,500 kilometers or more to reach the sea. These countries are severely handicapped by the costs and delays of such lengthy overland journeys. Current railway projects in Sudan, the East African Community, and Madagascar will improve the routes to the sea. In June, a $26 million IDA credit was approved to assist in the financing of rail and river facilities in Zaire which will improve the efficiency and capacity of the *Voie Nationale*, which links Shaba Province and the sea. Road transportation in the country was also assisted through a $26 million credit designed to meet some of the country's most urgent needs for road rehabilitation and to strengthen the Bureau of Roads.

Agricultural products must be able to find their way to the railways and main roads. In fiscal 1975, five Bank- and IDA-assisted agricultural projects contained transportation components designed to facilitate the marketing of agricultural products. In Ethiopia's lower Adiabo project, 240 kilometers of roads will be either improved or constructed; in the forestry and livestock development projects in Madagascar, more than 330 kilometers of roads will be maintained or upgraded, and almost 1,750 kilometers of service and feeder roads constructed. In Tanzania's Kigoma Region, 370 kilometers of roads will be improved, and as a component of the Kilombero sugar estate project in that country, a rail spur, linking the sugar factory to a line of the East African Railways will be constructed. The two telecommunications projects for which loans were made during the year—to Ethiopia and Zambia—are characterized by an emphasis on the establishment of links between urban centers and provincial and rural communities. As such, they are an important complement to transportation investments, facilitating regional administration and the achievement of improved productivity in all areas.

Sites and Services Schemes

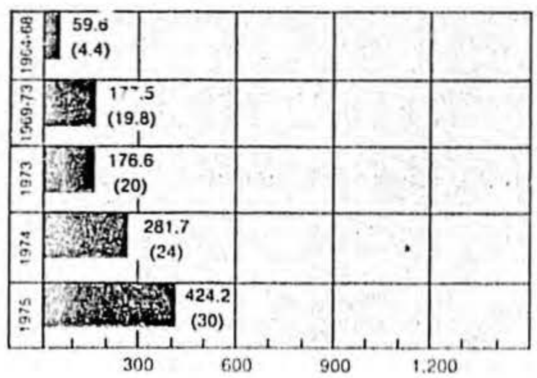
The rapid expansion of Eastern Africa's urban population is giving rise to potentially explosive social problems in many countries. In the past year, three urban projects—in Kenya, Tanzania, and Zambia—were supported by the Bank and IDA. Because the development of urban services tends to be costly except on a per capita basis, the Bank's involvement has been directed to finding more economical solutions requiring a minimum subsidy.

The Tanzania project, for which an $8.5 million IDA credit was approved in July 1974, includes 10,000 serviced sites and support for self-help housing in Dar es Salaam and two regional urban centers as well as improvements to existing squatter settlements. In addition, a pilot nutrition project will be carried out by the newly-created Tanzanian Food and Nutrition Center. Nutrition education and the development of capabilities to prepare and disseminate nutrition information will be emphasized.

Western Africa

Trend in Lending, 1964-75

(US$ millions. Fiscal years.)
Annual Averages
(00) Number of Operations



Current borrowers	Population (000)[1]	Per capita GNP (US$) 1973
Cameroon	6,206	220
Central African Republic	1,710	170
Chad	3,870	70
Congo, People's Republic of the	1,199	310
Dahomey	2,947	110[2]
Equatorial Guinea	306	250[2]
Gabon	520	960
Gambia, The	493	120
Ghana	9,313	300
Guinea	5,243	100[2]
Ivory Coast	5,600	360
Liberia	1,452	330
Mali	5,370	70
Mauritania	1,257	190
Niger	4,304	90
Nigeria	71,262	170
Senegal	4,070	270
Sierra Leone	2,787	190
Togo	2,105	170[2]
Upper Volta	[illegible],714	70

[1] Estimated as of mid-1973.
[2] Preliminary estimates.

Economic conditions in Western Africa during the year were influenced principally by domestic and international adjustments to the abrupt changes in commodity and other prices, which began at the end of 1973, the beginnings of recovery from the effects of drought in the Sahelian countries, and the emergence, in certain sectors, of the effects of declining activity and demand in the industrialized countries.

For some countries, higher commodity prices and export volumes more than compensated for the effects of rising import prices, and they experienced short-term improvements in their foreign exchange earnings and public revenues. Apart from the petroleum producers (Nigeria, Gabon, and, to a lesser extent, the People's Republic of Congo), the gains accrued mainly to producers of groundnuts (Gambia, Nigeria, Senegal), phosphates (Senegal, Togo), and bauxite (Guinea). The scope for allocating these increased resources to economic development depended on the degree of severity of financial constraints, the outlook for deteriorating terms of trade over a longer period, and the need to retain higher reserves and savings to meet the increased costs of investment. Generally, the situation in these countries could be regarded as providing temporary relief to hard-pressed budgets and as an occasion to increase allowances for future contingencies. Yet, some of them seized the opportunity to introduce extensive changes in the domestic price structure of tradeable commodities in order to pass part of the gains on to rural producers, and to reduce the burden on public finances of the high consumer subsidies (particularly on rice) that were introduced in many West African countries over the past two to three years; others, especially the petroleum producing countries, markedly stepped up their rates of public expenditure for development as well as for consumption.

The larger and more diversified economies of countries which do not produce petroleum

(Cameroon, Ghana, Ivory Coast) were adversely affected by international economic conditions. Prices for their main exports (cocoa, coffee, timber) rapidly declined from their record highs in the first half of 1974, and declining construction demand in Europe also reduced the volume of timber exports. At the same time, higher levels of energy consumption, and of imports of intermediate and capital goods associated with industrialization, required larger outlays of foreign exchange. During the year, all [illegible] these countries, as well as several others in the region, completed, or were in the process [illegible] drawing up, new development programs emphasizing continued economic diversification, [illegible]stitution for imported energy and staple [illegible], and intensified rural development. [illegible] programs will demand much higher levels of foreign financing than the previous ones.

[illegible]covery from drought was the main eco[illegible] concern of countries in or bordering the [illegible] region. Rainfall during the year was close [illegible] the 30-year average, and crops were generally good. However, heavy losses of cattle, the [illegible] of food and export crops in the two pre[illegible] years, the southward migration of pas[illegible], the loss of public revenues, and an in[illegible] need for public assistance—all were [illegible] which contributed to the continuing [illegible]ilties of the stricken region. Large [illegible] of aid in the previous years helped [illegible] widespread famine and epidemics, but [illegible] long-term assistance on a wide [illegible] be essential to attack the chronic [illegible] of the Sahelian countries, which are [illegible]undamentally to a poor resource base [illegible] climate. The international commu[illegible]sisting the Sahelian states in a broad [illegible] studies aimed at evaluating re[illegible]abilities, population and migration [illegible] policies, the potential for irri[illegible] new cropping patterns, alternative [illegible]velopment strategies, and transport [illegible] and services.

[illegible]onal Cooperation

[illegible] was also marked by the signature of [illegible]vention defining trade and aid re[illegible] 46 African, Caribbean, and Pa[illegible] and the European Economic Com[illegible] increased attention to regional [illegible]peration. The Convention's sev[illegible] features include a scheme for [illegible] of export earnings from 12 pri[illegible] and their products, includ[illegible] exports as groundnuts, cocoa, [illegible] timber, and iron ore, with pref[illegible] to be accorded to the least [illegible] landlocked countries. Follow[illegible] in 1974 among six franco[illegible] the Communauté Economique [illegible] Ouest (CEAO), a draft treaty [illegible] December Economic Com[illegible] African States (ECOWAS) was signed in May. The latter community,[1] will become effective upon ratification by at least seven member states. The West African Subcommittee of the Association of African Central Banks set up a clearinghouse to facilitate payments in the region so that intra-West African trade might be expanded. And spurred by the prospects for substantial international assistance in the development of the Sahel, the Organization for the Development of the Senegal River Basin (OMVS) made significant progress during the year. The OMVS, with headquarters in Dakar, seeks to promote the integrated development of the agriculture, power, transport, and mining sectors of the three basin states—Mali, Mauritania, and Senegal. The Bank has participated in the early planning stages, and a $1 million IDA credit was approved in May 1975 for the engineering of irrigation works in the Debi and Lampsar polders in the Senegal River valley.

Bank and IDA Activities

In fiscal 1975, the volume of Bank and IDA lending in the region reached a new high—$424.2 million. This amount represents an increase of 50% over fiscal 1974, the previous record year, and of 139% over the fiscal 1969-73 annual average. As the accompanying table shows, the year's increase was entirely in Bank lending; IDA assistance remained at its fiscal 1974 high, which exceeded the fiscal 1969-73 average by 102%. The number of projects rose from 24 in the previous year to 30. There were several innovative features in the year's activities.

The year's lending pattern was affected by large, anomalous variations in the cycles of agricultural and transportation project preparation. To discover any significant changes in the lending pattern, therefore, a comparison of fiscal 1974 and 1975 averages with those of fiscal 1969-73 is appropriate. Such a comparison shows a dramatic shift towards lending for agriculture and rural development. This sector's share in total lending more than tripled, from an average of 17% in fiscal 1969-73 to one of nearly 57% in fiscal years 1974 and 1975. Rural development includes development of agricultural roads; for the last two years the construction, maintenance, and upgrading of such roads averaged almost 6,000 kilometers, a large increase over previous years. The share of lending for conventional transportation projects—highways, railways, and ports—declined, amounting to 25% in fiscal years 1974 and 1975 compared with 39% in fiscal 1969-73. These shifts reflect the increasing influence of the Bank's new strategy, which focuses on broad-based rural development to help raise the productivity of

[1] Includes Dahomey, The Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta

the poor and to bring about a more even distribution of income.

Food, Livestock Production Emphasized

Most of the year's 20 agricultural and rural development projects emphasized domestic food crop or livestock production so as to improve the nutritional and health levels of the rural population and, at the same time, reduce the dependence on imports of food. Only five projects, accounting for about 17% of the total lending to the sector, were of the more conventional type, focusing on export crops, viz., cocoa projects in Cameroon and Ivory Coast (assisted by Bank loans of $6.5 million and $20 million respectively), a cocoa/coffee project in Togo (aided by an IDA credit of $6 million), a rubber project in Cameroon, and a pineapple project in Guinea (assisted by IDA credits of $16 million and $7 million respectively). But even they included elements such as agricultural roads, provision of inputs, and credit characteristic of the "new style" (integrated rural development) project package approach. This approach is most fully reflected in the year's six rural development projects—three in Nigeria and one each in Ivory Coast, Senegal, and Sierra Leone. Bank and IDA assistance for these projects totaled $124 million.

The three Nigerian projects are in the rural North East (Gombe), North Central (Funtua), and North West (Gusau) States. Here live a significant proportion of the country's food and industrial crop producers; their annual per capita incomes, of about $40, are the lowest in the Federation. More than 2 million people live in the 17,000 square kilometer area covered by the projects, and some 230,000 families will directly benefit. The projects' objective is to increase the production of cotton, groundnuts, sorghum, maize, and cowpeas. To achieve this goal, "packages" of services will be provided to existing farming communities. The major elements of these packages are: development of 3,500 kilometers of feeder roads; the construction of some 250 small and medium-sized earth dams; and the provision of farm inputs and equipment—110,000 tons of fertilizer, 10,000 tons of improved seeds, 20,000 ox carts and plows, and 200 tractors. At full development, the net farm income of the farmers directly affected by the projects should increase by between 35% and 54%.

The Ivory Coast project will expand the cotton growing area from 60,000 hectares to about 80,000 hectares, and the area of food crops grown in rotation with cotton from about [illegible],000 hectares to 70,000 hectares. Special features of the project include the improvement of feeder roads and the construction of nearly 1,000 small bridges on existing roads; the digging of several hundred wells for village water supplies; provision of credit to farmers; the training of local artisans and blacksmiths to service farm equipment; the building of two cotton ginneries; and the establishment of a maize seed farm. The project area has a population of 1.3 million whose annual average per capita income, of about $50, is only one-seventh the national average. At full development, the project is expected to benefit 84,000 families—about 600,000 people—and will raise annual per capita incomes to about $80, thus promoting regional balance and improving income distribution. Although on a smaller scale, the rural development projects in Senegal and Sierra Leone have many of the same features.

Of the year's three livestock projects—in Mali, Nigeria, and Upper Volta involving Bank and IDA assistance totaling $43 million—the one in Mali is of special interest. Assisted by an IDA credit of $13.3 million, the project represents the first comprehensive effort to increase

Lending to Current Borrowers in Western Africa, by Sectors
(US$ millions. Fiscal years.)

	Annual average 1964-68	Annual average 1969-73	1973	1974	1975
Agriculture	$ 3.6	$ 30.6	$ 39.7	$ 81.0	$323.0
Education	4.4	26.7	61.9	4.7	32.4
Industry (including DFCs)	6.0	3.4	—	3.6	4.0
Non-project	—	16.0(a)	—	—	—
Power	25.2	23.9	—	2.9	—
Telecommunications	—	3.0	10.8	25.0	23.0
Tourism	—	—	—	—	9.7
Transportation	20.4	68.7	54.7	154.1	23.1
Urbanization	—	1.6	—	—	—
Water supply and sewerage	—	3.6	9.5	10.4	9.0
Total	$59.6	$177.5	$176.6	$281.7	$424.2
Of which: Bank	$42.9	$117.8	$ 85.9	$160.7	$30[illegible]
IDA	$16.7	$ 59.7	$ 90.7	$1[illegible]1.0	$12[illegible].5

Details may not add to totals because of rounding.
(a) One rehabilitation loan of $80 million to Nigeria in [illegible] has been "averaged" over a five year period.

...Mali. Bank operations during the year ...y Coast, and Senegal will help rural ...ant skills.

...ck production by about 100,000 ...milies living in the Sahelian zone. ...res include the introduction of ...ension services and grazing con... ...struction of an abattoir and hide... ...s, and the testing of a functional ...am for pastoralists. The principal ... from the project will be a greater ...ck production worth nearly $8 ... terms. The pastoral families will ... average annual cash incomes ... production from $140 to about ... new jobs will be created. The ... to halt the deterioration of ... square kilometers of rangeland, ... both the cattle and the people in ...ature against all but calamitous

...Education to Needs

...sored education projects—in ...Dahomey—feature further ad... ...ation of a relevant strategy in ... which had been pio... ...projects for Mali, Mauritania, and Upper Volta. The strategy emphasizes the adaptation of existing education systems to the economic needs of the rural population; it also promotes the participation of industry and commerce in the upgrading of their employees' skills. The Senegal project, assisted by an IDA credit of $15 million, includes an experimental scheme of 30 village education centers offering practical training in agricultural and related occupations, and the elements of literacy and arithmetic to children leaving primary schools, and to youths and adults who have never attended school. By the third year of operation, the scheme will involve about 2% of the equivalent age group in rural areas. The Dahomey project, supported by an IDA credit of $4 million, also focuses on providing training in such basics as functional literacy, health, nutrition, and fundamental farming techniques for the country's rural youth who have either not attended school or who have dropped out prematurely. This training would be provided through the support of the country's rural youth training program. The project also aims at improving the skills of industrial and clerical workers in urban areas through the construction of a center for the upgrading of skills. The training given at this center will consist of short, practical courses enabling up to 2,000 trainees yearly to become more proficient in such fields as mechanics, electricity, construction, and business.

Another first in the year's Bank and IDA operations in the region is a sewerage and drainage project, located in Abidjan, and assisted by a Bank loan of $9 million. About half the Abidjan urban area is low-lying, and several densely-populated areas in the city have experienced serious flooding. Moreover, in the absence of public sewage treatment stations, waste water is discharged untreated into the lagoons around which the city is located, posing a serious health hazard. An increase in typhoid and cholera in areas where sanitary conditions are worst has recently been noticed. The project will prevent further deterioration in public health and will improve sanitary conditions in the fastest-growing residential areas of Abidjan, as well as in areas occupied by people with low incomes. In addition, the project will diminish significantly the incidence of flooding, thereby reducing economic losses and health hazards.

Further operational "firsts" during the year included the first Bank loan to Ghana since 1969, and the first IDA credit ever to Guinea. The $23 million loan to Ghana will help finance the first phase of a telecommunications project concentrating on high-priority works for rehabilitation, replacement of obsolete and worn-out plant, and expansion and general improvement of the quality of local, domestic, long distance, and telex services. The $7 million credit to Guinea will help finance the establishment of a pineapple estate which, at full development, will produce an additional 10,000 tons of pineapple from the estate and nearby outgrowers, with a gross value of about $3 million annually. Studies of the rice and livestock subsectors are also included, and future projects in those subsectors will be identified and prepared.

Co-financing Activities

Bank and IDA lending in the region continued to be complemented by co-financing from other organizations, both bilateral and multilateral. In fiscal 1975, these donors included Canada, France, Kuwait, and the European Investment Bank. Co-financing from these sources involved seven of the year's 30 projects, and totaled $43.6 million, compared with $85.7 million in Bank and IDA assistance for the projects concerned.

The program for the control of onchocerciasis (riverblindness) in the Volta River basin entered its first phase of operations under the general supervision of a Joint Coordinating Committee consisting of representatives of governments and international agencies. The Committee held its first meeting in Abidjan in February 1975 and elected M. G. Candau, former Director General of the World Health Organization (WHO), as its chairman. Aerial application of larvicides to kill the vector, a species of black fly, started at the beginning of the year in parts of Ghana, Ivory Coast, Mali, and Upper Volta. The program is jointly sponsored by the World Bank and three other international agencies—the Food and Agriculture Organization of the United Nations (FAO), WHO, and the United Nations Development Programme (UNDP). While WHO is the executing agency, the Bank has assumed responsibility for mobilizing the external finances needed to cover the costs, estimated at $54 million, for the initial six-year phase of the program (1974-79). Most of this financing is now assured under the Onchocerciasis Fund Agreement signed in May 1975 which covers contributions from nine donor governments (Belgium, Canada, France, the Federal Republic of Germany, Japan, Kuwait, the Netherlands, the United Kingdom, and the United States), together with the African Development Bank (AfDB) and the World Bank. Financing for chemotherapeutic research and training is being provided outside the Fund by the UNDP. The program is designed to clear the way for eventual resettlement and economic development of the potentially productive areas affected, and the seven participating African Governments[1] will be assisted by the sponsoring agencies in undertaking the necessary pre-investment studies.

In order to cope more efficiently with increasing Bank Group operations in Cameroon, the Bank assigned a resident representative to Yaoundé. He will assume his duties early in fiscal 1976. He will also assist as necessary in expediting operations in neighboring countries. Reflecting the Bank Group's increased concentration on rural development, a Feeder Road Section was established within the Bank's Regional Mission in Western Africa, based in Abidjan, to identify feeder road projects and to assist governments in their implementation.

[1] Dahomey, Ghana, Ivory Coast, Mali, Niger, Togo, and Upper Volta

East Asia and Pacific

Current borrowers	Population (000)[a]	Per capita GNP (US$) 1973
Cambodia	7,566	110
China, Republic of	15,424	570
[illegible]	551	570
Indonesia	124,415	100
Korea, Republic of	32,910	370
Laos	3,180	70
Malaysia	11,750	480
Papua New Guinea	2,596	340
Philippines	40,123	270
Singapore	2,185	1,580
Thailand	39,400	240
Viet-Nam	19,870	160
Western Samoa	153	200

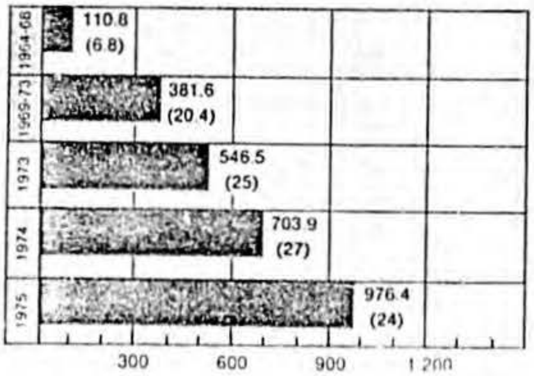
[illegible] as of mid-1973

Trend in Lending, 1964-75

(US$ millions. Fiscal years.)

Annual Averages

(00) Number of Operations



For most countries of the East Asia and Pacific [illegible] the past year was a difficult one, gener[illegible]characterized by decelerating growth rates, [illegible] terms of trade, deteriorating balance [illegible] positions, and escalating inflation. [illegible] the region's aggregate Gross National [illegible] (GNP) grew by some 7% in real terms in [illegible] of this growth took place between [illegible] and June; the second half of the year [illegible] general pattern of decelerating growth. [illegible] of the less encouraging perform[illegible] a fall, beginning in mid-1974, in the [illegible] market prices of the region's major ex[illegible]commodities, notably rubber, timber, and [illegible] products. As a result, rural incomes [illegible] benefited considerably from high [illegible] prices declined.

[illegible] of trade worsened for all countries [illegible] because of high import prices, [illegible] fuel, foodstuffs, and capital equip[illegible] Republic of Korea's terms of trade in[illegible] by 18%, was the most adversely [illegible] Indonesia, despite increased oil [illegible] some deterioration in its terms of [illegible]

[illegible] prices and rising import prices, [illegible] a drop in the demand for manu[illegible] in adverse changes in the balance of payments positions for all countries in the region, except Thailand, which benefited from high prices for its rice exports. In the Republic of Korea, for example, the current account deficit increased by more than $1,500 million and in the Philippines, the current account, in surplus by $520 million in 1973, was in a deficit position by $210 million a year later. Accumulation of reserves during the recent commodity price boom provided most countries with a cushion against the deterioration in their balance of payments positions.

The rapid rise in foodgrain prices led to increased efforts by food importing countries to achieve self-sufficiency in grain production. Taken as a whole, the region is marginally a net exporter of rice, but must import much wheat and other cereals. Moreover, there are wide variations in each country's food position. The Republic of Korea, formerly a food surplus country, is now a net importer and is trying to become self-sufficient in food by the early 1980s. Though Thailand still has an export surplus, it has diminished in recent years, as production increases have been used largely to meet growing domestic demand.

All countries in the region except Singapore are predominantly agricultural, but industry is becoming increasingly important to growth and development. The Republic of Korea and Singapore, for example, have rapidly industrialized in recent years, exporting goods mainly to Japan and the United States. The recession in these two major markets has hit both countries' manufacturing sectors. Markets have been reduced, and external funds on suitable terms have been difficult to find. The Philippines and Malaysia also have dynamic, though smaller, manufacturing sectors, which, encouraged by Government incentives, have shown relatively strong growth in recent years with increasing emphasis on export markets as a source of future growth.

The region as a whole receives large inflows of external capital which have been an important factor in the economic expansion of the last decade. In the past year, despite increased inflows of foreign funds into most countries, many governments had to draw down foreign exchange reserves to help finance procurement of higher-priced capital equipment. Increased external finance will be required if the momentum achieved in earlier years in the development of agriculture and industry is to be regained. The region is generally well-endowed with natural resources but its agricultural potential is still under-utilized. In terms of per capita income, most countries in the region belong to the middle-income group of developing countries ($200 to $375 per capita GNP) although Singapore is significantly above this level, and Indonesia, with a per capita GNP of about $100, is one of the poorest countries in the world.

Concern over Inflation

Inflation continues to be a major cause for concern in the region. Malaysia had enjoyed a long period of remarkable price stability. However, consumer prices rose in 1973 by 10.5% and in 1974, by 18%. Indonesia's inflation has been fed by rapidly-rising import prices which increased by an estimated 80% between 1972 and 1974; the main increases were in foodstuffs and fertilizers. These price increases have used up more than one-half of the country's additional oil earnings. In the Philippines, consumer prices rose by some 40% during 1974 but the rate of increase had moderated sharply by the end of the year. In the Republic of Korea, petroleum and foodgrain imports have led to a very sharp rise in prices with consumer prices increasing by 31% and wholesale prices rising by more than 60% annually.

Because of the importance of international trade to these countries, imported inflation has been a major factor in domestic price escalation. For many countries, rising prices for petroleum products have been the primary element. For example, between 1972 and 1974, payments for imported oil increased almost fivefold to some $2,500 million for the Republic of Korea, the Philippines, and Thailand. The Republic of Korea, which depends on oil imports for about 60% of its fuel requirements, was hit hardest. Its oil bill rose by some $800 million in 1974.

Increased oil prices, on the other hand, helped Indonesia in 1974 and should help Malaysia substantially in a few years. Oil revenues now contribute about 10% to Indonesia's GNP. Malaysia's current production is modest—less than 100,000 barrels a day—but it is expected to increase fivefold by the end of the decade. Malaysia also possesses substantial natural gas reserves which could come into production by 1980.

In fiscal 1975, Bank lending to the countries of the East Asia and Pacific region emphasized increased smallholder agricultural production, especially in foodgrains. At the same time, the

Lending to Current Borrowers in East Asia and Pacific, by Sectors
(US$ millions. Fiscal years.)

	Annual average 1964-68[a]	Annual average 1969-73[a]	1973	1974	1975
Agriculture	$ 28.8	$ 88.2	$113.5	$189.5	$193.0
Education	2.4	34.5	83.7	38.5	22.5
Industry (including DFCs)	14.1	36.7	45.0	88.5	285.0
Non-project	–	–	–	–	100.0
Population	–	3.6	5.0	–	25.0
Power	29.0	86.2	46.0	85.8	147.0
Technical assistance	–	2.0	–	5.0	–
Telecommunications	5.4	19.2	37.0	–	–
Tourism	–	–	–	41.0	–
Transportation	25.7	103.4	181.8	188.6	124.4
Urbanization	–	3.2	16.0	–	40.0
Water supply and sewerage	5.4	4.6	13.5	67.0	39.5
Total	$110.8	$381.6	$546.5	$703.9	$976.4
Of which: Bank	$108.6	$254.3	$338.9	$603.4	$972.0
IDA	$ 2.2	$127.3	$207.6	$100.5	$ 4.4

Details may not add to totals because of rounding.
a) Excludes loans of $375 million to Japan and $102.8 million to New Zealand.

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...ds furrows in a Central Luzon rice ...es. A $17 million Bank loan ... year will help upgrade irrigation ... rice producing area.

...n assistance for industrial devel... ...structure, and public utilities ...port systematic development of ... areas in a number of countries. ... the region continued to rise. In ... lending totaled $976.4 million, ...out 39% over the previous year. ...ration was a credit to Western ... Group's first operation in the ...ntry.

...tural Development

... (42%) of the Bank's lending ...ated to agricultural develop... ...efforts to promote rural de... ...Philippines and agricultural ... and Indonesia. The Bank ... for land settlement in ...projects in Indonesia and ... fertilizer production in

...t, helped by a Bank loan ...strating the wide sweep of activities undertaken to raise the living standards of the rural poor in an undeveloped and isolated area, is a rural development project on Mindoro island in the Philippines. Only 45 kilometers from Luzon, Mindoro already provides surplus rice to other parts of the Philippines, and has potential for much additional agricultural development because of its land and water resources, and its relative freedom from typhoons which periodically destroy crops in Luzon.

The Philippines Government plans to improve the standard of living of the island population and to supplement rice supplies from Central Luzon to metropolitan Manila. In addition to improving irrigation, highways, and port facilities, the project contains programs to control schistosomiasis, an endemic snail-borne disease, which affects the health and productivity of the people, and to help improve the living conditions of some 80,000 people of the Mangyan tribes, the island's original inhabitants, by providing mobile medical teams, constructing roads, and introducing new agricultural pra..ices. The project will help inc ease rice production by 100,000 tons annually and will benefit directly about 200,000 people (40% of the island's population) through agricultural improvements, and indirectly, an even larger number through improved transportation and agricultural supporting services.

Similar objectives are sought in the Keratong land settlement project in Malaysia. Like the Bank's four earlier land settlement projects in the country, this project, for which the Bank approved a $36 million loan, is designed to support high rates of growth in smallholder agriculture, and reduce unemployment and underemployment, thereby contributing to increased rural incomes. About 3,400 families will benefit from the project, which will develop some 25,500 hectares of land now under tropical forests. About 22,000 hectares will be planted with oil palm and two palm oil mills will be constructed. To protect the environment, land development within the project area will be carried out in conformity with the Malaysian Conservation Act which provides adequate safeguards against erosion, siltation, and excessive flooding.

Research in Agriculture

The Mindoro and Keratong projects are expected to increase agricultural production by bringing more land under cultivation and by improving yields. In two other projects, the Bank will support efforts to improve crop quality and yields through research. With a loan of $28.5 million, the Bank will assist the Malaysian Agricultural Research and Development Institute in developing and conducting specific research programs on foodgrains (rice, maize, soybean), commercial crops (coconut), and livestock. The project also includes research into industrial uses of agricultural products. Similarly, a $21.5 million loan to Indonesia will help strengthen the country's research capability in rice, field crops, rubber, and vegetables.

Both research projects, which were specially designed to identify, adapt, and disseminate new technology for the small farmers of Malaysia and Indonesia, will complement the programs of the international research centers sponsored and coordinated by the Consultative Group on International Agricultural Research.

Also directly related to the efforts to increase food production in Indonesia is the Bank's $115 million loan for doubling nitrogenous fertilizer production in South Sumatra. This project is expected to help increase food production in the country by about 2 million tons a year.

Continuing its long-standing association with development finance companies in the region, the Bank approved in fiscal 1975 additional loans to Bank Pembangunan Indonesia and the Private Development Corporation of the Philippines. It also made a loan to the Korean Development Bank for the first time. To maintain the momentum of industrial development in the Republic of Korea, the World Bank also extended a general purpose loan of $100 million to provide urgently-needed foreign exchange for the import of capital and intermediate goods.

In addition, the Bank made a $30 million loan to help finance a program designed to meet two priority needs of small and medium-sized industries in the Philippines: increased access to institutional sources of credit, and technical assistance for solving the operating problems which confront small entrepreneurs. In all cases, the Bank's participation in these industrial development programs has been used to emphasize the need for a greater regional balance in the location of new industries.

This need is also reflected in an education project in the Republic of Korea where the Bank is providing $22.5 million to help the country meet its requirements for skilled workers and technicians, including those in the fields of fisheries and agro-industry. The project will support programs outside the Seoul and Pusan areas for employment-oriented, non-formal vocational training in several smaller sites, thereby assisting the Government's policy of dispersal of industries.

The Bank's lending for infrastructure and public utilities accounted for 32% of the year's lending to the region. Bank loans were approved for railways in the Republic of Korea; shipping in the Philippines; power in Indonesia, Malaysia, and the Philippines, and water supply in Indonesia. In addition, a $4.4 million IDA credit was approved for a highway project in Western Samoa.

Varied Approach

Transportation projects in two island countries illustrate the Bank's varied approach in meeting the requirements of borrowers. The highway project in Western Samoa calls for reconstruction of two main roads in the relatively less-advanced eastern and southern parts of Upolu where about 35,000 people, or one-third of the island's population, live, and where about one-half of the island's principal export (copra) is produced. By providing improved access to the market at Apia, the country's capital and port, the project will also provide an incentive to the rural population to undertake the production of cash crops. The Philippines' shipping project will help finance the replacement and repair of an inter-island fleet and will assist the establishment of a national organization for regulating and improving the maritime industry.

Following earlier loans to Indonesia and Malaysia, the Bank Group provided in fiscal 1975 financial and technical assistance in family planning to another country in the region. A $25 million loan will assist the Philippines Government in strengthening its population program and expanding it into rural areas. The project includes the reorganization of the Commission on Population and assistance to the Department of Health for the establishment of over [illegible] rural health units which will extend a new health and family planning service approach into the rural areas.

A significant share of the Bank's lending has gone to support urban development programs in Indonesia, the Republic of Korea, and Singapore which are designed to improve the living conditions of the urban poor. A $25 million loan, for example, will help finance the Jakarta urban development project which includes the upgrading of roads and footpaths, drainage, water supply and sanitation, schools and health facilities in about 2,000 hectares of densely-populated, low-income neighborhoods, with provision for the eventual expansion of the program to about 30,000 hectares. The project also provides for the development of "sites and services," including the construction of core housing on about 130 hectares of under-utilized land. The project will support the recently-established National Urban Development Corporation and the National Mortgage Bank, and is designed to assist the testing and formulation of a prototype program for later expanded operations of these institutions.

South Asia

Current borrowers	Population (000)[1]	Per capita GNP (US$) 1973
Bangladesh	74,000	70
Burma	29,509	90
India	581,911	120
Nepal	12,020	90
Pakistan	66,230	150
Sri Lanka	13,180	110

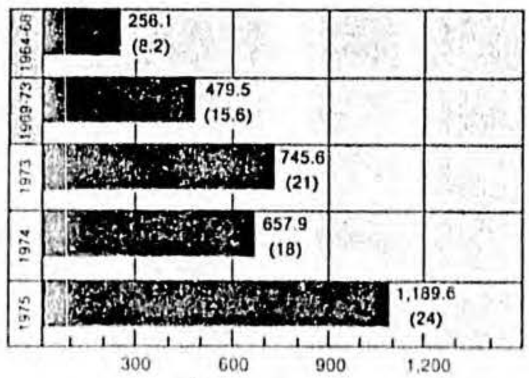
[1] Estimated as of mid-1973.

Trend in Lending, 1964-75

(US$ millions. Fiscal years.)

Annual Averages

(00) Number of Operations



This has been one of the most difficult years in the recent history of the South Asia region. More than 800 million people live in the region; most of them suffered losses in their real incomes, and the poorest among them suffered acutely from the rises in food prices which took place during the year.

It was apparent in early 1974 that the months ahead were likely to provide a severe test for the region. Some of the main commodities imported by South Asian countries, particularly petroleum, fertilizer, and foodgrains, increased sharply in price, while prices of most of the important exports went up only slightly. As a result, the volume of exports which purchased a dollar of imports during the year ending June 1973 bought only 52 cents worth in Bangladesh, 63 cents worth in Sri Lanka, 70 cents worth in India, and 84 cents worth in Pakistan during fiscal 1975, after a continuous sharp deterioration in the previous 12 months.

The sharpness of the deterioration in the terms of trade, together with the extreme poverty of most of the countries, resulted in the placement of five of the six regional countries (Nepal being the exception) on the United Nations Emergency Operation's list of countries "most seriously affected" by recent world economic developments. To alleviate their pressing balance of payments problems, sizeable resource transfers were required. There was indeed a record resource transfer in nominal terms for most countries, from the Bank Group, the International Monetary Fund's oil facility, the members of the Organization of the Petroleum Exporting Countries (OPEC), of the India and Pakistan consortia, and of the Bangladesh and Sri Lanka Aid Groups. These large amounts were barely sufficient, however, to maintain the volume of imports at the previous year's level.

The inflows from abroad might have been sufficient to avert the kind of hardship which took place, and combined with judicious domestic policies, to safeguard levels of investment, if the monsoon had not been so poor. The Governments of Bangladesh, India, Pakistan, and Sri Lanka were forced by poor harvests into making large food purchases which preempted significant proportions of the limited foreign exchange available. South Asian nations (excluding Burma) imported 7% or 8% of their total foodgrain consumption in 1974 and 1975. It is apparent that, for most of the countries of the region, increased food production is also the key to improving the balance of payments.

Weather a Factor

The foodgrain situation in South Asia seems, if anything, to be worsening. While populations grow annually at a rate of 2% or 3%, most South Asian countries have been unable to sustain growth rates of foodgrain production of as much as 2%. Even in good monsoon years, domestic production in most countries is only sufficient to satisfy the minimum per capita consumption requirements. In bad years, large-scale imports are needed to avert severe malnutrition. The shortcomings in agricultural development in South Asia are generally not a matter of inadequate technology or lack of farmer motivation; the roots of the problem lie in the fact that there have not yet been enough programs of investment in water resources, distribution of credit and inputs, and provision of support services. In the longer run, however, even a substantial improvement in this regard may not be sufficient if population growth rates cannot be reduced from their present levels.

Bangladesh's terms of trade have deteriorated rapidly, with import prices rising by about ... against a rise in export prices of less than ... between fiscal 1973 and 1975. Higher import prices could not be passed on immediately to consumers and, as a result, the budgetary ... increased markedly. The high levels of ... financing, combined with commodity ..., led to a rapid rise in the pace of inflation. The Government attempted to minimize ... effects of inflation by continuing to place ... orders for foodgrains during the first half ... in spite of the higher level of domestic foodgrain production in that year. By June 1974, faced with the realization that its cash commitments for foodgrain and other imports exceeded by a substantial margin the foreseeable foreign exchange availabilities in the following three months, the Government instituted drastic measures to reduce imports. Simultaneously, it appealed to its major trading partners to afford relief with respect to current payments and requested the Bank to form an Aid Group. The Aid Group for Bangladesh had its first meeting in Paris in October 1974. It met again in May 1975.

Worldwide inflation and another year of agricultural shortfalls combined to cause India severe economic hardship during the year. Foodgrain production has been stagnant and is unlikely to be more than 106 million tons in fiscal 1975. This amount represents an improvement over the harvest of the past two years, but it is still below the 108 million tons achieved four years ago. The import requirements generated by this shortfall, combined with rapid price increases of other essential imports, have roughly doubled India's import bill in the last two years. Although export earnings have risen impressively—mainly as a result of price, rather than volume, increases—the current account deficit has grown roughly tenfold during the same period, to about $2,000 million. Even with this deficit, imports in real terms (aside from foodgrains) showed little change. This level of imports, combined with energy deficits, due in part to some reduction in oil imports, contributed to stagnation throughout the economy, particularly in industry. The rate of inflation, which threatened to exceed 25% during the year, has lessened, although the fiscal and credit austerity required to contain inflation has induced some slowing of the pace of economic activity.

... to Current Borrowers in South Asia, by Sectors

(... fiscal years)

	Annual average 1964-68	Annual average 1969-73[a]	1973[a]	1974	1975
...	$ 25.2	$108.1	$ 93.1	$150.0	$ 400.1
...	5.2	4.7	15.5	–	–
... (including DFCs)	40.8	77.1	153.0	110.0	367.5
...	91.0	109.0	195.0	233.0	290.0
...	–	4.3	–	–	15.0
...	25.7	42.0	91.0	–	–
... assistance	–	0.8	4.0	–	–
... communications	6.6	50.3	85.5	20.0	57.0
...	–	0.9	–	–	–
...	51.2	71.3	53.5	100.1	60.0
...	–	–	–	35.0	–
... and sewerage	10.4	11.0	55.0	7.8	–
	$256.1	$479.5	$745.6	$657.9	$1,189.6
... Bank	$ 71.0	$ 86.5	$ 70.0	$112.0	$ 269.0
... IDA	$185.1	$393.0	$675.6	$545.9	$ 920.6

... ... commitments to Bangladesh which replaced commitments originally made to Pakistan

Harvesting wheat by hand in Pakistan. The Bank approved during the year $400 million for projects aimed at increasing agricultural production in the South Asia region.

Pakistan's economy has suffered from worsening terms of trade which, together with the floods in August 1973 and a long period of drought in 1974, held back agricultural production and the volume of exports. Terms of trade deteriorated by almost 16%. The value of exports of raw cotton, yarn, and textiles was reduced by a smaller cotton crop and by a sharp drop in demand. Imports of wheat and edible oil have also had to be increased to make up for lower-than-expected growth of domestic production. Pakistan's current account deficit may have nearly doubled when the figures for fiscal 1975 are tallied. The effects of the terms of trade deterioration were, however, mitigated in 1974 by the generous assistance Pakistan received from the members of OPEC. In the longer run, the trade picture should improve substantially as a result of projects under way to increase agricultural and other production. The largest of these is the Tarbela Dam. A series of mishaps, which took place when the initial filling of the reservoir began in mid-1974, necessitated a program of remedial works. They were completed in time for the second filling in mid-1975. The stored waters will be available for irrigation in the winter crop season and will add at least 40% to supplies of canal irrigation water. Power generated there will become available later in 1976. Other projects for increasing agricultural and other production are the Multan fertilizer plant and Pakistan's second oil refinery which will substitute cheaper crude oil imports for more expensive imports of refined products.

Burma was an exception within the region in that its terms of trade improved with substantial price increases for rice (which accounts for nearly half of its total exports) and timber. However, stagnating agricultural production prevented Burma from taking advantage of this improvement, since an increasing population led to the further dwindling of its traditional export surpluses. Recorded rice exports, which had averaged 1.5 million to 2 million tons during the 1960s, stood at 250,000 tons in 1974. While increased agricultural production in Burma is, therefore, important because of its contribution to higher exports rather than through reduction of imports, Burma is in the same position as other countries of the region in that a vigorous agriculture sector is one of the keys to an improved balance of payments outlook. Nepal, which is also a net exporter of foodgrains, faced a similar situation except that, given the heavy weight of petroleum, cement, and fertilizer in its import bill, its terms of trade deteriorated. As a consequence, Nepal, during the year, faced its worst balance of payments situation in the past decade.

One of the countries most severely hit by the price changes was Sri Lanka. The price rises of a year ago aggravated the long-term decline in its terms of trade. Sri Lanka's major export commodities—tea, rubber, and coconut (together accounting for about three-quarters of total export receipts)—increased in price in 1974, although, except for major coconut products (... increase), at relatively modest rates. The increases in world prices of Sri Lanka's major imports, however, were much greater than the increases in the country's export prices. Thus, the rise in the prices of its five major import commodities, making up about two-thirds of total import costs, ranged from a low of 100% (wheat flour) to a high of 250% (petroleum products). The result was a current account deficit in 1974 estimated at $193 million compared with ... million in 1973. In the longer run, the expansion of agricultural output is the main remedy for Sri Lanka's balance of payments problem.

The Bank's Response

...overriding concerns for the region, and ... for the Bank in its operations there, ... ensure that productive capacity is efficiently utilized, to maintain investment programs at appropriate levels, and to promote agricultural production to avert serious famine in ..., and to free foreign exchange currently used to buy food. One constraint on ... production during the past year was ... availability of fertilizer. The development of domestic fertilizer production to ... assured supplies and substitute for imports has, therefore, had high priority ... South Asian governments and for Bank ... At the same time, the Bank has continued to emphasize the potential benefits rural ... development offers to the poorer sections of ... population.

Bank assistance to the countries of the ... to $1,189.6 million in fiscal 1975, an ... about 80% over the previous year. ... amount, 53% went to projects related to ... development, 24% to non-project ... the balance to non-agriculture-related ... and to population and infrastructure projects. Of the agriculture-related ... was for major fertilizer projects ... have a substantial impact on agricultural production (mainly foodgrains) and on ... payments positions. The Bank and IDA approved assistance during the year to India and Bangladesh for fertilizer production, and to Pakistan for a natural gas pipeline project to carry feedstock to a fertilizer plant.

Some 366,000 tons of nitrogen yearly are expected to be added to India's fertilizer capacity in 1978 when two Bank- and IDA-supported fertilizer projects are completed. Of the total, about 230,000 tons will come from the new plant at Phulpur in Uttar Pradesh, and an additional 136,000 tons annually will be produced at the Sindri plant of the Fertilizer Corporation of India when its modernization and expansion program is completed. A Bank loan of $109 million and an IDA credit of $91 million, respectively, were approved for the projects.

A fertilizer project in Bangladesh, which is to be assisted by an IDA credit of $33 million, will produce approximately 528,000 tons of urea and 305,000 tons of ammonia annually for domestic consumption. The $250 million fertilizer plant, to be constructed at Ashuganj, about 60 kilometers northeast of Dacca, will help reduce Bangladesh's heavy dependence on foodgrain and fertilizer imports. The plant will use the country's abundant natural gas resources. Other contributors to the project are the Asian Development Bank, the Federal Republic of Germany, Iran, Switzerland, the United Kingdom, and the United States.

A $60 million loan to Pakistan for a pipeline to carry natural gas will also have a major impact on fertilizer production in that country, since the gas provides the main feedstock for the Multan fertilizer plant which will nearly double Pakistan's domestic fertilizer production. An expanded plant will begin operation in 1977.

During the year, the Bank Group intensified its work in support of agriculture in South Asia. There were active lending programs in this sector in all the countries in the region; in most, the Bank has a continuing dialogue with the governments concerning the formulation of agricultural strategy. The Bank also prepared reports on the agricultural sectors in Burma, Nepal, Pakistan, and Sri Lanka. In Bangladesh, past agricultural sector work forms the basis for the lending program, and in India, where the Government itself has an active program for analyzing the problems of the agricultural sector, the Bank is working in cooperation with the authorities in a number of areas chosen jointly by the Bank and the Government. The specialist agriculture staff of the Resident Missions in Bangladesh and India has been strengthened to increase the Bank's ability to assist in project preparation and progress review.

The Bank supports, at the request of governments, population programs in the subcontinent. Such programs contribute to efforts to strengthen the economy and also to bring into better balance foodgrain production and population. During the year, IDA approved a $15 million credit for a family planning project in

Bangladesh, where the population growth rate of 3% a year puts a severe strain on resources. The project is designed to help the Government work out a feasible program, to organize itself for carrying out the program, to secure financing, and to get the program moving. It will also help create the capacity for training the manpower to be used for health and family planning services; it will bring new life to the family planning program by expanding the services provided by basic health and family planning workers; and it will assist in developing activities aimed at changing social attitudes toward family size. The project is also noteworthy in that five ministries in addition to the Ministry of Health and Population Planning will be involved in its implementation.

Help for Industrial Expansion

During the year, IDA also approved non-project credits to Bangladesh and India to help ensure the flow of essential supplies to maintain or expand industrial production, and to Sri Lanka for more efficient utilization of existing facilities in agriculture, industry, and selected services through imports of raw materials, components, and spare parts. For example, a $200 million credit to India was designed to enable selected priority industries, most of which are involved in producing essential investment goods, to maintain and expand their production. The credit will help them to import raw materials, components, and spare parts. About 850 medium-scale and large industrial enterprises will benefit. The industries selected manufacture or produce tractors and power tillers, fertilizers, pesticides, electrical equipment, aluminum, commercial vehicles, automotive components, castings and forgings, machine tools, heavy construction equipment, and spare parts for heavy earth-moving and power-generating equipment.

An example of the Bank's role in strengthening the capacity of a government to carry out a project is provided by a $27 million IDA credit to assist an irrigation project in Bangladesh. The project will ensure a reliable supply of irrigated water to the Bakerganj district in the vicinity of Barisal, a town in southwestern Bangladesh. About 650,000 people live in this area. Irrigation facilities will help raise rice production in the project area from its present 143,000 tons annually to an expected 345,000 tons by 1985. The project will also expand dry season rice cultivation, and allow high-yielding rice varieties to replace local varieties over most of the project area in the wet season by providing better water control and agricultural supporting services.

No separate project authority will be established for carrying out the project. Instead, the responsibility for each aspect of implementation will remain with the individual agencies normally involved in such matters. The Water Development Board will handle the construction of sluices and the widening and deepening of creeks. The Bangladesh Agricultural Development Corporation will handle the procurement, installation, and maintenance of the water pumps. The Ministry of Agriculture will be responsible for extension work in the project area, while the Integrated Rural Development Program will handle cooperatives and credit. Coordination of the activities of these agencies will be the responsibility of an interdepartmental project implementation committee.

The Bank's continuing support for rural development in South Asia is also illustrated by a $35 million IDA credit to India to help stabilize or increase production from agriculture and related activities in six drought-prone districts in central and western India. The six districts are in the states of Andhra Pradesh, Karnataka, Maharashtra, and Rajasthan, and were selected from those especially affected by the 1972 drought. This is the first Bank operation in India specifically designed to tackle the difficult problems affecting rural development in that country's arid and semi-arid regions. The five-year project is expected to benefit over 1 million people by improving the incomes of some 225,000 rural households. They represent more than 10% of the population of the six districts, and most of them are among the poorest in the country. Annual crop production will increase by about 58,000 tons (principally foodgrains and oilseeds). Substantial increases will be realized in saleable fodder, as well as milk, wool, and mutton. About 85,000 jobs will be generated over the project period and about 20,000 jobs will be created after the project is completed. These objectives will be achieved through irrigation, soil conservation, pasture improvement, afforestation, dry farming development, improved sheep and wool production, and dairy development.

The broad range and the large number of project activities, together with the high degree of coordination required between all agencies, public and private, instrumental for carrying out the drought-prone areas project, make it both unique and complex, and the project exemplifies the World Bank's efforts at finding new approaches to help the poorest among the rural masses of South Asia.

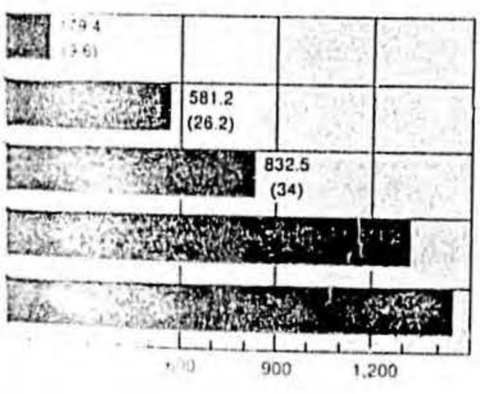
Europe, Middle East and North Africa

Trend in Lending, 1964-75

(... years)

... Averages

... Operations



Current borrowers	Population (000)[1]	Per capita GNP (US$) 1973
Afghanistan	15,219	90
Algeria	14,700	460
Bahrain	232	670
Cyprus	655	1,290
Egypt, Arab Republic of	35,619	250
Finland	4,660	3,170
Greece	8,970	1,670
Iran	32,136	570
Ireland	3,030	1,760
Israel	3,210	2,790
Jordan	2,540	290
Lebanon	2,970	900
Morocco	16,200	290
Oman	618	620
Portugal	8,560	1,130
Romania	20,830	890
Spain	34,740	1,360
Syrian Arab Republic	6,942	370
Tunisia	5,459	410
Turkey	37,930	400
Yemen Arab Republic	6,217	100[2]
Yemen, People's Democratic Republic of	1,560	110[2]
Yugoslavia	20,960	890

[1] Estimated as of mid-1973.
[2] Preliminary estimates.

... the region in fiscal 1975 ... previous year, strongly in- ... major international economic ... The events included the in- ... of oil, worldwide inflation ... import prices, the deteriora- ... trade of developing coun- ... recession in the indus-

... three countries (Afgha- ... Arab Republic, and the ... Republic of Yemen) with ... of considerably less ... of countries, however, ... higher per capita income ... countries; in this ... petroleum exporters—Al- ... Libya, Qatar, Saudi ... Arab Emirates.

Recent economic events have had a significant negative impact on the balance of payments of those countries in the region which are not major petroleum exporters; as a result, they will require increases in capital inflows in order to maintain the rates of economic growth achieved in recent years.

The three countries with per capita income levels below $200 depend heavily on imports of food, fertilizers, manufactured goods, and petroleum. All three have been particularly adversely affected by recent economic events; the United Nations has also determined that the three, plus Egypt, are among the 42 developing countries "most seriously affected" by these events, thus requiring special international emergency assistance.

Among the middle- and higher-income developing countries of the Mediterranean, Greece, Portugal, Spain, Turkey, and Yugoslavia have, as a result of both the increases in the price of oil and capital goods and the economic conditions in those European countries with which they have close economic links, experienced serious deteriorations in their terms of trade, declines in their export volumes, and adverse effects on two major sources of foreign exchange earnings—tourism and workers' remittances. Morocco and Tunisia, however, experienced significant increases in export volumes (mainly on account of phosphates) and also a small gain in the terms of trade.

The eight major petroleum exporters in the region earned over $87,000 million from their oil exports in 1974 (compared with $27,000 million in 1973). But principally because of the effects of the world economic recession on oil consumption, this figure was below the amount forecast earlier. The combined current account surplus of these countries was $53,000 million, but two-thirds of that amount accrued to only four countries—Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. The oil export receipts and current account surpluses of the major petroleum exporters are projected to increase only slightly in 1975.

The eight major petroleum exporting countries have considerably expanded their assistance to other developing countries—a number of them within the region—either bilaterally or through multilateral institutions. Total bilateral commitments—the figures are "highly tentative" according to the Development Assistance Committee of the OECD—of Official Development Assistance (ODA) by regional members of the Organization of the Petroleum Exporting Countries (OPEC) were estimated to be about $9,000 million in 1974, and disbursements were about $2,000 million, or 1.3% of their combined Gross National Product (GNP).

Relations with Major Oil Exporters

In fiscal 1975, there was a further evolution in the changing relations, referred to in last year's *Annual Report*, between the major oil exporters and the Bank. Financing—either in the form of borrowings or other contributions—provided to the Bank Group by these countries increased substantially. (For details of financing provided by countries in the region, see the "Borrowings and Finance" section in this *Annual Report*.) The number of projects co-financed by the Bank Group and these countries also increased. On the other hand, Bank lending to this group of countries decreased; but since its need for technical assistance of the kind the Bank can provide has become more acute, the Bank's technical assistance activities expanded.

Bank assistance has also been given in the form of advice and, in some cases, secondment of staff (during the formative stages) to a number of regional and national institutions, such as the Arab Fund for Economic and Social Development (AFESD), the Islamic Development Bank, and the Saudi Arabian Development Fund.

During fiscal 1975, an increasing number of co-financing arrangements were concluded between the Bank and major petroleum exporters in the region. By the end of the year, about $425 million had been mobilized for projects for which the Bank and IDA had committed about $365 million. Among the most important bilateral co-financers were the Kuwait Fund for

Lending to Current Borrowers in Europe, Middle East and North Africa,[1] by Sectors
(US$ millions. Fiscal years.)

	Annual average 1964-68	Annual average 1969-73	1973	1974	1975
Agriculture	$ 14.7	$111.2	$209.4	$ 184.0	$ 395.3
Education	5.5	34.3	36.1	41.7	56.4
Industry (including DFCs)	46.4	133.9	95.2	444.2	367.3
Non-project	–	–	–	–	70.0
Population	–	4.3	16.5	5.0	–
Power	16.9	70.6	75.2	294.5	215.6
Technical assistance (including pre-investment studies)	–	–	–	2.8	–
Telecommunications	–	31.6	82.0	–	30.0
Tourism	–	10.8	–	5.6	–
Transportation	95.2	141.1	216.4	254.5	248.5
Urbanization	–	0.5	–	60.0	–
Water supply and sewerage	0.7	42.9	101.7	29.2	51.1
Total	$179.4	$581.2	$832.5	$1,321.5	$1,434.2
Of which: Bank	$158.3	$504.9	$688.9	$1,229.5	$1,264.1
IDA	$ 21.1	$ 76.3	$143.6	$ 92.0	$ 170.1

Details may not add to totals because of rounding.

[1] Excludes $497 million in early loans for European reconstruction and $1,273.6 million in loans to nine higher income countries which are no longer borrowers. Includes loans to Finland, Ireland, and Israel which have continued to obtain some of their capital needs from the Bank. Loans to these countries totaled $277.5 million in 1969-73, $60 million in 1974, and $55 million in 1975.

Economic Development, Iran, Saudi Arabia, Libya, Abu Dhabi, and Qatar.

AFESD, a multilateral institution, also contributed to the financing of several Bank IDA projects.

Technical Assistance Activities

petroleum exporters in the region have increasingly aware that their economic ment could be promoted by a greater to use effectively their foreign exchange At their request, the Bank is helping among them speed up their develop- emphasizing, in particular, the acquisi- skills and the creation of institutional required for modern economies. ent of the technical assistance ac- tended by the Bank in the region are out in the eigh regional member OPEC; most of the technical assistance are in Iran and Saudi Arabia. The nical assistance covers many sectors many forms, ranging from its role as Agency for the United Nations De- Programme-financed National Survey of Saudi Arabia, to the adviso- investment activities of the resident mission in Teheran. In both coun- of the technical assistance work is internal investment decisions are contemplating, and is gener- to the services the Bank pro- course of its lending operations. Of are the studies undertaken whose objective it is to help the formulation of their man- policies as well as their programs.

examples of the new relationship members are provided by Development Institute's the Arab Planning Institute general projects course collaboration with the Alge- an industrial projects assessment by Bank staff expansion in generating and the joint review of projects in Libya.

Lending

finance 43 projects was $1,434.2 mil- borrowers were Yugo- projects), Romania and Egypt ($227 of the noticeable year was the Iran and the post- Cyprus previously

development rose in year's figure, and

A worker in a small electronics plant in a Casablanca suburb in Morocco. Plant capacity has been expanded with funds from the Banque Nationale pour le Développement Economique (BNDE), the country's main source of long-term finance for industrial development. BNDE has received several Bank loans, the latest being a $30 million loan approved during the year.

constituted 33% of the region's operations, and 28% of total commitments during the year. Ten loans were made for industrial development and to development finance companies (DFCs). The region remains by far the largest recipient of loans to industry and DFCs, since several of the borrowers have fairly diversified and sophisticated economies. About 28% of total Bank and IDA assistance for industrial development went to the region. The continuing high prices for petroleum products have caused several of the petroleum importing countries of the region to look to alternative sources of energy. In fiscal 1975, the Bank helped finance the construction of a lignite-fueled power plant (Romania) and a hydroelectric power plant on the upper reaches of the Drina River (Yugoslavia).

Agriculture and Rural Development

Of the loans to agriculture during the year, one-third were to assist agricultural and rural development projects, more than a third were for agricultural credit, and a quarter supported irrigation activities. Loans to each of these subsectors are of special interest because they include socially innovative or other significant features.

One of the most ambitious projects to be undertaken in the region in fiscal 1975 was a rural development project in Turkey. It is ambitious, both in its objective of reaching some of the most disadvantaged people in isolated areas, and in the comprehensiveness of its multisectoral approach.

The project, aided by a Bank loan of $75 million—it marks the Bank's first involvement in integrated rural development in Turkey—will affect farmers living in the north-central provinces of Corum and Cankiri. Primarily dependent on rainfed agriculture, the two provinces are among the poorest third in the country on the basis of income levels and living standards, agricultural development, industrial development, health and sanitation facilities, and communications. The project seeks to raise by 70% the incomes of about 400,000 rural poor by enabling them to double their production of grain; it will also improve the infrastructure of the villages in which they live.

An intensive agricultural extension program will be instituted; credit will be provided to buy inputs such as seed, fertilizer, buildings, and machinery; new irrigation facilities will be constructed to serve an additional 6,250 people living on 12,000 hectares of land; new village access roads will be built, and existing ones upgraded; drinking water will be provided to 120 villages, and electricity will be extended to 233 villages. In addition, facilities for basic health and social needs—public baths, toilets, laundries, and meeting halls—will be constructed.

A Bank loan of $50 million for an agricultural credit project in Yugoslavia has two major objectives: to help increase agricultural production by extending credit to socially-owned agricultural enterprises and private farmers, and to help improve the allocation of resources by supporting institution-building within the eight banks through which the loan proceeds will be channeled. The major constraints on the development of Yugoslav agriculture—it remains an important sector, absorbing 44% of the labor force and accounting for more than 20% of the country's GNP—are lack of capital, and, especially for small farmers, insufficient credit and extension facilities.

The project calls for investments in livestock, fruit and vegetable production, land reclamation, mechanization, and agro-industries, and is expected to help reduce crop fluctuations and promote self-sufficiency in foodgrains and milk. Small farmers (to whom 40% of the loan is allocated) will receive subloans, either directly or through agricultural enterprises, thereby increasing their prosperity in general, and, in particular, helping them exploit their comparative advantage in livestock production. About 380 social sector agricultural enterprises and 10,200 private farmers will benefit directly from the project; the average farmer's income is expected to rise by over 150%. The project should also create about 6,000 new jobs.

A shortage of water has hampered agricultural development in southern Morocco. The Souss groundwater project, assisted by a Bank loan of $18.5 million, is designed to assure the optimum use of available groundwater resources for the benefit of about 1,600 poor rural families. The project provides for sprinkler irrigation on about 6,200 hectares of new land, and the rehabilitation of a crude gravity irrigation system covering 1,000 hectares. The project will create viable farm units through land consolidation and distribution, improve supporting agricultural services, and organize farmers into service cooperatives. The family farms will produce cereals, milk, meat, and, to a lesser extent, fruit, for the domestic market. The project will also improve the rural environment by providing streets, street lighting, domestic water supply, schools, and health and community centers.

A rural development project in Algeria, aided by a Bank loan of $8 million, is designed to help the Government improve the social and economic conditions of the country's rural poor. The project—which consists mostly of technical assistance—will strengthen Algeria's capacity for project preparation and implementation, particularly at the local and regional levels; moreover, it will help develop rural institutions and services.

The project provides the technical personnel and equipment needed to plan, test, and ultimately begin the implementation of four subprojects, each of which will concentrate on improving the productivity of small farmers. Two of the subprojects aim at overcoming two of the main constraints to rural development at the national level (credit and extension) by designing and testing a model for a national extension system and by assisting ongoing agricultural credit efforts. The two remaining subprojects focus on two of Algeria's poorest areas—its steppe and mountain regions.

The steppe subproject will attempt to stop the degradation of pastoral lands, will tackle

...sociological problems arising from the dis-...ration of traditional tribal arrangements ...erning grazing rights and migration routes, ...will support pastoral development, includ-...the permanent settlement of semi-nomads ...cooperatives. The mountain region sub-...t will seek to improve economic op-...ities for the population living in the ...mountains, and thus discourage their mi-... to urban areas. It is hoped that the solu-...developed by the Bank-aided project can ...dely applied elsewhere in the country.

Environment

...of the year's most innovative loans ...the Bank's initial involvement in a na-...ogr m to improve the environment. A ...on loan in support of a project in Fin-...designed to help protect both man and ...ronment from the harmful effects of in-... wastes. The project will reduce water ...n—even at the expense of some eco-...owth.

...Finland's almost 5 million people live ...ely or moderately polluted waters; a ...the people live in areas where the ...water supply is taken from unsuit-... sources. The trend of urbanization ...rialization indicates that pollution ...ate if effective counter-measures ...en as soon as possible. The Finnish ...nt has launched a 10-year national ...control industry-caused water pol-... program, of which the Bank-sup-... will cover the three-year period ...also be a part of Finland's efforts to ...ous pollution of the Baltic Sea by ... sources and levels of pollutants ...the Baltic from Finnish territo-... contributed to the design and ...of the program, whose target is ...by 1980 of industrial water pol-... loan, made to the Mortgage ... will be re-lent to industrial en-... will share in the costs of the

...to Finland's program, the ... detailed knowledge about ...costs and benefits in industry, ... the research needed for ... eco-systems and applying ... pollution control.

...rotection is also a major con-... and waste water disposal ...eval, walled city of Dubrov-... Eighty percent of all tourists ...goslavia spend some of their ... coast, where the town is ... currently accounts for ...'s total convertible cur-... sensitive to environ-... Dubrovnik's water supply ... was built in the 15th cen-... pace with the growing demand, and if waste were not properly disposed of, the environment would be degraded, and tourism would suffer. The project, for which the Bank loaned $6 million, will allow Dubrovnik to expand its water supply system, and reduce the health hazards of pollution through the construction of sewage treatment facilities.

Education

A $5.4 million IDA credit for an education project in the People's Democratic Republic of Yemen exemplifies the Bank's new approach in the field of educational development.

Since its independence in 1967, the country has experienced an education explosion: primary school enrollment has increased 300%. Preparatory school enrollment has risen by 100%, and in secondary schools, the rise has been on the order of 500%. Modernization of curricula, provision of adequate school buildings and equipment, and training of the teaching force could not keep up with the increasing demand, and thus real progress in the sector was limited. In addition, schooling outside Aden, except in the more developed Fifth Governorate, is still sparse.

In coordination with other external programs designed to help the Government by providing supplementary school buildings, secondary teachers, and technical advisers, the project will supply annually about half the new primary school teachers needed, and will help upgrade almost a third of the existing unqualified teachers. More practical, broad-based curricula will be introduced into preparatory and secondary schools, training will be provided to meet urgently-needed skilled manpower in agriculture, industry, and the social services, and two pilot rural development centers will be built in the remote rural areas of the country. The centers will help support existing local crafts, will be the focus of adult literacy programs, will introduce vocational training, and will support the activities of the Ministry of Health in carrying out family care and nutrition programs. As much as 80% of the project's costs will be directed towards people living in rural areas.

Other Projects

In the past 12 months, Egypt has taken a number of measures to accelerate its economic development, and has both sought and received commitments of large amounts of development assistance from various donors. Bank Group assistance, which had been limited to IDA credits until fiscal 1974, increased significantly in fiscal 1975 by the addition of the first Bank loans since 1959. The Bank and IDA lent $227 million to Egypt during the year—a sum more than quadruple any previous year's total. The largest loan, of $70 million (half on Bank and half on IDA terms), made in December 1974, is the first non-project loan ever made to a country of the region. It will provide the foreign exchange necessary to use the economy's existing productive capacity more fully.

A major portion of the proceeds of the loan is being used to import raw materials, intermediate goods, and spare parts to support current production in industry and inputs for agriculture. The loan will also help finance the acquisition of urgently-needed equipment and spare parts required to improve operating efficiency at the port of Alexandria, which, since 1967, has been Egypt's only port handling import and export traffic.

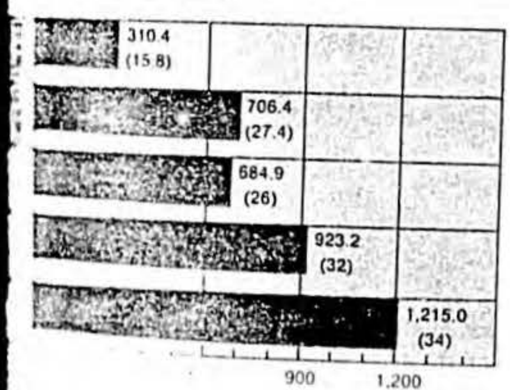
A Bank loan of $50 million—supplemented by contributions from other sources—was also made to the Suez Canal Authority for a project to rehabilitate the Canal, the total cost of which is estimated at $288 million. The Bank's association with the Suez Canal dates back to 1959, when a loan was made for its expansion. Since the closure of the Canal in 1967, almost all the equipment and facilities there—but not the main structures—have been destroyed. The project will help restore navigation, and will enable the waterway to operate at its former efficiency.

The Bank also extended loans to all three of Romania's key economic sectors—industry, power, and agriculture. The two loans for agriculture, which totaled $100 million, are for projects representative of the country's overall program of agricultural investment. The Sadova-Corabia agricultural credit project will help increase productivity, and through its subprojects, will significantly improve the production potential of over 40 cooperatives, state farms, and agro-industrial enterprises. The Giurgiu-Razmiresti irrigation project will provide 100,000 hectares of irrigation infrastructure, essential to the future growth and stabilization of agricultural output. Incomes of about 17,000 farm families will be raised.

Latin America and the Caribbean

Trend in Lending, 1964-75

...years)
...Averages
...Operations



Current borrowers	Population (000)[1]	Per capita GNP (US$) 1973
Argentina	24,282	1,410
Bolivia	5,331	230
Brazil	101,051	720
Chile	10,230	760
Colombia	23,777	440
Costa Rica	1,872	710
Dominican Republic	4,432	530
Ecuador	6,727	390
El Salvador	3,801	370
Guatemala	5,175	520
Guyana	772	400
Haiti	4,454	120
Honduras	2,781	330
Jamaica	1,967	860
Mexico	56,047	810
Nicaragua	1,973	520
Panama	1,570	940
Paraguay	2,416	350
Peru	14,531	590
Trinidad and Tobago	1,059	990
Uruguay	2,995	780
Venezuela	11,279	1,260

[1] Estimated as of mid-1973.

...the international economy, ...ion in the industrial world ...have had powerful but ...effects on Latin America ... In most countries, higher ...export prices created ...domestic economic man... ...ed to inflation.

...petroleum has not, of ...influence on recent ...been—directly or in... ...than any other factor. ...can thus be drawn be... ...—Bolivia, Ecuador, ...Venezuela—which ...their foreign exchange ...ntly, a few others— ...Mexico—which are ...sufficient in petro... ...including Brazil, ...—which at present

Some of the petroleum importing countries export c[illegible]mmodities whose relative prices have also rise[illegible] in the last two years, thereby softening the impact of more expensive imports. In Barbados, the Dominican Republic, and Guatemala, for example, there has been a major increase in export earnings because of higher world prices for sugar, while the Dominican Republic, Haiti, and Jamaica have benefited from increased earnings from bauxite.

During 1975, however, market conditions for most of the region's principal export products deteriorated. Consequently, the terms of trade worsened. The relative decline in coffee prices has had a particularly widespread effect, because several countries in the region derive 20% or more of their export receipts from this crop. Lower copper prices have adversely affected Chile and Peru, and lower wool prices, together with a decline in world market meat prices, and, even more importantly, a limitation of beef exports to the countries of the European Econom-