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Friedman UNCTAD Files - General Correspondence, Jan. - Je., 1967
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Mr. Kamarck June 29 1967

Irving S. Friedman

Letter to Raul Prebisch

I still don't quite understand why we cannot directly address ourselves to his point about global and regional projections. The reply sounds highly technical but not nearly informative. Am I missing something here?

Mr. Kamarck 800

Thanks for your comments, but I think in the light of them we really ought to tell Prebisch that regional or global figures can be deduced from what is already given.

Thank you.

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman (through Mr. Kamarck) Cavalla

DATE: June 21, 1967

FROM: G. Kalmanoff G.K.

SUBJECT: Brazilian Action Group for UNCTAD

With reference to your enquiry of June 14 on the subject, attached is a full explanation by Mr. Dubey.

You will note that the "action group" called for consists of an inter-governmental group of experts to study and report to UNCTAD II on virtually all aspects of international development finance. The draft resolution, which was not adopted by the UNCTAD Finance Committee, is attached. It is being referred for decision to the forth-coming August 15 meeting of the Trade and Development Board.

Encl.

cc: Messrs. Kamarck, Dubey

GKalmanoff:vlb

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. George Kalmanoff

DATE: June 16, 1967

FROM: Vinod Dubey VDubey

SUBJECT: The Brazilian Action Group

1. The question by Mr. Friedman on Mr. Ziegler's memo on the "10th Session of the DAC Working Party on UNCTAD Issues" of May 29, 1967, about the reference to the Brazilian Action Group refers to a matter discussed at the second session of the UNCTAD Committee on Invisibles and Financing related to Trade, held in New York from 4th to 19th April 1967. Unfortunately, the report of the session, TD/B/118 is not yet available here. We expect to get a copy from New York in two days. I have, however, been able to piece together the following information.

2. The Committee prepared an agreed "diagnosis" in the shape of a Statement of the Problems of Development with the object of defining an area of consensus among all countries. This Statement is to be placed before the Second Conference on Trade and Development. The Statement was prepared by a Working Group (consisting of the representatives of Tunisia, Switzerland, India, Australia and Mexico) on the basis of drafts prepared by the DAC countries. (The text of the Statement is attached).

3. While the Working Group was preparing the Statement, the Brazilian delegation, with the support of 26 other LDCs, submitted a draft resolution dealing with basic development finance (attached). While not disagreeing with Supplementary Finance, the Brazilian Delegation was concerned that concentration on supplementary financial measures was tending to divert attention from the broader questions of development finance. This draft resolution envisaged the setting up of an intergovernmental group of experts to study and report to the Second Conference of Trade and Development "the measures that could be examined under sub-item (b) (i), (ii), (iii) of item IV of the draft provisional agenda of the second session of UNCTAD". These sub items read as follows:

"(b) Financial (Resources and) Requirements of Developing Countries.

(i) (Measures for Increasing) of flow of international public and private capital to Developing Countries.

(ii) (Measures for Improving) the Terms and Conditions of Aid.

(iii) (Measures for Dealing With) the Problem of International Indebtedness".

The draft resolution also states that "The group should take into consideration the pertinent recommendations of the first session of UNCTAD, the studies and reports by expert groups related to both the quantitative and qualitative aspects of basic financing as well as all the proposals likely to be submitted to it by governments or by international bodies."

4. As is clear from para. 2 of the prefatory note to the attached Statement of the Problems of Development, some of the language of the Brazilian draft is incorporated in the statement. However, the Working Group of the Committee of Invisibles did not recommend the convening of an expert group, as the Brazilian draft suggested. It merely invited the Secretary General to draw of "an inventory of the reports, studies and proposals already in hand to arrange for ..... studies ...... conducive .... to the formulation of proposals for achieving the objectives of UNCTAD".

5. The Brazilians did not press their draft resolution and the Committee decided to take no decision on it. The Committee referred the draft resolution to the Trade and Development Board for a decision, with the comment that it had not been considered in substance by the Committee. The resolution will, therefore, come up before the forthcoming session of the Trade and Development Board starting on August 15 in Geneva.

6. From the above background it appears that the statement in Mr. Ziegler's report, noted by Mr. Friedman, may be interpreted as follows:

(a) The cooperation shown in the way in which the developed and developing countries worked in the Committee of Invisibles to arrive at a statement of consensus on the Problem of Development, may be attempted again at the forthcoming meeting of the Trade and Development Board.

(b) However, the DAC countries feel that such cooperation should not be extended if it was used as a means to promote the ideas of the Brazilian draft resolution.

(c) The Swiss delegate indicated that the Brazilian resolution was a kind of a reserve shot which would be used by the developing countries in case supplementary financing was not adopted.

(d) The resolution itself supports supplementary finance, but emphasizes that it should be "combined with a simultaneous action aimed at achieving a comprehensive set of solutions for the problems of basic financing".

VDubey:yd

Attachment:

Appendix IV

The Brazilian draft resolution

Distr.
LIMITED

TD/B/C.3/L.49
17 April 1967

United Nations Conference on Trade and Development

ORIGINAL: ENGLISH

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing related to Trade
Second session
New York, 4 April 1967

Joint draft resolution

Argentina, Brazil, Chile, Congo (Democratic Republic of), Ecuador, Mexico, Sudan, Tunisia, United Arab Republic, Yugoslavia, Cameroon, Ghana, Kuwait, Lebanon, Morocco, Republic of Korea, United Republic of Tanzania

The Committee on Invisibles and Financing related to Trade,

Noting that the present conditions and trends of the flow of external resources, both in the quantitative and qualitative aspects, are inadequate to achieve the targets set forth by the General Assembly for the Development Decade and by the first session of UNCTAD,

Expressing interest for the valuable efforts now being undertaken concerning the implementation of a scheme on supplementary financing,

Stressing that these attempts should be combined with a simultaneous action aimed at achieving a comprehensive set of solutions for the problems of basic financing,

Bearing in mind the existing ideas for the increase of development financing, especially those contained in recommendations A.IV.7, 9, 11, 14 and 15 of the first session of UNCTAD,

Recognizing the possibilities of further extending the financing facilities provided by the IMF as a continuation of the progress made in the implementation of recommendation A.IV.17,

Noting that in the light of the draft provisional agenda for the second session of UNCTAD there is scope for an integrated and conclusive discussion on the issues of basic financing,

/...

67-08356

Expressing the conviction that for this purpose it is urgent to start studies and preliminary consultations,

1. Decides, subject to the approval of the Board, to establish under rule 63 of the rules of procedure of the Committee an inter-governmental group of experts consisting of ____ members to study and report to the second session of UNCTAD on the measures that could be examined under sub-item (b) (i) (ii) (iii) of item IV of the draft provisional agenda of the second session of UNCTAD. The group should take into consideration the pertinent recommendations of the first session of UNCTAD, the studies and reports by expert groups related to both the quantitative and qualitative aspects of basic financing as well as all the proposals likely to be submitted to it by Governments or by international bodies;

2. Invites representatives of the International Bank for Reconstruction and Development and of the International Monetary Fund, in particular, as well as representatives of such other bodies whose participation the group may deem appropriate to assist in the work of the group and in particular to prepare such factual material as may be required to enable the group to accomplish its task;

3. Requests the Secretary-General of UNCTAD to convene the group as soon as possible, in order to allow sufficient time to prepare a report to the second session of UNCTAD.

ANNEX A

STATEMENT OF THE PROBLEMS OF DEVELOPMENT

Prefatory Note[1]

1. In response to the request made by the Trade and Development Board at its fourth session for comments, observations or recommendations on the substance of the items on the draft provisional agenda of the Second Conference, the Committee has approved the attached statement of the problems of development, in particular development finance, and recommends it to the Trade and Development Board.

2. In the meantime, the Secretary-General of UNCTAD is invited, in preparation for the Conference, to draw up an inventory of the reports, studies and proposals already in hand and to arrange for whatever studies may be most conducive, in the light of the attached statement, to the formulation of proposals for achieving the objectives of UNCTAD, in particular those dealing with the quantitative and qualitative aspects of the financing of development in the light of the recommendations and other provisions of the Final Act of the First Conference.

3. It recommends that the Secretary-General of UNCTAD should take into consideration the pertinent recommendations included as annexes to the Final Act of the First Conference, the studies and reports by expert groups related to both the quantitative and qualitative aspects of basic financing and the discussions on them, as well as any proposals which may be submitted to him by governments or by international bodies.

4. The statement deals with the questions falling under IV (a) and (b) of the draft provisional agenda for the Second Conference. Discussions on the substance of items IV (c) and (d) (Supplementary financial measures and compensatory financing) and IV (e) (Reform of the international monetary system) have not yet reached the point at which the Committee can submit agreed comments of substance on them. The discussion on them is recorded in the report of the Committee. The Committee has submitted separately a resolution on invisibles.

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1/ Text of Prefatory Note is provisional

A. Internal resources and external assistance

1. It is appreciated that developing countries must and do bear the main burden for financing their own development. In these circumstances it is highly important that their national resources, financial and others, be mobilised more effectively to this end. External aid can promote development in developing countries not only by adding to the resources at their disposal but also by helping them to mobilise and to make more effective use of their own resources. In this connection it is very important that adequate attention be given not only to industrialisation but also to the development of agriculture and to domestic production of food. It is a matter of concern that the flow of financial resources from developed countries, in support of the developing countries' efforts, has failed in recent years to keep pace with the growth in the national incomes of the developed countries, even though most developing countries could immediately put into effective use a greater volume of external assistance.

2. The objective for developed countries should be to increase the net flow of their development assistance in order to attain the UNCTAD target as defined in the recommendations and other provisions of the Final Act of the First Conference. Since development requires a continued supply of external resources, the question arises of what steps individual countries could take to assure such continuity. Continuing and intensified efforts should at the same time be made by both developed and developing countries, working together to increase the effectiveness of aid. It is hoped that the country studies currently being carried out by the Secretariat would throw some light on the factors relevant to economic development and the relation between the rate of growth and the amount of aid received.

3. The Second Conference will wish to examine the implications for policy of the forthcoming studies of individual countries which are being prepared by the Secretariat and the light which they throw on the problems referred to above. These studies should take account of alternative development targets, policies and standards of effort, and external circumstances.

4. The Secretariat should give special attention to the preparation, for submission to the appropriate bodies of UNCTAD, of documents concerning various forms of aid through trade.

B. The terms of aid

5. The overall terms of aid on development loans generally remain too hard and the trend towards the softening of terms has recently suffered certain setbacks. Grants have continued to decline as a percentage of gross official disbursements and interest rates, maturity and grace period of loans, which had softened during the years 1962-64, hardened again on the average in 1965, completely erasing the overall progress that had been made in the preceding three years. The overall trend, however, cloaks variations between the policies of individual countries.

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6. Further efforts are required to soften the terms of aid generally, and also to harmonise the terms of assistance given by various developed countries to individual developing countries. With regard to the general question of terms, it is desirable that developed countries should, as appropriate, achieve the aims set out in General Assembly Resolution 2170 (XXI) relating to the rates of interest and period and conditions of repayment. With regard to the problem of harmonising terms for individual recipient countries or broad groups of recipient countries, it is desirable that the developed countries undertake, in co-operation with the IBRD or with the appropriate international institutions, a joint effort to reduce the burden of existing disparities in terms.

7. The Secretariat should further study the conditions of repayment of debts, including, inter alia, repayment in local currency or in goods, which are of interest to certain countries.

C. Difficulties of aid administration

8. For a number of reasons, developed countries and international and regional organisations find it necessary to impose varying requirements in the administration of their aid. These often create difficulties for developing countries. Difficulties also arise in the administration of aid programmes on the part of some developing countries. Most of these problems are primarily a matter for consultation, bilateral or otherwise. The Secretariat should extend its study of this problem, with a view to arriving at recommendations as to how international and regional organisations and developed as well as developing countries can co-operate in alleviating these problems. This might include the provision of technical assistance by developed countries and such organisations.

D. The tying of aid

9. The proportion of tied aid to the total volume of aid is increasing for a variety of reasons.

10. The causes and effects of tied aid need to be further studied. Tying restricts the developing countries' opportunities of benefiting from the price and quality advantages which normally accrue from a free choice of suppliers. This is particularly the case when restrictions are imposed not only as to the source of procurement of the goods but also as to the nature of the goods. Further, tying tends to reduce the real value of aid inasmuch as the definition and the choice of projects and of technology best suited to the requirements of the developing countries is limited. Some of these disadvantages may be mitigated if a country has the freedom of recourse to several sources of procurement or to a broad range of goods and services from one source. Furthermore, some tied loans are used for reimbursing import payments relating to contracts which have been obtained in open international competition.

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11. Aid is frequently tied partly to protect the balance of payments of the aid-giving countries and partly for other economic considerations, and some countries find it easier to secure public support for programmes of tied bilateral aid than for united bilateral aid. In such cases the tying of aid may be directly related to the level of aid.

12. The question of the role and the effects of tied aid including those on international trade is an important one and requires detailed study, in relation to terms, co-ordination and effectiveness of aid. The Secretariat should continue its studies on the following aspects of tied aid:

(i) the form of tied aid (by project, by commodity, and by source of procurement);

(ii) the effects on the real value of aid from the standpoint of countries which provide it and those which receive it;

(iii) an examination of alternative proposals for dealing with the problem of tied aid.

These studies should be enlarged to cover, <u>inter alia</u>, the following additional aspects:

(a) the proportion of tied aid to the total volume of aid;

(b) the implications of various measures and degrees of untying aid.

E. <u>Problems of indebtedness</u>

13. The indebtedness of developing countries, in particular their mounting debt service obligations, is a matter of serious concern and threatens to lead to a significant diminution of the net transfer of resources. It has been estimated by the Secretariat that if the gross flow of loans to developing countries were to continue at present rates, and present average terms and conditions of assistance were maintained, lending net of amortization and interest would become negative after the year 1975.

14. Further analysis of the whole question of indebtedness is required, differentiating between the various types of debt involved. The debt structure of individual countries and the seriousness of the conditions of their debts and of their debt service obligations vary considerably. Furthermore, the seriousness of a country's indebtedness cannot be considered in isolation, but must be judged in relation to its debt-servicing capacity, its external trade and its rate of growth. The problem of indebtedness is also linked with the problems of terms and volume of aid.

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15. Because of the variations in the positions of individual countries, the action to be taken must be determined on an ad hoc basis, taking into account the special features of the country concerned. The problem of external indebtedness has to be resolved both by softening the terms of and improving the conditions of aid to developing countries as well as by an effective utilisation by developing countries of the aid they receive. Developed countries should therefore help by softening the terms and improving the conditions of the assistance while the developing countries should also undertake a sound policy of debt management. Where difficulties do arise the countries concerned should stand ready to deal reasonably with them within the framework of the appropriate forum in co-operation with internationa institutions involved.

16. There is a need to improve the statistical information with regard to the debt burden of developing countries, including, to the extent possible, unguaranteed commercial credits.

17. The Secretariat should carry out the further analysis mentioned in paragraph 14 so that the Second Conference will pursue the examination of the different aspects of indebtedness.

F. Commercial credits[1/], including suppliers' credits

18. The subject covers not only suppliers' credits but also long-term financial guarantees and loans provided by governments for commercial purposes.

19. Commercial credits add to the flow of financial resources and can play a useful role within certain limits. They are, however, no real substitute for long-term development aid.

20. Four main questions arise:

(i) To what extent should commercial credits be adapted to promote development as well as trade?

(ii) How should its acceptance and use be controlled by both recipients and lenders?

(iii) Should the terms be softened, and what would be the implications for both aid and trade?

(iv) Should the question whether any new institutional arrangements are needed to alleviate harmful developments in the field of commercial credits be further studied?

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1/ Commercial credits having a duration of less than one year are excluded from the scope of discussion of the present paper.

21. It would be desirable for the UNCTAD Secretariat to have further information on both guaranteed and unguaranteed commercial credits. It will be desirable to have a further report dealing with the questions raised in discussions, including measures to promote the exports of developing countries.

G. Private capital

22. The flow of private capital from developed to developing countries can play an important role in so far as it increases the financial and other resources available to developing countries. Private funds can also make such contribution through the medium of multilateral financial institutions.

23. It would be useful to continue to study the measures which developed and developing countries could take to stimulate and promote the flow of private capital to the developing countries, as well as the measures which developing countries could take in relation to foreign private capital. The multilateral investment insurance scheme presently being studied within the IBRD is one of the means suggested for promoting the flow of private capital to developing countries.

24. It was brought out during the discussions in the Committee that private capital does raise certain problems. Some of these problems can be solved if it can be ensured that foreign private capital is used in a manner consistent with the promotion of national development. In this connection special attention should be devoted to an empirical study of various effects of private capital investment both from the viewpoint of the investors and the recipients.

XXlst CONGRESS

INTERNATIONAL CHAMBER OF COMMERCE,

MONTREAL, MAY 13 - 20, 1967

ADDRESS BY DR. RAUL PREBISCH TO THE

IXth SESSION OF THE COMMISSION ON

ASIAN AND FAR EASTERN AFFAIRS (CAFEA - ICC)

MAY 19, 1967

Printed in Canada

INTRODUCTION OF DR.RAUL PREBISCH BY DR. MOHSEN LAK

Dr.Raul Prebisch, as you are well aware, ladies and gentlemen, is a distinguished Argentine economist and internationally known Secretary-General of the United Nations Conference on Trade and Development, perhaps better known as UNCTAD. In his long and distinguished career, Dr.Prebisch was the organizer and the first director of the Central Bank of Argentina. Very soon after the creation, in 1948, of the United Nations Economic Commission for Latin America and until 1963, Dr.Prebisch was its Executive-Secretary. Dr.Prebisch became the Secretary-General of UNCTAD in 1963, and as you know helped to direct its first session, held from March to June 1964 in Geneva. Since then, UNCTAD certainly has contributed to focusing world attention on the trade and development problems of the developing nations in the context of the overall international trade patterns and the impact on the international economic community. There is no question that UNCTAD has equally furnished a tremendous emphasis and stimulus for the urgent need to achieve some concrete solution to these problems. The I.C.C. has consultative arrangements with UNCTAD, its Trade and Development Board and all of its subsidiary bodies and, as you know, has followed its deliberations with deepest interest. The Chamber had a large delegation at the first Conference held in Geneva in 1964, and is now preparing for the second UNCTAD Conference scheduled to open in New Delhi on February 1st for almost two months. Ladies and Gentlemen, I take pleasure in introducing Dr.Prebisch who will address you on "World policy of trade liberalization: the role of the developed and the developing countries and private enterprise therein."

ADDRESS OF DR. RAUL PREBISCH

Mr.Chairman, Dr.Wallenberg, President of I.C.C., Mr.Lak, President of CAFEA-I.C.C., Ladies and Gentlemen: Let me express first my thanks for the kind words of introduction pronounced by you, Mr.Chairman, and by Mr.Lak. May I express also my deep thanks to the International Chamber of Commerce for inviting me to address this meeting, and to you, distinguished ladies and gentlemen, for listening to me this morning.

I accepted very willingly the invitation of the I.C.C. because the topic suggested to me is a subject of paramount importance in the present stage of world development. I will speak to you about some of the main trade problems of the developing countries. But in so doing, I would not wish to isolate these problems from the tremendous difficulties that the spread of modern technology is posing to the developing world to whose progress, on the other hand, modern technology is already contributing greatly.

You, Mr.Chairman, have just recalled the words of the eminent Prime Minister of Canada about the possibilities of eradicating poverty and its inherent evils in developing countries through the penetration of modern technology. These possibilities are enormous indeed, but we must also recognize that the developing world will not fully benefit from them until we are able to correct certain disturbing consequences and paradoxes brought about there by technological advances. For instance, growth of mass media, this real revolution of information in the world is bringing developing countries closer and closer to developed countries from the point of view of the increasing possibilities of the former to know about all the technical and ideological developments occurring in the latter, thereby accentuating the desire of developing nations to try to imitate the astonishing progress in the material ways of living already achieved in the industrial centres. In a few years, satellites will give tremendous new impetus to this process and even the most remote village in a developing country will know daily what is happening in the big capitals of the world. But at the same time that developing and developed countries are coming closer together from that point of view, there is a growing disparity between them not only with respect to income - a widening gap that is well known - but also with regard to trade. Thus, for example, in 1950 the developing countries' share of total world trade was 30.2 per cent while by 1965 it had come down to approximately 19 per cent. Moreover, if we exclude petroleum - that fortunate product for which there is an expanding demand in the world - the figure for developing countries is only about 16 per cent and this is very serious indeed.

The reasons for this deterioration of the trade position of the developing countries are well known. It is due not only to protectionist policies followed by developed countries, but is mainly the result of the effects that scientific and technological progress has on the patterns of income-utilization and demand. Given their already very high levels of income and productivity, the demand for foodstuffs and other primary goods in the industrial centres tends to grow at a much slower rate than their income, so that the developing world's traditional exports to them also tend to increase very sluggishly. To this must be added the fact that many raw material exports are facing growing competition or outright substitution due to the emergence of synthetic products, or are in less demand because of new production techniques developed in the industrial centres. We cannot and should not, of course, stop these technological and scientific advances. On the contrary we must endeavour to take advantage of them for the world as a whole and for the developing countries. How? Obviously by helping developing countries to absorb modern technology quicker. This process has started and is gathering force, but here we must contront one of the most serious contradictions arising from this problem. The more income grows in the developing nations due to the penetration of technology the greater tends to be the demand there for manufactures, for capital goods, for intermediate goods, for the unending series of new consumption goods that the technological process is bringing to the world. As a result, imports coming to the developing countries from the industrial centres tend to grow very fast indeed, whereas exports from the former to the latter tend to grow at a relatively low rate for the reasons I mentioned earlier. These paradoxical consequences of technological progress are not unavoidable, but they do exist at the present moment and are contributing considerably to the growing "trade-gap" problem of the developing countries.

One of the most serious obstacles in the process of growth of developing countries is that "trade-gap". Without breaching this "trade-gap", it would be impossible to accelerate the rate of growth of developing countries in consonance with their needs. Before entering into the question of how to deal with this problem, I would like to mention some other problems posed by the process of penetration of modern technology in the developing world. All of us know very well that technology in developed countries is becoming less and less labour intensive and more and more capital intensive, and yet this is the type of technology that developing countries must attempt to assimilate although their capital resources are limited while their manpower is abundant. Modern technology certainly would allow them to increase their standard of living, but its proper absorption requires a much greater mobilization of internal resources as well as the co-operation of international financial resources. However, as things are, the rate of capital investment of developing countries, even in most of those that have really made great efforts in this matter, is not enough to allow the increases in the labour force to be absorbed adequately in the modern sector of the economy. This is an extremely serious phenomenon that is just beginning. It is reflected in the growing number of marginal populations that are abandoning the land in the rural areas due to various factors and cannot find prompt nor truly productive employment in industry and other modern sectors of the economy. This is a growingly explosive factor in the developing countries, yet not enough importance has been attached to the existence of this phenomenon nor sufficient attention paid to its social and political implications. Thus, for instance, most everybody recognizes now that agriculture has been lagging behind in developing countries and that very great efforts including land reform, have to be made to introduce modern technology in this sector of the economy. This is being attempted now in many developing countries and should be accentuated, but we must remember the historical consequences of the introduction of technology in agriculture. Throughout the world, independently of economic and social systems, the more technology penetrates the land, the less the land requires human labour and this, of course, adds to the problem of redundant populations that cannot be absorbed by the modern sector of the economy. Therefore, if in the next ten years the developing world increases productivity in agriculture as it should, after a certain point this will seriously aggravate the problem posed by the present dynamic insufficience of the economic system of many countries. This does not mean that we should hesitate over the need to bring about a substantial reform in agriculture. We should carry out those reforms but at the same time we must try to put into operation measures that will increase the overall dynamic capacity of the economic system.

Whenever I mention this aspect of the process of development, the first question that is often put to me in the industrial centres is why developing countries do not check the growth of their population, and this is a very serious problem indeed. There are developing countries that forty years ago had an annual rate of population increase of 1 or 1½ per cent and now they are close to 4 per cent. This is the case of Mexico, for instance, a country that has been growing at a very fast rate. Well, I fully agree on the need to have a farsighted demographic policy in developing countries, not as the solution of the problem of development, but as one of the elements of an enlightened policy of development and international co-operation. But let us not fall prey to apparently easy solutions: there are none. We may, by a successful demographic policy contribute to the solution of the problem in the course of time. The best policy of family planning will not yield its effects on the rate of increase of the labour force until after some twenty years and, moreover, it obviously cannot control any more those who have already been born. Yet, it is precisely those children that are born who will be seeking gainful employment in the increasingly swelling labour force in the next twenty years. And it is these next twenty years that are truly fundamental in importance from the economic, social and political point of view. The future might be corrected with the help of a demographic policy but it cannot solve the problem of the two dangerous decades ahead. And let us not forget that the "population explosion" is also the result, to a great degree of the advances of medical science and technology which have sharply cut down mortality rates.

One can see therefore, that besides the great benefits that modern technology can bring to the developing countries, it brings out as well tremendous contradictions and paradoxes which are also to be found in the policy field. Thus, for example, I do not think that modern technology can properly penetrate in many developing countries without some very important changes in their economic,social and administrative structure, and without corresponding changes in attitudes and in policies, for instance, with respect to the income groups to increase their rate of savings and capital investment to the detriment of their present exaggerated pattern of consumption. Then, there is a contradiction between the requirements of modern technology which demands great social mobility and increasing competition and the very limited operation of these factors that still characterizes many developing countries.

There are also contradictions in the policy of international economic co-operation, if we can call policy the series of isolated and hesitant measures adopted thus far with regard to the developing nations. The developing world needs a growing amount of international financial resources but the record of recent years in this respect, as you know, has not been satisfactory. It is no less an authority than Mr.Woods, the President of the International Bank who has repeatedly stressed that developing countries could constructively absorb from three to four billion dollars more of international financial assistance per year in their development programmes. But the proportion of the gross product of the developed countries that has been made available to the developing world in the form of loans or other types of assistance has been decreasing instead of increasing. It is far from the 1 per cent of the gross product of the developed countries which was fixed as one of the minimum targets of the Decade for Development unanimously proclaimed by the United Nations General Assembly. Not only that, the growing weight of financial services that the developing countries have to transfer to developed countries has become a very serious problem. In some regions of the world,as in Latin America, the International Bank has proved with figures that the amounts transferred to the developed countries in some cases already cancels the new inflows of capital from them. Therefore, the net result from the point of view of balance of payments is nil. And this is also a problem that is becoming more and more acute in other parts of the developing world, particularly since the conditions and terms of this financial assistance have been made less flexible.

Similar contradictions arise in the field of trade policies. While due to technological factors the position of the traditional exports from the developing countries is deteriorating, as I have already mentioned to you, no truly important policy measure has been taken in the world in the past twenty years to really facilitate the access of primary products of the developing countries into the markets of the industrial centres. On the contrary, restrictive measures have been growing and perhaps the most spectacular example is the case of sugar. This is why the developing countries have followed with great interest the Kennedy Round. I may say to you, distinguished ladies and gentlemen, that I felt very relieved in Geneva, a few days ago, when the participating countries finally reached agreement with a great sense of compromise. It would have been disastrous for the world if the Kennedy Round would have failed. But we should not consider that the Kennedy Round has solved the trade problems of the developing countries. The Kennedy Round results will no doubt further stimulate trade between the developed countries, and this is good for the world and good for the developing countries. But this will still not solve, except in part, and I would say a rather minor part, the need for the developing countries to increase their exports substantially. In agriculture, the Kennedy Round results known thus far do not reflect any really important progress from the point of view of the developing countries. With respect to manufactures, certain developing countries may get some benefits from the lowering of duties, but every person who has been following these negotiations closely will probably agree with me that these advantages are relatively small. It seems clear, therefore, that the developing nations will not be able to solve their fundamental trade problems on the basis of trade policies and trade negotiations of this type which, good as they may be, are incomplete from their point of view.

What to do then? First of all, developing countries should take advantage of the growing possibilities for promoting trade amongst themselves through regional or sub-regional common markets or free trade areas or other arrangements. In this sense, a very important trade liberalization movement is going on in the developing world, and this movement has gathered new force recently at Punta del Este when the Presidents of the majority of Latin American countries took a political decision of paramount importance for the region, namely, that of forming a Latin American common market by gradually merging the Central American Common market with the Latin American Free Trade Association. This decision is of far reaching importance, and one should not be misled by those who underestimate its significance by pointing out that a period of fifteen years has been considered necessary to achieve this goal. It has taken the European Economic Community over ten years to get where it is now, and these efforts were facilitated by the fact that trade among the participating countries was already very intense before the Common Market was formed; it accounted for approximately half of their total trade, whereas intra-regional trade in Latin America still represents only 10 per cent of its global trade. It takes time to form a common market and it really does not matter if the period required is twelve, thirteen or fifteen years provided that from now on there is a firm commitment to reduce tariffs in an automatic way, until they are eliminated at the end of the period. And this commitment has been undertaken at Punta del Este by the Latin American Chiefs of State while the government of the United States, represented by President Johnson, has promised its support to this idea. This too is important, because financially the Latin American Common Market will need support as did the European endeavour. It will need support, for instance, to facilitate the readjustment of activities made necessary by the process of competition, which is so badly needed in Latin America, and to favour multi-national projects dealing with the economic infra-structure as well as with the industrial field and other sectors. I feel a great satisfaction in seeing that this political decision has been adopted. Its implementation and continuity will not be easy. We will have to fight against considerable odds in the march towards a common market. But the first political step has been taken. I hope that in other parts of the developing world the integration movement will also gather force as in Latin America, and there are growing symptoms in Africa and in Asia that the idea is fructifying and is taking hold there as well. Broad international co-operation, both in the technical and in the financial fields, could be of extreme importance to expedite this process. I am persuaded that in this way, by forming regional or sub-regional groups, developing countries could breach a great part of their trade gap. Not the whole of the trade gap but a great part of the grade gap. They could thus continue, in a more rational way, the process of import substitution, not in a series of small watertight compartments, but in big economic areas. Anyhow, this is a requirement and an imposition of modern technology. Why should I insist on a fact that you know very well. Modern technology requires larger and larger markets. And the process of industrialization would be very costly and inefficient if commercial areas are not expanded in developing countries.

This in turn, raises a problem that we have to consider with great attention. What would be the shape of world trade if in addition to the big economic spaces of the developed world, that is to say, the European Economic Community, the European Free Trade Association, the enormous economic spaces of the United States and of the Soviet Union, developing countries, too, continue forming groups: a Latin American group; one, two or more Asian groups; one, two or more African groups. Do we not run the risk of closed economic blocs? It is an attractive idea for the world to be divided not only into north and south, but also in economic blocs of a self-sufficient character. It would be a tremendous mistake, and we should be aware of this from now on, because to do so only, say ten years later, may be too late. Now it is the moment to determine, in a deliberate and conscious way, where we are going and what are our objectives. For me, the great objective of all this movement should be to converge towards the fundamental idea of liberalizing world trade. But how to do it? In my view, the only way to avoid this splitting, this fragmentation of the world into various isolated trade blocs is to promote increased trade among all of them. Developed countries are constantly increasing trade with each other, but developing countries should have better access to the markets of the industrial centres and should also seek to expand trade with other developing nations. In order to promote greater trade between the developing nations and the industrial centres, there will be need to bring about certain changes in the traditional trading pattern of raw materials and foodstuffs from the former exchanged for manufactured goods from the latter.

Let us be realistic. While developing nations must certainly continue to try to increase their traditional exports to the industrial centres, the possibilities of doing so are limited. Therefore, in my view, the most important solution is to promote exports of manufactures and semi-manufactures from developing countries to developed countries. And from that point of view the recent meeting at Punta del Este has great meaning again, because it is there that President Johnson announced the decision of the United States to explore with other industrial countries the possibility of establishing a general system of temporary preferences, not only for Latin American countries, but for all the developing countries of the world. So that this will give impetus to the idea for which developing countries have been fighting for since the first United Nations Conference on Trade and Development. I hope that a formula could be found to improve the situation of the exports of manufactures and semi-manufactures of developing countries with due consideration to the interests of the developed countries. A preferential policy that would mean market disruptions in the developed countries probably would not be a relatively persistent policy of the type needed by developing countries. And I think there are very practical possibilities of avoiding any great disruption of the markets of developed countries.

We have seen a few days ago the anxiety of the developed countries vis-a-vis the possibility of a failure of the Kennedy Round. What did this mean? This meant that the developed countries are persuaded, and rightly so, that for their own development, they need to expand their trade. But gentlemen, can you imagine the tremendous possibilities of expanding trade between developed and developing countries? This is a new frontier offered by the developing world, and what can be done in this matter with reciprocal benefits is enormous. This is a great opportunity that should not be lost. However, if developing countries are to satisfy their growing needs for imports, they have to export more.

Financial aid, of course, can help developing countries to meet their needs but it cannot, by itself, solve their basic problems in a permanent way. It has to play a very important role but it cannot be the fundamental solution of the problem of growth. Without substantial improvement in the trade situation of the developing nations, any scheme of transfer of international financial resources to them is bound to be a failure sooner or later. In my view, trade and aid should be combined, and for this it is necessary to bring about certain changes in present trade policies. In this way we could contribute to avoiding the danger of closed economic groupings or blocs and we would be working towards the direction of liberalization of world trade. I am persuaded that if the industrialization process is strengthened and consolidated in the developing countries, then they could and should play an important role in this world trade liberalization movement by gradually lowering their external tariffs vis-a-vis the rest of the world. But this cannot be done without strengthening their industrial structure first, through a process of internal competition within a group of developing nations, and later on, through a gradual lowering of their external tariffs.

In this way we will avoid the danger of closed economic blocs, but there is another danger. Even if this policy of expanding trade between north and south gathers force, what would be the orientation of its policy? There is a great difference in minds in this respect. There are people who consider that the trade groups of the developing countries should be very closely linked with or affiliated to specific developed countries or groups of developed countries. In other words, the world would be divided into vertical north-south compartments, according to the interests that the big powers have in the different developing regions. This fragmentation of the developing world within vertical zones of influence would be, in my opinion an absolutely wrong policy from the economic and political point of view. And it should be a matter of great satisfaction that when the United States officially presented its views on trade policies at Punta del Este, President Johnson said that his Government intended to explore the possibilities of a system of preferences not only for developing countries of Latin America, but for all developing countries. And this is the best way in my view to avoid the proliferation of discriminatory preferential systems that tend to divide the world in vertical zones of influence. Therefore, I should like to emphasize once again, distinguished ladies and gentlemen, that in the next few years the world has to take very important and deliberate decisions with regard to the things to come in world trade. If there is not a clear idea of what we want and of how to arrive to the objective of world liberalization, we may fall into very disastrous policies. Persuaded as I am about this, I do not hesitate to accept invitations like this one to speak and express with frankness my concern about some present trends while at the same time to voice my confidence that there is a solution for all these problems. In so doing now, I should like to stress my sincere convictions about the enormous role that private enterprise is called upon to play in the process of development and of trade expansion of the developing countries, not only the expansion of their traditional exports but also of their exports of manufactures. However, in order to fulfil this very important role, I believe there are two essential conditions that must be met. Firstly, the element of competition has to be introduced more and more as part and parcel of the system of free enterprise, and, secondly, there is need to establish an adequate and dynamic balance between domestic private enterprise in the developing countries and foreign private enterprise functioning there. It is necessary to strengthen the entrepreneur in the developing countries so that he can be at lesser disadvantage than today with respect both to capital as well as to technological resources.

In all that I have stressed, one clearly sees the need for action to be taken by both developed as well as developing countries with the aim of further liberalizing world trade and thus obtain benefits for all concerned. I believe that UNCTAD is in a central position in this connection as a forum where developed and developing countries, whatever their level of economic development or economic and social systems, can meet to discuss matters of common interest and strive to take common action. Within this context, we must endeavour to formulate and apply a series of convergent measures that will allow synchronized action to be taken and periodically evaluated.

In this connection, I should like to emphasize how pleased we are in UNCTAD that close relationships have been established with the ICC and with its representatives. I recall with pleasure Dr.Wallenberg's address at the second session of the Trade and Development Board. Equally I was very grateful to Mr.Watson for his kind invitation to address the United States Council of the ICC one year ago. I look forward to the continuing practice of ICC Presidents addressing UNCTAD. At the secretariat level we have had very cordial relations with the ICC Secretary-General, Walter Hill, and also with the ICC's very able Permanent Representative at the United Nations, Mrs. Roberta Lusardi.

In conclusion, may I express the hope that our mutual relationships will grow stronger and stronger and for our part let me assure you that we value very highly the advice that you can give us and that we shall continue to seek from you.

WORLD HEALTH ORGANIZATION

Avenue Appia
1211 GENEVA-SWITZERLAND
Telegr.: UNISANTE-Geneva

Tél. 34 60 61 Télex. 22335

ORGANISATION MONDIALE DE LA SANTÉ

Avenue Appia
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File

In reply please refer to:
Prière de rappeler la référence:

Visit to Governing Council UNDP

June 21, 1967

Dear Irving,

a few days ago, Prebisch spoke at this meeting on export promotion and UNCTAD's improving relations with GATT. He asked me to come to see him, which I did this morning.

I spent a pleasant half-hour with him, in the course of which he, once more, stressed the excellent relationship between the Bank and UNCTAD. He also said that the various UNCTAD bodies were getting over their "baby illnesses" and that emotional and political positions were gradually yielding to a more dispassionate and "technical" approach to the various problems facing UNCTAD.

When I told him you were coming to Geneva from July 11 through 14 to participate in ECOSOC's General economic debate, he said how sorry he was he wouldn't be here. He will be in New York, during the first week of July, for a Consultative Group on Cocoa, and he will get in touch with you.

Personally, I hope that your program remains as previously arranged and I shall look forward to seeing you here on July 11.

Our meeting ends this coming Friday (23rd): I shall be going to Italy from June 24 to July 5 and from the latter date shall be at the Hôtel des Bergues as usual. We also hope that your good lady will accompany you.

Bon voyage and aurevoir

Ever yours

Fred

P.S. I think there will be an IBRD concentration here around July 9/14: Dick also for Business International, Ronnie for "Peace through Law" or words to that effect!

CANADIAN COUNCIL
INTERNATIONAL CHAMBER OF COMMERCE

June 21st, 1967

Gentlemen:

It gives me great pleasure to send you herewith copy of an address given by Dr. Raul Prebisch to the IXth Session of the Commission on Asian and Far Eastern Affairs, which was held during the XXIst Congress of the International Chamber of Commerce in Montreal.

DATE RECEIVED
JUL 6 1967

Yours very truly,

J.P. Brault

Executive Assistant

JPB/AC
Encl.

1224 ST. CATHERINE ST WEST • MONTREAL 25, CANADA TELEPHONE 861-7464 • AREA 514

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Executive Assistant

JPB/AC
Encl.

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File

June 7, 1967

Mr. Sidney Dell
Director, New York Office of UNCTAD
United Nations
New York, N.Y.

Dear Sidney:

This is to refer to your letter and enclosures of May 8, 1967 and to the visit to the Bank of Messrs. Massaro and Sastry on May 22, 1967 concerning data on external debt.

We have given careful and detailed consideration to your request, and, unfortunately, find that we cannot comply with it on the specifications you have laid down. I list later in this letter what it is we can and will do. As we tried to make clear to your representatives, we cannot provide the minute detail on the individual country external debts requested without violating our pledges of confidentiality and so endangering the continued flow of information to us. On the other hand, the regional and global figures you request cannot be built up from the data on individual countries on a sufficiently adequate basis for meaningful analysis of the sophisticated type you are contemplating.

We hope to be able to prepare for the New Delhi Session of UNCTAD an updated and revised version of the report on External Medium and Long-Term Public Debt, Past and Projected Amounts Outstanding, Transactions and Payments: 1956-1975, (EC-149), which we issued on October 14, 1966. Some information on external indebtedness is also contained in our Suppliers' Credits Study, and an analysis of recent developments and of the position of the developing countries will again be included in our forthcoming annual report for 1966-1967. You also receive our individual country economic reports as well as our regular compilations of individual country external debts that we send to our Executive Directors.

I trust you will appreciate that the nature of our external debt data and the basis on which they are provided to us are such that we cannot provide free access to them. Under the circumstances, it seems to me that the most effective way of proceeding is for you to ask us for whatever analyses of the debt problem you feel you need and, if the data can support such analysis and it is of sufficient importance we will undertake to prepare it.

I expect to be writing to you again shortly on what we can do to meet the request you made in our telephone conversation of June 6.

With best wishes.

Sincerely yours,

Andrew M. Kamarck
Director
Economics Department

Cleared with Messrs. Demuth and Friedman

cc: Messrs. Demuth, Friedman, King, Kalmanoff, Leon, Tieman, Eschenberg, Mrs. Paulson

AMKamarck/GKalmanoff:vlb

Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: May 17, 1967

FROM: Roger Adams RA

SUBJECT: Supplementary Finance - simulation exercise

1. Composite projections for the period 1961-66 can be built for 27 countries (the 18 countries of the previous exercise, plus Chile, China, Malaysia, Nigeria, the Philippines, Tunisia, Turkey, Uruguay and Venezuela). The 27 countries of the new sample accounted for about 42% of the export trade of LDC's in 1965.

2. Projections of invisibles over the entire period are available for Colombia, Mexico, Pakistan, Panama and Thailand.

3. In view of comparisons, shortfalls in this exercise will not only be calculated from the composite projections A, B and C, but also from selected unrevised projections. In order to select a particular projection for each country of the sample in a more or less homogenous way, the following constraints were applied:

- the selected projection should cover the period 1961-66.
- the base year of the selected projection should be as close to 1960 as possible.

The application of these rules permits the selection of projections for all countries of the sample except China and Brazil.

As actual export data for 1966 are still missing for 8 out of the 27 countries considered (for most of them they should be available by the end of this week), it is not yet possible to calculate the gross shortfalls. However, partial and provisional calculations seem to indicate a reduction in shortfalls compared to the previous exercise and an increase in overages (probably due to a conservative bias in Bank projections).

cc Mr. Macone

SecM67-124

FROM: The Secretary

May 5, 1967

REPORT ON THE SECOND SESSION OF UNCTAD

COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

The Committee on Invisibles and Financing Related to Trade held its second session in New York from April 4 to 19, 1967. Attached for information is a report on the meeting prepared by the Bank's Representatives.

DISTRIBUTION:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Deputy Executive Vice President, IFC
Department Heads, Bank and IFC

Report on the Second Session of UNCTAD

Committee on Invisibles and Financing related to Trade

1. The 45-member[1/] UNCTAD Committee on Invisibles and Financing related to Trade met in New York from April 4 to 19. Mr. Mirko Mermolja (Yugoslavia) was elected Chairman of the Committee.

2. The Committee set up two Sessional Sub-Committees of the Whole - one to consider Invisibles, the other to consider the Horowitz Proposal and Supplementary Financial Measures.

3. The following matters of interest to the Bank were discussed:

a) Terms, coordination and effectiveness of aid and problems of debt servicing

Most of the Delegations which took the floor confined their interventions to making some observations on the undesirable tendencies toward the hardening of terms, insufficiency of the available development loans, the undesirable effects of tied aid, the delays between commitments and the disbursements of aid, etc. Some delegates, however, made proposals with regard to certain policy measures and/or suggesting that further studies should be carried out.

A great majority of the speakers praised the work of the Bank Group and in several of their proposals suggested that the Bank should or could play an important role.

It may be interesting to mention some of these suggestions:-

- IBRD should be encouraged to propose appropriate terms of aid in the consultative groups and the consortia. For countries for which such groups do not exist a rough classification of countries with regard to the appropriate terms necessary should be provided by the Bank (U.K., Ghana).

- Discussions on and the treatment of commercial loans and aid should be separated (U.K.). Appropriate increase is necessary in the funds provided by the multilateral institutions, particularly in the case of IDA (U.S.A., Italy, Yugoslavia and Sudan).

1/ The 45 members of the Committee are: Argentina, Australia, Belgium, Brazil, Bulgaria, Cameroon, Canada, Chile, China, Congo (Democratic Republic), Czechoslovakia, Ecuador, El Salvador, Federal Republic of Germany, Finalnd, France, Ghana, India, Israel, Italy, Japan, Kuwait, Lebanon, Mali, Mexico, Morocco, Netherlands, Peru, Poland, Republic of Korea, Republic of Viet-Nam, Romania, Soviet Union, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, Uganda, U.A.R., U.K., United Republic of Tanzania, U.S.A., and Yugoslavia.

- Supplementary and compensatory financing should be considered together with the problems of basic financing (Yugoslavia).

- Elaborate systems should not be created to deal with debt crises, each case of crisis should be treated separately (U.K. and most of the creditor countries).

- The concept of debt servicing capacity should be studied further along the lines of the IBRD study (U.K., U.S.A.).

- A debt crisis is usually the result of wrong development strategies, therefore development strategies should be more carefully studied (Germany).

- The UNCTAD Secretariat should initiate studies on an early warning system in association with the World Bank Group. But care must be taken not to forget countries which have low debt service ratios but need development assistance (Ghana).

- Work along the lines of the IBRD debt study should be carried further and a better system should be developed for an early recognition of debt crises (U.K., U.S.A., and some others).

- Further work should be carried out by the UNCTAD Secretariat, exploring (1) the effects of aid tying on comparative prices with regard to (a) tied sources of procurement and (b) aid tied to projects as well as to the source of procurement, and (2) the wider effects of tied aid on trade (U.K., Tunisia).

- Aid should be multilateralized to avoid the harmful effects of tying (U.A.R.).

- When tying cannot be avoided, diversification of the sources of finance for individual developing countries should be provided (Japan).

- Parliamentary procedures should be changed to permit commitment of aid for periods longer than one year (Tunisia).

- Assurances should be given for longer periods for aid to developing countries if certain requirements are fulfilled (Italy).

b) Suppliers' credits

The Bank Staff Report on Suppliers' Credits formed the basis for discussion on this item. The Report was presented by the Bank Representative, who at the close of the discussion stated that the Bank had started work on the problem of financing facilities for exports of capital goods by developing countries, and that it was hoped that the result of this work could be made available in time for the next UNCTAD Conference, in New Delhi in February/March 1968, hereafter referred to as UNCTAD II.

Points of interest raised by delegations were the following:

- IBRD and IMF should assist in setting up Foreign Trade Banks on a regional basis (Tunisia).

- A roster of first rate consulting firms, recognized as reliable by international institutions, should be set up and made available to developing countries (Tunisia).

- The importance of keeping suppliers' credits separated from development aid was stressed (U.K.). This view was shared by France, Germany and Japan. The U.S.A., Switzerland, India and Israel doubted the possibility of making such a well-defined distinction between the two types of financial flows.

- Adequate control on indebtedness can only be exercised at the receiving end (U.K.).

- Donor countries' government control on suppliers' credits may hamper private initiative (Japan, Germany).

- Suppliers' credits should be reserved for quick yielding projects (Belgium).

- Better administration of external debt in LDCs may lead to undesirably stringent planning of external finances (Germany); it will not solve the problem if the supply of development finance is insufficient (Israel).

- The idea of pooling requests for private export credits through development finance companies in LDCs is objectionable (Germany).

- Maturities should be related to the useful life of goods financed only as a maximum; the project's payments capacity and the country's transfer capacity may permit shorter maturities (Germany).

- A new body to coordinate policies and practices of creditors is not feasible, given that present bodies are also inefficient (Germany, Italy).

- Coordination vis-à-vis individual debtors should be fostered (Belgium, Italy), but excessive regulation of the financial policies of debtor countries should be avoided since it may induce excessive planning (Germany).

- While the use of existing "clubs" is an acceptable idea, the creation of <u>ad hoc</u> groups should be avoided (Germany).

- Joint financing is a possible solution (Belgium), but requires further experience (Germany).

- The report is too brief on the causes of excess suppliers' credits (France).

- The IBRD should continue to elaborate the study, both by updating figures and by giving a fuller explanation of present practices and policies of donors' coordination, and present a second study at UNCTAD II (Japan).

- The IBRD study should better clarify the difference between long-term official loans and medium-term commercial official lending (Canada).

c) Mobilization of internal resources

The major points raised were:-

- The UNCTAD Secretariat should become a clearing house of "gap" projections on individual countries made by IBRD, UN, UNCTAD and other bodies (Tunisia).

- The effects of regional integration on trade and of regional agreements between developed and developing countries should be taken into account when projecting trade gaps (Tunisia).

- Further research is needed on the correlation between capital inflows and growth (Germany, India).

- A study of the possibility of setting up an international fiscal system for providing aid to LDCs should be undertaken (Ghana).

- Greater emphasis should be placed on commodity support agreements as a substitute for budgetary aid (France).

- The indebtedness data published by IBRD greatly underestimate the phenomenon; public debt, long-term is \$36.4 billion; including private debt, \$42.6 billion; including short-term and arrears, \$47.6 billion (U.S.S.R.).

d) The Horowitz Proposal

The report of the Expert Group set up by the Secretary General of UNCTAD to consider the problems involved in the proposal and similar schemes and possible variations formed the background for the brief discussion on this item in the Sessional Sub-Committee. Five delegations spoke. The Israeli delegate (An Economic Adviser to the Bank of Israel) urged that the proposal be placed on the agenda of UNCTAD II. The delegates of Ghana and Argentina supported the proposal and suggested further analysis of certain technical aspects - for example, possible sources of funds to meet the interest differential. The Belgian delegate emphasized the difficulties of the proposal and said that the pending replenishment exercise was the way to provide IDA with new resources. The U.K. delegate said that there was no case for further technical analysis, and proposed waiting to see the outcome of the IDA replenishment and of the supplementary financing scheme. The Plenary Session adopted a recommendation of the Sub-Committee, over the objections of Lebanon, Kuwait, U.A.R., Sudan and Tunisia, that the Secretary-General of UNCTAD review the effects, if any, on the Horowitz Proposal of the longer-term trends of the capital market using such experts as he deemed fit. The dissenters stated that they agreed with the report of the Expert Group and considered any further study of the proposal superfluous.

e) Supplementary financial measures

The report of the Expert Group was considered. There was no substantive discussion; no specific questions were raised, as it was suggested by the Chairman that such questions could be forwarded to the Expert Group for consideration at their next meeting. General statements were made, especially by delegations of countries which are not members of the Expert Group.

The following specific points were made:-

- The Bank Staff proposals were too ambitious and too complicated (Germany1/).

- Skepticism was expressed of the idea itself (Australia).

- Coordination was needed between supplementary financing and compensatory finance and the need for parallel efforts for commodity arrangements was stressed (Switzerland).

- The Group had not expressed any value judgment on the relative merits of channelling aid through the proposed scheme or through development assistance; such a judgment was outside its terms of reference. However, it should be made clear that supplementary financial measures were in fact supplementary to basic development finance (India1/).

- The amounts involved are important and consideration should be given to establishing which countries could qualify for supplementary financing (Italy).

- Supplementary financing should correspond to intermediate or medium-term financing rather than long-term basic development finance (Spain).

- The scheme is complex but there is no doubt as to its usefulness: the technical difficulties were not insurmountable (Israel).

- The case for the scheme still held good: further information on cost estimates was, however, called for. It would be necessary to consider carefully the timing of the scheme, in view of the discussions now under way for IDA replenishment (U.K.1/).

- IDA replenishment was a matter of priority: the Expert Group could meet in October 1967 (U.S.A.1/)

1/ Member of the Expert Group

- It was important to distinguish and define the roles of supplementary finance and compensatory financing facility (Belgium).

- Objections to the principle of the scheme were reiterated; a number of technical difficulties were indicated (France[1]).

- There was no conflict between commodity arrangements and supplementary finance; while welcoming any modifications without altering the basis of the scheme, the Bank Staff scheme was practicable (Sweden[1]).

Strong support for the scheme was voiced by Argentina[1], Finland, Ghana[1] and Yugoslavia[1].

Discussions showed, on the whole, that the respective countries continued to take rather familiar positions. The developing countries, Sweden and U.K. continue to support the main features of the Bank Staff proposals; some of them would like further discussion of certain aspects, in particular cost estimates and policy package. France remains opposed to any such scheme. Germany again referred to its alternative proposal.

It was decided to convene the next (third) session of the Intergovernmental Group on Supplementary Financing in Geneva in October, for two weeks or more, commencing about the middle of the month. There is also a possibility of a short fourth session of the Group being held early in December 1967 to adopt its report.

It seems to be generally agreed that this subject is likely to figure prominently in UNCTAD II.

f) Tourism

The Sessional Sub-Committee explored the various aspects of tourism in the course of a general discussion which stressed the increasing significance of tourism in economic development and expressed concern at the possibility of overlapping of work by the UNCTAD Secretariat and other bodies dealing with tourism in all its phases.

The Bank representative pointed out that the Bank Group has recently been more active in the field of tourism. In its general economic appraisal work, the Bank was now taking a detailed look at the sector in those countries where its scope or potential warranted it. The Bank acknowledged the cooperation of the UNCTAD Secretariat in this connection. The Bank Group's operations also had an increasing impact on the sector. While the Bank continued to finance infrastructure (roads and transport) which often found much of its justification in benefits to tourism, the IFC had for the first time participated in a hotel project in Kenya and both the Bank and IFC provided funds for various development finance companies, or development banks, which in their turn financed hotel and other tourist ventures in their own countries.

1/ Member of the Expert Group

The Plenary Committee approved a resolution of the Sub-Committee endorsing the past and future program of work of the UNCTAD Secretariat and asking for a report, next year, on the results of the International Tourist Year (1967).

4. An interesting development in this session was the setting up of a Working Group consisting of one representative of each group of countries to prepare a report to the Trade and Development Board indicating the status of discussions of the various points under review. The Working Group met concurrently with the Committee and presented a report at the closing session. This report indicates the consensus of views on questions on which discussions of substance had reached the point where a consensus could be formulated. It also indicates the questions on which discussions had not reached such a point, namely: a) supplementary financial matters, b) international monetary issues and c) the Horowitz Proposal.

5. As to the date and place of the Third Session of the Committee, it was decided that this should take place after UNCTAD II.

Development Services Department
May 4, 1967

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date April 25, 1967

NAME	ROOM NO.
Mr. Irving S. Friedman	1223

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REMARKS

Intergovernmental Group on Supplementary Financing: Report on its Second Session

You may like to see certain sections which are side-lined. The statement by the representative of France, Mr. Allain, is at Appendix C: especially paragraphs 75 to 78.

Sarma

From
N. A. Sarma

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TRADE AND DEVELOPMENT BOARD

Committee on Invisibles and
Financing related to Trade

Second session
New York, 4 April 1967

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING: REPORT ON ITS SECOND SESSION

Contents

GE.67-4179

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Introduction

1. In accordance with the decision taken at its first session (Geneva, 10-14 October 1966)[1], as approved by the Trade and Development Board at its second special session (New York, 21 December 1966)[2], the Intergovernmental Group on Supplementary Financing held its second session in Geneva from 6 to 17 February 1967.[3]

2. The discussions in the Group centred on a number of major issues raised by the Bank staff scheme on supplementary financial measures which are outlined in Chapter I. Other issues were also discussed. The record of the Group's discussion of all issues considered is to be found in Chapter II under the following sub-headings: The policy package; Export projections; Import prices; Invisibles; Shortfalls and overages; Form and terms of assistance; Cost of the Scheme; Administration of the Scheme and relationships between the Agency and other international organizations; An alternative scheme submitted by the delegation of the Federal Republic of Germany. Chapter III is concerned with organizational matters.

3. By decision of the Group, a number of statements by delegations and representatives of the Bank and the Fund made during the course of the session have been annexed to the present report. These statements, which relate to the policy package; to the alternative scheme submitted by the delegation of the Federal Republic of Germany (also reproduced); and to more general considerations of the supplementary financing scheme proposed by the Bank, are contained in Annexes A-D below.

1/ TD/B/C.3/41 - TD/B/C.3/AC.3/16, Chapter III, paragraph 6.

2/ TD/B/113, paragraph 9 and annex.

3/ The terms of reference of the Inter-governmental Group are annexed to the report of the Committee on Invisibles and Financing related to Trade on its resumed first session (TD/B/73-TD/B/C.3/22) and to the report of the Group on its first session (TD/B/C.3/41-TD/B/C.3/AC.3/16).

CHAPTER I

The basis of the Scheme

4. The Bank staff Scheme provides for prior agreement between a member country and the Agency on export projections, development programmes and policies and feasible domestic adjustments. If a country acts within the framework of such an agreement, and if actual exports are lower than agreed projections, there is a prima facie claim for assistance under the Scheme, if the Agency determines that the country was fulfilling its obligations at the time that the shortfall occurred.

5. A number of issues require further consideration: the extent to which the Scheme would operate, as has been suggested, automatically or quasi-automatically; whether assistance should be based on objective, well-defined, criteria, as proposed in the Bank study, the discretion of the Agency being exercised within the limits of these criteria; or whether the provision of assistance should be based, to a much greater extent, on the discretion of the Agency.

The policy package

6. An agreed policy package is a crucial element in the Bank Scheme. The discussions on this subject brought out the following major issues:

(i) Is it feasible to include all of the matters suggested by the Bank staff in a policy package? How far do they go beyond the current practices of the Bank and the Fund?

(ii) Can the Agency conduct its relations with the country without undue interference in the latter's affairs?

(iii) Is it agreed that the initial understanding on policy should consist of an agreement on certain basic macro-economic variables?

(iv) Alternatively should the Agency limit its concern to matters of export performance?

(v) Would the performance of a country be judged with reference to the degree of its adherence to agreed policies or to the attainment of certain quantitative targets, regardless of the policies adopted?

(vi) Must there be anything more than an understanding on the likely amount of basic finance available during the planning period?

(vii) Should there be provision for a revision of development programmes in the course of a planning period and if so, under what specific circumstances? Should revisions be confined to a reallocation of resources among sectors or could they also include the over-all size of the programme?

(viii) Use of IMF facilities: the question arises of the relationship between the compensatory financing and other facilities of the Fund and the Bank Scheme and also the general relationship between the Fund and the Agency administering the Scheme on matters which are within the jurisdiction of IMF.

(ix) Adjustments: the major issues are how to make adjustments which would not disrupt the development programme and who is to decide upon them.

Export projections

7. Adverse movements of export proceeds for which there should be assistance under recommendation A.IV.18, Part A, are defined as shortfalls from "reasonable expectations". In the Bank staff Scheme export projections for 4-6 years are considered to be "reasonable expectations". In view of the difficulties in projecting export proceeds for such long periods of time, can one in fact say that those projections constitute expectations which are "reasonable", expecially having in mind that the projections would constitute the norm for assessing any assistance due? If not, other possibilities would be to have shorter projection periods or to make successive revisions of the longer-term projections. Both alternatives would, however, increase the likelihood that development plans which usually cover a 4-6 year period might have to be changed. Other definitions of reasonable expectations of an ad hoc basis might also be possible.

8. A problem was, however, whether any alternative to the Bank staff proposal would result in a quantification of "reasonable expectations" adequate for medium-term development plans, it being understood that the Scheme is intended to prevent disruptions of such plans.

Import prices

9. Should export shortfalls be calculated in real terms, i.e. after taking account of unexpected changes in the purchasing power of exports as a result of an unexpected change in import prices? The relevant issue here is whether it is possible to make satisfactory indices of changes in the prices of imports, possibly of imports purchased under pre-agreed import programmes.

Shortfalls and overages

10. The Bank Scheme assumes that in calculating the amount of assistance under the Scheme deductions would have to be made for accumulated overages, use of IMF facilities and feasible domestic adjustments. The relevant issue is whether overages should be earmarked exclusively for offsetting export shortfalls or whether there are circumstances in which they might be used for other legitimate purposes, for example, to finance an unexpected increase in essential imports, or to finance projects originally scheduled for a later date.

Form and terms of assistance

11. As regards the terms of assistance, the basic issue is whether they should be those of basic finance, whether as a result of the deterioration in balance of payments prospects resulting from the need to incur new debt, the terms of assistance should be more lenient than those of basic finance, or whether on the other hand they should be decided in the light of the probable duration of the shortfalls. In addition it is important to determine how far such terms could be compatible with the principles set out in part A.II.3 of UNCTAD recommendation A.IV.18.

Cost of the Scheme

12. The basic question in this field is whether or not the sum of $300 - 400 million a year suggested in the Bank staff study is a realistic estimate of the amount needed for the initial period of the Scheme.

The commitment of donor countries

13. The question is whether the operations of the Scheme will in practice be limited by the unwillingness of donor countries to accept anything more than a specific commitment. In that case a system of rationing might be needed.

Alternative proposal by the Federal Republic of Germany

14. The delegation of the Federal Republic of Germany submitted to the Group a note of a system of supplementary financing which was intended as an alternative to the Scheme set out in the Bank staff study. Several of the points mentioned in the preceding paragraphs are relevant to this alternative.

15. During the course of the session remarks were made by the representatives of France and the United Kingdom. These are found in annexes C and D to this report.

CHAPTER II

The policy package

The content of the policy package

16. The Bank's paper on the policy package (TD/B/C.3/AC.3/6) covered the following elements:

(a) Plans and programmes;

(b) Export policies and projections;

(c) Monetary and financial policies (including mobilization of domestic resources);

(d) Adjustment to changing conditions.

17. The following is an account of discussions on the Group relating to that paper.

General observations

(i) There was general agreement in the Group that external assistance and domestic plans, policies and performance were of necessity closely related. It was also agreed that assessment of performance should be based only on economic criteria. However, there were considerable differences of opinion with regard to the content of the proposed policy package. Many members expressed the view that the policy package was likely to be too complex or too comprehensive. A large number of members felt that its scope should not extend much beyond that of the existing consultations that recipient countries already undertake with the World Bank, the Fund and others. Some members considered that this eventuality would not in fact arise owing to the nature of existing arrangements.

Some members of the Group wanted to know if countries unable to formulate a development plan would be eligible for participation in the Scheme. However, it was generally agreed that this question did not have much practical importance since most developing countries have a programme of one sort or another. It was pointed out that under the Bank staff Scheme comprehensive planning would not be a precondition of participation in the Scheme and, in appropriate cases, it would suffice to have a partial plan covering only public investment.

(ii) According to one suggestion, the scope of the policy package could be limited to an agreement on objective criteria derived from the national accounting interrelationships contained in any plan. The implementation of the macro-economic targets that result from such an agreement could be ensured through informal consultations. It was feared that there would be considerable political difficulties if the agreement on the policy package included details of the means to achieve the agreed macro-economic targets. The representative of the Bank and some members expressed sympathy with this view.

According to another suggestion, in view of the marginal character of assistance from the Scheme, the policy package should have only a limited scope covering the export sector and related policies. It was pointed out that a judgment on the whole of the development plan would be an unnecessary duplication since this would have already been done in the process of providing basic finance.

It was also thought by some that, in any event, the general policy understanding covering the Scheme should not, except in relation to the export sector, extend beyond that already reached in connexion with the provision of basic development finance.

(iii) One delegation pointed out that in reaching agreement on and assuming certain responsibility towards a large number of development plans with the countries concerned, the Agency might be able to play a most important but very difficult role in the co-ordination of investments, a problem which is a subject of concern to a number of international organizations.

Specific questions

(i) Export projections

There was considerable discussion of the validity of the use of export projections as a basis for the Scheme. This discussion as well as the question of revision of export projections is recorded in paragraphs 18-22 below.

(ii) External assistance

A question was raised whether the Scheme assumed any commitments with regard to the provision of basic finance. The Bank staff proposals assumed that in appraising the development plan, the Agency would have to be convinced that the amount of external assistance envisaged for the agreed plan was realistic and adequate. Many members of the Group felt that the Scheme would not serve its basic objectives if there was no reasonable assurance with regard to the availability of basic finance. On the other hand, it was emphasized that it was unrealistic to assume that developed countries could commit themselves to provide agreed amounts of aid for five years in advance. It was explained on behalf of the World Bank staff that no such legal commitments were contemplated under the Scheme. All that was envisaged was a continuation of the present practices concerning mutual consultations between donors and recipients which often resulted in a consensus about the level of external finance which a country could reasonably hope to receive over a given planning period.

(iii) Export policies

There was general agreement that an essential component of the policy package would be an understanding on export policies, so that it could be determined whether or not an export shortfall was due to causes outside a country's control.[1]

(iv) Monetary and financial policies

There were objections to the inclusion of monetary and financial policies in the policy package on the general grounds that these matters were beyond the appropriate scope of the Scheme. Insofar as they were to be included in the policy package, the representatives of IBRD and IMF pointed out that the views of each should and would prevail in their respective areas of responsibility. Collaboration between the Bank and Fund was described as close and continuous.

(v) Revisions and adjustments

In the view of the representatives of the IBRD and some members, it would be essential regularly to reappraise and, as appropriate, to revise the policy package. It might also be necessary to make adjustments to part or all of the policy package in the case of unforeseen shortfalls. These views were supported by the argument that all of the elements of the policy package were interdependent and that, for example, a fall in export proceeds would entail changes in personal income, tax receipts, public and private savings, import demand and so on.

It was agreed that at times development plans might require adjustment in the event of unforeseen shortfalls in export proceeds. Since the purpose of the Scheme is to prevent disruption, some members felt that adjustment should be kept to a minimum. Others agreed that some portion of the disruptive effects of export shortfalls should be absorbed by measures of adjustment. It was also agreed that plans would no doubt be revised if unforeseen events other than export shortfalls made this necessary.

1/ One relevant consideration - export marketing strategy - is set forth in TD/B/C.3/41 - TD/B/C.3/AC.3/16, page 5, sub-paragraph (d).

Many members of the Group felt that the revision should cover only the sectoral allocation and not the over-all size of the plan. Some members expressed a fear that difficulties might arise if the Agency and the country did not agree on the scope of such a revision. It was also felt by some members that revisions should in all cases be initiated by the country and should not be imposed on the country by the Agency.

(vi) <u>The relation of performance to the amount of assistance extended under the Scheme</u>

A question was raised whether a country would still be eligible for assistance from the Scheme if for some reason it was unable to fulfil the entire policy package. It was suggested that the package could in any case only be a general guide and that cases would have to be decided on their merits.

In relation to this and other similar questions, the representative of the Bank urged that the Agency should have considerable latitude, and expressed the opinion that the Scheme would be unworkable without the existence of a substantial degree of confidence between the Agency and member countries. Some members expressed reservations about the extent of authority to be exercised by the Agency and expressed a preference for a greater degree of automaticity. But many members felt that in view of the limitations attaching to any policy package prescribed in advance each application would necessitate an act of judgment by the Agency.

<u>Export projections</u>

18. For its discussion of export projections, the Group had before it two documents, the first describing export projections in the World Bank (TD/B/C.3/AC.3/11) and the second comparing the methodology used in calculating export shortfalls in the World Bank staff Scheme and the revised IMF facility for compensatory finance (TD/B/C.3/AC.3/5).

19. While it was generally agreed that the methodology applied by the World Bank was sound, the question of the role which export projections would play in a scheme for supplementary finance was not settled. On the one hand, it was argued that export projections were an essential component of a development plan and that the uncertainty facing planning authorities in relation to export prospects was the primary justification of the Bank staff proposals. On the other hand, the view was expressed that export projections were too unreliable, especially for periods as long as 4-6 years and could therefore not be regarded as providing a secure basis for financial commitments by donor countries. Some delegations expressed the view that despite the limitations on their accuracy, they would taken together serve as a reasonable guide to the estimate of the funds which donor countries would be asked to provide.

20. Frequent revision of projections was said to be one means of basing the operation of the Scheme upon more reasonable expectations. The greater degree of flexibility which would result from such revision would benefit all parties: donor countries would be assured of a firmer basis for the financial commitments of the Agency, while recipients would achieve a greater degree of responsiveness to internal and external changes. However, the contrary view was also expressed that frequent revision of the export projections underlying a country's participation in the Scheme would defeat the basic objective of supplementary finance. Furthermore, downward revisions of export projections might result in requirements for additional basic finance or undesirable revisions of development plans and programmes.

21. It was noted that the differences in methods of calculating export shortfalls under the World Bank Scheme and the IMF Compensatory Financing Facility reflected differences in basic objectives: the former was designed to deal with the unpredictability of export earnings, the latter with their instability. The Scheme is designed to provide countries with an assurance that a projected level of export proceeds envisaged as part of an agreed development plan will be available throughout the plan period. A shortfall from the projected level of export proceeds would, after agreement on suitable adjustments and use of other sources of finance, be offset by supplementary finance. The Fund Facility, not directly linked to the planning process, is intended to offset negative deviations from a medium-term trend of exports, whether such fluctuations are foreseen or not. This question is discussed in detail in Annex A.5, which reproduces a statement by the IMF representative with which the IBRD representative concurred. In this connexion the IMF representative reiterated the statement in TD/B/C.3/AC.3/15 that the proposition that the Fund's Compensatory Financing Facility would not be affected by the coming into existence of a supplementary financing scheme was an assumption.

22. Although based for the most part on major commodity exports, the Bank's projections would take all merchandise exports into account.1/ In this regard it was pointed out that certain exports other than major commodities, which sometimes represent only a small proportion of a country's total exports, may contribute a major share of fluctuations in total exports; this aspect of the volatility of export earnings was said to require further consideration.

1/ For a discussion of the problem of including invisible receipts see paragraphs 27-29 below. Some discussion took place of the possible effects of optimistic export projections, resulting in very large export shortfalls. It was pointed out that the internal consequences of such events for a country might lead to downward adjustment of the development programme, which could in turn reduce the claim on the Scheme, despite the size of the shortfall.

Import prices[1]

23. The study of supplementary financial measures by the World Bank staff recognized that, ideally, export shortfalls should be calculated in real terms. The desirability of such a calculation was widely recognized in the Group but there are difficulties of a statistical nature which would make it difficult at the outset to include import price data for all participants in the Scheme. The Group discussed the recommendation of the World Bank staff paper that consideration of import prices not be brought into the Scheme in the initial five years. There was some support for this view due to the numerous difficulties which consideration of import prices would entail, although other delegations believed that an effort should be made to do so.

24. It was noted that unit value indices which are the only generally available indicators of changes in the price of imports are somewhat unreliable, in particular because they are influenced by changes in the volume of imports as well as by price movements and they do not take into account changes in the quality of imports nor of changes in the composition of imports over time.[2]

25. Others in the Group recognized the importance of the difficulties encountered in compiling reliable price indices but did not feel that these problems were insoluble. In their view, import price charges can be significant for individual countries and therefore it would be desirable to consider further the possibility of compensating these countries for such changes. It has been suggested that a country-by-country approach would make it possible to take import price data into account in those cases where adequate statistical material was available.

26. It was suggested that the problem might be solved by seeking to estimate changes in the cost of a "bundle" of imports which had been agreed to as a requirement of a development plan or of a "bundle" of imports generally required for development plans; during the plan period recalculations of the cost of the projected import "bundle" could be made with the use of suitable price information.

Invisibles

27. A paper presented to the Group by the staff of the World Bank (TD/B/C.3/AC.3/12) shows the significance of invisibles in the current account earnings of some of the

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1/ The Group's discussion of this subject was based on document TD/B/C.3/AC.3/13.

2/ In this connexion reference was made to pages 29-42 of TD/B/C.1/PSC/5 as a particularly useful statement.

countries for which sufficiently detailed data are available. In this paper it is suggested that the appropriateness of including invisibles in export projections be decided on a country-by-country basis. The reasons were that data on invisibles are subject to uncertainties due to the complexity of invisible transactions, insufficiently detailed information concerning specific items or the grouping of disparate transactions under general headings, and reporting of information on a net basis - a procedure which underestimates gross receipts.

28. Another difficulty mentioned in discussion was that on occasion exchange rate policies of developing countries could have serious effects on invisible earnings and that it would be difficult to take such changes into account in projections. It was argued that this difficulty might be resolved or alleviated if such policy changes as were relevant to invisible earnings could be part of the agreement between the Agency and the country.

29. There was substantial agreement that where invisibles are of considerable significance in the balance of payments of a country and especially where adequate and reliable data are available which would permit projections to be made, such projections should if possible be included with the export projections agreed between the Agency and the country. It was pointed out that some invisible transactions were more reliably predictable than others and that such items, for example, receipts from tourism, interest and dividends, and remittances from nationals abroad, could be projected with reasonable accuracy. This view was questioned on the statistical grounds mentioned above.

Shortfalls and overages

30. According to the Bank staff study (TD/B/C.3/AC.3/7), an export shortfall is to be measured by the extent to which actual exports during a particular period fall short of the pre-agreed projected value of exports for that period. However, it is envisaged that the amount of assistance provided under the Scheme would be "less than the amount of export shortfall in accordance with prior understanding between the member and the Agency, by deducting (a) accumulated overages, (b) drawings on a member's own reserves, where feasible, (c) use of the IMF Compensatory Financing Facility or other credit facilities, if available, and (d) that portion of the shortfall that could be absorbed by the country without disruption of the development effort" (Bank staff study, p. 66).

31. One unsettled question was whether there could be legitimate uses for overages outside those envisaged in the Scheme[1/]. It was pointed out that if a country accumulated overages in the early years of a planning period and then experienced unexpected and justifiable calls on foreign exchange, one could not assume that these overages would be available to offset future export shortfalls. It was also pointed out that there might be more general difficulties in capturing overages for the purpose of offsetting shortfalls. One view expressed was that arrangements for this purpose might require surveillance by the Agency of the foreign exchange policies and operations of the country concerned.

32. According to another suggestion, it should be permissible for overages to be used for increasing investment or reconstituting reserves. In support of this suggestion it was pointed out that the use of overages for these purposes would enhance a country's ability to meet future shortfalls out of its own resources and would therefore result in a reduction of the future cost of the Scheme. It was also suggested that an increase in the size of an investment programme would be particularly justified if overages resulted from a significant structural improvement in market conditions.

33. The point was made that UNCTAD recommendation A.IV.18 explicitly provides for long-term assistance and this requirement would not be fulfilled if credit advanced against a shortfall in one year were to fall due for repayment out of an overage occurring shortly afterward.

34. On the other hand, it was pointed out that unless overages were captured for the purposes of the Scheme, the cost of the latter would rise significantly. It was further suggested that the basic purpose of supplementary finance was to safeguard a pre-agreed development programme, not to increase its over-all magnitude. However, there should be no objection to an alteration of time sequence in a programme of constant over-all magnitude: thus if foreign exchange availabilities became more plentiful than expected in the earlier years of a plan period certain projects could perhaps be brought forward. However, there was some doubt if administrative considerations would allow any significant flexibility in this matter.

35. The Bank staff study assumes that net overages would not be carried over from one planning period to another. This is intended to give an incentive for countries to promote their exports. A suggestion was made that there should be no rigidity in this matter and that in appropriate cases overages might be carried over from one planning period to another.

1/ The proposal of the delegation of the Federal Republic of Germany (Annex B.1) relies on an *ex post* determination of a shortfall and consequently there would be no overages.

36. The Bank staff proposals assume that a country's repurchase obligations in respect of such Fund drawings, compensatory and other, and repayments of such short-term debts as had been used to help finance shortfalls under the Scheme, whether in the current or earlier planning periods, would constitute a prior claim on the use of overages. It is also understood that under these proposals the Agency would have to finance repurchases of such Fund drawings and repayments of such short-term debts as had helped to finance shortfalls under the Scheme even when there were no overages. It was suggested that the Agency should undertake the refinancing of short-term debts only if these were incurred with its consent.

37. It was generally agreed that in considering the use and reconstitution of reserves, the Agency and the Fund should collaborate closely and that on matters concerning the desirable level of reserves the views of IMF should prevail.

38. The Bank staff proposals envisage that assistance from the scheme would be adjusted in the light of assistance available from IMF and other sources. A fear was expressed that if the Agency insisted on prior use of other credit facilities, assistance from the Scheme might be unduly delayed.

39. The Bank staff Scheme assumes that insofar as an export shortfall could be absorbed by feasible adjustments, for example, cuts in consumption and imports, without affecting the progress of the pre-agreed development programme, it would not be financed by the Agency. It was suggested that a reduction in domestic consumption would serve no useful purpose if it did not result in some saving of foreign exchange which could then be used to finance essential imports.

40. The Bank staff paper indicates the desirability of operating the Scheme, where appropriate, on the basis of the best available data with a view to ensuring timely assistance in case of shortfalls. In this connexion it was pointed out that the Agency should bear in mind its character of a residual lender in so operating the Scheme.

Form and terms of assistance[1/]

Form of assistance

41. Realization of the basic objective of the Scheme, namely prevention of the disruption of a sound development plan in the event of an export shortfall, would depend greatly on the speed with which assistance was made available. Assistance related to

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1/ The Group's discussion of this subject was based on document TD/B/C.3/8.

projects could not generally be provided speedily since project preparation and evaluation is a time consuming process. There was therefore general agreement in the Group that this form of assistance would not serve the basic objective of the Scheme. However, one opinion was expressed that there could be cases where it might be desirable to promote specific projects e.g. for purposes of diversification or for earning foreign exchange, in which cases assistance could be tied to such projects.

42. As to whether assistance should take the form of a freely usable loan or a loan for the financing of particular imports, the World Bank staff study proposes that the choice should be left to the discretion of the Agency administering the Scheme.

43. According to one suggestion, the form of assistance should be selected on the basis of an analysis of the way in which an export shortfall had caused a disruption of the development programme. If the disruption resulted primarily from a reduction in export proceeds and consequently in the amount of foreign exchange available to maintain the planned level of imports, assistance should take the form of financing of imports. If the disruption arose largely because of a reduction in government revenues and public savings (threatening the government's capacity to maintain the planned level of public investment) a freely usable loan would be more appropriate. It was generally agreed that there should be a considerable degree of flexibility in determining the form of assistance.

Terms of assistance

44. The Bank staff study envisages that supplementary finance should be provided on the same terms as those applicable to basic long-term development finance. In accordance with present practices within the World Bank Group the terms of assistance would be tailored to the individual circumstances of various countries, taking into account their over-all economic and financial situation - present and prospective - and paying particular regard to such factors as the export outlook, the debt service burden and savings potential. The Scheme assumes that whenever the situation requires concessional terms for basic finance, supplementary finance should also be made available on concessional terms.

45. It was suggested that the terms of supplementary finance should reflect the terms of basic finance applicable at the time of a shortfall and not necessarily those applicable to basic finance at the beginning of the plan. In support of this suggestion it was pointed out that an export shortfall implies a deterioration in the prospects for exports and an increased debt-service burden compared with the beginning of the planning

period; consequently the terms of basic finance itself should in general become softer than before and the terms of assistance for supplementary finance should reflect the new terms required for basic finance. One view was expressed that a part of the objectives of recommendation A.IV.18 could be construed to mean that the Scheme would cover medium-term shortfalls and that therefore the terms of assistance could in such cases be of corresponding duration.

46. According to an alternative suggestion, although the terms of assistance should be flexible, they ought to be related to the duration of the shortfall and there might therefore be provision for harder terms than those for basic finance in appropriate circumstances.

47. The suggestion was advanced that instead of tailoring the terms of assistance to the economic circumstances of each country individually, it would be administratively more convenient to group countries into categories, each of which would have specified terms of assistance. There might be three such categories of which the "DAC norm" (25 years maturity, 7-year grace period, 3 per cent interest) might be the middle one.

48. Under the Bank staff proposals, the Agency would have the right to request repayment earlier than originally stipulated if the resource and foreign exchange position of a country improved so substantially as to enable it to repay its debts to the Agency before maturity without affecting the progress of agreed development programmes. This point of view was defended on the grounds that the right would enable the Agency to recover and relend these funds at long term and on favourable rates of interest to countries whose need was clearly greater. It was, however, felt that such a provision would be unduly stringent, especially if it were intended to use such improvements during one planning period to repay loans obtained to offset shortfalls in a previous period. It was suggested that instead of speeding up repayment to the Agency, investments or reserves should be increased.

Cost of the Scheme

49. A major issue which arose during the Group's discussion of this item concerns the approach which could be adopted to determine the amounts required to operate the scheme. One means would be that adopted by the World Bank staff, i.e. to estimate the likely magnitude of the aggregate annual shortfall, and then to derive an estimate of the Scheme's annual financial requirements on certain assumptions concerning the number of countries qualifying for assistance and also with respect to internal adjustments and use of overages and other sources of finance. The second approach would limit the scope of a scheme from the outset to the amounts which donor countries would agree to make available and would tailor its operations accordingly.

50. It was widely recognized in the Group that whichever approach was adopted, the funds available to the Agency would be a specific amount since no open-ended obligation was contemplated. Some delegations, however, expressed the fear that the financial requirements of the proposal of the World Bank staff, by the very concept of the Scheme, could not be limited. It was also argued that an increase in the number of countries receiving assistance from the Scheme above the number implied by the cost estimates of the IBRD staff might result in pressure on the resources of the Scheme or requests for additional funds even during the initial period. The negotiation of successful commodity agreements and improvements in projections might on the other hand result in a reduction.

51. Another issue concerns the reductions in cost which might result from different measures of adjustment taken by countries and the other sources of finance cited in the World Bank staff cost estimates. The latter include the use of overages, reserves, IMF facilities and other sources of finance available for the purposes of the Scheme. In the Bank staff study the gross shortfall based on historical experience was stated to be $1.6 billion per year and the staff of the World Bank considers that $300-400 million per year is a safe basis upon which to initiate the Scheme's operation. The representative of the Bank discussed in some detail the means by which these figures had been estimated. Within the group there was some agreement with the Bank's estimate as a reasonable basis for a consideration of the cost of the Scheme, though several members questioned critically both the data underlying the estimate and its amount. Reference was also made to the possibility of rationing discussed at the Group's first session and there was acceptance of this possibility,[1] even though one delegation expressed doubt as to its feasibility.

Administration of the Scheme and relationships between the Agency and other international organizations

52. UNCTAD recommendation A.IV.18 provides that the Scheme for supplementary finance should be administered by the International Development Association and that all the major Part I member countries of the Association should contribute to it. The Bank staff study does not address itself to the question of the administering Agency. However, it envisages the closest co-operation among the Agency, the World Bank and IMF regardless of the nature of the Agency carrying out the scheme.

1/ TD/B/C.3/41 - TD/B/C.3/AC.3/16, Chapter I, section 3 (g) and (h), pages 9 and 10.

53. There was general agreement in the Group that the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications, and that among the existing agencies the World Bank group would be the most appropriate. It further agreed that the Scheme should be administered in close co-operation with IMF. The specific arrangements which would be necessary would require further consideration.

54. It was also agreed that the largest possible number of developing countries should be eligible for participation in the scheme. The question of countries not members of IMF and the World Bank was raised. Specifically, it was pointed out that if assistance from the scheme could be provided only after a country had had recourse to the IMF Compensatory Financing Facility, universal participation would not be possible. It was agreed that these questions required further discussion and that the Group would seek legal advice.

An alternative Scheme submitted by the delegation of the Federal Republic of Germany

55. The note by the delegation of the Federal Republic of Germany (see Annex B.1) regarded the Scheme prepared by the Bank as a theoretically open-ended scheme since compensation for export shortfalls was almost automatic once the conditions of the policy package were met. Since export projections were by their very nature unreliable, the magnitude of the potential shortfalls was almost unlimited. It was thought that the policy package as envisaged in the Bank study and, therefore, the Scheme as such, could not be implemented and that the assurance of quasi-automatic compensation could affect a country's will to adjust to changing circumstances.

56. The note also stressed that export projections for periods of up to six years were an unreliable basis for financial claims and commitments and that the Bank study did not provide for a close connexion between the Compensatory Facility of the Fund and supplementary financing. It considered that the provision of complete or nearly complete compensation provided for in the Bank study differed from the notion of coverage of a "substantial portion" of shortfalls as envisaged by UNCTAD recommendation A.IV.18.

57. The note suggested a solution to the questions posed by recommendation A.IV.18 that it regarded as more realistic and feasible than that put forward by the World Bank. Essentially, the note envisages (a) a Joint Committee co-ordinating IMF and the Agency administering supplementary finance which would examine the cause of shortfalls when they arise and all relevant circumstances including the performance of the country and would decide whether the shortfall should be referred to the Fund's Compensatory Facility or

to the Agency for Supplementary Financing; (b) the establishment of a limited fund for supplementary financing within the World Bank Group; and (c) that the amount and terms of supplementary financing would be determined on the merits of each case.

58. While there was widespread agreement that the note had been drafted in a constructive spirit and that it contributed to identifying some of the main problems of the IBRD proposal, a great deal of criticism and many reservations were expressed by members of the Group. One position was that the note was partly based on a misunderstanding of the Bank Scheme. The Scheme was not open-ended since its resources would be limited by the contributions of the countries concerned and by the one specific need that the Scheme was designed to meet. The Bank study did not provide for full coverage and referred to the possibility of rationing.

59. It was also suggested that the Bank Scheme was not quasi-automatic since any request for assistance would necessitate a judgement by the Agency which would take into account the available overages, possible adjustments as well as the plan itself. The policy package was not unrealistically complicated and would mean little more than some enlargement of existing consultative arrangements. It was also suggested that even though the Bank Scheme was not automatic the degree of discretion in the procedure suggested in the note (i.e. an ad hoc and ex post assessment of both performance and the nature of the shortfall) would greatly affect the certainty as well as the speed of assistance. The note envisaged almost complete discretionary powers for the Agency.

60. The setting up of a new body to co-ordinate compensatory financing and supplementary financing involved legal difficulties and was not regarded as realistic. Moreover, the need for a co-ordinating body disappeared because the compensatory facilities of the Fund would be drawn on directly and in the first instance when appropriate.

61. The delegation of the Federal Republic of Germany expressed its appreciation of the comments made and its readiness to give further thought to the problems involved in its proposal in the light of the discussions in the Group.

CHAPTER III

Organizational matters

Opening of the session

62. The session was opened by Mr. Jo W. Saxe (United States), Vice-Chairman-cum-Rapporteur of the Group.

Adoption of the agenda

63. The provisional agenda issued before the session (TD/B/C.3/AC.3/14) was adopted unchanged, and is reproduced below:

1. Adoption of the agenda
2. Election of Chairman
3. Consideration of the interim record of the Group's first session
4. Study of the proposed scheme for supplementary financing including consideration of the studies requested by the Group
5. Any other business
6. Adoption of the report of the Intergovernmental Group on Supplementary Financing to the Committee on Invisibles and Financing related to Trade.

Election of Chairman

64. The Group elected Mr. M. Mermolja (Yugoslavia) as Chairman.

Credentials and attendance

65. Credentials were received on behalf of experts from the following countries: Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Poland, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. The following countries designated observers to attend the session: Algeria, Australia, Austria, Belgium, Canada, Chile, China, Congo (Democratic Republic), Denmark, Ecuador, Finland, Greece, Guatemala, Iran, Iraq, Israel, Italy, Jamaica, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Peru, Philippines, Republic of Korea, Republic of Viet-Nam, Romania, Senegal, South Africa, Spain, Switzerland, Tunisia, Turkey, Venezuela. Representatives of the International Bank for Reconstruction and Development, the International Monetary Fund, the Organization for Economic Co-operation and Development and the International Chamber of Commerce attended the session. The list of participants is reproduced in Annex E.

Organization of work

66. In addition to the documents submitted at its first session[1], the Intergovernmental Group had before it the following documents:

1/ See TD/B/C.3/AC.3/3, paragraph 7.

- Provisional agenda (TD/B/C.3/AC.3/4) and agenda as adopted (TD/B/C.3/AC.3/14)
- A comparison of methods used for the calculation of export shortfalls in the IBRD staff scheme for supplementary finance and the revised IMF facility for compensatory finance - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/5)
- The policy package of the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/6)
- Shortfalls and "overages" in the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/7)
- Supplementary finance: Form and terms of assistance - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/8)
- Information note by the UNCTAD Secretariat (TD/B/C.3/AC.3/9)
- Adequacy of external liquidity - Tables submitted by the staff of the International Monetary Fund - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/10)
- Export projections in the World Bank - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/11)
- The contribution of "invisibles" to foreign exchange earnings - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/12)
- Supplementary finance: Consideration of import prices - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/13)
- Effects of recent changes in the Fund's compensatory financing facility on the annual cost of the supplementary financing scheme - Paper prepared by the staff of the International Monetary Fund in consultation with the staff of the World Bank - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/15)
- Intergovernmental Group on Supplementary Financing: Report on its first session (TD/B/C.4/41 - TD/B/C.4/AC.3/16)
- Compensatory Financing of Export Fluctuations - report of the International Monetary Fund - Note by the UNCTAD Secretariat (TD/B/C.3/L.35)

67. The Group considered the question of its further sessions. It was felt by several delegations that two further sessions might be necessary before the Group could complete its task. The Group left it to the Committee on Invisibles and Financing related to Trade to determine at its forthcoming second session (4 - 19 April 1967) and in the light of its discussions of the report of the Group, the date of the latter's third session. The secretariat was requested in the meantime to explore the possibilities of holding a one-week session of the Group towards the end of June, preferably at the Palais des Nations or elsewhere in Geneva and to inform the Committee of the result of its explorations. It was agreed that in any event a session of two to three weeks in October would be desirable.

ANNEX A

Observations on the policy package

CONTENTS

A.1 Observations by Mr. Lal Jayawardena (Ceylon) on 9 February 1967

1. As Mr. Friedman has indicated in his introductory remarks, the question of the policy package is indeed at the heart of the whole supplementary financing scheme. I should like to address myself for the most part to one aspect of the policy package and to sketch out a possible format for the package that is compatible with the political and institutional realities of countries attempting to develop within a democratic framework. The policy package as outlined in the Bank's paper on the subject, in effect, formalizes the series of understandings that emerge in the course of present-day relationships between the Bank and member countries. The distinguishing characteristic of the present situation, on the other hand, is its informality. There is no formal document which can be said to embody the package. Rather, the whole is compounded of several ingredients - of informal exchanges of letters between Bank missions and member country officials, of occasionally more formal communications usually outlining a work programme that has to be put under way before the Bank missions' next visit, and of the observations of periodic Bank missions to the country which comment on its over-all policies prior to consultative group meetings at which aid is negotiated. An essential facet of this informality is that there is no explicit advance understanding of the conditions under which the Bank would or would not co-operate with the country concerned in furthering its development efforts.

2. The situation may, however, be completely transformed when these relationships become formalized in a policy package. A country might then be obliged to enter into a scheme where it expects a benefit but has as a quid pro quo to enter into a more or less tangible and specific contract. In these circumstances, it will usually tend to be extremely difficult for governments not to accede to requests for a public debate in parliament and if necessary for a tabling of the package in the house. It is true that a similar formal understanding arises when a country has to make a drawing on the Fund but it is understood that such drawings are of a short-term ad hoc character, and that the policy prescriptions involved are of an emergency nature which do not usually have to be observed for longer than the period of the drawing. It is therefore, in these cases, not too difficult to secure parliamentary approval and matters are eased often by the consideration that the domestic negotiating party is the central bank.

3. The situation is considerably more delicate in the case of a policy package which is designed to govern a country's <u>normal</u> development and which it will always have to live with so long as it maintains a development plan and expects to benefit from the supplementary financing scheme. Parliamentary oppositions can justly claim that governments which enter into such agreements are transitory and could seek the right to be consulted about understandings that may affect economic policy should governments change. In these circumstances, a minimum requirement for the acceptance of a policy package under conditions of parliamentary democracy is that it should be a public document available for legislative inspection or criticism.

4. The question then arises as to what form such a policy package is to take if it is to be successfully negotiated through an elected legislature. The provision of supervised credit to peasants in the agricultural sector provides a helpful parallel. The usual procedure is for a development bank to lend money against approved farm development programmes and liquidate the loan out of the proceeds of the output. The credit is conditional, in the sense that the farmer will have to observe certain cultivation procedures, adopt a recommended cropping pattern, sow at stated times, apply fertilizer inputs at the correct time and in the right proportions, and in general, control the use of his other inputs in a prescribed manner. Agricultural extension services will be always available to see that the farmer conforms to this programme, and if at any time the farmer fails to do so, his credit can be withheld. The distinguishing characteristic of the policy package that applies in this instance to the farmer, is its objectivity. There is not much room, for example, for debate as to whether the fertilizer dosage is accurate or whether the cropping pattern is right. These are issues that can be settled on an objective basis in the light of the best available technical knowledge. Similarly, the farm development programme does not infringe on the details of a farmer's livelihood beyond the extent necessary for him to realize targeted outputs. On the whole, therefore, there is little room for a political debate on the extent of control involved.

5. Is it then possible to devise a policy package that provides a similar degree of objectivity in the case of developing countries that would qualify for membership in the supplementary financing scheme? The tentative answer would be that the

possibilities for doing this are rather greater than might seem the case at first sight. It is always possible to derive from a development plan a set of objective criteria based upon the national accounting interrelationships contained in it. A common method of plan formulation is to present the base-year data in the form of an integrated set of national accounts on lines similar to that recommended by the United Nations and the OECD with appropriate modifications to take account of the availability of data for developing countries. Mr. Reddaway's work on the Indian economy 1/ for instance, contains five separate accounts - an account indicating the availability and utilization of resources; a revenue and capital account for the public sector; an income and current expenditure account for the private sector; a consolidated capital account for the whole economy; and an international transactions account. The process of macro-economic planning should then eventually wind up with a projection of the various components of each account for some future year so that annual rates of growth can be derived for each. The policy package can then be tied to the rates of growth of these macro-economic variables. There would of course be room for flexibility as regards the number of variables that can be included in the package, depending on the nature of statistical data in the country. The manner in which these rates of growth are to be achieved can be the subject of a continued dialogue between the Bank and the member country concerned, and annual reviews would serve to determine how successfully the country was living up to its obligations.

6. To illustrate this proposal more concretely, a development plan that is postulated on some assumption of foreign aid, that is basic finance, automatically carries with it some implication for the rate of growth of domestic savings. This can in turn be broken down into public and private savings. The growth of public savings is determined by the growth of government revenue on the one hand, and of government consumption expenditure and transfer payments on the other. Private savings then emerge as the difference between total savings and public savings. In a consistent set of accounts private savings also represent the difference between private disposable income and expenditure. If the policy package were to be couched in terms of the

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1/ W.B. Reddaway: The Development of the Indian Economy, London, 1962.

rates of growth of each of these variables it need not be concerned with the means of achieving these rates of growth. For instance, while the package would contain a savings target it need not necessarily provide any specific indication as to how such a savings target is to be realized. While the package would determine an annual rate of growth of government consumption, it need not indicate whether this is to be achieved by adjustments in expenditure on health, education or in other social services. Similarly, while the package would indicate the rate of growth of public savings, it need not say whether this is to be accomplished by an elimination of a subsidy on food. In other words when the policy package is translated into macro-economic terms and expressed as a set of rates of growth of the relevant variables or as quantitative targets to be aimed at, a number of controversial details are avoided, and it can become a genuinely negotiable political instrument.

7. It must always be in the nature of the case that there will be a continued interchange of specific suggestions and methods for achieving the macro-economic targets included in the policy package, as is indeed the situation in the present relationships between the Bank and a member country. In very large part there will be little room for doubt as to what the most appropriate methods might be, and correspondingly substantial scope for arriving at agreement on details. But in the last analysis once the broad macro-economic framework has been agreed upon between the government and the Agency, the detailed methods for achieving the goals that have been set must remain the responsibility of parliaments and governments if development is to proceed within a democratic framework.

8. There is a further consideration to be borne in mind. Supplementary financing must be recognized as being supplementary. That is to say there must be adequate guarantees of the basic finance required for a development plan. This is not to imply that donors should necessarily be asked to accept legally binding commitments extending over a five-year period. But there must be sufficiently firm assurances of levels of assistance extending over a plan period of a kind that the present annual pledges of aid do not provide, so that countries can embark with some measure of confidence at the beginning of a plan on an investment programme that generates a continuing requirement for external finance over subsequent years. In the context

of present informal relationships, the Bank and a member country have, in a rough-and-ready way, to co-ordinate guesses about future aid availabilities. But the formal assumption of an obligation by a developing country to adhere to a policy package must be matched by some sort of concomitant obligation on the part of donors in regard to basic finance, if the whole arrangement is to be a politically negotiable one in the country concerned. It would again be extremely difficult for parliaments to be persuaded to accept a policy package in the knowledge that the benefits guaranteed thereby would, in the ordinary course of things, represent only a relatively small proportion of the external resources required to underwrite a development plan.

9. Having said this, Mr. Chairman, my delegation must reaffirm its commitment to the basic purposes and broad outlines of the Supplementary Financing Scheme as set forth in the Bank staff study. In this respect, I must confess to having certain reservations regarding the modifications to the Bank's Scheme suggested by the delegation of the Federal Republic of Germany. While reserving my detailed comments on this for a subsequent occasion, I might add that an undue formalization of the relationship between the Bank and the Fund might be inadvisable and that there is still a need for the kind of norm that the Bank has had in mind against which export shortfalls should be measured. Nor does my delegation feel that the operation of the Supplementary Financing Scheme would require a gigantic administrative machinery if the work is entrusted to the Bank which is already engaged in the process of working out policy understandings with member countries in the ordinary course of its business. These are points which I hope will be further clarified in subsequent discussions. In our view, however, the Bank Scheme does fill a genuine lacuna in the presently existing structure of facilities available to developing countries in quantifying reasonable expectations of export proceeds by means of an export projection, so that countries experiencing shortfalls are spared the burden of deflationary adjustments that would disrupt their development plans. My delegation would like to bring forward the day when the Bank Scheme comes into operation, and the suggestions that have been made in the course of these observations have been presented with the intention of making just this advance possible.

A.2 Observations by Mr. Lal Jayawardena (Ceylon) on 15 February 1967

1. I should like to clear up certain problems mostly of a semantic nature and of relevance to the discussion on the policy package that have arisen over three aspects of the Supplementary Financing Scheme, two of which have come up again this morning.

2. May I deal first, however, with a point that has come up earlier. This concerns what supplementary financing is to be regarded as being supplementary to. In the view of the German and Japanese delegations supplementary financing is supplementary to existing facilities. In the view of my delegation, and I am sure of most developing countries, supplementary finance is supplementary to basic finance. The only satisfactory way of resolving an issue such as this is to go back to the historical record of the first Conference during which the term "supplementary finance" was born. Being a friend of the Rapporteur, I did not have the heart to desert him in his labours last afternoon and do the necessary historical research myself. So for the moment, I must speak from my memory of the discussions in the First and Third Committees of the Conference.

3. The issue under discussion at that time was compensatory financing, and many developing countries felt that compensation was due to them as a matter of justice for the secular decline in the terms of trade from which many of them had suffered. They argued that such declines in the terms of trade had wiped out and in some cases more than wiped out the inflows of capital received by them. Many developed countries, on the other hand, felt unable to subscribe to the view that compensation was due to developing countries to make up for the real loss in aid receipts and took the view that any financial assistance should be regarded as supplementary - that is supplementary to basic finance. It was in the attempt to provide a constructive outcome to this debate that the United Kingdom and Sweden came up with the recommendation on supplementary financial measures which gave primary emphasis to meeting shortfalls in export proceeds rather than to adverse movements in the terms of trade, and secured agreement to call such assistance supplementary to ordinary financial flows.

4. The second problem concerns the question of the formality of the policy package in the Supplementary Financing Scheme. I think the essential issue is that as relationships between the Bank and member countries stand at the moment, there is no explicit advance understanding of the conditions under which the Bank would or would not co-operate with the country concerned in furthering its development efforts. The relationship between the Bank and the country develops informally in the course of numerous Bank missions on the basis of an interchange of suggestions for economic policy. The essential point about the Supplementary Financing Scheme is that there is something called the policy

package, however loose the understanding involved in it, which the country has to follow if it is to qualify for a benefit under the arrangement. Parliaments will want to know what this is about in a sense in which they may not under present arrangements between the Bank and a country.

5. The third area of misunderstanding has grown out of the suggestion I made in paragraph 8 of my earlier statement (see Annex A.1 above) that there should be adequate guarantees of basic finance. I did not mean to imply that guarantees were required in any firm legal sense - in the sense of underwriting a plan - but since a development plan usually pre-supposes some level of basic finance, I suggested that there must be sufficiently firm assurances of assistance of a kind that present annual pledges of aid do not provide. No developing country would feel comfortable about planning its development on a hand-to-mouth basis and some assurance has therefore to be forthcoming of assistance that might reasonably be expected over the plan period in the joint judgement of the Agency and the country if planned development goals are to be realized.

6. The reasonableness of what has been suggested here, would I think be thrown into relief when one considers the present situation of international law in regard to the obligations that devolve on donor countries in assisting developing countries. I am no international lawyer myself but since the question of legal guarantees has been raised I sought the advice of a very distinguished international economic lawyer and jurist from among the delegations present here, the observer for Turkey - Dr. Uner Kirdar. In his view, international law has developed to the point when assistance to developing countries is no longer merely a moral duty of States, but through new international legal instruments - such as the Articles of Agreement of IDA, the Charter of Punta del Este, and the new Part IV on Trade and Development of GATT, etc. - is also becoming a contractual obligation.

7. This view, I must confess, came as a surprise to me but on looking at the legal argument involved it carried to my mind complete conviction. I should like therefore with your indulgence to quote, Mr. Chairman, from Dr. Kirdar's definitive work on the structure of United Nations economic aid to under-developed countries to illustrate his reasoning. The argument derives from a consideration of the Charter of IDA and proceeds as follows:

"The most remarkable feature of the IDA's Charter is that it recognizes the necessity of assisting the less developed countries as an international obligation. Contrary to the old traditional public international law - the system which dealt only with a completely decentralized society and was concerned almost entirely with the formal delimitation of areas of sovereign competence by leaving even such important matters, as the use of armed force by one State against another, to domestic sovereignty1/ - the developing modern international law has as its main task the organization of a peaceful and a prosperous world community.2/ In the light of this new role of modern international law, the preamble of IDA's Charter declares that the Governments on whose behalf the Charter is signed consider:

"That mutual co-operation for constructive economic purposes, healthy development of the world economy and balanced growth of international trade foster peace and world prosperity;

"That higher standards of living and economic and social progress in the less developed countries are desirable, not only in the interests of those countries, but also for the international community as a whole; and

"That achievement of these objectives would be facilitated by an increase in the international flow of capital, public and private, to assist in the development of the resources of the less developed countries.3/

"It is apparent that the Charter of IDA positively proclaims that the maintenance of peace and the achievement of world prosperity are tied up with the development of the underdeveloped countries. Thus, from the standpoint of international law, 'aid to underdeveloped countries' ceases to be merely a benevolence or a moral duty of States, a method designed to expand international trade, or a part of the tactics of international politics. Henceforth it becomes a means for the fulfilment of the main task of international law, a necessity legally recognized by an international treaty concluded by both the wealthier and the less fortunate members of the world community."4/

1/ See Jennings, The Progress of International Law, Cambridge, 1960, p.354.

2/ For a profound study of the differences between the two systems of international law see also the following article and booklet by the same author: "The Progressive Development of International Law", BYIL, 1947, pp. 301-330; The Progress of International Law, published by the Syndics of the Cambridge University Press, 1960.

3/ See Articles of Agreement of the International Development Association, 1960.

4/ U. Kirdar, Structure of United Nations Economic Aid to Underdeveloped Countries, Martinus Nighoff, The Hague, 1966, pp.260, 261.

A.3 Summary of observations by Mr. Irving S. Friedman (World Bank) on 10 February 1967

1. For the sake of clarity and taking into account the number of questions dealt with, it seems useful and convenient to group the problems in broad categories.

Nature of the policy package

2. The policy package, which can be understood as an agreement between the Agency administering the Scheme and a member country about the development programme and policies which are objectively regarded as appropriate by the international community, is a key feature of the Scheme. The IBRD proposal rests on this concept, which is essentially based on actual experience. Export projections are related to the policy package. In the setting up of such a policy package it is possible and advisable to make use of procedures already existing in international organizations like IBRD/IDA, IMF, CIAP, etc.

3. Virtually all developing countries have comprehensive or partial development programmes and these contain export projections, frequently of a detailed character. The Scheme is intended to be universal, but some countries may not be in a position initially to participate in a few cases, because of the lack of even minimum development programmes, and in others, because of their inability at the time to pursue economic policies appropriate to development. The situation in this respect is bound to improve, among other things because of the advisory assistance of international organizations. The policy package proposal assumes that as economic development will increasingly assume the highest priority for developing countries, the successful implementation of this approach may help remove some of the existing constraints on the flows of development finance into these countries.

Elements to be embodied in the policy package

4. As the representatives of several donor countries pointed out, questions do arise about the availability of foreign assistance in development programmes. The policy package does not involve the enforcement of any contractual commitments for bilateral aid over a number of years, but it is clear that estimates about the foreign exchange needs of the programmes have to be made and that the developing country must also have some reason to believe that the basic development finance requirements are regarded as reasonable by the donor countries. In order to assess that a shortfall is beyond the control of a country, the policy package cannot be restricted to the export sector only. The factors and policies affecting exports arise in all sectors of the economy.

The problems of flexibility and revisions in development programmes

5. Development programmes are set up for a number of years, but some of their implementing policies cannot be rigid. Nobody would, for example, argue that monetary or fiscal policies can be fixed over time. Flexibility is necessary, but it has to be within a certain framework - that of an agreed development programme. "Rolling" plans, whatever be their theoretical merits, have been impracticable thus far. Continuing consultation and discussion may be expected to keep down areas of disagreement; however, when a disagreement arises between a country and the Agency about the revision of a development programme, the Agency's views should prevail in the ultimate, if the country wishes assistance from the Agency. In practice, these problems are solved by consultation and investigation assisted by informed and objective technicians eager to find the best practical solution.

Limits to the Agency's role.

6. The policy package requirements under the Supplementary Finance Scheme may constitute an extension of - but do not go significantly beyond what is already in practice presently. However, the forms may be different and it will be applicable to all member countries. The existence of permanent control of the Agency by the representatives of the national governments constitutes a safeguard against excessive intervention. A certain confidence in international agencies, which are created by governments and ultimately run by them, is of course needed in order to provide them with the necessary authority to carry out their task of judging economic performance. Assessment of economic performance has to be according to economic criteria. Political and social aspects are inevitably involved but economic criteria should rule in judging economic performance. The Agency has one prime objective - to assist in the achievement of sound development.

International and inter-agency co-ordination

7. Sometimes development programmes of different developing countries may to a certain extent be in conflict with one another. In this case the Agency may well perform a kind of economic arbitration role. To some extent this sort of arbitration is already going on in international financial organizations. The attempt should be made to deal with this problem in collaboration with regional economic organizations and on the basis of economic criteria. As to the co-ordination with the requirements of other organizations, it can be assumed that these requirements fit into a reasonable development programme.

So far as monetary and exchange policies are concerned, the views of the IMF would presumably guide the Agency. In general, the policy package represents what a country discusses with and agrees upon with donor countries and international organizations about its development programme when it seeks basic finance. The Agency, in such cases, would not duplicate these efforts or arrive at separate and different understandings. Thus, there is no need for duplication involved in several agencies going over the same ground concurrently.

8. Questions arose about actions of other countries affecting the exports of devdoping countries. The Agency can only take account of changes in commercial policies that countries have already agreed to in judging the export outlook.

Feasibility

9. The policy package cannot aim at precise enumeration but all the time should seek reconciliation of the sovereignty of a nation with the needs of international co-operation. Therefore, the proposal made by the representative of Ceylon seems a very constructive one, that the public policy understandings would be in broad macro-economic terms, including in ~~particular export~~ earnings, public and private investment, domestic savings etc, while implementation would be left to working relations between the country and Agency. The policy package and the Scheme in general would certainly not be "easy" to operate since it was ~~not~~ automatic, but this is true of any non-automatic scheme of international finance. Given the co-operation of member countries, and with the application of objective standards, the administering Agency, with the necessary degree of technical competence, should however be in a position to implement the Scheme successfully. Dealing with the more difficult aspects is already part of the going activities in development finance.

A.4 Summary of observations by Mr. Irving S. Friedman (World Bank) on 15 February 1967

General remarks

1. The following attempts to summarize the remarks made during the further discussion on the policy package on 15 February 1967; it does not however attempt to summarize remarks which were already made in the previous discussions and have been circulated to the Group.

2. It is very difficult to predict in advance the future working of an international financial mechanism. It should be noted that the Group was considering and trying to answer how the Scheme might work, including future policies and procedures, rather than what might be included in an international understanding on the Scheme. Procedures and policies of international financial organizations were adapted in the light of experience and changing circumstances. In this respect a number of questions which were raised on the policy package could not be answered definitively at this time. The Scheme was not expected to even begin until 1969 or 1970. One cannot possibly predict with any precision what the policy package will be like five or ten years from now. However, it seems safe to say that whatever policy packages prevail at the time for basic finance will also be suitable for supplementary finance.

3. As to the influence of international institutions, there is no question of changing the authority of existing international organizations, particularly there is no question of the Scheme exercising authority which has been entrusted by international agreements to existing international organizations. It has been suggested that the choice of policy alternatives in the adjustment process should be left to the countries. There is no objection to such a procedure as long as it conforms with obligations under international agreements and that it is recognized that a country cannot unilaterally decide that it is fulfilling the policy programmes and still be entitled to assistance from the international community. It should be emphasized that no international organization wants to run the economy of a particular country. All countries live with the problem of reconciliation of development objectives with the need for day-to-day short-term policies. Moreover, for a great many countries and for all of the developing countries, short-term policies had normally to operate within the framework of development objectives because of their overwhelming importance for these countries. In certain circumstances changes in the development plans cannot be avoided.

4. Specific questions

(i) How comprehensive should a policy package be?

On the basis of present practices, in certain cases it may be fairly comprehensive and in other cases only embody the critical points such as, for example, fiscal policy or management of public utilities. Thus sometimes you may go deeply into a particular question, but the coverage may not be wide. There will, of course, be no need to look in detail into elements which are satisfactory from the development viewpoint.

(ii) Formality

Here again, the attitude will be dictated by the circumstances; at present, these problems are dealt with privately and on a country by country basis. The Ceylon representative has made a useful distinction between what might be publicized and what should be kept private. What is needed is that the mandate to the Agency should be clear. The additional workload involved will not be too heavy as most of the policy package elements are already covered by existing activities. Completely new procedures will only have to be set up for those occasional countries which had no previous arrangements with existing institutions. Most probably, there will be more formality in the future not only because of supplementary finance, but as a general trend. Due to the special circumstances of each country, there cannot be a unique type of policy package. It would be possible, if requested, to describe some of the different policy packages now in use, eliminating, of course, names of countries involved.

(iii) Criteria

In this respect one cannot have very simple ones, such as growth rates. Others like investment pattern, domestic savings, export effort, need to be considered. The real question is whether a country is making satisfactory efforts for its economic development. A blend of targets and policies could be worked out.

(iv) The nature of the claim

It should be stressed again that the Scheme elaborated by the Bank's staff is not an automatic one. The Agency will have to make judgements and decisions and the performance of the country will be checked at the time of the unexpected shortfall. However, the Scheme does aim to deal with the serious problem of uncertainty arising out of unexpected export shortfalls. One should make a clear distinction between greater certainty and automaticity.

(v) Will supplementary finance be an addition to basic finance or a substitute for the latter?

Supplementary finance should be considered as additional.

(vi) Is there a danger that the very poor countries who badly need additional resources will not be eligible for participation in this Scheme?

The vast majority of countries now have some form of development programme, including the poorest countries. One cannot expect the same behaviour in every country, but what is being sought is determination by each country to give economic development primary emphasis, and clear evidence of this. The Scheme itself is designed to serve needs of several categories of countries.

(vii) Does it underwrite basic aid?

The procedures suggested in the Scheme would lead to a greater degree of comprehension by creditors and donors of the external aid requirements of countries. There would, however, be no legal commitments for the projection periods. It is hoped that the careful examination of development programmes internationally might facilitate the required flows of development capital.

A.5 Observations by Mr. J.M. Fleming (International Monetary Fund) on 8 February 1967

1. As regards the first passage in my earlier remarks that has been subject to some questioning, I believe that our discussions are in danger of being confused by the rather vague or inconsistent use of terms such as "short-term and long-term fluctuations and shortfalls" and "persistent" and "non-persistent" shortfalls.

2. In our Compensatory Financing Scheme (CFS) we have taken short-term fluctuations to means fluctuations of actual exports round a medium-term trend, or moving average, and we have taken short-term shortfalls to mean negative deviations from such a trend. By analogy medium-term fluctuations would mean fluctuations round a long-term trend and so on. It should be noted that even short-term shortfalls, as we have defined them, though in general they would be short-lived, might on occasion persist for a longer time than would be comfortable, and in this sense, may be persistent, though short-term, shortfalls. In any event, it is clear that the type of shortfall considered in connexion with the Supplementary Financing Scheme (SFS) does not fall under any of these headings. It is a shortfall not from an export trend but from a five-year export projection

3. The difference between a shortfall from a five-year projection and a shortfall from a five-year moving average does not seem to me to be one which can be described as the difference between a long-term and a short-term shortfall.

4. As regards the second passage which has given rise to difficulty, perhaps I could put my point in a somewhat different way. If the Compensatory Financing Scheme and the Supplementary Financing Scheme as presented in the Bank study were in existence simultaneously, during certain periods it would be only the CFS, and during other periods only the SFS that would be effective. During projection periods for which projections had been pessimistic, the SFS would be out of operation so far as financing is concerned, and the CFS could go ahead doing what it is supposed to do, that is, evening out short-term fluctuations. On the other hand, during projection periods for which projections had been optimistic, the CFS might still be paying out money and taking it back, but it could be serving not its own purposes, but rather those of the SFS for which it would be helping to provide resources.

5. I will admit that the SFS does contain an element of smoothing out within the projection period. The fact that overages are offset against shortfalls. means that, if the projections for the individual years are themselves smoothly distributed over the period, the export availabilities of the country will be smoothed out also, so that

one of the objectives of the CFS will, to some degree, be fulfilled though not by the CFS itself. However, the other main objective of the CFS, which is to keep export availabilities from getting too far away from actual exports, will not necessarily be fulfilled. The effects of this will show up at the end of such a projection period, when there may be a rather abrupt transition from a level of export availabilities which is supported by large amounts of supplementary financing back to a level at which projected and actual exports coincide. In other words, there may be an abrupt fall in export availabilities at the end of such a period, the very sort of thing which compensatory financing is supposed to try to smooth out. But the CFS is in no position either to prevent this taking place, or to mitigate it. I would say that in such a situation, the objectives of the SFS would not be implemented.

6. There is still some reluctance to believe that the distinction between the Scheme as contained in the Bank study and the basic financing arrangements does not correspond to a distinction between long-term and short-term shortfalls. To bring out the point more clearly, let us suppose a country has the sort of fluctuations in its exports that everybody would recognize as being long-term fluctuations, say a regular ten-year cycle or something like that. Now, if a cyclical decline were correctly anticipated at the time the export projections were made, there would be no shortfall whatever under the SFS, which seems to show that that Scheme, as presented, is not intended to deal with long-term shortfalls in any normal sense.

7. At this point perhaps, I should make it clear that I have not been discussing the question of compatibility as between the UNCTAD recommendation on supplementary financing and the CFS. Frankly I believe that the recommendation contained two separate and possibly not quite consistent trends of thought; on the one hand, it dealt with persistent shortfalls and seemed to assume that these were the same type of shortfalls as the Fund was dealing with, except that they went on for a long time. On the other hand, it also suggested a new definition of shortfall in terms of reasonable expectation. Now as I understand it, the Bank, in its study, has essentially followed up the second strand of thought rather than the first, and has made it into a consistent system. Therefore, my remarks about problems of reconciliation do not relate to that part of the original resolution which deals with the persistence of shortfalls of the Fund type.

8. Coming back to what the distinguished representative of the United Kingdom was saying, I would certainly agree that technically the two schemes are completely compatible, but technically you can have a cooling mechanism and a heater operating simultaneously in the same room. That would be technically compatible but it would not make sense. This is an exaggerated analogy, but it brings out the point. The whole question is not whether the two schemes in their present form could run together but whether, if they did so, they would attain their respective objectives. However, I would like to say that there is not the slightest doubt in my mind that the objective of smoothing out export availabilities and the objective of providing for adequate finance for sound development are as such, entirely compatible.

9. I would be inclined to agree with the distinguished representative of Ceylon that the main difficulties are those which arise over the policy package - the difficulties we have been discussing, though important, are not the most important. But the difficulties with regard to policy packages arise more on ordinary Fund drawings, or Fund advice to its members, than on the CFS because that Scheme is to a considerable extent automatic in its application; the policy conditions are lighter than those that are normally applied to Fund drawings in the credit tranches. I also agree with him very much that the Bank and Fund have always managed in the past to co-ordinate their activities and I am sure they will do their best to do so under all circumstances, but clearly the closer the principles of the Supplementary Financing Scheme are to the principles of which the Fund is the guardian internationally the easier such co-ordination will be.

A.6 Observations by Mr. J.M. Fleming (International Monetary Fund) on 9 February 1967

1. The policy package to which countries participating in the Supplementary Financing Scheme are expected to subscribe at the beginning of planning periods includes several matters with which the Fund is closely connected, such as exchange policies, trade policies (in their balance of payments aspect) and domestic financial policies.

2. In section 4 of the Bank staff paper on the policy package (TD/B/C.3/AC.3/6) it is said that "In reaching an understanding with a member country, the Agency could avail itself of the experience and advice of the IMF on matters within the field of the Fund's responsibilities." In discussions during its first session (TD/B/C.3/AC.3/3/Add.1) this Group concluded that "The IMF is the responsible agency in matters of adjustment arising from balance of payments difficulties. Close co-operation between the Fund and the Agency would therefore be necessary in providing measures of adjustment to be adopted in connexion with the utilization of supplementary finance." In any event, I am confident that the Agent of the Supplementary Financing Scheme, if the Bank has anything to do with its management, will in fact consult the Fund about the initial agreement and will try to act on its advice. The Fund for its part would certainly seek to co-operate to the best of its ability with any scheme that might be set up as a result of the deliberations of this body, though as I pointed out yesterday the success of this co-operation is bound to be influenced to some extent by the nature of the scheme that emerges. However, I will not conceal the point that the Fund staff has some difficulty in envisaging the modalities and content of this co-operation, particularly as regards the policy package.

3. What is to be the content as far as Fund matters are concerned of the initial agreement regarding the policies to be followed by the country concerned over the five-year planning period? In the first place it seems clear that it cannot contain concrete prescriptions as to monetary, fiscal and exchange policies to be adopted in various possible contingencies over the planning period as a whole though it might do so with respect to the initial year of that period. The Fund, in making stand-by agreements, does not attempt to prescribe policies for more than a year at a time for the simple reason that the balance of payments situations to which these policies have to be adapted cannot be predicted for more than about a year ahead, if as much.

4. Certain broad policy objectives could, no doubt, be laid down, which countries might seek to attain over the five-year period. For example, that there should be no inflation, no balance of payments restrictions, realistic exchange rates, etc., but countries could scarcely undertake to succeed in attaining such objectives, where success depends as much on circumstances as on the good intentions of governments.

5. Another possibility that has been suggested is that countries be asked in the initial agreement to bind themselves to follow such recommendations as the Fund might make subsequently during the lifetime of the plan, provided that these were compatible with the agreed investment programme. However, there are two problems here. In the first place one wonders whether countries would in fact be willing to give the Fund as much of a blank cheque as this solution would require. In the second place, could the Fund on its side accept the proviso that its policy recommendations should always be compatible with the scale and timetable of the investment programme envisaged in the initial agreement? In certain circumstances, for example in the event of a failure of aid on basic financing to materialize on the scale originally expected, the Fund would be bound to recommend some curtailment of aggregate domestic expenditure, including investment expenditure, in order to make room for the improvement in the balance of current payments that would then become necessary. Admittedly, where the only cause of difficulty in financing the investment programme arose from an export shortfall, such a decline in investment expenditure would not in general be appropriate, though, if the shortfall threatened to persist, other means of adaptation might be called for. But a pure case of this sort is rather seldom found. In most situations there are multiple causes of difficulty. Another possible case is where an investment programme that looked perfectly reasonable at the time of the initial agreement turns out to be inflationary - perhaps because of a rise in unplanned investment despite the best efforts of the country concerned - and as a result the country becomes less competitive, and its exports fall below expectations. In such a case the Fund might want to recommend some stretching out or slowing down of planned investment expenditure.

6. I would conclude by saying that, while I have no ready solution for these difficulties, they are likely to be more easily overcome if the Scheme itself is such as to encourage and reward the maximum flexibility in the development process.

A.7 Observations by Mr. James Mark (United Kingdom) on 15 February 1967

1. I should like to begin my comments by referring to the summary in paragraph 5 of our own paper (TD/B/C.3/41 - TD/B/C.3/AC.3/16, Annex C). "The country would achieve an understanding with the Agency as to how much of its other possible sources of finance (reserves, IMF compensatory finance, etc.) it would use annually in the event of an export shortfall or other balance of payments difficulties. It would indicate the measures to economize foreign exchange it might adopt in these circumstances. The country would also agree in general as to the measures required to ensure the success of its plan".

2. You will notice that the summary emphasizes three points, other sources of funds; possible economies; and measures to ensure the success of the plan. The Bank has told us that the information required to formulate the policy package is already available in the case of most countries. I would think, however, that there would be some increase in consultation. These matters, which are contained in the policy package, are naturally linked with the understanding between the Bank and the individual country about its development programme and the resources needed to carry it out, but the policy package is a separate complex of points.

3. Now I suggest that, in considering how the policy package may differ from or go beyond existing arrangements, we need to look at it under five different heads:

(a) its comprehensiveness;

(b) its duration;

(c) its formality;

(d) the influence to be exercised by the Agency;

(e) the nature of the claim which the recipient country is entitled to make.

4. On comprehensiveness we need the advice of the Bank and the Fund. How much further does the policy package go beyond what happens under existing arrangements? My only comment is that we have had two different suggestions which may limit the policy package. The first is the suggestion (now repeated by our Indian colleague) that it should be limited to export performance. The second is the suggestion by our colleague from Ceylon that a macro-economic framework should be agreed upon between the government and the Agency, but that the detailed methods for achieving the goals

which have been set must remain the responsibility of the recipient country. These are, of course, alternatives. My own delegation would favour the second since it seems to offer a solution of the problem of distinguishing between economic and political aspects of the development programme. On the other hand, we doubt whether the package can be limited to export performance, since this is hardly separable from the other aspects of a country's economy. Inflation, for example, will affect export performance.

5. The duration of the agreement between the Agency and the country may be about five years. Again we need to ask the Bank and the Fund how this compares with the types of agreement which they already have with individual countries. The Fund's arrangements, as I understand them, rest on a basis of more or less permanent working arrangements, but within these, decisions relate essentially to short-term problems.

6. The distinguished delegate of Ceylon has suggested that "the policy package .... in effect formalizes the the series of understandings that emerge in the course of present-day relationships between the Bank and member countries. The distinguishing characteristic of the present situation, on the other hand, is its informality. There is no formal document which can be said to embody the package." But my delegation wonders how firmly it will be possible to express the policy package, whether or not this is desirable. It will not, as we have recognized, provide a cast-iron pre-determined set of measures which must be taken when a claim is made. It is bound to be necessary to consider the situation on its merits, though certainly having regard to the factors which the Bank has noted. In these circumstances, we doubt whether it will in fact be possible to have anything more than a general understanding.

7. As regards the question whether or not the Scheme will mean the exertion of greater influence by the authority over the recipient countries' policies than is exercised by the Bank or the Fund at present, perhaps this question will look different if we come to agree that the formula suggested by our colleague from Ceylon should be applied. In any case, there will be a considerable difference between any formulation of the general principles of the Scheme, which may seem very far-reaching, and the manner in which it will operate in practice.

8. On the nature of the claim which the recipient country will be able to make, my delegation has two comments. Firstly, the most obvious comparison (apart from that with compensatory financial facilities) is with drawing rights on the Fund. Supplementary financial measures loans would probably be of much longer maturities than the time within which the Fund expects drawings to be repaid. But it would be useful to know how such loans would differ, both in the amount of resources available for the Scheme and the degree of scrutiny which a country's economy would undergo before receiving help. Our second point is on the question whether or not the policy package would underwrite basic aid. My delegation has already expressed its views on this point. It might be reasonable to add, however, that although we find no such implication in the policy package, it might be reasonable to expect that some better degree of assurance would eventually emerge from the development of the processes of international consultation to which supplementary financial measures would contribute. This is a personal reflection rather than an expression of the views of my own Government, and I think that it is about as far one can prudently go in making any positive comment on this point.

9. Let me sum up these comments. Firstly, the Bank's study on supplementary financial measures is necessarily in general terms and this may well give a somewhat over simplified and over-emphatic picture of how the arrangements for individual countries would work. Secondly, my delegation thinks that the policy package may well go somewhat beyond present understandings in comprehensiveness and duration, though we are not clear whether it need do so in the formality with which it would be expressed. Thirdly, it would, we think, increase the general influence of international institutions on the economic policies of individual countries, though it is not easy to be precise on this point. Fourthly, it does not underwrite basic aid (though it certainly involves an understanding of a country's reasonable expectations of it) but as the international dialogue develops it may be reasonable to expect that developing countries might receive more assurance on this vital matter. Lastly, we must not exaggerate the magnitude of these developments.

A. 8 Observations by Mr. V.C. Shah (India) on 17 February 1967

1. I am grateful for this opportunity to make one more intervention even after my delegation has offered comments on this issue. I take the floor again with some hesitation because the eagerness to continue the discussion on the policy package shown yesterday by my delegation may have raised some expectations on the part of the distinguished representatives. My hesitation is due to the fact that the purpose of my intervention at this stage is not to offer any profound solutions for the intricate issues inherent in the concept of the policy package, but rather to try to focus the attention of this Group and the Bank representatives on certain vital problems arising out of the concept of the policy package. With this somewhat limited aim in view I shall attempt to examine the relevance of the concept of the policy package to the three rather fundamental ingredients of a development plan, viz. consistency of targets, their feasibility and the optimality of the development programme. I have adopted this framework for explaining my delegation's anxieties and apprehensions because the Bank study and the Bank paper on the policy package refer in one way or another to these three features of a plan, perhaps, with varying degrees of emphasis.

2. Before I turn to an examination of the concept of the policy package, I must state that my delegation has, indeed, been gratified to note that the debate on the policy package in the last week did clarify some of the issues as a result of the valuable contribution made by the distinguished representatives of the Bank and several members of the Group. It was rightly pointed out that the concept of the policy package is not an entirely new one and that it traces back to the days of Marshall aid. Therefore, what is envisaged with regard to the policy package is an extension of dialogue which already exists between international financial institutions and developing countries. This is fine as far as it goes. However, in the view of my delegation, it is essential to consider in depth some of the complex issues which may arise concerning the concept of the policy package. These may better be analysed, as stated earlier, by considering the implications of the policy package for the three basic ingredients of a sound development programme, viz. its internal consistency, feasibility and optimality.

3. As far as the consistency of both macro-economic and sectoral targets is concerned, we are fully in agreement with the statement on the policy package made by my distinguished colleague from Ceylon. I wonder, however, if the Agency would be satisfied merely with an examination of the consistency of such targets. It is quite conceivable that a country can prepare a perfectly consistent set of targets for a 5 per cent growth rate or for a 10 per cent growth rate for the same period. In view of this, the Agency would like to go beyond an examination of the set of targets from the consistency point of view and it would be justified, in the view of my delegation, in doing so. It is here that the question of the relevance of the concept of the policy package to the feasibility of a development programme arises.

4. In this context, my delegation finds it somewhat difficult to come to grips with the implications for the concept of the policy package. It is true that in economics everything depends on everything else. All economic policies have therefore a bearing direct or remote on the export targets and the export performance of a country. The Bank's paper on the policy package, TD/B/C.3/AC.3/6, refers to basic development policies. Let me quote from paragraph 1 on page 2. "Another basic feature of the Scheme is a 'policy package', i.e., an agreement between the Agency administering the Scheme, and a member country about the development programme to be undertaken by the country and a set of basic development policies which are objectively regarded as appropriate by the international community". The statement in the Bank paper raises two issues:

(a) What are the objective criteria for regarding these policies as "appropriate"?

(b) Is it desirable and necessary for the Agency to consider "basic policies"?

As to the first question - criteria for judging the appropriateness of all development - take, for instance, the methods of achieving a given savings rate: taxation, earnings of public enterprises, economy in public consumption, policies of ploughing back of profits and so on. How would the appropriateness of the various methods of raising domestic savings be determined by the Agency? Take, again, monetary policy. It is a perfectly valid point that monetary policy should be geared to maintaining reasonable stability. But the crucial question is: how will the Agency determine that a particular type of monetary policy is "appropriate" for ensuring financial stability during the plan period?

5. In the opinion of my delegation, the second question is even more important: is it desirable or necessary for the Agency to examine what the Bank paper refers to as basic development policies? Let me hasten to add that we do recognize the relevance of all economic policies for evaluating the feasibility of a development plan. What we would like to emphasize is that since supplementary finance is complementary to basic development finance and supplementary to compensatory finance, both the logical and time sequence dictate that consideration of all the basic development policies may not be necessary for the successful operation of the Supplementary Finance Scheme. In fact, our apprehension is that insistence by the Scheme management on a prior examination and periodical review of the "appropriateness" of all economic policies may tend to impair the objective of the Scheme viz. to provide timely assistance to a country. I would, therefore, like to reiterate our view stated earlier that the concept of the policy package should be confined to the export sector and trade policies. In this connexion, the Bank paper states, and I quote, "The policies which are relevant relate to contemplated investments, particularly in the export sector, the incentives to be given to producers in this sector and the exchange and trade policies which might affect the country's competitive position in world trade."

6. Even in this field of trade policies as stated in the Bank paper, my delegation may refer to some difficult questions. Will the Agency accept a policy of export incentives or will it question the theoretical basis of export incentives? Will it raise doubts about the economic wisdom of plan investment in a specific export industry on the basis of the doctrine of comparative costs which, as we all know, has its limitations in a dynamic sense? Again, since the theories of trade and development have yet to cover a good deal of ground before suggesting clear-cut criteria for trade policies conducive to development, will it not be desirable for the Agency to confine itself to an examination of export targets, export investments, perhaps, projects for export industries and some aspects of trade policies, such as quality control and import priority for export industries?

7. These, Mr. Chairman, are the difficulties and doubts in our minds so far as the relevance of the policy package to the feasibility of a development programme is concerned. Turning now to the important question of the optimality of such a plan, let me first quote once again from the Bank paper on the policy package - page 3 - "In the first place, given the long-term goals of the country, the programme must be formulated to achieve those goals as efficiently as possible". Now we know how controversial are the various "investment criteria" discussed extensively by economists, especially development theorists. We also know how complicated and difficult they are at the operational level. True, we have some useful consistency growth models but we are still not sufficiently advanced in setting up optimal growth models which are operationally meaningful. In view of these limitations, a question would arise as to the nature of the measuring rod which the Agency would adopt for the purpose of discussing with a developing country its development programme from the point of view of determining the efficiency of the goals and of the path of achieving these goals. If economic theory does not provide adequate help for this purpose, would the Agency be inclined to adopt non-economic criteria to judge the efficiency of a plan?

8. To sum up, my delegation would very much like to be enlightened on the following questions. From the point of view of feasibility of a development plan:

(a) What would be the real content and depth of the basic development policies included in the policy package which will not be tantamount to undue interference in the domestic decision making right of a developing country?

(b) Are there objective criteria for judging such policies as "appropriate" or otherwise?

(c) What sort of trade policies would the Agency regard as desirable for a developing country to achieve its export targets, keeping in view the limitations of the theories of trade and development?

(d) Would the Agency attempt to judge the "desirability" of planned investment in specific export industries, and if so, again keeping in view the limitations of the theory of comparative advantage, how?

(e) Will the Agency be inclined to go into the question of the optimum allocation of resources of a developing country? If so, what would be its objective criteria for determining the optimality of a development programme?

(f) Going a step beyond the stage of consensus between the Agency and a developing country regarding the development programme and the policy package, my delegation attaches considerable importance to the distinction between policy performance in the sense of pursuing policies agreed upon at the start of a development plan, on the one hand, and economic performance in the sense of achievement of targets in various sectors of the economy, on the other. Will the Agency, when approached for assistance to meet an unexpected shortfall in exports, be concerned with policy performance or economic performance?

(g) Lastly, suppose that a country deviates from the policies agreed upon at the time of the formulation of a development plan, e.g. by changing the investment or the import pattern - policies, however, which have no direct bearing on export performance. Assume further that such a country experiences an export shortfall. Will it be eligible for assistance from the Supplementary Financing Scheme?

9. I hope that the collective wisdom of the Intergovernmental Group and the Bank representatives will throw satisfactory light on this set of questions. The search for their answers, let me emphasize, will be continued, keeping constantly in view what has been repeatedly pointed out by the distinguished representatives of the World Bank and other colleagues of this expert group, viz. the supreme need for reconciliation between safeguarding the right of the developing countries to reserving for themselves the decision-making powers, on the one hand, and the fulfilment of the requirements of the policy package so vital for the successful operation of the Scheme, on the other. Let me conclude, Mr. Chairman, with a restatement of our position that we have faith in the wisdom and the rich experience of the international institutions to manage a complicated scheme such as this. This faith of ours will, however, be strengthened and deepened if some broad guide-lines could be evolved regarding the concept of the policy package as it will have a direct bearing on the consistency, feasibility and optimality of a development programme <u>at the time</u> of arriving at a prior consensus between the Agency and the member, as also on the review of economic policies pursued <u>during</u> the plan period.

ANNEX B

Alternative scheme submitted by the delegation of the Federal Republic of Germany and observations thereon

CONTENTS

B.1 Note by the delegation of the Federal Republic of Germany on supplementary financial measures

1. The delegation of the Federal Republic of Germany to the Intergovernmental Group on Supplementary Financing followed with great attention the course of the deliberations of this Group at its October meeting last year and expressed, on that occasion, its views on a number of the problems which arise in connexion with the Scheme for Supplementary Financial Measures proposed by the staff of the IBRD.

2. In the meantime, we have studied the problems before us anew in the light of what has been said by the participants in the first meeting of the Group. Since, as is well known to the members of this Group, we have certain doubts with regard to some of the salient aspects of the scheme proposed by the IBRD staff, we have considered the question whether one could not find other and, as we feel, more realistic ways of implementing recommendation A.IV.18. The result of these considerations which, of course, are still of a rather preliminary character, was that an attempt should be made to develop a scheme more closely along the lines already indicated in the recommendation itself and, in doing so, to avoid some of the complexities of the proposal of the staff of the IBRD.

3. We have tried to set out in this note the starting point of our deliberations, and - in part III - to lay down some thoughts about how a feasible solution could perhaps be found. We would be grateful if our note which we have formulated in a constructive spirit found the attention of members of the Group.

I.

4. The present discussion on supplementary financing is based on UNCTAD recommendation A.IV.18. This recommendation sets forth in rather general terms, yet with regard to some aspects in a quite distinct manner, a number of ideas as to how a scheme for supplementary financial measures could be instituted. The International Bank was asked to study the feasibility of a scheme on the basis of the objectives and principles embodied in the recommendation.

5. The study by the IBRD staff is now before us, and it is our task to discuss it thoroughly from all relevant points of view. The study proposes a highly elaborate and comprehensive scheme with many interesting features. All of us have paid it the tribute it deserves. Nevertheless, the proposed Scheme raises many questions which up to now, in our opinion, are not yet answered, and there are serious doubts as to whether it can be carried out in practice.

6. It is important to note that with regard to some essential aspects of supplementary financing the IBRD staff proposes solutions or procedures which are not entirely the same as those which are outlined in recommendation A.IV.18. The authors of the Scheme, apparently, thought it advisable to interpret some of the guidelines given in recommendation A.IV.18 rather extensively in order to arrive at a more comprehensive scheme, which was, of course, a legitimate approach. Nevertheless, it is interesting to list the points in which there are distinctions between the IBRD staff study and the guidelines given in the recommendation:

(a) The recommendation provides that the scheme should normally be applicable after a developing country had had recourse to the International Monetary Fund after its compensatory financing facility.

The IBRD staff Scheme contains no such close connexion between supplementary financing and IMF compensatory financing; recourse to the IMF is only a possibility.

(b) The recommendation envisages, once a prima facie case has been established, an examination of all relevant economic circumstances in order to assess how far assistance from the scheme could be required and justified in order to help avoid disruption of development programmes.

The IBRD staff Scheme provides for prior agreement between the country concerned and the Agency on export projections, on development programmes and policies, as well as on feasible adjustments. If the country acts within the framework of such agreement and if actual exports fall behind the agreed projections assistance could be granted quasi-automatically.

(c) The recommendation sets forth that assistance could cover a substantial portion of any shortfall. This means, in our opinion, that the amount will be fixed according to the merits of each case and in the light of what financial resources are available.

The IBRD staff Scheme envisages complete or nearly complete compensation (after adjustments have been taken as agreed upon) inasmuch as other sources of financing are not forthcoming.

(d) The recommendation envisages that the resources for the scheme are prescribed in advance.

The IBRD staff Scheme provides for open-end financial obligations of donor countries. The financial requirements of the Scheme are determined by its working criteria and are, therefore, theoretically unlimited.

7. Certainly, there might be differences of opinion about the respective merits of the various features mentioned above. At any rate, it should be obvious that our comments on certain ideas, that have been introduced by the IBRD staff, do not imply any criticism of the basic concept of or a retreat from recommendation A.IV.18.

II.

8. The doubts we feel as to the feasibility of the Scheme proposed by the IBRD staff may be summed up as follows:

(a) The basis of the Scheme is determined by the agreed export projections. In our view, export forecasts for a period of up to six years cannot be made with any satisfactory degree of accuracy. This is due to the impossibility of making dependable forecasts on the situation of supply and demand for a multitude of products in a multitude of countries, as well as to the lack of reliable information and statistics. While it is certainly appropriate to use export forecasts as guidelines for development planning - forecasts which, of course, require continuous adjustment as circumstances change - it is not possible to make them the basis of valid financial claims and commitments. By the way, such rigid projections could, after some years, have lost any economic significance and any connexion with reality. They might, therefore, tend to lead to misallocation of valuable resources of the country concerned.

In addition, to base financial assistance upon deviations from export projections made long ago would have the strange consequence that a country whose export development had been forecast in a precise manner would receive nothing at all even if its exports were to fall dramatically, whereas a country whose export development was judged unduly optimistically would receive large amounts even if there were no really adverse movement in export earnings.

The basic idea of recommendation A.IV.18 is to give assistance to countries which experience export setbacks, as in the case of a natural disaster or a sudden deterioration of market conditions. We do not understand the recommendation to imply that its purpose is to establish a system of insurance against the uncertainties of projections. In our view, after a country has suffered a shortfall in exports by reasons beyond its control and has presented its case, the Agency must examine all relevant circumstances, and will surely be able to recognize and determine shortfalls as such - taking into account the development of export proceeds in the current and in the preceding years.

(b) Another essential feature of the IBRD staff proposal is the policy p_ckage. Its basic concept is sound and constructive. However, the question is whether it is feasible. To conclude agreements of the scope envisaged in the study with perhaps 50 - 70 developing countries in any meaningful way would necessitate a tremendous amount of work and, therefore, require a gigantic administrative machinery. In addition, it has to be considered by developing countries whether they would be prepared to bind themselves with regard to their economic and development policy to such a degree and for such a long period unless they were assured that supplementary financing would cover the whole or almost the whole of a possible shortfall. However, whether that assurance can be given must appear doubtful (see 8(e) below). And even if supplementary finance is forthcoming in a substantial way no guarantee could be given with regard to basic financing on which development financing must rely in the first place as far as external resources are concerned.

(c) The degree of automaticity which is embodied in the IBRD staff study is questionable. If a country is assured of full or nearly full compensation its will to adjust - beyond the adjustments agreed upon in the policy package - to changing circumstances could be weakened. Efforts towards diversification might be impaired. In addition, there is a financial problem involved (see 8(e) below).

(d) The IBRD staff Scheme does not expressly provide for co-operation between the Fund facility for compensatory financing and supplementary financing. Admittedly, both schemes are defined in a somewhat different way and their basic purposes are not quite identical. However, it is obvious that they both try to give help to those countries which experience a shortfall in export receipts and therefore a shortfall in foreign exchange availabilities. It is only natural and indeed necessary to connect both schemes and to find a reasonable working arrangement between the two. The Bank representative has already, in the course of the October meeting, indicated a certain readiness to consider such a possibility.

(e) Because of the quasi-automatic features of the Scheme its financial requirements are, theoretically, unlimited. The financial estimates presented in the IBRD staff study are very global and based on uncertain assumptions. In particular, it is not known how exactly the authors of the study arrived at an annual figure of \$300 - 400 million, after having established by extrapolation of statistical data that the average annual shortfall would be of the order of \$1.2 billion, after deduction of IMF drawings and overages. It does not appear appropriate to base the cost estimate to a considerable extent on the assumption, as may perhaps have been done, that only a limited number of developing countries would participate in the Scheme. Clearly, it was intended by recommendation A.IV.18 that assistance should be given, in principle, to all developing countries which experience export shortfalls and meet the presuppositions set forth in the recommendation. Therefore, the amount needed would probably be much higher than the figure given in the study. By obvious reasons of sound budgetary principles there would be but few prospective donor countries, if any, able to subscribe to an open-end fund. However, if, on the other hand, the financial resources were limited to a fixed amount it would not be possible to implement a scheme so far-reaching and entailing quasi-automatic features.

III.

9. These difficulties involved in the IBRD staff Scheme require careful examination. We doubt that they can be overcome. Therefore, we believe that a possible solution to this dilemma might be to go back to recommendation A.IV.18 and to try to work out a system complying more closely with its wording. Such a system would certainly be less elaborate but it might perhaps have the advantage of being realistic and feasible. The following ideas, which are not entirely new ones but are already embodied largely in the recommendation, are submitted for consideration by the members of this Group.

10. In accordance with what has been said above, a realistic plan ought to be based on the following principles:

(a) Adequate co-ordination between the compensatory financing facility of the IMF and the supplementary financing so that the latter truly "supplements" the existing facilities in cases where this is required. This means that normally supplementary financing should be used only after recourse to compensatory financing in the IMF. There would have to be a body co-ordinating the two institutions, the IMF and the Agency administering supplementary financing. It might be called the "Joint Committee". The Joint Committee would receive and consider applications both for compensatory and supplementary financing. In addition, the IBRD and IMF country studies and reports might conceivably be co-ordinated for the purposes of the Scheme within that Committee.

(b) Careful examination of the shortfalls at the time they arise and of all relevant circumstances, including performance of the country. Determination of amount and terms of assistance according to the merits of each case.

(c) Establishment of a limited fund on the basis of contributions by donor countries and, if possible, other resources. Administration by the Agency. This should be one of the existing institutions with wide experience and authority, preferably IBRD/IDA.

(d) Consultation between the country concerned and the Agency in order to make the necessary adjustments, to encourage diversification, and to facilitate the decision of the Agency to be taken at the time of the shortfall. These consultations could be largely based on the ones already conducted by IBRD/IDA.

11. The following procedure might be conceivable:

(a) A country wishing to avail itself of the Scheme undertakes to consult fairly regularly with the Agency about its development and economic policy.

(b) If, at some point of time, the country suffers a serious shortfall in its export proceeds it will approach the Joint Committee, of which the Agency and the IMF are members, and will present its case.

(c) The Joint Committee will examine the cause of the shortfall and in doing so analyse past export developments and their probable development in the future, as well as the economic performance of the country in general. This examination should be speedy in order not to delay financial assistance; a reasonably fast procedure could be assured since conditions in the country are known to the Agency from previous consultations.

(d) If the Joint Committee determines that there is an export shortfall of short duration and that the presuppositions of compensatory financing are met it will then normally refer the application to the IMF for compensatory financing. However, if the Joint Committee comes to the conclusion that the shortfall is definitely of a long-term nature (e.g. destruction of plantations by natural disaster, or significant change of the market situation due to the appearance of substitutes), it would refer the application to the Agency for supplementary financing. The Agency would then decide upon amount and conditions of supplementary financing, taking into account the need of the country (possible disruption of development programmes), its general performance and all relevant circumstances as well as the availability of the Agency's resources.

(e) Supplementary financing could also be provided if, after a drawing on the Fund's Compensatory Financing Facility, it were to turn out that the shortfall was not of a short-term nature. This would be the case if e.g. also in the years following a drawing export receipts remain below expectations and if, as a consequence thereof, the danger of an interruption of the development process persists. Another example would be if, at the time of the repurchase falling due, the country were unable to effect repayment or could only do so by sacrificing investments important to development as a result of a persistent shortfall in export proceeds beyond the country's control.

(f) The terms of supplementary financing should be flexible and correspond to the stage of development of the country concerned as well as to its particular situation. Normally, supplementary financing would be extended in a form not tied to particular projects. However, if the Agency were to determine that, e.g. for purposes of diversification or for earning foreign exchange, it is essential and urgent to promote specific projects it could tie its assistance to such projects and thereby assure maximum effectiveness.

B.2 Introduction by Mr. Helmut Koinzer (Federal Republic of Germany) to the note by his delegation

1. I am very glad to introduce our paper to the Group. Before doing so, just a short preliminary remark: I have, of course, no objections at all that this paper is treated under item 8 of our terms of reference although one can well be of the opinion that this is not really another possible "method" but only another interpretation of the original recommendation.

2. Now, Mr. Chairman, my delegation has, in submitting this note to the Group, admittedly taken a rather unusual step for a normal UNCTAD proceeding and we are very well aware and we can understand that some representatives in this room may feel that we have rendered more difficult and perhaps also more complicated our present discussion. But we felt that it would be useful to state to the Group where exactly we stand on the question of supplementary financing at this stage of our deliberations. And in doing so we believe that we have contributed to another even more important task, namely to identify clearly the various difficult problems which are involved in the IBRD staff proposal.

3. This belief of ours has been confirmed to a very large extent in the course of the Group's discussion during this week. We have seen that there are quite a number of serious problems and that the differences of opinion between the various delegations are considerable. I would hope therefore that even those members of the Group who, at first sight, might not be pleased with our initiative would find a merit in it that we have put forward the problems which need further exploration and which, in our opinion, certainly would have come to the fore, anyway, in a later stage of our discussion, which means at a time where this would perhaps be much more inconvenient for the course of the discussion of this important subject.

4. This being the purpose of our note, Mr. Chairman, and our motive in submitting it, I may say again what is the essence of our position: we think that the Scheme for supplementary financing measures as envisaged in the study of the staff of the IBRD is, because of its great complexity, not feasible and that even if it could be made technically feasible it would hardly be acceptable in view of its unlimited and uncertain financial requirements. I shall not repeat here the arguments which we have brought forward to sustain this view at earlier occasions.

5. On the other hand, we believe that in 1964 there was an agreement among most of the countries taking part in the first United Nations Conference on Trade and Development that the existing short-term facilities to deal with problems arising from adverse movements of export receipts of developing countries were not completely adequate in all cases and that they should, therefore, be supplemented by some new system of longer-term balance of payments assistance. This, I believe, was truly the objective of recommendation A.IV.18 and it was on this understanding of the recommendation that my delegation in 1964 voted in favour of it and thereby agreed to asking the IBRD to make a study of the feasibility of a scheme with the objective mentioned above.

6. Now, Mr. Chairman, what we propose in part III of our note appears to us to be a true and logical elaboration of the objective of which in 1964 we agreed upon that it was a sensible one. I would not dare to say that we have made a new intellectual approach. I think what we propose is essentially more or less the original proposal which led to the adoption of the resolution. Certainly, what is set forth in our note in a still rather sketchy way cannot rival the study of the staff of the World Bank as far as the degree of elaboration and refinement is concerned. This does not and could not at that time be our ambition. Nor do we believe that with our proposal we have found a panacea or a philosopher's stone. We are very well aware of that we, ourselves, still have to reflect greatly on the details of the proposal and we are open to any suggestion which could improve it. Yet we believe that, fundamentally, our proposal could be a compromise between, on the one hand, the necessary and desirable from a development assistance point of view and, on the other hand, the financially and politically acceptable.

7. The main ideas of our proposal, Mr. Chairman, may be summed up as follows:

(a) Creation of a financial mechanism for longer-term balance of payments assistance to developing countries that suffer from setbacks in their export receipts which cannot be adequately dealt with by short-term balance of payments support; and for this purpose, the establishment of some kind of special fund attached to IBRD/IDA with a fixed amount of resources;

(b) This fund would operate on an ad hoc basis and would mainly serve two purposes: (i) giving assistance in cases where the short-term assistance by the IMF would from the outset appear to be inadequate in view of the nature of the difficulties that have arisen; (ii) to consolidate short-term IMF credits in cases where it turned out later that the difficulties were of a longer-term nature than originally assumed and which should, therefore, be dealt with by longer-term assistance.

(c) Co-ordination with the IMF Compensatory Financing Facility that would take place through a joint institution which we have called a Joint Committee in which both the IMF and the administering Agency of the newly established fund would be represented. This joint body would receive and review requests from developing countries for assistance and would pass them on either to the IMF or to the new IBRD/IDA fund. This procedure should be designed in such a way as to assure speedy assistance to the countries concerned.

(d) The amount and the terms of the longer-term supplementary assistance would have to be determined according to the merits of each case, taking into account the gravity of the export setback, the possible degree of disruption of development programmes, the performance of the country concerned, and so on, and on the other hand, on the financial resources of the supplementary financing fund.

8. Thus, there would be in our system no long-term export projections as a basis of financial claims and obligations; no more or less contractual policy packages obliging development countries to follow policies previously sanctioned by an international agency; there would also be no open-end financial obligations for countries contributing to the Scheme.

9. But I think that there would be reasonable assurance for developing countries that they could rely on financial assistance of a longer-term nature in cases of balance of payments difficulties due to serious export setbacks, difficulties that cannot be overcome by short-term balance of payments support from the IMF or from other sources.

10. I should like to limit myself to these remarks. I would, of course, be glad to give any additional explanation. In conclusion, Mr. Chairman, I should like to say that the ideas we have put forward are the views of the delegation of a country which is expected to contribute substantially to a scheme of supplementary finance at the time when any supplementary financial scheme would come into existence. I would be much obliged if these views would find consideration by the members of this Group. Indeed, Mr. Chairman, I am now looking forward with the greatest possible attention to the comments of the members of the Group on our note and I would be particularly grateful if the representatives of the developing countries would present their views. We would certainly contemplate all these comments very seriously and we intend to think about possible elaborations or improvements of our ideas.

11. With regard to further procedure, I consider the proposal made by the United Kingdom delegation to consider both the IBRD Scheme and our proposal in a parallel way is a very sensible one. In this respect, I should like to commend the secretariat for the very fast and excellent work it has already done in order to facilitate that task. Of course, general comments to our note would be also very valuable and welcome. I thank you, Mr. Chairman.

B.3 Comments by Mr. James Mark (United Kingdom) on 13 February 1967

1. I have already said that my delegation welcomes the German paper as a contribution to our discussion. It offers a valuable critique of the study by the Bank which forms the basis of that discussion. We need such frank criticism if we are to bring out the points which need clarification. It is, moreoever, an honest and thoughtful attempt to express certain serious doubts about some fundamental aspects of the scheme. These also must be brought into the open, and we must see whether they can be resolved or whether the scheme needs amendment in order to remove them. The paper is put forward, as I hope that we all recognize, in a constructive spirit. Our German colleague has made this clear by stating that his Government is prepared to support a scheme for supplementary financial measures (SFM), provided that one can be worked out which it can regard as practicable. I hope that we shall all approach this discussion of the paper in an equally constructive manner.

2. I said in my earlier comments on the paper, when we were dealing with matters of procedure, that I would wish to offer my delegation's views on the substance of the paper later on. That is the purpose of this present intervention. In general, my delegation considers that, although the paper contains a number of telling points, many of its criticisms of the Bank's study are based on misunderstandings, some of which have been cleared up in our recent discussions, while we consider that many features of the alternative scheme suggested in the paper are open to criticism.

3. I shall refer to individual paragraphs of the German paper, but I think it important to group the criticisms which I shall offer on behalf of my delegation to the concerns which, we think, have prompted them. It is these doubts and concerns, above all, which we have to bring out into the open; in doing so we shall be able to identify the central points on which our further discussion would probably be based. We think that there are six points which cause concern to the German delegation:

(i) the first is that it would be difficult to refuse entry into the Scheme to any country which could meet a bare minimum of requirements, and that this would much increase the demands which the scheme would involve (paragraph 8 (e));

(ii) the arrangements for prior consultation on all the matters included in the policy package are unrealistically complicated (paragraph 8 (e));

(iii) in particular, the export projection included in the package would be insufficiently reliable (paragraph 8 (a));

(iv) in comparison with the complex trial arrangements, the payment of compensation when a claim was made would be quasi-automatic (paragraphs 6 (b) and 8 (c));

(v) this would give rise to an unlimited commitment by contributing governments (paragraphs 6 (c), 6 (d) and 8 (e));

(vi) this commitment would include basic aid (Paragraph 8 (b)).

4. I do not propose to comment in detail on the observations about the relationship between SFM and the Fund's Compensatory Financing Facility (CFF). I think that the Bank has made it clear that the SFM scheme does involve prior drawings under the CFF scheme where the country is eligible. In the long run, of course, CFF would not contribute additional net resources, since the drawings are short-term and we must assume that after, say five or six years, repayments would balance new drawings and these repayments might well have to be refinanced by SFM.

5. I will comment one by one on these six concerns, as I have called them.

6. The first is a valid point. My delegation agrees that it might be politically difficult to refuse entry to countries which wish to join. Moreover, the Bank has told us that nearly all developing countries have a development programme of some sort. But we note that in the cost estimates which the Bank has now circulated, the reduction in total gross shortfalls which is made to allow for countries which do not join the scheme is relatively small, if the figure of $250 million is to be related to the total of $1600 million though we may have misunderstood the significance of these figures.

7. The second (the complexity of the policy package) is a point on which a great deal of misunderstanding can arise and has arisen. This is perhaps due, paradoxically, to the very quality of the Bank's study: to the comprehensiveness and thoroughness with which these questions are discussed in it. But the Bank has explained that, in fact, the existing work done on individual countries would provide

the basic data. I think that we ought to expect little more than some enlargement of the existing processes of consultation. Certainly the Scheme should not depend upon a large increase in the number of consultative groups, for which the Bank has only limited plans. The Agency will certainly wish to discuss beforehand the matters referred to on page 48 of the study; and, if a shortfall should arise, the adjustments for which it would wish to ask (set out on page 50 of the study). But we all realize the probable limitations on the information available and on the ability of an international agency to influence the policies of an individual country, though this is not to underrate the value of the influence exercised by these agencies. We should not expect any revolutionary change though, as the distinguished delegate for Ceylon has pointed out, existing arrangements would probably become more formalized.

8. As regards the third concern, it is true that export projections are, of necessity, unreliable. It is precisely the uncertainty of these projections which the scheme is designed to meet. But the evidence in the study suggests to my delegation that the uncertainty should not be over-estimated, and we note that the Bank hopes to improve the technique of forecasting. The real problem is whether this uncertainty might give rise to an unlimited commitment. This raises the next two problems.

9. The fourth, we think, is mistaken. There can be no question of quasi-automatic operation as the Bank has explained. Some phrases in the study (e.g. pp. 65-66) may be unintentionally misleading here, but the Bank has explained (and my delegation would certainly envisage) that any request for assistance would necessitate a complex act of judgement, which would have to take into account such matters as available overages, and possible adjustments to the economy in general and the plan in particular.

10. On the fifth concern, the commitment will be limited because the countries concerned will only contribute limited funds. We should not regard this as unduly restrictive; it is a characteristic of all international financial arrangements and we should not expect SFM (whatever form the Scheme may take) to be any different. We shall make the best estimate we can, with the advice of the Agency, of the funds needed to operate a worthwhile scheme; we may hope that these funds will be provided

and that they will be adequate. But the Agency will have to operate with them and within whatever limits they may enclose. It was no doubt for this reason that the recommendation expressed the hope that "assistance could cover a substantial proportion of a shortfall from reasonable expectations". It did not provide for full cover, and the Group has already discussed the possible need for rationing. The scheme proposed in the German paper would be equally exposed to this possibility once the size of the fund which it envisages had been determined. We need not, however, be too pessimistic about the probable adequacy of resources (once allowance has been made for offsetting factors and policy adjustments) especially if, as my delegation hopes, progress is made with agreements for individual commodities.

11. Finally, on the sixth concern, the recommendation does not state or imply that the scheme will guarantee the basic aid needed to fulfil a development programme; nor, in the judgement of my delegation, does the Bank study. The scheme is designed to help to meet shortfalls arising from one specific cause. Here, I am afraid, I must differ from the views expressed by the distinguished delegate from Ceylon in his earlier statement[1/]. I do not find this intention in the study, nor would my delegation endorse it. All that the Scheme does imply is that, in the initial understanding between the Agency and the country, it should be clear that the country's expectations of aid to finance its development programme are realistic.

12. Turning now to the alternative scheme outlined in part III of the German paper, I am afraid that my delegation feels that it contains some serious weaknesses. I will mention four.

13. It is intended to be simple, compared with the Bank study. But in fact it involves a new Committee, superimposed on existing institutions to co-ordinate them. We think that the normal process of informal consultation is more appropriate and simpler. Moreover, most of the need for any such machinery surely disappears if it is clear that CFF will in all cases be drawn on first of all when available (paragraph 11 (b)).

1/ See Annex A.1 above, paragraph 4.

14. Secondly, it appears that examination of a claim to assistance will take place ab initio when the claim is made, though there is provision (paragraph 11 (a)) for general prior consultation on development and economic activity. This ex post examination will surely involve delay.

15. Thirdly, the scheme rejects export projections. But what is the basis on which a claim to assistance can be judged if there is no prior projection with which to compare what has actually happened?

16. Fourthly, the prospects for the recipient countries would be very uncertain. All that they could count upon would be some unspecified amount of aid, derived from judgements, the basis of which would only be indicated in advance in the most general terms.

17. My delegation considers the German paper most valuable, as I have said, in drawing attention to criticisms of the Bank's scheme and in expressing concerns which must be satisfied. Our comments may have seemed critical, but we hope that they have responded to the challenge, and thereby furthered our discussion. I should like in conclusion to draw together the main views which emerge from our own comments.

18. What are we to hope for from a scheme of this kind? Not, as donor countries might fear, a comprehensive underwriting of the total need of developing countries for aid, deriving from a scheme which, once set up, will automatically involve them in unforeseeable commitments. The Scheme is to be set up to meet one specific need - the prevention of the disruption of development programmes which arises from an unexpected shortfall in export earnings. Its funds will be limited by whatever agreement is made to finance it; and its operations will constantly require acts of judgement by the Agency under the general authority of its Board of Governors or Directors. Nor, as the recipient countries might fear, shall we have an Agency with comprehensive powers, interfering in every aspect of their economic life and dictating their economic policies and the political decisions which these involve. The Agency will have neither the status nor the resources to do this, even if it

wished for or were given the authority to do so. Nor, thirdly, shall we have a new and complicated organization to supervise international aid or a vast extension of existing arrangements for consultation.

19. What we shall have, in the view of my delegation, is a scheme with specific but, we may hope, adequate resources, set up to meet a specific need and doing this as well as it can. It should do a great deal to remove or substantially to diminish one main problem which confronts developing countries in planning their development. It should supplement the commodity agreements which my Government hopes will be negotiated in increasing numbers. It should develop further the dialogue between these countries, the international agencies and the developed countries. Moreover, since the Agency will need to specify the terms on which it will lend to individual countries, it will thereby provide a much-needed standard by which donor countries can judge the terms appropriate for aid loans to these individual countries.

20. These are substantial aims, though much more modest than those for which some may hope and which some may fear. These are the aims which my Government had in mind when it put forward the original proposal, in company with the Swedish Government. These are the aims which we should wish to see embodied in whatever Scheme this Group may recommend.

B.4 Comments by Mr. J.L. Myrsten (Sweden) on 13 February 1967

1. The discussions in this Group have certainly shown that we are in the presence of an extremely complicated problem. If anyone ever believed that easy solutions could be found, then our work has certainly proved him wrong. The basis for our efforts here has been the excellent report of the World Bank. The Swedish delegation maintains the opinion that a scheme of the type set out in the report is feasible and realistic. During our discussions we have of course been aware of a number of complicated factors that might call for modifications of the Scheme proposed. But at the same time, we have after careful consideration found that these difficulties can be overcome if the member States have confidence in the Agency that will run the Scheme.

2. Now, this is our generally positive attitude. But we are aware of the fact that a number of delegations here have voiced critical views. We have been impressed by the constructive spirit in which these criticisms have been formulated. This is also the impression we get from the paper submitted by the delegation of the Federal Republic of Germany. I beg your indulgence, Mr. Chairman, for this long introduction before coming to the subject of the day, but I feel it necessary to try to put this very important paper in its right framework.

3. It is an important document and it has been presented in a constructive and a lucid way. Furthermore, I think we should all be grateful to our German colleagues for summarizing in such a concrete manner the critical views expressed in the course of our deliberations. In fact I believe that the presentation of this paper has brought us over to a new stage in our discussions. We will now be able to attack much more directly the central difficulties before us and see what practical solutions can be found.

4. The German note is divided into three distinct parts. The first spells out in detail why they think that the Bank study is not in full conformity with the UNCTAD recommendation requesting the study. The second gives the reasons why the German delegation does not think the proposed scheme feasible and the third, finally, is mainly an effort to present an alternative.

5. Let me start with part I. The first ground set forth to substantiate the German contention is worded as follows: "The IBRD staff Scheme contains no such close connexion between supplementary financing and IMF compensatory financing; recourse to the IMF is only a possibility."

6. In the opinion of this delegation the Bank Scheme does, however, contain such a close connexion between compensatory and supplementary financing. Let me refer to the last paragraph of page 7 of the study where it is stated: "It would be expected that as far as possible, a part or even all of the shortfall would be offset by use of the country's own reserves or by drawings on the IMF. To the extent that export shortfalls, as defined under the scheme, were to overlap shortfalls under the IMF compensatory financing facility, the IMF should, if possible, be the source of help".

7. In paragraphs 6 (c) and 6(d) of the German document it is said firstly that the Bank Scheme presupposes "a complete or nearly complete compensation" of any shortfall, while the recommendation provides that "assistance could cover a substantial portion" of any shortfall. It first strikes this delegation that the distinction made by the German delegation is rather sophisticated; what constitutes in fact the difference between "substantial portion" and "nearly complete"? But in fact it is explicitly set forth in the study that the object of the Scheme is "to assure financing of a substantial part of the shortfall" (page 7).

8. Secondly, it is stated that the Scheme is open-ended. In fact I do not believe that any country around this table would find it realistic to work on an open-ended scheme. It is our understanding that the Bank Scheme does not attempt that, and that is why the possibility of rationing the resources has been discussed and should be kept in mind.

9. Permit me now to say a few words on part II of the German proposal. The German delegation exposes its serious doubts of the feasibility of the Scheme. My delegation has with great care studied the Scheme as proposed by the Bank. We have listened to the explanations given by the Bank staff members present at our meetings. This has convinced us that the Scheme is in fact feasible.

10. Had the German delegation contended that it would not be feasible to transform recommendation A.IV.18 into a workable scheme, I would have had to stop with noting the two opposite views. But the German delegation takes a positive approach to the recommendation and outlines an alternative to the Bank Scheme. That makes it possible for me to go one step further and to compare some basic features of the two alternatives.

11. In doing so let me first state that it seems to me unfair if one would hold it against the German proposal that there are many things left unclear or not dealt with. We should instead concentrate on the most basic features that distinguish the two alternatives.

12. First, the German proposal aims at eliminating the problems connected with the policy package. But does it in fact? According to the proposal "a country wishing to avail itself of the Scheme undertakes to consult fairly regularly with the Agency about its development and economic policy" (paragraph 11 (a)). These consultations would then, it seems to this delegation, form the base for the judgement of the Agency on whether the country's "general performance" merits compensation under the Scheme. I do not think that there will in practice be a great difference between the policy package under the Bank Scheme and the procedure outlined in the proposal. I would very much like to know the opinion of the German delegation on this point.

13. Secondly, the German proposal aims at reducing the evident difficulties inherent in the concept of export projections for such long periods as 4 - 6 years. If doing so, one must, however, find another suitable definition of "export shortfall". The German proposal does not give such a definition. It is only stated, in general terms, that the Agency "will surely be able to recognize and determine shortfalls as such - taking into account the development of export proceeds in the current and in the preceding years" (paragraph 8 (a)). It seems to us that this will create a great uncertainty as to whether supplementary financing will be available or not.

14. The German approach also aims at reducing the automaticity of the Scheme and confers a very great discretionary power on the Agency. Now I have already stated that we have to place great confidence in the Agency. But if the rather limited degree of automaticity - as foreseen in the Bank Scheme - is removed, then the task of the Agency will be extremely complicated. Personally I would not envy those who would serve in an Agency with so much discretionary power.

15. Much more could be said, Mr. Chairman, but I have already taken too much time from this Group. Permit me just to reiterate that our point of departure here has been that the Bank Scheme is feasible whereas our German colleagues doubt that. For that reason, it is evident that we have not found it possible to agree on some essential points. But I do not want to give our German friends the impression that we have not appreciated deeply their effort, which indeed will be of great help to us all in our endeavours to hammer out a workable scheme.

B.5 Comments by Mr. Lal Jayawardena (Ceylon) on 13 February 1967

1. I have listened with great care to the statements made by my Swedish and United Kingdom colleagues and the sentiments of my own delegation are very much in accord with what has been said in those interventions.

2. In my last intervention on the question of the policy package, I made some tentative critical reflections on the proposal by the Federal Republic of Germany. I should like now to place these in a somewhat fuller context. As has been underlined by the Swedish and United Kingdom delegations, the proposal is certainly a very constructive one. My delegation is particularly gratified that it has accepted the principle and the idea of supplementary financing. It has within this framework attempted to work out an arrangement which, in the view of the German delegation, is a feasible one, to insure development plans against export shortfalls. In doing so, the proposal judges the Bank's suggestion to be deficient in certain respects and seeks to provide appropriate remedies. The main burden of my intervention is to indicate that these deficiencies are remediable without sacrificing the essentials of the Bank Scheme.

3. The deficiencies in the view of the German delegation appear to lie chiefly in the following areas. These deficiencies are first that the export forecast is unreliable and that the forecast might freeze in an unreal way the development plan of the country. I allude here to some of the nuances in paragraph 8 (a) of the German text. "...Rigid projections could ... have lost any ... connexion with reality. They might therefore tend to lead to misallocation of valuable resources of the country concerned." Secondly it is argued that the policy package is too onerous, and the administrative arrangements of the Scheme too cumbersome. The third deficiency is felt to be that the financial commitment is open-ended and fourthly, that the relationship between the IMF and the Bank Scheme is insufficiently specified and that "recourse to the IMF is only a possibility" (paragraph 6 (a)).

4. So far as the export projection is concerned, I think it is important to state that such projections, with all their deficiencies, are an essential tool of planning. There are several points involved. When the projection is juxtaposed against the import requirements of a planned rate of growth, the magnitude of basic finance necessary for that rate of growth becomes immediately obvious. If that rate of growth is not to be sacrificed, then basic finance of a certain more or less precise order of magnitude has to be forthcoming and a country needs some assurance of this. What the Bank seeks to do is to supplement this basic finance if downward deviations occur from the projection which, if not financed, would threaten the development plan. On this score, I would like, at

the risk of some digression, to correct a misunderstanding that appears to have arisen in the mind of my United Kingdom colleague in regard to my earlier observations on the policy package (see Annex A.1, paragraph 8). Supplementary finance would operate only in the case of an agreed plan. The plan would assume some assurance of assistance that might reasonably be expected over the plan period, in the joint judgement of the Agency and the country. Hence, participation in a supplementary financing scheme presumes adequate basic finance.

5. Now there is an important sense in which the fear expressed by the German delegation in relation to export projections is real - namely that the original projection may not show up what subsequently turned out to be a genuine structural change in the export prospects of a country. This is the fear that is implied I think in the last part of paragraph 8 (a) of the German note, to which I have already alluded. The fear is that the country will use the Bank Scheme to avoid an adjustment to a changed pattern of comparative advantages. This view is set out more explicitly in paragraph 8 (c) of the German paper - "If a country is assured of full or nearly full compensation, its will to adjust - beyond the adjustments agreed upon in the policy package - to changing circumstances, could be weakened. Efforts towards diversification might be impaired." It is this view which I must submit is mistaken. No country would, I think, want the international community to subsidize the misallocation of its resources and would want to insist on a blind adherence to an obsolete pattern of comparative advantage. It is of the essence of the new type of international co-operation envisaged by the Bank that steps would be taken to detect changes in the structure of comparative advantage and to deflect the course of a country's economy. But this is a time-consuming job and the function of the Scheme is "to facilitate a smooth transition between the original plan and the revised plan", as argued in the last paragraph of page 52 of the Bank's report. My delegation would like to express its complete accord with the sentiments of that paragraph.

6. There is another sense in which an objective export projection is essential. It enables quick access to the resources needed. When I say this, I do not mean that access should be automatic, and here I agree entirely with the sentiments expressed by the United Kingdom delegation. But I find it difficult to believe that in the absence of an export norm, a sufficiently quick access to assistance and a precisely determined access, can be found.

7. Finally, on the question of export projections, they do provide an objective basis for the assessment of need. In the form urged by the German delegation, the whole arrangement becomes a totally discretionary one and there is some element of inconsistency between this aspect of the matter and the concern expressed elsewhere, in the German proposal, about the policy package. Here I must endorse the sentiments very clearly expressed by my Swedish colleague that there is considerable discretionary power in the German version of the proposal.

8. To avoid the repetition of going over ground already traversed in my observations on the policy package, I shall take up the views expressed in the German proposal about the policy package and the unwieldy administrative arrangements together, and deal rather briefly with them. The administrative arrangements might be unwieldy if an elaborate policing arrangement is contemplated and if a separate Agency is required. As I have already explained, these fears can largely be taken care of by entrusting the operation to the Bank. Similarly the fears in regard to the policy package can be dealt with by defining the content of the policy package, in macro-economic terms.

9. So far as the financial commitment is concerned, it has I think been adequately explained that the figure of $300-400 million per year is what might be reasonably expected on the basis of shortfalls in the past. I must emphasize that there is no known method of estimating a magnitude such as the financial commitment implied in the Scheme except on the basis of projecting past relationships into the future, unless one is to indulge in pure guesswork and I for one, would be content to take the figure of $300-400 million as an outside estimate of the finance likely to be required annually. It follows inevitably I think that no open-ended commitment to finance the Scheme is envisaged. To repeat the suggestion I put forward the other day, it should prove possible to regard the Bank estimate as representing the maximum required for financing the Scheme. Should aggregate shortfalls exceed the annual amount estimated by the Bank, one could, I think, contemplate a lesser degree of financing of shortfalls and accept some form of rationing based on defined norms.

10. Finally, Mr. Chairman, on the question of Fund/Bank relationships, I think our recent discussion in this room has clarified matters to a considerable extent. It is clear that where the Bank export projections prove pessimistic, as Mr. Fleming has argued, the Fund compensatory facility alone will continue to operate. In other circumstances, the Bank facility will add to the finance provided by the Fund's compensatory facility, so that it is far from true to say that resource to the IMF only remains a possibility.

B.6 Comments by Mr. K.G. Vaidya (India) on 14 February 1967

1. My delegation has studied the paper presented by the distinguished delegate of the Federal Republic of Germany with care and has listened to the introductory remarks made by him with great attention. We have also listened with considerable interest to the comments offered by other delegations on the German paper.

2. We are extremely grateful to the distinguished delegate of the Federal Republic of Germany for presenting an extremely stimulating paper which raises a number of very crucial questions for which it would be extremely important for this Group to find answers. The German paper is an extremely constructive contribution to the work of this Group and we view it rather as a critique of the Supplementary Financing Scheme of the World Bank than as an alternative to or a substitute for it. Viewed as such, my delegation would wish to offer the following rather detailed comments on the German paper.

3. Paragraph 6 (a): Here it is observed that the close connexion contemplated in the original UNCTAD recommendation between supplementary financing (SF) and compensatory financing (CF) is not established in the IBRD scheme for SF. We think that while the SF scheme, no doubt visualizes the possibility of drawings on the CF facility, as pointed out by Mr. Fleming, there could be situations when only one of them could be effective. If so, a strict adherence to the close connexion is not possible in logic or practice.

4. Paragraph 6 (b): Here the German paper regards SF as quasi-automatic and recommends instead an examination of the economic circumstances of the country after a prima facie case is established. In our view, since the execution of a development programme is a continuous process, at any rate, during a given planning period, its disruption can be prevented only by the speedy provision of assistance in the event of an export shortfall. SF seeks to achieve this speed through policy understandings and continuous consultations between a member and the Agency, which avoid the need for time-consuming examinations, etc.

5. Paragraph 6 (c): Here the German paper argues that while the original UNCTAD recommendation speaks of the compensation of a "substantial portion" of any shortfall, SF envisages complete or nearly complete compensation. What was meant by a "substantial portion" here is very much a matter of interpretation. SF, in fact expects prior use of (a) reserves, (b) IMF's Compensatory Financing Facility, (c) other sources of short-term finance, (d) adjustment measures and (e) the exclusion of that part of a shortfall in exports which would not cause disruption of a development plan. Thus, SF can scarcely be said to contemplate complete or nearly complete compensation of a given export shortfall.

6. Paragraph 6 (d): Here it is suggested in the German paper that SF would provide for an open-ended financial commitment for the donor countries. We do not share this view. And, in any event, we think that it would be quite reasonable to start with an initial fund of $300-400 million for SF.

7. Paragraph 8 (a): It is suggested here that if export projections in the case of a given country are too optimistic and those for another are accurate, the former can get assistance from SF without any real adverse movement in its export earnings, while the latter will get nothing even if there is a dramatic fall in its exports.

8. We feel that, since the same methodology of export projections would presumably be employed by the Agency objectively for all countries, there is no reason prima facie why the projections should be too optimistic or pessimistic in one case than in another. So far as accurate forecasts are concerned, it is certainly not strange that the country whose exports fall as predicted does not get anything from SF. For, it would then have either taken account of the projected shortfall in determining the scale of its development plan or in the organization of its basic development finance, or perhaps, both.

9. The essential idea of recommendation A.IV.18 is to prevent the disruption of a development programme because of export shortfalls. For measuring any shortfall whatsoever the setting up of a "norm" is a logical necessity. The elimination of the concept of a norm implied in the German proposal makes the measurement of a shortfall logically impossible.

10. Paragraph 8 (b): Here misgivings are expressed, in the first place, about the feasibility of a comprehensive policy package and, in the second place, that even when SF is forthcoming in an adequate measure, no guaranteee could be given about basic development finance. We do share the misgivings of the German delegation to some extent although we hope that some way could be found out. A comprehensive policy package might cover basic development finance, while a somewhat more detailed policy framework for exports could cover supplementary finance. However, we do agree with the German paper that the mere provision of SF is not enough if no guaranteee of basic development finance can be given.

11. Paragraph 8 (c): The German paper criticizes here the degree of automaticity implied in SF. We do not agree firstly that the Scheme is fully automatic. Secondly, to criticize the quasi-automaticity of the Scheme as likely to lead to a weakening of the will of the beneficiary country to adjust, appears to us to be like arguing that the availability of unemployment doles may weaken a man's interest in obtaining a good job or the availability of national health facilities may weaken a man's will to get well. In any event, the crutches of SF can carry a country forward only during a plan period and if it has not taken steps meanwhile to reorganize its production in the light of any structural changes that may have occurred in demand or supply, in the next plan its developmental process could break down completely.

12. Paragraph 8 (d): We generally agree with the substance of the thoughts expressed in this part of the German paper.

13. Paragraph 8 (e): While the cost estimates presented by the Bank are still being considered by the Group, in our view the figure of $300-400 million which has been suggested as the initial requirement of the Scheme would appear to be adequate and may be a good sum to start the Scheme with. In the event of the resources falling short of the requirements, some method of rationing could be considered.

14. Paragraph 10 (a): It is suggested here that SF should supplement CF and other sources of short-term finance. The idea of SF, as we understand it, is that it should supplement not so much other sources of short-term finance in compensating an export shortfall as long-term, basic development finance. Only then would it prevent the disruption of a development programme. We also differ in this interpretation from our distinguished colleagues from the United Kingdom and we think that a statement on page 55 of the Bank study bears us out. While we fully subscribe to the idea of ensuring co-ordination between the IMF and the Agency, we are not sure that at this stage it would be wise to formalize and institutionalize such co-ordination.

15. Paragraph 10 (b): In this part it is suggested that there should be a careful examination of all economic circumstances surrounding an export shortfall when one occurs. It is not clear to us what criteria would be adopted in such an examination. Nor is it clear as to what performance of the country would be judged by the Agency. Would it be export performance or performance in other sectors of the economy too? The determination of the amount of assistance according to merit could also include the possibility of the assistance judged as necessary exceeding a shortfall. The substitution of merit for a measured shortfall as the determinant of the quantum of assistance could, in theory, make the system an even more open-ended commitment than the SF Scheme.

16. Paragraph 10 (c): The suggestion that the scheme could be started with a limited fund is wholly acceptable to us and to begin it with $300-400 million appears to us to be a good workable proposition.

17. Paragraph 11 (a): We agree.

18. Paragraph 11 (b): Barring the proposal of the establishment of a Joint Committee, the SF Scheme makes substantially similar proposals, except that it does not see the need for the case to be argued out in view of the procedure proposed of regular consultations on economic policy between a member and the Agency.

19. Paragraph 11 (c): The *ex post* projections as proposed here could conceivably be simpler than *ex ante* ones but will certainly take longer to make than those which already pre-exist and will eliminate the element of certainty from the Scheme.

20. Paragraph 11 (d): It is proposed here that the institution from which assistance should be sought would be determined by the Joint Committee after determination as to whether the shortfall is of a short-term or a long-term character. We think that it would be extremely difficult *prima facie* to judge a given shortfall as either short-term or long-term. For example, if a shortfall occurs because of a recessionary fall in foreign demand, how could it be determined as short-term or persistent?

21. Paragraph 11 (e): The question is raised here as to what would happen if a country has still not recovered from an export shortfall when the repayment to the Agency falls due. In fact, it seems to us, that SF solves this problem adequately by extending long-term assistance for financing a net shortfall. If even by the time of the repayment, which would then be after a long time, the country has not recovered, more serious solutions will have to be devised.

22. Paragraph 11 (f): It is suggested here that the terms of SF should be flexible and should correspond to the stage of development of the country concerned. While we fully subscribe to the need for flexibility, it is not quite clear to us why the terms should correspond to the stage of development. Both IBRD and IDA have developed the criterion of debt servicing liability as a proportion of export earnings which seems to us to be more relevant as a determinant of the terms of assistance.

ANNEX C

General comments by Mr. S. Allain (delegation of France) on the Scheme proposed by the International Bank (15 February 1967)

1. Since you have invited us to do so, Mr. Chairman, I should like to sum up the questions I have asked and the critical observations I have made in the course of our discussions on the supplementary financing scheme before us, in order to make quite clear the position my delegation takes on the entire system proposed by the World Bank.

2. I do not wish to give the impression of being persistently critical of the Bank; I am bound to say that its staff have done a remarkable and very detailed piece of work. It is, I am sure, through no fault of theirs that they have given birth to a kind of monster whose expectation of life, in its present condition, seems to me slight.

3. As we know, the developing countries consider that one of the main obstacles to their development is the deterioration in the terms of trade. It was our understanding that supplementary financing had been advanced as at any rate a partial solution to this problem. It is now clear to us that supplementary financing is a false remedy; that at the same time it will impose very heavy obligations and burdens on all the parties concerned; and that, in the last analysis, it is based on dubious premises or faulty reasoning.

I. Supplementary financing - a false remedy

4. Supplementary financing cannot safeguard the execution of development plans against deterioration in the terms of trade.

5. It cannot afford any real guarantee for the developing countries' export earnings against a deterioration in the terms of trade, either during a given planning period or, *a fortiori*, from one planning period to the next.

6. Within a planning period it is based on "reasonable expectations" and not on the levels previously attained.

7. The Agency's experts will have to follow the trend of the market and hence, in unfavourable market conditions, they cannot do other than allow for a decline.

8. The Scheme will, it is true, neutralize the effect of any unforeseen decline occurring during a particular period, but it can do nothing to redress a decline which could be forecast from the start.

9. This is likely to result in a highly inequitable and ineffectual distribution of international aid. Here I endorse the criticism expressed by the delegation of the Federal Republic of Germany, to the effect that a country suffering from a serious, but foreseen, fall in its exports would not be entitled to any aid, whereas a country for which optimistic forecasts had been made but which could not live up to them would be entitled to generous assistance from the Agency even though its exports had yielded relatively satisfactory results.

10. The same applies, of course, to all extensions of the Scheme envisaged such as including invisible earnings or allowing for the level of import prices. As Mr. Cassen, our United Kingdom colleague, has so rightly said, this again would be merely a matter of correcting any discrepancies that might arise in relation to the forecast, which again might have been for a decline.

11. I would comment in passing, therefore, that all such extensions to the Scheme could only make it more complicated and unwieldy without, in all likelihood, yielding any real advantage to the developing countries, while, as I have pointed out during our recent discussions, imposing additional restrictions on these countries, if only by subjecting their exchange-rate and exchange-control policies to the Agency's supervision.

12. In other words, the assistance rendered by supplementary financing would not be proportional to requirements - that is to counter the deterioration in the terms of trade - but would merely be inversely proportional to the quality of the projections made by the Agency staff.

13. Even if it could be agreed that, within the limits indicated above, the Scheme might be successful in curbing the effect of unforeseen declines in exports within a particular planning period, this would not hold good as between one period and another. Thus, if events were to turn out badly - and here I am forced to take the pessimistic view because, if the opposite were the case, the Scheme would have no function to perform - it would be necessary drastically to reduce the export forecasts.

14. Any such revision could be made only under the constraint of the prevailing market conditions which, if no other measures had been adopted in the meantime, would not be subject to any element of stabilization or organization, and hence could provide no shock-absorbing or "parachute" effect to the advantage of the developing countries.

15. The greater the rigidity imposed by the Scheme on a country's economy, the ruder will be the awakening. The fact is that the countries affected will tend generally to implement their plans without paying particular attention to international economic developments, and will thus be the less prepared to make the needed adjustment. Moreover, the Scheme might well itself exert a depressive effect on the international market in a given commodity, inasmuch as by encouraging increases in production beyond the level of international demand it would, in a deteriorating situation, have the effect of weakening the world commodity markets still further.

16. Equally, however, the Scheme would, in our opinion, be unable to ensure the proper execution of development plans, first because they rely only in part on the amount of export earnings and secondly because, as our discussions have shown, when there is a wide discrepancy between projection and achievement, no one is willing to continue implementing such plans.

17. Execution of the plans is based on the use of a fund of resources which includes, in addition to export earnings, basic international financing and domestic savings, both public and private.

18. It follows that supplementary financing must be adjusted to the exact amount of the decline in export earnings, whereas other possible sources of disruption, whether of political, natural or financial origin, must be left out of account in fixing the level of aid.

19. Indeed, I wonder whether supplementary financing should be made available at all if, at the time of an unforeseen decline in earnings, other causes of disorganization also come into play: for instance, if basic financing falls short of requirements, if crops are damaged by bad weather, if the country is beset by political disturbances, if its domestic savings fall below the planned level or if its capacity to absorb capital fails to meet the requirements of the plan.

20. It is not clear to me how, in such contingencies, supplementary financing should be applied, or even that it should be applied at all.

21. Apart, however, from these technical difficulties, I believe there is a serious misunderstanding in the Group: there seems to be no agreement about how development plans should be executed in the event of a substantial discrepancy between projected and actual exports.

22. Thus, the developing countries represented in this Group have already told us that, should their exports fall short of the projected level, they intend with the aid of supplementary financing to continue executing their plans at whatever cost. I am bound to say that their interpretation seems to me in accordance with the very principle of the Scheme, and I cannot but agree with it.

23. The developed countries, for their part, have told us that in such an event some revision would be necessary in order to cease financing investment in activities rendered unproductive by economic development so as to avoid the need for an unduly drastic revision of the country's economic policy later on, when the next plan came up for consideration.

24. This is a perfectly tenable attitude and once again I clearly cannot dissent.

25. All of the foregoing points seem to demonstrate the unreality of a system which introduces an element of rigidity into the ever-changing conditions of economic life.

26. On the other hand, the developing countries have already told us that, should their achievements exceed the projected level, they might see fit to speed up the execution or increase the size of their plans, whereas the developed countries would

wish, in these circumstances, to see surpluses built up and reserves of foreign exchange increased in order to reduce the risk that the Scheme might have to be introduced in ensuing years.

27. All this seems to me somewhat characteristic of a system which purports to be a form of insurance but which involves neither the payment of premiums by the insured parties nor any formal commitment by the underwriters. All in all, the Scheme is inadequate both in its principle, for it sets out to ensure development on the basis of a single variable, and in its practice, for it can never truly guarantee the execution of development plans.

28. In addition to these shortcomings, it must not be forgotten that the Scheme will impose on the various interested parties obligations and burdens which they will find hard to bear.

II. Supplementary financing will impose obligations and burdens which the interested parties will find hard to bear

29. These obligations and burdens will bear no less heavily on the developing countries than on the developed countries and the international agencies responsible for administering the system. As the representatives of several developing countries have repeatedly stated during the discussion, and more particularly this morning, developing countries will find it difficult to accept the controls that the Agency proposes to exercise over their economic policy - a policy which, as a rule, is hard to separate from politics.

30. I would point out that, in reality, these controls will be of two kinds: those that are expressly prescribed in the Bank Scheme and those additional controls that are bound to be applied in practice.

31. The controls proposed by the Bank are, if I am not mistaken, of two categories: those which will be applied beforehand and those which will be exercised throughout the period of execution. The preliminary controls form what has been called the "policy package": that is to say, the Agency will have to give its formal approval both to the countries' development plans and to their export projections.

32. It is also anticipated, however, that the Agency will need to hold periodic consultations with the countries concerned in order to keep abreast of the execution of their economic policy and that it will have the right to recommend policy adjustments over a very wide range of activities, including savings, investment, monetary and fiscal policy, etc.

33. But apart from these officially sanctioned controls, I am personally convinced that the Agency will have to take its day-to-day control even further. In particular it will have to check on actual export performance, since some developing countries have

no satisfactory statistics and are liable to show export patterns unrecorded in any statistical terms.

34. Moreover, I have tried to explain, during our discussions on the deduction of overages, that this exercise will remain illusory unless the Agency also supervises the import policy of the country concerned, the management of its foreign exchange reserves and its exchange-rate policy.

35. It is clear that, however exorbitant and intolerable these requirements may appear, they are a necessary consequence of the connexion which supplementary financing seeks to establish between export performance and development plans, and the theoretically unlimited guarantee which it purports to provide for the execution of such plans.

36. However, it is to be feared that in addition the system will involve the developed countries in obligations which they will find difficult to accept. In this connexion I must distinguish between the obligations inherent in the system itself and those which, while deriving directly from it, remain outside it. The inner logic of the system requires that the developed countries should sign what amounts to a blank cheque in favour of supplementary financing. I do not, of course, wish to belittle the Bank's efforts to estimate the probable cost of the system, but neither do I forget that, as our discussions have shown, there would inevitably be a wide margin of uncertainty on the subject and that furthermore, as the Bank staff themselves acknowledge, the successive entry of new countries into the system might add considerably to the cost as estimated for the initial period.

37. Since the donor countries would be unable to accept so indefinite an undertaking, the Bank itself has been compelled to seek ways and means of setting limits to the operation of the system.

38. On this point there seem to be two hypotheses: firstly, that put forward by the Bank, according to which there would in theory be no limit to the scope of supplementary financing, though this would be accompanied by the very detailed and severe controls I have been describing, so as to prevent the burden from becoming too great; and secondly the hypothesis put forward by the delegation of the Federal Republic of Germany, which envisages lighter controls but assumes that the funds available to the Agency would be limited from the start. This implies, I take it, that some form of rationing would be applied if the needs proved to be greater than the resources available. What strikes us as even more serious than the cost of the Scheme itself is the extent of the additional commitments which member States are asked to make or at least to anticipate with regard to the basic financing of the recipient countries' development plans.

39. The requests that will inevitably be addressed to the donor countries in this connexion are already a source of concern to several delegations in this Group and, I think, rightly so. I am aware that the Bank representatives have told us that no formal legal undertaking would be requested of the donor countries on this point, but it is nevertheless a logical consequence of the system that, as a general practice, consortia, or at any rate consultative groups, would be set up to arrive at assumptions with regard to financing for periods of about five years.

40. However, as I have already said, however much goodwill the donor countries may show, it is impossible, both for political and budgetary reasons and for purely technical reasons, to make such assumptions.

41. The trouble is, as I said before, that the Scheme proposed to us is vitiated right from the start by the lack of any reasonable assurance concerning basic financing.

42. Lastly, it should not be forgotten that the responsibilities and burdens incumbent on the international agencies called upon to operate the system of supplementary financing will be no less heavy than those laid on the two categories of participating countries, and it is open to question whether these agencies can even find the resources needed to operate the system effectively.

43. The responsibility of these agencies - that is to say, of the administering Agency - relates both to export forecasting and to the policy package.

44. As I have already said, the task of formulating, for a large number of countries, export projections on the basis of which the Agency will assume financial responsibilities naturally requires that these projections should be mutually compatible - in other words, the Agency must allocate between the various exporting countries the probable capacity of the world market to absorb a given product. This amounts to organization of markets on a world-wide scale, but without any discipline in sales or marketing and without any penalties for countries which exceed their projections.

45. I am personally in some doubt that the Agency will be equipped to conduct the extremely delicate arbitration between developing countries that such an organization of markets would involve.

46. I shall do no more than mention for the record the difficulties that will beset the Agency in making projections concerning secondary products for which there is no international market but which will have to be taken into account because the system requires projections for all exports, not merely for those of a few basic commodities.

47. I also wonder how the Agency will allow for unexpected developments in fields in which a given country has not hitherto been an exporter.

48. A task far more difficult than formulating export projections, however, will be that of working out the policy package on which agreement must be reached with every country individually.

49. It would seem logical that the Agency, in accepting on behalf of the international community financial responsibility for the execution of the plans of a great many developing countries, should satisfy itself that those plans are mutually compatible.

50. Such regional co-ordination of development plans is, indeed, wholly desirable, and I am aware that several international organizations have already taken the matter up. In the present case, I think that it is moreover an essential requirement for the working of the system.

51. I merely doubt whether the Agency will have the means or authority to gain acceptance from its associates of the necessary arbitration concerning the most rational course for their development, as judged from a multi-national standpoint.

52. In the last analysis it seems quite clear to me that the Scheme as proposed to us will not really work, and that one or other of the parties concerned must sooner or later compromise on the principles it contains. This is what prompted me to say, a little while ago, that the Scheme before us seemed to me something of a monster and, all things considered, not very viable in its present form.

53. Before concluding I should like to explain what seems to me to be the root cause of our present difficulties.

III. The cause of the difficulties

54. Their cause appears to be the introduction of the variable factor "development" into a scheme for compensating export earnings.

55. The best way to explain the difficulties is, I believe, to draw a comparison between the IMF system and that now proposed by the Bank.

56. The compensatory financing provided by the International Monetary Fund is, in my view, logical because it is suited to its purposes. All it involves is automatic compensation for annual fluctuations in export earnings above or below a line which is continuously adjusted to actual performance.

57. It takes the form of balance-of-payments or liquidity assistance which is provided without any special allocation of funds.

58. Lastly, it entails short-term repayment, as a priority charge on any export overages that may occur.

59. The supplementary financing system, on the other hand, seems to me too ambitious to be feasible. It compensates for only one of the elements that may be lacking in the development process and, designed as a form of assistance to development on highly liberal terms, it must be of a residual nature which can only limit its effectiveness.

60. The fact that it is designed to supplement only one of the basic elements of development has had the immediate effect - as I have already pointed out - of forcing the Bank, from the very outset, to break out of this unduly narrow framework and seek to obtain, if not pledges, at least reasonable assurances with regard to basic financing. That is certainly a logical development of the system; but it would be no less logical - and I say this without irony - for the Agency also to seek guarantees against drought and revolutions.

61. Another consequence of the piecemeal nature of supplementary financing is that it cannot be applied automatically; the representatives of the Bank have explained this to us, and I am very grateful to them for doing so. They have also told us repeatedly that there is no question of over-financing: in other words, of granting assistance in excess of requirements.

62. However, I note that the Bank still has not given us a line of reasoning or described a method of calculation that the Agency might use in fixing the amount of such supplementary financing, which is to form a sort of bridge between an objective quantity such as an observed shortfall in exports and a much more subjective and imprecise quantity such as the disorganization of a development plan.

63. I should like to believe that the Agency's staff will be able to resolve these difficulties, but for the moment I cannot help thinking that this calculation is like trying to work out the captain's age from the height of the mainmast.

64. Moreover, if we assume that this calculation is feasible, I wonder how it would be applied in the years following a first operation of supplementary financing which failed to give the development plan a fresh start.

65. The method of calculation, however, is not the only question of application raised by the hybrid nature of supplementary financing. We have been told that this financing as a form of assistance to development, must be granted on very liberal terms as regards repayment and rates of interest. Because it is not, in principle, tied to any specific project and therefore also constitutes a form of balance-of-payments assistance, it will be especially sought after by the developing countries; this explains why, in the Bank Scheme, it is hedged about by so many precautions and safeguards, and why, in particular, it must be residual in character and be brought into operation only after all other possible sources of financing have been exhausted.

66. Yet we have also been told that, since its purpose is to compensate for a lack of earnings, it must be granted quickly enough to prevent the disorganization of development plans.

67. Personally I fear that there is a serious contradiction between the speed of operation considered desirable and the residual nature which the very principles of the Scheme require it to possess.

68. I do not wish to take up my colleagues' time by dwelling on the many technical difficulties already indicated by various delegations, but I am convinced that further study would make it clear beyond any doubt that many of these difficulties stem precisely from the ambiguous nature of the system; and the severest criticism we can level at this plan is that it rests on a fundamental misconception. We fear that in practice it will result in an arbitrary distribution of international aid and that it will inevitably reduce, as the observer from Nigeria rightly warned, the amount of assistance provided through traditional channels because, after all, the contributing capacity of the donors is limited in any case.

69. For all these reasons, we wonder whether UNCTAD is not off course in seeking to institute a scheme which is so cumbersome and so inadequate for its purposes.

70. We for our part would prefer a greater effort on behalf of the developing countries to be made in two other directions.

71. The first direction, as we see it, should be that of an increase in basic assistance, which could easily be obtained if donor countries abided by the rule laid down at the first UNCTAD session that a minimum of 1 per cent of their national income should be set aside for international aid.

72. The second direction in which we ought to exert ourselves is, in our own view, towards organization of the markets for the principal commodities, for the purpose of long-term stabilization of the prices of those commodities on the international markets.

73. For the developed countries, such an arrangement would have the merit of dividing the burden of the necessary efforts among all consumers throughout the world, instead of placing it all on the budgets of a few countries. It would have the further merit of obliging the developing countries to accept a certain discipline in marketing and production and thus to begin the diversification of activities - the only worthwhile way to set about solving the problem of raw material prices.

74. For the developing countries, furthermore, the stabilization of raw material prices would have the advantage of halting the deterioration in the terms of trade, while leaving them the masters of their foreign exchange resources and economic policy. Again, it would provide them with a genuine remedy, whereas supplementary financing can hardly claim to be more than an anaesthetic.

75. What we are afraid of is that, if countries whose economy suffers from a decline in export earnings become addicted to the morphine of supplementary financing, it will grow more and more difficult to apply the true remedies later on. There are several reasons for this. We think that, once the developed countries had agreed to bear the burden of supplementary financing, they would be somewhat averse to making a second financial effort in order to stabilize the prices of raw materials. We also fear that the developing countries, lulled by the false security of supplementary financing, would be less inclined to accept the discipline of production and diversification which is essential to market organization. Lastly, as I suggested at the beginning of my statement, it is open to question whether the elements of rigidity imparted to the economy by supplementary financing might not make bad conditions on the international markets even worse, in that the Scheme would not do enough to discourage the expansion of lines of production already in surplus.

76. Priority should therefore be given to the stabilization of raw material prices and to a general increase in basic aid.

77. If these aims were even partly achieved, the situation would be completely different and we should doubtless be able to turn a more understanding eye, if the occasion arose, upon the possibility of granting whatever compensation might prove necessary to such few countries as were unable, for one reason or another, to derive sufficient benefit from the organization of markets.

78. But what appears to us to have been lacking so far is the political will to embark on the course I have just outlined.

ANNEX D

Comments by Mr. James Mark (delegation of the United Kingdom) on the tasks of the Group in relation to the Scheme proposed by the International Bank (16 February 1967)

1. I have asked for the floor because my delegation has formed the view that the statement by the distinguished delegate of France yesterday afternoon raises some general issues relating to the work of this Group which we think need to be clarified. We heard a full and formal statement from our French colleague, if I have understood him correctly, of at least the provisional views of his Government on the supplementary financial measures scheme. I do not wish to amend the comments which I made yesterday about the substance of that statement. My remarks are addressed to the implications for our work of a statement of this kind.

2. We should perhaps remind ourselves that we are asked in our terms of reference to examine the Bank's scheme and report on it as a means of achieving the objectives of Part A of recommendation A.IV.18. It is clear that the examination of the Bank's scheme and its suitability as a means of implementing the recommendation must involve us in a number of judgements about what is and what is not acceptable to governments.

3. We are not a group of experts in the usual sense. We are officials of governments with some knowledge of what is likely to be acceptable to governments generally, including our own. A famous British politician said that Ministers exist to tell civil servants what the public won't stand for. One could put this round the other way, and say that groups such as ours exist to guide governments on what the practical difficulties are in schemes such as that which we are studying, and what the points of decision will be which face them. We do not ignore the political decisions which are involved in such a scheme. But there is no need for members of the Group to express the views of their governments at this stage. Of course, they have every right to do so, although one would hope that in doing so they would not pre-judge the outcome of our work.

4. Let me make the point clearer by suggesting that there are three kinds of comment which governments themselves might wish to express on the Scheme.

(a) The first is on its political and administrative feasibility. Can a scheme of this kind be operated, or does it need modification? This kind of comment includes its relationship to existing aid programmes and international financial arrangements.

(b) The second is its compatibility with other policies which governments may wish to pursue in the fields with which the scheme has to do.

(c) The third is their view of its priority as a claim on the resources which they feel that they can make available for aid.

5. The paper by the delegation of the Federal Republic of Germany was concerned mainly with the first problem. The statement by the distinguished delegate of France covered all three of these types of comment. He is, of course, perfectly free to do so, and it may well be helpful to the Group to hear what individual delegates wish to say about the views of their governments on all these matters. But I submit that our Group is directly concerned only with comment of the first kind, though that certainly includes a great deal. We have to see whether we can put forward a scheme which we think will work, even if it contains many points on which we must indicate that further discussion and negotiation will be necessary. Our governments will then, no doubt, form their views on all three of the matters I have mentioned. But there is no need for them to do so at this stage. Indeed many might prefer to await whatever report we produce before doing so. It is not my understanding that it is our duty as members of this Group to represent the views of our governments, nor that such views would be expressed in our report.

6. I would hope that governments generally will not form hasty views on a scheme which the group has not yet put forward. I think that we need to wait and see what the scheme is likely to look like before we form firm views on it.

7. May I even suggest, finally, that this consideration should influence the nature and extent of discussion in the Committee on Invisibles and the Board? Countries not represented here will no doubt wish to express their views on our reports, but my delegation hopes that the discussion will not go too far, it would be a pity if attitudes were to be taken up before the material is available on which judgements should be based.

ANNEX E

List of participants

MEMBERS

ARGENTINE

Representante: Sr. Teodoro Alfonso FERNANDEZ
Jefe del Departamento de Organismos y Cooperación Internacional del Banco Central

BRESIL

Représentant: M. Carlos Eduardo MAURO
Chef de la Division de balance des paiements de la Banque centrale de la République

Représentant suppléant: M. Marcelo RAFFAELLI
Secrétaire d'Ambassade
Ambassade à Washington

Conseiller: M. Paulo Roberto BARTHEL-ROSA
Secrétaire d'Ambassade
Mission permanente, Genève

CEYLAN

Representative: Mr. R.C.S. KOELMEYER
Permanent Representative, Geneva

Alternate representative: Mr. Lal JAYAWARDENA
Economic Adviser
Ministry of Planning and Economic Affairs

ETATS-UNIS D'AMERIQUE

Representative: Mr. Jo W. SAXE
Associate Assistant Administrator for Multilateral Aid Programs
Agency for International Development

Advisers: Mr. E.J. FINKEL
Deputy Director
Office of International Financial Policy Coordination and Operations
Treasury Department

Mr. W.F. COURTNEY
Chief of Division
Office of Monetary Affairs
Department of State

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Représentant:	M. S. ALLAIN Administrateur civil au Ministère de l'Economie et des Finances
Conseillers:	M. J.X. CLEMENT Conseiller d'Ambassade Représentant permanent adjoint, Genève
	M. C. BEAURAIN Administrateur civil au Ministère de l'Economie et des Finances

GHANA

Representative:	Mr. J.A. KUNTOH First Secretary Permanent Mission, Geneva

INDE

Representative:	Mr. K.G. VAIDYA Joint Director Ministry of Commerce
Alternate representative:	Mr. V.C. SHAH Economic Adviser, Embassy, Brussels

JAPON

Representative:	Mr. Sashichiro MATSUI Minister United Nations Bureau Ministry of Foreign Affairs
Advisers:	Mr. Shozo KADOTA Secretary Economic Affairs Section United Nations Bureau Ministry of Foreign Affairs
	Mr. Kinya KATSUKAWA Secretary Overseas Investment Section International Finance Bureau Ministry of Finance
	Mr. Chusei YAMADA First Secretary Permanent Mission, Geneva
	Mr. Masatoshi OHTA Second Secretary Permanent Mission, Geneva.

JAPON (suite)

Advisers: (suite)	Mr. Koichi KIMURA Secretary Economic Affairs Section United Nations Bureau Ministry of Foreign Affairs
	Mr. Sosuke KAWAHARA Secretary Export Insurance Section Trade and Development Bureau Ministry of International Trade and Industry

POLOGNE

Representative:	Mr. W. PLAWECKI Deputy Director Ministry of Finance
Alternate representative:	Mr. J. BILINSKI Ministry of Foreign Trade

REPUBLIQUE ARABE UNIE

Representative:	Mr. Hussein Kamel BADR Deputy Director Department of Research Central Bank of Egypt
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	Mr. Mohamed Roushdy ABDEL-KADER Secretary Permanent Mission, Geneva

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Alternate representative:	Mr. Hans SCHUSSLER Federal Ministry of Economic Affairs
Advisers:	Mr. Hubert LINHART Federal Ministry for Economic Cooperation
	Mr. Hans-Otto SCHULTE Federal Ministry of Finance

ROYAUME-UNI DE GRANDE BRETAGNE ET D'IRELANDE DU NORD

Representative:	Mr. James MARK Under-Secretary of State Ministry of Overseas Development
Advisers:	Mr. P.H.R. MARSHALL Counsellor Permanent Mission, Geneva
	Mr. R.H. CASSEN Economic Division Ministry of Overseas Development

SUEDE

Representative:	Mr. John L. MYRSTEN Head of Section Ministry of Finance
Advisers:	Mr. H. EWERLOF First Secretary of Embassy Permanent Mission, Geneva
	Mr. B. WRANGMARK Head of Section Board of Commerce
	Mr. B. KJELLEN First Secretary Ministry for Foreign Affairs

YOUGOSLAVIE

Representative:	Mr. Mirko MERMOLJA National Bank of Yugoslavia
Advisers:	Mr. KAZIMIR VIDAS Counsellor Permanent Mission, Geneva
	Mr. Ratoljub DODIC Counsellor Federal Secretariat for Finance
	Mrs. Nada ZIVANOVIC Head of Section National Bank of Yugoslavia

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Observers:	Mr. G.C. VAN WIJK Embassy, Berne
	Mr. H. HEESE Permanent Mission, Geneva

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Chargé d'affaires a.i.
Mission permanente, Genève

M. Rachid HANNOUZ
Attaché
Mission permanente, Genève

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Financial Counsellor
High Commission, London

Mr. P.J. FLOOD
First Secretary
Embassy, Paris

AUTRICHE

Observer: Mr. Johannes POTOCNIK
Secretary
Permanent Mission, Geneva

CANADA

Observer: Mr. D.S. McPHAIL
Counsellor
Permanent Mission, Geneva

CHILI

Observador: Sr. Carlos de COSTA-NORA
Secretario
Misión Permanente, Ginebra

CHINE

Observer: Mr. HUANG Yen-chao
Third Secretary
Permanent Mission, Geneva

CONGO (REPUBLIQUE DEMOCRATIQUE DU)

Observateur: M. Gustave MULENDA
Premier secrétaire
Mission permanente, Genève

COSTA RICA

Observador: S.E. Sr. Carlo DI MOTTOLA BALESTRA
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Misión Permanente, Ginebra

DANEMARK

Observer: Mr. E. Hübertz CHRISTENSEN
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	Sr. Juan MORO LOPEZ Ministerio de Hacienda
	Sr. Carlos FRANCO BOBES Misión Permanente, Ginebra

FINLANDE

Observer:	Mr. Esko LIPPONEN Secretary of Embassy Permanent Mission, Geneva

GRECE

Observateur:	M. Georges PAPOULIAS Délégué permanent adjoint, Genève

GUATEMALA

Observador	Sr. Eduardo PALOMO ESCOBAR Representate Permanente, Ginebra

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Observateur:	M. Talal PACHACHI Troisième secrétaire Mission permanente, Genève

IRAN

Observateur:	M. Ali-Asghar BAHRAMBEYGUI Troisième secrétaire Mission permanente, Genève

ISRAEL

Observateurs:	Mlle Hava HARELI Réprésentant permanent adjoint, Genève
	M. Itzhak SHEFI Adjoint principal au Directeur de Département Ministère des affaires étrangères

ITALIE

Observateur:	M. Augusto ZODDA Ministère du Trésor

JAMAIQUE

Observer:	Mr. P.V. MARSH Counsellor Permanent Mission, Geneva

NIGERIA

Observers:	Mr. M.T. ADEBANJO Permanent Mission, Geneva
	Mr. E.G.O. BEECROFT Permanent Mission, Geneva

NORVEGE

Observer:	Mr. M. HELLE Counsellor Ministry of Foreign Affairs

NOUVELLE-ZELANDE

Observer:	Mr. N.H.S. JUDD Second Secretary Permanent Mission, Geneva

PAKISTAN

Observer:	Mr. Akhtar MAHMOOD First Secretary Permanent Mission, Geneva

PAYS-BAS

Observer:	Mr. A.P.R. JACOBOVITS DE SZEGED Permanent Mission, Geneva

PEROU

Observadores:	Sr. Luis MARCHAND STENS Representante Permanente Alterno, Ginebra
	Sr. Oswaldo DE RIVERO Segundo secretario Misión Permanente, Ginebra

PHILIPPINES

Observer:	Mr. Felipe MABILANGAN, Jr. Third Secretary Permanent Mission, Geneva

REPUBLIQUE DE COREE

Observers:	Mr. Hakoo YEON Minister Permanent Mission, Geneva
	Mr. Dong Ik LEE Third Secretary Permanent Mission, Geneva

REPUBLIQUE DU VIET-NAM

Observateur:	M. LE VAN LOI Représentant permanent, Genève

ROUMANIE

Observateurs:	M.. Ion PAH Deuxième secrétaire Mission permanente, Genève
	M. Costel MITRAN Deuxième secrétaire Mission permanente, Genève

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Observateur:	Mr. Moustapha FALL Directeur adjoint du Commerce Ministère du Commerce

SUISSE

Observateurs:	M. Hans BUHLER Vice-directeur de la Division du Commerce du Département fédéral de l'économie publique
	M. Arthur DUNKEL Adjoint à la Division du commerce du Département fédéral de l'économie publique

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TURQUIE

Observers:	Mr. Uner KIRDAR First Secretary Permanent Mission, Geneva
	Mr. Oktay AKSOY First Secretary Permanent Mission, Geneva

VENEZUELA

Observador:	Sr. Adolfo Raul TAYLHARDAT Ministro-Consejero Misión Permanente, Ginebra

ZAMBIE

Observer:	Mr. W.K. SIKALUMBI Trade Commissioner (Western Europe)

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BANQUE INTERNATIONAL POUR LA RECONSTRUCTION ET LE DEVELOPPEMENT	Mr. Irving S. FRIEDMAN The Economic Adviser to the President
	Mr. Nori SARMA Economist Office of the President
	Mr. Roger ADAMS Economist Economics Department
	Mr. Heinrich J. ZIEGLER European Office
FONDS MONETAIRE INTERNATIONAL	Mr. John Marcus FLEMING Deputy Director Research and Statistics Department
	Mr. Edgar JONES Representative, Geneva Office
	Mr. Asahiko ISOBE Geneva Office

INTERGOVERNMENTAL ORGANIZATION

ORGANISATION DE COOPERATION ET DE DEVELOPPEMENT ECONOMIQUES	Mr. Francis BLACK Counsellor for Special Studies Secretary-General's Private Office
	Mr. D. BEIER Administrator Development Department

NON-GOVERNMENTAL ORGANIZATION

CHAMBRE DE COMMERCE INTERNATIONALE	M. Jean ROYER Conseiller en politique commerciale internationale près la CCI
	M. Jacques L'HUILLIER Représentant permanent de la CCI auprès de l'Office Européen des Nations Unies

FORM NO. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: April 20, 1967

FROM: N. A. Sarma N. A. Sarma

SUBJECT: UNCTAD Committee on Invisibles and Financing related to Trade: April 1967: New York.

I attended the meetings for a few days, when Supplementary Financing came up for discussion. Attached hereto is a brief report.

cc: Messrs. Kamarck
Macone
Sundrum
Jalan
Adams
Prof. Isaiah Frank

[illegible] ISF

1. Supplementary Financial Measures and the Horowitz Proposal were discussed in a sessional committee, with Mr. Jo Saxe of the U.S. delegation as Chairman. It was decided to convene the next (third) session of the Intergovernmental Group on Supplementary Financing in Geneva in October, for over two weeks, commencing about the middle of the month. There is also a possibility of a short fourth session of the Group being held early in December 1967 for adopting its report.

2. There was no substantive discussion of supplementary financing at these meetings; no specific questions were raised, as it was suggested by the Chairman that such questions could be forwarded to the Expert Group for consideration at their next meeting. General statements were made, especially by those who are not members of the expert group.

3. The German representative reiterated that the Bank Staff proposals were too ambitious and too complicated. Australia was quite skeptical of the idea itself. Switzerland referred to questions of coordination between supplementary finance and compensatory finance, and the need for parallel efforts for commodity agreements. Canada raised a question whether supplementary financial assistance was a better form than more general development aid in considering increments to total aid; the Indian representative stressed that the question had not so far been raised, and need not be raised, as to whether supplementary financial assistance was better, but it should be clear that this assistance was in fact supplementary to basic development finance. Italy thought that the amounts involved and the means of securing this finance were important, and the Expert Group should also consider which countries were likely to receive supplementary financing. Argentina categorically stated that it was very much in favor of the Bank Staff proposals. Spain

was of the view that supplementary finance should correspond to intermediate or medium-term financing, rather than long-term basic development finance. Israel referred to the complex nature of the scheme proposed by the Bank Staff, but the usefulness of the scheme was not in doubt. The U. K. representative was of the view that the case for the scheme still held good; further information on cost estimates was, however, called for. He also referred to the need for a careful assessment of the timing of the scheme, in view of the discussions now under way for IDA replenishment. It was, again, precisely on this reasoning that the U. S. representative suggested that the expert group should not meet before October. Many other countries also favored an October meeting. Belgium stressed the central importance of distinguishing and delimiting the roles of supplementary finance and compensatory financing facility; monetary, exchange and trade relationships should remain entirely in the hands of the Fund; supplementary finance itself could be considered one of the ways of helping in the solution of commodity problems. The Belgian representative also expressed interest in the German proposals, which needed close attention. France reiterated its objections to the principle of the scheme, as well as a number of technical difficulties. Sweden saw no conflict between commodity arrangements and supplementary finance; while welcoming any modifications, without altering the basis of the scheme, the Swedish representative expressed the view that the Bank Staff scheme was practicable.

4. Discussions showed, on the whole, that the respective countries continued to take rather familiar positions. The developing countries, Sweden, U. K. and some other developed countries, continue to support the

main features of the Bank Staff proposals; some of them would like further discussion of certain aspects, in particular cost estimates and policy package. The German proposals stand, as an alternative. France remains opposed to any such scheme.

5. It would seem to be generally appreciated that this subject is likely to be before the next UNCTAD in February - March 1968 prominently, and that, if approved, any scheme is unlikely to be formulated before the end of 1969.

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date March 20, 1967

NAME	ROOM NO.
Messrs. Woods	1220
Knapp	1220
Friedman ✓	1223
Hoffman	845

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

REMARKS

From Richard H. Demuth

File

Headquarters:
Washington, D.C., U. S. A.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
Cable Address - INTBAFRAD PARIS

INTERNATIONAL DEVELOPMENT ASSOCIATION
Cable Address - INDEVAS PARIS

EUROPEAN OFFICE:
4, AVENUE D'IÉNA, PARIS (16^{E}) — FRANCE
Telephone - 553-2510

March 17, 1967

Dear Dick:

The DAC meeting on Financial Aspects of Development Aid (Everts) is still going on. The detailed report will be sent to you next week.

One point, on IDA replenishment, may be of special interest to Mr. Woods and the President's Council. Yesterday afternoon, the Italian Delegate declared to the Working Party that the Italian Government would prefer to channel all or most of its aid in an untied form, possibly through an international agency (IDA) if other governments agreed to do the same.

Enclosed please find Ziegler's memorandum on this subject.

Yours very sincerely,

Arthur

Arthur Karasz

Encl.

Mr. Richard H. Demuth, Director
Development Services Department
International Bank for
Reconstruction and Development
Washington, D.C.

FORM No. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. A. Karasz

DATE: 17th March 1967

FROM: H.I. Ziegler

SUBJECT: Statement of the Italian Delegation during the 15th session of the DAC Working Party on Financial Aspects of Development Assistance.

During the before mentioned meeting the Italian Delegation (Mr. Scaramella) mentioned that his Government would be prepared to grant aid to developing countries on liberal terms under the condition that the amounts transferred will be untied as well as channeled through international agencies and that other DAC members do the same.

Mr. Scaramella pointed out that this idea would also, within certain limits, apply to IDA replenishment. Furthermore the Italian Government would be prepared to give this liberal aid within the context of consortia and consultative groups on the same conditions.

FORM No. 89
(9-62)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date March 15,1967

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Adams	1016

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

Please summarize the attached for
Mr. Friedman.

From Irving S. Friedman

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

March 15, 1967

Copies have been sent to the following:

Mr. Kamarck
Mr. Sarma
Mr. Sundrum
Mr. Frank
Mr. Macone
Mr. Adams
Mr. Jalan

Mr Friedman

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBD/67/45

Donald D. Fowler
Deputy Secretary

Secretary - Bank

Room 211

#12

March 9, 1967

To: Members of the Executive Board

From: The Secretary

Subject: UNCTAD Progress Report on Activity Relating to International Monetary Reform

Attached for the information of the Executive Directors is the preliminary draft of a report prepared by the Secretary-General of UNCTAD on the above subject. The document is to be issued in substantially this form for the April meeting of the UNCTAD Committee on Invisibles and Financing Related to Trade. While some editorial changes may be made in this text before it is officially released by UN, these changes are expected to be marginal.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

Distr.
GENERAL

TD/B/C.3/
February 1967

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fifth session
Committee on Invisibles and Financing Related to Trade
Second session
New York, 4-19 April 1967
Item 6 of the provisional agenda

PROGRESS REPORT ON ACTIVITY RELATING TO INTERNATIONAL MONETARY REFORM

A report prepared by the Secretary-General
of UNCTAD in accordance with General Assembly
Resolution 2208 (XXI)

PROGRESS REPORT ON ACTIVITY RELATING TO
INTERNATIONAL MONETARY REFORM

Introduction

1. The first United Nations Conference on Trade and Development recommended that the Secretary-General of the Conference should convene a group of experts "to consider the international monetary issues relating to problems of trade and development with special reference to the objectives and decisions of this Conference, and devoting particular attention to the needs of the developing countries in their trade with one another and the rest of the world." 1/ The Conference also recommended that the report of the Group should be transmitted to the Trade and Development Board as well as the General Assembly of the United Nations and to the international and regional monetary organizations.

2. The Group of Experts met in New York from 11 to 29 October 1965 and its findings are contained in its report entitled "International Monetary Issues and the Developing Countries." 2/ The summary of main conclusions of this report is given below:

(a) "There is need for a reform of the international monetary system that would make it more responsive to the needs for economic growth of both developed and developing countries."

(b) "The reform should go hand in hand with, and should facilitate, the adoption of trade and aid policies that would contribute to the solution of the problem of structural disequilibrium of developing countries."

(c) "There appears to be a prima facie case that the general level of reserves is inadequate, or in imminent prospect of becoming so."

(d) "The developing countries have a legitimate and pressing need for additional liquidity. This should be provided in part through the expansion of reserves and in part by increasing the amount of credit facilities available from the Fund and other sources."

(e) "It is both feasible and desirable to establish a link between the creation of international liquidity and the provision of development finance, without detriment to either process."

1/ Final Act of the United Nations Conference on Trade and Development, Annex A.IV.19.

2/ TD/B/32. United Nations Sales No. 66.II.D.2.

(f) "The reform of the international monetary system should be truly international."

(g) "Developing countries should be represented in the discussions leading up to monetary reform, and in the operation of the new arrangements, in accord with the degree of their interests and concern."

3. This report was considered by the Committee on Invisibles and Financing related to Trade both at the first session held in Geneva from 6 to 22 December 1965 1/ as well as at the special session held in New York from 27 January to 4 February 1966.2/ During the special session the developing countries, at the conclusion of the discussion, jointly presented a memorandum to the Committee setting forth their position on international monetary issues.3/ The Committee while deciding to keep the item on the agenda for consideration "at such time as the Committee considers appropriate" recommended the Board to "transmit these documents together with the documents on the subject laid before the Board regarding the first part of the first regular session, to the international monetary institutions for their due consideration."4/ The Trade and Development Board at its third session approved this recommendation.5/

4. At its twenty-first session the General Assembly of the United Nations adopted a resolution on International Monetary Reform which among other things requested "the Secretary-General of the United Nations Conference on Trade and Development to consult with the Managing Director of the International Monetary Fund on the progress of activity relating to international monetary reform and to report to the Trade and Development Board at its fifth session through the Committee on Invisibles and Financing related to Trade."6/ The present report has been prepared by the Secretary-General of UNCTAD in pursuance of this directive and in the light of consultations with the Managing Director of the International Monetary Fund. In accordance with the

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1/ TD/B/42 (TD/B/C.3/15)

2/ TD/B/57 (TD/B/C.3/18)

3/ TD/B/C.3/L.28 and Corr.1 and Corr.2

4/ TD/B/57 (TD/B/C.3/18), p.8, para.21

5/ TD/B/66, p.21, para.57

6/ General Assembly resolution (International Monetary Reform) 2208 (XXI).

resolution of the Generaly Assembly, the Secretary-General of UNCTAD proposes to submit this report to the Trade and Development Board at its fifth session, taking into account any further developments that may occur subsequent to the second session of the Committee on Invisibles and Financing Related to Trade.

5. Two interrelated aspects of the problem of international monetary reform have recieved great attention in recent years, namely, the need for an improvement of the adjustment process and the problem of the adequacy of international liquidity.

6. As regards the adjustment process, it is generally agreed that while fluctuations in the balance of payments may be unavoidable, the persistence of disequilibria could affect the soundness of the international monetary system. "Insufficient adjustment efforts by deficit countries may put an undesirable burden on the real resources and monetary stability of other countries and thereby contribute to inflationary tendencies in the world. On the other hand, the absence of appropriate efforts by surplus countries towards reaching equilibrium may result in a large-scale accumulation of reserves by these countries, leading to deflationary and restrictive international policies elsewhere."1/

7. The International Monetary Fund has a continuing interest in the elimination of persistent imbalances and to that end it advises member countries on the adoption of appropriate adjustment policies. The OECD is also pr[eoc]cupied with the improvement of the adjustment process and its Working Party 3 has recently reported on this subject.2/

8. The supply of international reserves has an important bearing on the functioning of the adjustment process. While excess liquidity may permit undue delay in the process of adjustment and thereby add both to inflationary tendencies and to persistent payments imbalances, an inadequacy of reserves may force countries into harsh and abrupt adjustments, such as restrictions both on the level of domestic activity as well as on foreign transactions, thereby endangering the objectives of growth and stability of the world economy. Thus quick adjustments may sometimes be effected only by sacrificing otherwise desirable and attainable objectives of policy. A world threatened with a general shortage of reserves would be liable to suffer from widespread deflationary pressures, rigorous controls on trade and payments and instability of exchange rates.

9. Questions of international liquidity are being discussed both within the International Monetary Fund as well as in the Group of Ten and Switzerland, which comprise the industrialized countries that are the Fund's

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1/ Group of Ten, Report of Deputies, July 1966, para. 12

2/ OECD, The Balance of Payments Adjustment Process: A Report by Working Party No. 3 of the Economic Policy Committee, Paris, August 1966.

partners in its General Arrangements to Borrow.[1/] Hitherto, the Fund had kept in touch with the Group of Ten through the participation of its Managing Director in meetings of Ministers and Governors of the Ten and of staff members at meetings of the Deputies. Recently, direct contact has also been established between the Group of Ten on the one hand and Executive Directors of the Fund on the other through a series of joint informal meetings. The first series of joint meetings were held on 29 and 30 November 1966 in Washington and the second series took place on 25 and 26 January 1967 in London. The discussions at these meetings are reported to be still in an exploratory rather than a negotiating stage.[2/] As such, no firm or agreed scheme has yet emerged from the discussions. Consequently, the present report goes no further than setting out the various issues under debate.

The Need for Additional Reserves

10. It is usual in discussions of international liquidity to distinguish between conditional and unconditional liquidity, or between credit facilities and reserves.

11. Countries' reserves consist of monetary authorities' holdings of gold and foreign exchange. In addition, the I.M.F. practice is to include member countries' gold tranche positions in the Fund in reporting the state of their reserves. This rests on the consideration that since drawings on the I.M.F. within the limits of the gold tranche are almost automatic, they are for all practical purposes on a par with reserves of gold and foreign exchange held by member countries. However, not all countries follow the I.M.F. practice in reporting the level of their reserves. At the end of the third quarter of 1966, reserves of gold and foreign exchange of Fund member countries amounted to about \$64 billion. In addition, member countries' reserve positions in the Fund totalled slightly over \$5 billion.

1/ The General Arrangements to Borrow constitute an agreement between the Fund and the Group of Ten and Switzerland under which the members of the Group of Ten and Switzerland have agreed to lend their currencies to the Fund up to specified amounts. The currencies so loaned can be utilized by the Fund only when the lending country and the Fund are agreed that such additional resources are necessary. These arrangements were first negotiated for a period of four years beginning October 1962. They extended for a further period of four years from October 1966. The members of the Group are: Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom and United States.

2/ Statement to the Press by Dr. Otmar Emminger, Chairman of the Deputies of the Group of Ten and Co-Chairman of the joint Meetings of the Executive Directors of the Fund and the Deputies of the Group of Ten, on 26 January, 1967.

12. The IMF is the most important single source of conditional liquidity in the world. Since drawings on the Fund are related to member countries' quotas, the total of Fund quotas is a measure of total Fund facilities potentially available to members to meet temporary balance of payments difficulties. After the quota increases which became effective in 1966, the total of Fund quotas rose from the equivalent of about $16 billion in 1965 to about $21 billion. The Fund's stock of convertible currencies and hence its capacity to discharge its functions has been strengthened by access to supplementary resources worth about $6 billion available to it from the Group of Ten and Switzerland under the General Arrangements to Borrow.

13. Most countries do not regard credit facilities and reserves as interchangeable. Reserves make possible a greater degree of independence and flexibility in the formulation and execution of policies than corresponding access to credit, which is granted on a discretionary basis and subject to the fulfilment of certain conditions. The growing concern with regard to the adequacy of reserves cannot therefore be met fully through a further extension of credit facilities.

14. The growth of world reserves has slowed down markedly since the end of 1964 and whatever increase has taken place since then has been due essentially to an increase in member countries' gold tranche positions in the Fund. The foreign exchange component of the reserves of Fund member countries during the third quarter of 1966 was lower than at the end of 1964 and reserves held in the form of gold remained virtually constant.

15. Under the present international monetary system, the growth of world reserves depends largely on the supply of monetary gold and deficits in the balance of payments of reserve currency countries, namely, the U.S.A. and the U.K. In recent years, U.S. balance of payments deficits have been the most important source of additions to the world's foreign exchange reserves. Given the levelling off in the rate of growth of world gold production (excluding the socialist countries) as well as the intense non-monetary demand for gold, there seems little prospect that the flow of gold into official monetary holdings will rise sufficiently in the years ahead to meet reserve requirements. As regards the foreign exchange component of reserves, there is a growing conviction that "large U.S. deficits are not a satisfactory

source of future reserve increases for the rest of the world nor are they acceptable to the United States".[1] Recently, reserves held in the form of foreign exchange have declined despite continuing deficits in the balance of payments of reserve currency countries, reflecting conversions of foreign exchange holdings into gold. This suggests that these deficits cannot be relied on to add to the supply of world reserves.

1/ Communiqué of the Ministerial Meeting of the Group of Ten on July 25th and 26th 1966.

16. The adequacy of any given level and rate of growth of reserves is in the final analysis essentially a matter of judgment in relation to the prevailing symptoms of the international economy. Some of the symptoms of inadequacy of reserves have been listed in the Report of the Study Group on the Creation of Reserve Assets by the Group of Ten. In the words of this report:

> "An indication that reserves are inadequate might be found in a reluctance to extend inter-governmental credit, or in an increasing propensity to seek credit, in preference to parting with reserve assets. Clearer evidence of a general scarcity might be found in a marked tendency to make maintenance, increase or restoration of reserves an overriding objective of economic policy, taking priority over other fundamental objectives, such as economic growth, a high level of employment and freedom of international trade. Indeed, a general scarcity might well have been permitted to develop too far when such tendencies became evident. In that situation, the anxiety to retain or increase reserves would probably lead countries to adopt excessively restrictive policies to prevent the emergence of a payments deficit or to achieve a surplus. In such conditions, therefore, the absence of large imbalances would not necessarily be evidence that reserves were adequate." 1/

17. There are indications that many of these symptoms are now present in the world economy. The fact that aid to the developing countries has failed to increase materially during the past few years despite rapid economic growth in the industrialized countries, that aid is tied not only by deficit but by surplus countries as well, that progress in the reduction of tariff and non-tariff barriers to the flow of international trade is very slow and that competitive increases in interest rates have been taking place suggest that countries' policies are being increasingly influenced by their preoccupation with the state of their reserves.

18. One of the major findings of the UNCTAD expert group on international monetary issues was that "there appears to be a prima facie case that the general level of reserves is inadequate, or in imminent prospect of becoming so". 2/ A CIAP group of experts which reported in 1966 also concluded that developments that would indicate an incipient shortage of liquidity exist now and that "a shortage of reserves is a very real danger". 3/ The position of the IMF as recently stated by its Managing Director, is that "the period immediately ahead will be one of comparatively slow growth in international reserves" and

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1/ Para. 10.

2/ International Monetary Issues and the Developing Countries, TD/B/32, para.111

3/ International Monetary Reform and Latin America, report of the CIAP group of experts, CIES 892, 1966, p.10.

that "continuance of relatively slow growth in world reserves might well lead to strain in world payments.[1]

19. The Ministers and Governors of the Group of Ten in their Communiqué of 26 July 1966 took the position that while "there is at present no general shortage of reserves" it is unlikely that "the existing sources of reserves would provide an adequate basis for world trade and payments in the longer run."[2] Therefore, they agreed that "at some point in the future, existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets".[3] Accordingly, they decided to go ahead with their studies with a view to evolving an agreed contingency plan whose activation would have to satisfy such agreed requirements as "the attainment of a better balance of payments equilibrium between members and the likelihood of a better working of the adjustment process in the future".[4] The ultimate objective of the current discussions both within the Fund as well as in the Group of Ten is to evolve a suitable contingency plan.

20. The need for reserves and the aims and objectives of deliberate reserve creation came under discussion during the first joint meeting of the Executive Directors of the International Monetary Fund and Deputies of the Group of Ten held in Washington on 29 and 30 November 1966. It was generally agreed that the creation of reserves should respond to global needs and not the balance of payments needs of individual countries.[5] There was also general agreement that the need for additional reserves should be established on the basis of an assessment of secular trends and that the provision of such reserves should not be used as an anticyclical device for influencing the general economic condition of the world.[6]

1/ Address before the Economic and Social Council of the United Nations, 19 December 1966.

2/ Communiqué of the Ministerial Meeting of the Group of Ten on July 25th 26th. 1966.

3/ Ibid.

4/ Ibid.

5/ Statement to the Press by Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund and Co-Chairman of the joint meetings of the Executive Directors of the Fund and the Deputies of the Group of Ten, on 30 November 1966.

6/ Ibid.

Nature and form of new reserve asset

21. Although there appears to be a large measure of agreement that the new reserve asset should be held only by monetary authorities and should not be an instrument for direct official intervention in the exchange market, there is still a considerable divergence of views on the most desirable form to be used in deliberate reserve creation. The principal choice seems to lie between the creation of additional quasi-automatic drawing facilities of a gold tranche type and the creation of a new reserve unit through an exchange of claims between a reserve-creating institution and countries to which the newly created reserves would be initially distributed. Both these forms are under discussion in the Fund as well as within the Group of Ten.

22. In the first type of scheme, a transfer of reserves would take place in the same way as in the process of using the existing drawing rights in the Fund. Under the existing Fund procedure, a country drawing upon its Fund facilities adds in the process an equivalent amount to the drawing rights of the country whose currency is being drawn from the Fund. However, the transfer of drawing rights is not automatic and the country planning such a drawing has to consult the Fund as to the selection of the currencies to be drawn. The advantage of this type of scheme is that it would employ techniques which are already well known and which could be implemented without amendment of the Articles of Agreement of the Fund. These features commend it to those who stress the desirability of building on the familiar foundations. However, there are others who consider that the discretionary element in the system of drawing rights would make it less acceptable than reserve units as a supplement to existing reserves.

23. Reserve assets created in the form of reserve units would in the normal case be transferable directly from one country to another. It is therefore felt by some that they would be "more in line with the reserve assets traditionally held by monetary authorities and would be more readily seen by them, by the markets and by the public at large as a supplement to gold".[1] Moreover, in the long run when countries might be holding a substantial part of their total reserves in the form of new reserve assets, units might be more suitable than drawing rights. For these reasons, most of the members of the Group of Ten are agreed that "a reserve unit should be brought into

[1] Group of Ten, Report of Deputies, July 1966, para. 54.

existence" and several members of the group consider that "the deliberate creation of supplementary reserves should, for the main industrial countries, take the form exclusively of units".[1]

24. The question of the nature and form of the new reserve asset, i.e., whether it should be in the nature of a drawing right or a reserve unit, was discussed at the joint meetings of the Executive Directors of the Fund and the Deputies of the Group of Ten. While prevailing differences of opinion on this matter were narrowed down to some extent, it is considered unlikely that this question will be settled before the last negotiating phase.[2]

25. The UNCTAD expert group on international monetary issues came out in favour of the creation by the Fund of new reserve assets to be called "Fund Units", and to be issued to all Fund members against national currencies contributed by them. The CIAP group of experts concurred in this view. In arguing the case for a new "owned" asset both for the developed as well as for the developing countries, the CIAP group stated that "credit facilities, even when of an unconditional nature, are not a complete substitute for 'owned' reserves".[3] "Repayment terms usually are at the discretion of the lender, and this can often cause considerable inconvenience, if not hardship, for the borrower. In the case of 'owned' reserves, whilst the obligation and necessity to replenish after use are not less than in the case of credit, this can be done at the convenience of the user."[4]

Distribution of the new reserve asset

26. The need for reserves is common to all countries, whatever their stage of industrialization or development. In fact, given the particular features of the trade of developing countries, the latter are in many cases more dependent on the use of reserves than are industrial countries. As is well known, primary commodities exported by developing countries are subject to greater short-term fluctuations in volume and prices than the manufactured goods that predominate in the exports of industrial countries. In addition, many developing countries find it difficult to adjust their imports in face

1/ Group of Ten, Report of Deputies, July 1966, para 57.

2/ Dr. Otmar Emminger, see above.

3/ Op. cit., p. 19.

4/ Ibid.

of a decline in foreign exchange receipts because a high proportion of these imports consists of capital goods, intermediate products and raw materials which are crucial for development.

27. Since all countries need reserves regardless of their stage of development, all those that are willing to accept the obligations of a reserve-creating scheme should be eligible to participate in the distribution of new reserve assets. To quote the reported views of some members of the Group of Ten and the Managing Director of the International Monetary Fund:

> "There is no clear basis for distinguishing _a priori_ between those countries that might, and those that might not, be in a position to accept the obligations of a reserve-creating scheme. Many countries, in different stages of development and throughout the world, have shown a willingness and capability to meet a major requirement underlying these obligations, namely, to achieve over time a balance between external deficits and surpluses; and indeed they have added to their reserves." 1/

28. At an earlier stage of negotiations, it had been suggested that the distribution of new reserves should be limited to a small group of industrialized countries. It was argued that since developing countries were , in general, persistent deficit countries, they would tend to use any increase in reserves that might be given to them to finance a higher level of investment. On the other side, it was pointed out that recent historical experience is an indication of the willingness of developing countries to hold reserves. In the words of the 1966 Annual Report of the International Monetary Fund:

> "The proportion of reserves to imports maintained by developing countries, though it has declined substantially compared with the early post-war years, is not now markedly lower than that of industrial countries, whose reserves have also declined in relation to trade. Moreover, in many of the developing countries, as indeed in the United States also, it has been influenced by the fact that in the early postwar years, these reserves stood at a relatively high level. These exceptional reserves have now almost universally disappeared and it is to be expected that most of the less developed countries will find it necessary to add to their reserves as their transactions expand. The expansion of developing countries' reserves in the past three years lends support to this view." 2/

1/ Group of Ten, _Report of Deputies_, July 1966, para. 65.

2/ _Op. cit._, p. 17.

29. At a later stage of discussions it was conceded that developing countries might participate in the creation of new liquidity, but not on the same basis as developed countries: what was proposed at this stage was a so-called "dual approach". Under the dual approach, only a small number of countries would participate in the creation and distribution of new reserve assets while the liquidity needs of non-participating countries would be met by giving them access to additional drawing rights in the IMF. It was felt that such an arrangement would ensure that the new liquidity was used only for the purposes for which it was intended.

30. An additional reason given for providing different types of liquidity for participating and non-participating countries was that countries with weak currencies could not offer collateral of the quality thought to be necessary for the backing of a new asset. It was felt that their participation in reserve creation would adversely affect the quality of the asset since the "full acceptance of such reserve units requires that they be backed by major trading and financial countries which, in the event of liquidation or withdrawal, would be able to convert them into other useable assets".1/ Against this argument, it was pointed out that the quality of any new reserve asset would depend primarily on the willingness of participants to accept and hold it. The collateral would be called upon only in the event of a winding up of the scheme, withdrawal of a member, or a decision to cancel part of the outstanding new reserve assets. It was also suggested that developing countries might be prepared to offer a gold value guarantee in respect of deposits of their national currencies against the creation of new reserve assets in their favour.2/

31. It now appears that earlier objections within the Group of Ten to a universal approach to the distribution of new reserve assets have been largely given up. Thus the Ministerial Communiqué of the Group of Ten of 26 July states that "there is agreement that deliberately created reserve assets, as and when needed, should be distributed to all members of the Fund on the basis of IMF quotas or of similar objective criteria."3/

1/ Group of Ten, Report of Deputies, July 1966, para. 60.

2/ Report of the Committee on Invisibles and Financing related to Trade on its special session, 27 January - 4 February 1966, TD/B/57 (TD/B/C.3/18), para. 5.

3/ Communiqué of the Ministerial Meeting of the Group of Ten on July 25th and 26th ~~July~~ 1966 in The Hague.

32. The rules for the distribution of new reserves were also discussed at the first joint meeting of the Executive Directors of the Fund and the Deputies of the Group of Ten held in Washington on 29 and 30 November 1966. It has been reported that there was a general consensus that any future deliberate creation of reserves should be on the basis of universality in the sense that the distribution of newly created reserves should be made to all the member countries of the Fund according to objective criteria such as on the basis of Fund quotas.1/

33. Although the principle of universality seems to have gained general acceptability, its effective implementation could still be hampered in a number of ways. One of these would be to lay down certain self-qualifying criteria under which a country would qualify for direct participation in a scheme to create a new reserve unit only if, for example, its currency had already been drawn from the Fund or used as a reserve currency. The acceptance of any such self-qualifying criteria would effectively limit the participation to a small number of countries. The UNCTAD expert group on international monetary issues came down heavily against prescription of self-qualifying criteria, regarding them as "arbitrary and unpredictable in their operation."2/ It pointed out that "Article VIII countries include some whose convertibility is more apparent than real, and drawings have been made through the Fund upon currencies of major industrial countries even at times when concerted efforts have been necessary to help settle their accounts."3/ The CIAP group of experts expressed similar views.

34. Another proposal which in effect would also involve a departure from the principle of universality would require that reserves created should be used in the first place to repurchase pro tanto any outstanding drawings on the Fund. Such a repurchase would, of course, restore to the countries concerned their previously used up drawing rights in the Fund. However, if accepted, this proposal would imply virtual discrimination since some countries would for the time being be provided with conditional liquidity (drawing rights in the Fund) as against unconditional liquidity (reserves) for others.

1/ Statement to the press by Mr. Pierre-Paul Schweitzer, Managing Director of the Fund and Co-Chairman of joint meetings of the Executive Directors of the Fund and the Deputies of the Group of Ten on 30 November 1966.

2/ Op.cit. para. 77.

3/ Ibid.

Acceptability and use

35. The acceptability of any new reserve asset to any individual participant would be primarily the result of obligations assumed by other participating countries to accept it. However, it has also been suggested that a new reserve asset would need to have certain additional features to enhance its acceptability such as a gold value guarantee and payment of interest.

36. It has also been proposed that a participating country should not be required to hold more of the new asset than an agreed multiple of its cumulative allocation, so as to make it possible for individual participants to avoid acquiring a disproportionate share of the assets. Obviously, this suggestion is relevant only if the creation of reserve assets is in the form of units. Under a drawing rights scheme a participating country's obligation to accept and hold the reserve asset would be limited by the size of the credit line which it would have to provide to the Fund. An alternative suggestion is that the acceptability of new units would be enhanced by providing for a transfer ratio linking the use of the new reserve unit to gold. In this case, each transfer of units would be accompanied by a specified transfer of gold.

37. The holding limit suggestion, if accepted, would necessitate either a recognition of the right to refuse acceptance of units beyond the limit or a mechanism for disposing of excess holdings of units. Under one proposal, "a participant acquiring units in excess of his holding limit could continue to hold such units, or, at his option, transfer them to an agent, who would redistribute them among other participants in exchange for their currencies, on the basis of appropriate criteria."1/ An alternative suggestion envisages that "excess holdings of units be converted under an agreed formula into gold provided by participants who are below their limits."2/ Under both these proposals it is envisaged that, as the units gained greater acceptability, there would be less need for holding limits and that these could ultimately be discarded.

38. Those who favour holding limits regard this method of enhancing the acceptability of reserve units as the one most consistent with the objective of creating an independent reserve asset. In their view, linking the use of new units to gold would compromise their standing as an independent and full supplement to gold. Those favouring a gold transfer ratio argue that "it would allow direct transfers of units between participants without any guidance by an agent; it would bring units nearer to an equal footing with gold than would holding limits; and it would make units more acceptable to monetary authorities,

1/ Group of Ten, Report of Deputies, July 1966, para 73.
2/ Ibid.

and more convincing to the market as a supplement to monetary gold."1/

39. The UNCTAD expert group on international monetary issues considered this question and came to the conclusion that the prescription of a gold transfer ratio "would lead the participants to take restrictive attitudes towards trade and payments and might also increase pressure on the reserve currencies (by conversions into gold), with actual harmful effects on development finance, international trade and economic growth." 2/

The price of gold

40. A basic assumption of studies being conducted in the Fund as well as within the Group of Ten has been that no change will be made in the price of gold in terms of currencies in general. The Ministerial statement of the Group of Ten of August 1964 reaffirmed the view of members that "a structure based, as the present is, on fixed exchange rates and the established price of gold, has proved its value as a foundation on which to build for the future." Recently, the EEC Ministers and Central Bank Governors meeting in The Hague on 17 January 1967 also agreed that the price of gold was not a problem at present.

41. Two members of the UNCTAD expert group on international monetary issues favoured an increase in the price of gold in order to offset the postwar decline in the price of gold in relation to the prices of other commodities and so as to raise the value of gold reserves. They suggested that there would be greater confidence in gold than in any new reserve asset, and that the consequent increase in liquidity could take into account the needs of developing countries.3/

42. All other members of the UNCTAD expert group were opposed to this view and stated their position as follows:4/

"(i) An increase in the price of gold would tend to destroy confidence in the reserve currencies, and would be inconsistent with the emerging idea that world liquidity should be adjusted from year to year in the light of an appraisal of world needs.

(ii) Given the present very uneven and largely arbitrary distribution of gold stocks, it would be unrealistic to suppose that developing or developed countries holding currency reserves would be systematically compensated out of the capital gains of gold revaluation by the gold-holders, through development finance or otherwise.

(iii) Actions that were practicable (but only with very disturbing consequences) in 1931, 1934 and even 1949, when dollar holdings were

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1/ Group of Ten, Report of Deputies, July 1966, para 80.

2/ Op. cit., para. 73.

3/ Op. cit., para. 60.

4/ Op. cit., para. 61.

relatively small and most sterling holdings were subject to the rather tight organization of the Sterling Area, cannot now be contemplated with equanimity.

(iv) Further, the distribution of gold production is also uneven and arbitrary."

The link with development finance

43. One of the major conclusions of the report of the UNCTAD group of experts on international monetary issues was that "it is both feasible and desirable to establish a link between the creation of international liquidity and the provision of development finance, without detriment to either process."1/

44. Judging by the 1966 Annual Report of the IMF, the suggested link has "failed to find general support because of a feeling that reserve creation should not become a mechanism for the deliberate transfer of real resources from one set of countries to another, and that it should be kept materially separate from development aid."2/

45. The UNCTAD experts agreed that a link between liquidity creation and development finance cannot be established without a transfer of real resources. However, they pointed out that there was nothing in the least forced or unusual in the linking together of liquidity creation and transfer of resources. To quote their report:

> "Every domestic banking system, for example, creates liquidity for individuals in the form of deposits and simultaneously effects a more or less permanent transfer of real resources from those who are normally creditors of the system to those who are normally borrowers. In the international sphere a similar combination is found in the present activities of the International Monetary Fund where real resources are transferred from those countries that hold reserve positions on the Fund to those that have drawings outstanding. The same point would apply even under a gold standard system in that the countries whose monetary authorities acquire gold for their reserves transfer real resources in the form of exports of goods and services to countries where the gold is mined." 3/

46. The developing countries are in need both of additional liquidity and of development finance. The two problems are no doubt distinct. However, as the UNCTAD expert group pointed out, it is "not inappropriate to look for an overlapping solution which provides a partial answer to the one without detracting from a fully satisfactory response to the other."4/

1/ Op. cit., para. 113.

2/ Op. cit., p.17.

3/ Op. cit., para. 97.

4/ Op. cit., para. 101.

Activation

47. The current discussions on international monetary reform draw a clear distinction between the establishment of a contingency plan, i.e. planning against a future shortage of reserves, and the activation of that plan, which would involve the first creation of reserves. The Ministerial Communiqué of the Group of Ten of July 1966 emphasized this distinction and stated that prerequisites for such an activation should be laid down. According to that Communiqué, these prerequisites "should include the attainment of a better balance-of-payments equilibrium between members and the likelihood of a better working of the adjustment process in the future."

48. The question of the conditions for the activation of a contingency plan was recently discussed at the second joint meeting of Executive Directors of the Fund and the Deputies of the Group of Ten held in London during January 1967. There was a general consensus that, although conditions such as those listed in the Ministerial Communiqué of the Group of Ten had to be kept in view in the activation of a contingency plan, there could not be a rigid or mechanical link between the balance of payments situations of particular countries and the activation of a contingency plan.[1]

Participation in the drawing up of a scheme and the subsequent decision-making process

49. It is now widely recognized that all countries have a legitimate interest in the adequacy of international reserves and also that deliberately created reserve assets should be distributed to countfies prepared to assume the requisite obligations, on the basis of objective criteria such as Fund quotas. In keeping with the spirit of the times, it appears necessary that international monetary reform should be truly international, corresponding with the idea of an international economic community which was perhaps the greatest contribution of Bretton Woods.

50. The latest report of the Deputies of the Group of Ten suggested that a majority of the Deputies favoured a two-stage procedure for decision-making in connexion with any international monetary reform so that "whichever scheme is adopted, a proposal would first be considered and decided upon by members of the limited group and, on being accepted by the requisite qualified majority vote, would be submitted to the appropriate body of the Fund which will decide, according to a specified voting procedure, whether

1/ Dr. Otmar Emminger, see above

it will be accepted or not."[1] An alternative to the two-stage procedure would involve a decision-making process along the lines of the present rules of the Fund with no special status for any group of countries, including industrial countries, other than the status that the latter have in any case as holders of the largest quotas and hence of predominant voting power. It has also been suggested that the present voting procedure in the Fund, combined with the freedom of any country to leave or not to participate in the scheme, should suffice to protect the legitimate interests of surplus countries in avoiding the inflationary pressures generated by the net import demand of deficit countries.

51. The decision-making process was discussed at the second joint meeting of the Executive Directors of the Fund and the Deputies of the Group of Ten. Although these discussions did not as yet result in agreed solutions, there was a general consensus in favour of giving up any formal two-stage voting procedure involving a bicameral voting system or voting by two separate bodies.[2] However, the precise method which would ensure participation for all countries in the decision-making process as well as safeguards for the legitimate interests of countries having to provide major financial support to the new scheme has yet to be worked out.

1/ Group of Ten, Report of Deputies, July 1966, para. 85.

2/ Dr. Otmar Emminger, see above.

file
UNCTAD Gen.

March 7, 1967

Dear Mr. Judd:

Thank you for your letter of February 16, 1967 enquiring about the possibilities of making available all or part of our commodity files for the use of UNCTAD.

As you know, the Bank welcomes opportunities to cooperate in every possible way with UNCTAD as, indeed, with the other agencies of the United Nations. For a number of reasons I do not think that the suggestion to turn over all or a portion of our files to UNCTAD is feasible. However, there no doubt are other ways in which the staffs of the Bank and UNCTAD can benefit from each other's work in the field of commodity problems.

With this in mind, your idea of visiting the Bank when you come to the United States in April is a good one. I suggest that you use that opportunity to discuss this matter further with Mr. Kamarck, Director of the Economics Department, and Mr. Macone, Chief of the Export Projections and Trade Analysis Division of the Economics Department.

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. Perce R. Judd
Director, Commodities Division
United Nations Conference on Trade
and Development
Palais des Nations
Geneva, Switzerland

AMKamarck:rgw
March 7, 1967

cc: Mr. Macone

(Incoming letter in Central Files)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

February 23, 1967

Mr. Friedman -

Please note references to supplementary finance on pages 10 and 15 of E/SR.1457 and page 12 of E/SR.1458.

Bimal Jalan

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UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

PROVISIONAL

E/SR.1457
28 December 1966
ENGLISH
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Resumed Forty-first Session

PROVISIONAL SUMMARY RECORD OF THE ONE THOUSAND FOUR HUNDRED AND FIFTY-SEVENTH MEETING

Held at Headquarters, New York,
on Tuesday, 20 December 1966, at 10.50 a.m.

CONTENTS

(a) Report of the International Bank for Reconstruction and Development and of the International Development Association (E/4272 and Add.1)

(b) Report of the International Finance Corporation (E/4273 and Add.1)

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Publication of the final printed records being subject to a rigid schedule, the co-operation of delegations in strictly observing this time-limit would be greatly appreciated.

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PRESENT:

President:	Mr. BOUATTOURA	(Algeria)
later,	Mr. FERNANDINI	Peru
Members:	Mr. DJOUDI) Mr. ABERKANE)	Algeria
	Mr. BELEOKEN	Cameroon
	Mr. MACDONALD	Canada
	Mr. PIÑERA	Chile
	Mr. MUZIK	Czechoslovakia
	Mr. ZOLLNER	Dahomey
	Mr. JATIVA	Ecuador
	Mr. VIAUD	France
	Mr. PITHER	Gabon
	Mr. CARANICAS	Greece
	Mr. PARTHASARATHI	India
	Mr. RAHNEMA	Iran
	Mr. KADRI	Iraq
	Mr. MERTZ	Luxembourg
	Mr. FILALI	Morocco
	Mr. AMJAD ALI	Pakistan
	Mr. VARELA	Panama
	Mr. FERNANDINI	Peru
	Mr. LOPEZ	Philippines
	Mr. POPA	Romania
	Mr. KAREFA-SMART	Sierra Leone
	Mr. WETTERGREN	Sweden
	Mr. MAKEEV	Union of Soviet Socialist Republics
	Sir Edward WARNER	United Kingdom of Great Britain and Northern Ireland
	Mr. KOTSCHNIG	United States of America
	Mr. ZULOAGA	Venezuela

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PRESENT (continued):

Observers for Member States:

	Mr. CNKELINX	Belgium
	Mr. LAMPREIA	Brazil
	Mr. TSAO	China
	Mr. PISANI	Italy
	Mr. CHAMMAS	Lebanon
	Miss BROOKS	Liberia
	Mr. OMEISH	Libya
	Mr. SELFE	South Africa
	Mr. AKSIN	Turkey
	Mr. LAZAREVIC	Yugoslavia

Representatives of specialized agencies:

	Mr. ORR	Food and Agriculture Organization of the United Nations
	Mr. GAGLIOTTI	United Nations Educational, Scientific and Cultural Organization
	Mr. MENDELS	International Bank for Reconstruction and Development

Representative of the International Atomic Energy Agency:

	Mr. NAJAR	

Secretariat:	Mr. de SEYNES	Under-Secretary for Economic and Social Affairs
	Mr. HILL	Deputy Under-Secretary for Economic and Social Affairs
	Mr. KITTANI	Secretary of the Council

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(a) REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (E/4272 and Add.1)

(b) REPORT OF THE INTERNATIONAL FINANCE CORPORATION (E/4273 and Add.1)

Mr. WOODS (President of the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation), introducing the two reports of those organizations, pointed out that during the previous financial period, for the fourth year out of the past five, the total amount of funds committed by the Bank Group had been more than $1,000 million and that actual disbursements had continued to increase. In recent months, the Group had extended its activities to projects relating to electric power supply, agriculture, tourism and education. Up to the present time, fourteen educational projects had received assistance from the Bank and from the International Development Association (IDA). The Group had already invested more than $1,000 million in agricultural projects; thirty other agricultural projects, involving investments of $350 million, were in the process of appraisal or negotiation and fifty others were in preparation. In that connexion, he stressed the importance of co-operation between the Group and the United Nations Educational, Scientific and Cultural Organization and the Food and Agricultural Organization and the increasing role of the offices which the Bank had established in western and eastern Africa in 1964 and 1965 respectively. A team from the Bank had produced a study entitled Experiences with Agricultural Development in Tropical Africa which would shortly be published.

The International Finance Corporation (IFC) had begun negotiations for the construction of fertilizer plants in the developing countries, in partnership with domestic firms and oil and chemical companies in North America, Western Europe and Japan. Two projects, one in Senegal and the other in Brazil, had reached the financing stage and about a dozen others were under discussion.

Progress in that field would have been more rapid if the developing countries realized more fully that the best policy was to create favourable conditions for foreign capital and technical knowledge. Otherwise, the danger of hunger would increase and the independence of the developing countries would be undermined since they would come to depend more and more on the rich countries for their food.

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(Mr. Woods, President of the IBRD, IDA and IFC)

The Group always tried to encourage private initiative and investment; during the past year it had committed more than $325 million for the financing of private industry in the developing countries.

After several years of preparation by the Bank, a Convention on the Settlement of Investment Disputes had just come into force. Under that Convention, an International Centre had been established to deal with disputes between States and foreign investors. The Administrative Council of the Centre was to hold its first meeting in six weeks.

The staff of the Bank had also prepared a draft of a multilateral investment insurance scheme which would be submitted to Member States for review and comment. It provided for the insurance of private investments in the developing countries against risks of a non-commercial nature. Although such a measure might help to remove some of the fears which inhibited the flow of capital to the developing countries, the beneficiary countries had the primary responsibility of creating a hospitable climate for foreign investment.

The reappraisal of development policies carried out at the end of the first half of the Development Decade had clearly shown the need for greater international co-ordination if overlapping of development assistance was to be avoided and if the available resources were to be used to the best effect. For its part, the Bank had tried to contribute to that objective by organizing consultative groups of donor countries for nine developing countries. The task of those groups was delicate and often difficult. In order for them to be effective, the developed countries, as well as the developing countries, must try to make a genuine contribution to the economic progress of the latter.

Greater co-operation was also necessary on the regional level. The Bank maintained excellent relations with the Inter-American Development Bank and the two recently established regional banks, namely, the African Development Bank and the Asian Development Bank. In view of the economies of scale which could be achieved and the heavy initial capital investment required by modern technology, it was questionable whether the smaller developing countries could hope to achieve a satisfactory rate of growth unless they participated in regional schemes for economic integration. The preparation of such schemes should be one of the main concerns of the new regional institutions.

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(Mr. Woods, President of the IBRD, IDA and IFC)

There was one field for co-ordination in development assistance which was as yet untouched, namely, co-ordination between the countries of Western Europe, North America and Japan, on the one hand, and the countries of Eastern Europe, on the other. To the extent that bilateral assistance programmes were used as instruments of ideological, strategic or diplomatic rivalry, they did not contribute fully to economic growth. He saw no reason why that state of affairs should continue. Admittedly, there were many obstacles, but the benefits to be derived by the developing countries could be so great that every means of encouraging such co-ordination should be explored.

To continue its activities, the Bank must continuously borrow capital in the financial markets of the world; as a result of the general tightening of credit, the rate at which the Bank had been able to issue bonds during recent months had risen from 5.5 per cent in June to 6.5 per cent recently. The Bank continued to charge a standard rate of interest of 6 per cent on loans which it granted, but the position was being kept under review.

The situation of the International Development Association (IDA) was extremely critical: within a few weeks it would have exhausted all its resources and the talks with donor Governments over their replenishment were making discouragingly slow progress. Eighty-five per cent of IDA's resources were provided by seven Governments, some of which were now confronted with budgetary and balance-of-payments problems. In order not to compound those difficulties, he had proposed that the replenishment of IDA's resources should only begin in three years time and should be spread over three annual instalments. That proposal had been formulated several months earlier and, in view of the slow progress of negotiations, it now seemed certain that IDA would have to interrupt its activites. It was only to be hoped that the interruption would not be prolonged.

The world was still confronted by the paradox of great poverty in a world of plenty. The industrial countries had never been as prosperous and yet, in 1965, for the fourth consecutive year, the proportion of international aid from public sources had decreased in relation to the national incomes of the capital-exporting countries. That trend would continue in 1966. It was time for the industrial countries to make a joint and thorough examination of the aid they were effectively providing to the

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developing countries and to try to give the proper priority in international affairs to accelerating the task of the growth of the developing countries. Such an examination should be undertaken by experts and should not be limited to a general review of aims but should attempt to establish new goals and determine new means of assisting the developing countries, especially by giving a fresh impetus to the efforts of the industrialized countries. Such an examination could be the first step towards the formulation of an international policy for economic development of the kind which had been suggested in August 1966 by the Secretary-General of UNCTAD, namely, a policy which would embrace development finance, international trade and tariffs and which would ensure that the measures taken by the high-income countries and the developing countries would converge.

Mr. VIAUD (France) stressed the remarkable growth of the activities of the three institutions and recalled, in particular, that the Bank had granted more than $9,500 million in loans since its establishment.

He noted with satisfaction that the Bank now attached great importance to agricultural problems, as shown by the increase in appropriations for agricultural activity to $120 million, thus raising the share of agricultural projects among all the loans granted by the Bank to more than twice what it had been during the preceding financial year. That was a welcome development, which France had long hoped for and which it could not but approve, although it regretted that the Bank's contribution still remained modest in comparison with the magnitude of the needs to be met and the urgency of the problems to be solved.

The advances made in education were equally evident. The Bank was rightly devoting an increased share of its assets to the training of technicians who would form the cadres essential to the young nations. Thus, fruitful co-operation seemed to be developing between the Bank and UNESCO.

The entry into force of the Convention on the Settlement of Investment Disputes, whose main advantage was that it helped to overcome the reluctance of private capital and therefore encouraged investments in the signatory countries, came at a time when the crisis in aid from public sources made it essential not to overlook any funds that could contribute to development.

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(Mr. Viaud, France)

However, the Group itself was suffering from the current shortages of international assistance. Those shortages were apparent both in the amount of assets made available to the developing countries and in the terms and nature of the assistance. Studies by the Secretariat showed that the assets made available to the developing countries had levelled off after 1961; even though there had been some increase in aid since 1964, financial assistance had unquestionably remained static in relation to the designated objective (1 per cent of national income).

The Bank had not escaped the effects of that development; its loans, which had amounted to well over $1,000 million in 1964/65, had dropped in the current year to $839 million, i.e., by 20 per cent. If the repayment of earlier loans and the interest collected by the Bank were subtracted from that sum, the amount of new money contributed by the Bank was no more than $110 million, a figure comparable to that of the preceding year. During the same time the credits granted by the International Development Association had decreased from $309 million to $284 million.

With regard to the terms of aid granted to developing countries, it should be pointed out that their supplementary indebtedness had practically reached its limit. Their external debt could be increased only slowly in future, so that the Bank's normal loans could no longer make more than a limited contribution to the financing of economic development. The rise in interest rates, which was due to the shortage of international capital, caused a scarcity of development finance. Thus, the amount borrowed by the Bank during the current year had been no more than $80 million, in contrast with $232 million in 1965. Sales of loan maturities had dropped from $172 million in 1964 and $106 million in 1965 to $82 million in 1966.

Consequently, a continued increase in the ratio of loans to donations appeared to be unlikely. The developing countries must therefore be supplied with direct budgetary assistance.

France doubted, however, that financial assistance alone would be sufficient in future to ensure a satisfactory rate of development. It should be supplemented and strengthened by economic assistance resulting from a better organization of markets for primary commodities and stabilization of their prices. The recent setback in the cocoa negotiations between the producing and the consuming countries

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(Mr. Viaud, France)

clearly showed the need for more systematic efforts to supplement the traditional type of assistance. To that end, the United Nations had the obligation to support, irrespective of their origin, the efforts of research and imagination without which the world would never triumph over misery and under-development.

Mr. PIÑERA (Chile) thanked Mr. Woods for his very humane description of the activities of the World Bank Group and recalled that Chile had been one of the first countries to benefit from the Bank's programmes.

He had been pleased to find that the Bank, which had originally dealt mainly with industrialization problems, had now expanded its field of activity. It was now taking part in agricultural development programmes, and should also concern itself with the problems of land reform, which had vast political repercussions. Contrary to its earlier policy, the Bank was now intending to finance programmes involving petroleum and fuel oils. Chile, which had undertaken to exploit its petroleum resources without any intervention by the large international companies, frequently had to seek aid from organizations such as the Bank. The Bank had also been making social investments for a number of years: for example, it had already carried out eighteen educational projects, notably in Algeria and Chile. The Bank might also consider investments in the fields of health and housing, which would form part of the broader framework of structural reform.

He emphasized the importance of relations between the Bank and UNCTAD, specifically in the study of the world-wide problems of trade and transport. UNCTAD had undertaken the study of freight problems, which were retarding economic development.

It was regrettable that, at a time when the developing countries had made great efforts to submit well-conceived projects to it, the Bank lacked the necessary capital to carry them out. The institutions established twenty years earlier were evidently inadequate for the needs of world development; GATT had not succeeded in solving the problems of world trade and now had to revise its basic position. That was why the Bank had created IDA, a non-banking organization, whose composition reflected the division of the world into two groups: the donor countries (able to grant very long-term loans at almost no interest) and the recipient countries.

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(Mr. Piñera, Chile)

With reference to the International Finance Corporation, it had long been claimed that development of the countries of the Third World would be made possible by foreign investments. That claim had ignored the political and social phenomena which militated against traditional foreign investments; the Bank had endeavoured to re-attract foreign capital to the developing countries on the basis of new principles and had tried to find solutions to the problem of guarantees and disputes. In Chile, for example, the Government now took part in the development and marketing of copper, which had previously been entirely in the hands of a foreign consortium.

He welcomed the dialogue initiated between the Bank and UNCTAD, particularly the study undertaken by the Bank, at the request of UNCTAD, on supplementary financing measures. A reorganization of the markets for primary commodities was no doubt necessary, but it was a long-term undertaking, and in the meantime the countries which exported primary commodities, such as Chile, needed measures which would guarantee at least a certain degree of stability in their export receipts. He believed that it was important to establish a United Nations Capital Development Fund which could finance sectors such as health and housing, with which neither IBRD nor the regional development banks were concerned.

He had noted with satisfaction that the President of the Bank had not discussed demographic questions. Chile, which wanted to increase its population, believed that international organizations should look for ways to increase the world's resources, not ways to decrease its population.

It was true that the external debt of the developing countries would limit their economic growth during the coming fifteen years. When Chile had wanted to renegotiate its foreign debt, the Bank and the Monetary Fund had listened to its request with sympathy, but in the end it had been forced to turn to the Group of Ten. It was necessary to establish a body which could help countries to refinance their external debt in keeping with the needs of their development programme; the role of the consultative groups would also have to be defined more precisely.

Considerable efforts should be made to promote the transfer of technical skills. The present rules governing industrial property did not favour the economic growth of the developing countries. It was not normal to treat man's technological achievements as mere articles of merchandise to be dealt with in contracts of sale or

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lease. Lastly, he deplored the relative decrease in the flow of capital to the developing countries, which could endanger the success not only of the first but also of the second United Nations Development Decade.

Mr. Fernandini (Peru), took the Chair.

Mr. ABERKANE (Algeria) said that twenty years after the establishment of the International Bank for Reconstruction and Development and the International Monetary Fund, the balance-sheet of the world community's aspirations and achievements was far from positive. His delegation shared the feeling of disappointment which had been evident in Mr. Woods' statement, for, after twenty years of efforts by the two great international institutions, the world had still not resolved the fundamental problems of development. At the half-way point of the so-called Development Decade, the gap between the needs of the poor countries and the results achieved was still tremendous, while the disparity in the levels of development of the various countries and in their economic growth rates created a serious risk of international instability and aroused the greatest apprehension for the future. Nevertheless, the assistance agencies had done their best. The Bank Group, in particular, had been constantly extending the scope of its activities during the last few years and the Bank now provided aid to new economic sectors, such as tourism and education. It was gratifying to note the considerable resources which the Bank was now devoting to agriculture, at a time when world food stocks had reached the lowest level since the war. The Bank had sent 115 agricultural missions to the developing countries during the last year and had already invested $350 million in thirty agricultural development projects. Algeria appreciated especially the emphasis placed on the development of fertilizer production. It was also grateful to the Bank for having sent a study mission to Algeria in 1966; the report of the mission would be very helpful in drawing up Algeria's first three-year development plan. His country had adopted in 1966 a new investment code which offered foreign capital a whole series of safeguards against non-commercial risks.

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(Mr. Aberkane, Algeria)

He noted with satisfaction the co-operation between the Bank and UNESCO and the fact that the Bank was increasingly delegating certain responsibilities to its subsidiaries and, in particular, to the International Finance Corporation, whose resources had been increased for that purpose. His delegation thought that the Bank might further expand the range of infra-structure projects which it financed and might also agree to assist certain State-executed industrial projects which were important for development, if they seemed well planned and financially sound. His country approved of the Bank's establishment of permanent missions at Nairobi and Abidjan and hoped that the Bank would assist in the launching of the African Development Bank.

The Bank had proved that it could play a very useful role in the training of cadres, in technical assistance and in economic studies. Unfortunately, it lacked the resources needed to cope with the tremendous tasks confronting it. Moreover, Mr. Woods had announced that the International Development Association, which had been hailed at the time of its creation as especially equipped to meet the requirements of the developing countries, would very soon have to stop making new commitments, owing to lack of resources. The developing countries' aid-absorption capacity was progressively increasing and the aid-giving capacity of the industrialized countries was increasing also, but the latter were becoming increasingly reluctant to supply aid. There was, however, no doubt that the industrialized countries, whose aggregate national income increased by $40,000 million-$50,000 million annually and which devoted vast sums to military expenditure ($100,000 million annually in the case of the two biggest Powers, while the gross national product of all the developing countries of Africa and Latin America was less than $110,000 million) had the means to provide effective aid before a crisis occurred. Emergency measures were called for. Not only had the volume of total aid levelled off since the proclamation of the Development Decade, but the proportion of public aid to private investment had diminished. The lending countries clearly preferred tied bilateral aid to multilateral aid and they also preferred loans to grants. The cost of private capital had steadily increased, thus aggravating the burden of the repayment of external debt. It had been shown that the repayments currently being made by the low-income countries on loans from the Bank itself totalled more than the actual loans made by the Bank.

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(Mr. Aberkane, Algeria)

He thought that it should be possible to combine the efforts of the Bank and the Fund with a view to ensuring for the developing countries a continuous guaranteed flow of resources at a low cost. The two institutions were also in a position to make available to the developing countries, the technical assistance and financial resources which played an essential role in their economic recovery and stability. However, IMF and IBRD were faced with a dilemma, because they had to provide both for the growing volume of trade, which required an increasing liquidity and for an acceleration of development, which called for increased investment.

With regard to the activities of the International Monetary Fund, Algeria noted with satisfaction the increase in liquidity due to the general renewal and the special increases in the quotas of member countries. The Fund's resources totalled at present $21,000 million, in addition to the liquid assets created by the General Arrangements to Borrow. Moreover, in conformity with the wishes of UNCTAD, it had revised its system of compensatory financing. The measures taken were thus aimed at countering a rapidly deteriorating economic situation. Both the industrialized countries and the developing countries were encountering balance of payments difficulties, which were slowing down the progress of trade and development. The restrictive measures taken by the countries with currency reserves had resulted in a world-wide shortage of development capital and the highest interest rates in forty years. The World Bank was having to pay an increasingly high price for the loans it floated on the capital market. It was not merely a question of the existence or the lack of reserves throughout the world, but also of the distribution of reserves among countries. In view of the prospect of a shortage of international liquidity, which could lead to an intensification of the restrictions on trade and capital movements, it was hard to understand why certain countries were opposed to the creation of new liquidity. His delegation therefore welcomed the holding of joint meetings of the Executive Directors of IMF, representing all the countries members of the Fund, and the countries parties to the General Arrangements to Borrow, for the purpose of considering a possible international monetary reform. His delegation also agreed

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(Mr. Aberkane, Algeria)

that additional liquidity should be considered in the context of the over-all requirements of the world economy, rather than that of the payments problems of individual countries. Algeria considered that the creation of new liquidity could contribute to the economic development of the under-developed countries, provided that it remained within the limits of real saving. In fact, everything would depend on the creation of that real saving in the rest of the world. The financing of investment by monetary means was in no way incompatible with the basic function of the Fund, which was to meet balance of payment deficits. Such deficits were in fact often due to the purchase of capital goods, so that, aside from compensatory financing, the Fund was already financing investment. It would, moreover, be illogical for the Fund to act to cover a balance of payments deficit resulting from the import of non-essential goods and to refuse assistance when the deficit was due to the purchase of capital goods. The UNCTAD group of experts had submitted recommendations under which the International Monetary Fund or an affiliated institution would become a central agent for collective reserve units. The UNCTAD experts' report had further recommended that the counterpart deposits obtained by the Fund under that project should be placed at the Bank's disposal, in exchange for IBRD bonds. That proposal, if adopted, would link the activities of the Fund with those of the Bank and lessen the effects of unequal distribution of the newly-created reserves, based on member countries' quotas, with two thirds of the new liquidity going to ten developed countries and the remaining third to ninety developing countries.

Sir Edward WARNER (United Kingdom) said it was clear from the reports of the World Bank and its subsidiaries that, despite difficult conditions in international money markets, the past year had been one of solid achievement. He noted with satisfaction the Bank's increased emphasis on agriculture and education. Because of present constraints on development aid, a question which continued to occupy the attention of both the developed and the developing countries was how to improve the effectiveness of available aid. The Bank's experience was particularly useful in that connexion. The country reports compiled by the Bank's economic services not only contributed to planning in the countries concerned but were valuable in the formulation and administration of bilateral aid programmes. The Bank's continued studies on debt servicing were adding to knowledge of the

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(Sir Edward Warner, United Kingdom)

problems of developing countries, and he was glad to note the growth of collaboration between the Bank and the International Monetary Fund in that sphere. Further progress had been made in co-ordination. The development of several more consultative groups under the aegis of the Bank was to be welcomed. However, the main purpose of such groups was to provide a forum for consultation between the main donors and the developing country in question. Although the creation of a group should prove generally beneficial to the climate for aid and investment, its basic function was co-ordination of existing aid flows. His Government was ready to participate in consultative groups whenever a general problem of co-ordination was involved. In that connexion, he drew attention to the fact that, the previous day, the United Kingdom had ratified the Convention on the Settlement of Investment Disputes. His Government was ready to play its part in the replenishment of IDA, to which it attached high priority in its aid planning.

The Trade and Development Board had approved the establishment of an inter-governmental group of experts to explore the proposals for supplementary financial measures which the United Kingdom and Sweden had sponsored. Given the goodwill of both developed and developing countries, it was reasonable to hope for a successful conclusion, which would make it possible to stabilize the progress of developing countries and give them a firm basis on which to plan integrated development.

Despite those encouraging signs, his delegation shared the concern of the President of the Bank at the general prospect for development aid. The solution lay in the efforts of developing countries to mobilize their domestic resources and in the willingness of industrial countries to give a high priority to assistance for the under-developed parts of the world. Economic constraint in the donor countries inevitably had some effect on the flow of aid. His Government was confident that the measures it had taken earlier in 1966 would enable the United Kingdom to renew its efforts in the field of development aid. In conclusion, he associated himself with the President of the Bank's suggestion for a fresh high-level evaluation of relationships with the developing world.

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Mr. KOTSCHNIG (United States of America) said that over the past twenty years the Bank had approached its task with exemplary vigour and imagination. In 1966, the Bank's commitments had exceeded $1,000 million for the fourth time and it appeared that the current fiscal year could result in a new all-time lending record. The Bank's transfers of portions of its net income to IDA and the recent commencement of lending to IFC were indications of its innovative and flexible approach.

The International Finance Corporation's new resources would enable it to diversify its activities, especially in agriculture. The Bank had increased its lending to agricultural credit institutions and his delegation was pleased to note the Bank's interest in stimulating that sector. Increased co-operation with UNDP was also encouraging. During the past fiscal year, the Bank and UNDP had refined their procedures to facilitate a more appropriate division of labour in financing sector and feasibility studies.

His Government regarded the replenishment of IDA as an urgent task. It was actively pursuing ways and means of assuring an adequate supply of resources for the Bank and its subsidiaries. The establishment of new IBRD consultative groups was an encouraging development; he noted with satisfaction that a group had been formed for Korea and hoped the device would be extended.

The Convention on the Settlement of Investment Disputes was a positive step, and studies being undertaken by the Bank on multilateral investment insurance, suppliers' credits and coffee production should contribute further to development techniques.

Mr. VARELA (Panama) welcomed the participation in the Council's deliberations of the President of an institution which was efficiently discharging its responsibilities in the sphere of international co-operation and playing an active part in the struggle against poverty. His Government, too, attached great importance to agricultural development which it regarded as the basis of integrated economic growth. Panama had had the benefit of the Bank's assistance in several branches of agriculture (building of roads and silos, marketing of agricultural products, etc.). His experience as Director of the Panamanian Institute of Economic Development had convinced him that the developing countries must endeavour to achieve balanced growth by a more rational division of national income and by

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progressive industrial expansion. An over-weighted agricultural sector restricted purchasing power and obstructed the development of an internal market for industrial products. He welcomed the importance attached by the Bank to the integrated development of agriculture and hoped that the momentum the President of the Bank had generated would not be lost because of a decline in international co-operation.

Mr. MACDONALD (Canada) said that the high level of commitments by the Bank and its affiliates bore testimony to the major contribution it was making to the attack on under-development. The Bank's studies and analyses, its advice and its leadership in co-ordinating aid were of benefit to the Canadian Government in evaluating its programmes of development assistance. Co-ordinating arrangements of the type sponsored by the Bank, which brought together various agencies and Governments for the purpose of discussing an individual recipient's problems and priorities, could produce a considerable improvement in the effectiveness of aid programming. The nature of those arrangements would vary according to the needs of the recipient and their membership would vary according to the degree of involvement and direct concern of the various donors. The President of the Bank had proposed that the industrialized countries should thoroughly review the problem of aiding the developing countries and the question of priorities among the various objectives of national policy. His Government, which had carried out such a review in 1965, was prepared to endorse that suggestion. It agreed with the President of the Bank that the most must be made of present-day opportunities for increasing agricultural production. Canada had managed, by the use of insecticides and weed-killers and by sowing crops better suited to its climate, to increase its agricultural production by 50 per cent without bringing more land under cultivation. The President of the Bank had rightly stressed the importance of regional co-operation, especially among the smaller developing countries. He hoped that such institutions as the Inter-American Development Bank and the Asian Development Bank would support joint projects and regional co-operation.

The Bank's effectiveness largely depended on the resources available to it. It had been having increasing difficulty in selling its bonds and that difficulty was related to important questions of national policy. The terms on which it was able to raise funds would depend on the fiscal and monetary policies of the

(Mr. MacDonald)

developed countries, and methods must be devised to enable it to secure a reasonable share of available resources.

The replenishment of IDA was one of the most immediate problems on the international agenda. His delegation noted with concern that the President of the Bank expected an interruption in the flow of IDA assistance, and hoped that the problem could be satisfactorily resolved in the near future.

The meeting rose at 1 p.m.

3 February 1967

ENGLISH ONLY

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary
Financing
Second session
Geneva, 6 February 1967

Check list of documents

Symbol	Title
TD/B/C.3/AC.3/3 and Corr.1 and Add.1 √	Intergovernmental Group on Supplementary Financing: Interim record of discussions at its first session - Note by the UNCTAD Secretariat
TD/B/C.3/AC.3/4 √	Provisional agenda
TD/B/C.3/AC.3/5	A comparison of methods used for the calculation of export shortfalls in the IBRD staff scheme for supplementary finance and the revised IMF facility for compensatory finance - Note by the UNCTAD Secretariat √
TD/B/C.3/AC.3/6	The policy package of the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development
TD/B/C.3/AC.3/7	Shortfalls and "overages" in the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development
TD/B/C.3/AC.3/8	Supplementary finance: "Form and terms of assistance" - Paper prepared by the staff of the International Bank for Reconstruction and Development
TD/B/C.3/AC.3/9	Information note by the UNCTAD Secretariat
TD/B/C.3/AC.3/10	Adequacy of external liquidity - Tables submitted by the staff of the International Monetary Fund
TD/B/C.3/AC.3/11	Export projections in the World Bank - Paper prepared by the staff of the International Bank for Reconstruction and Development
TD/B/C.3/AC.3/12	The contribution of "invisibles" to foreign exchange earnings - Paper prepared by the staff of the International Bank for Reconstruction and Development
TD/B/C.3/AC.3/13	Supplementary finance: Consideration of import prices - Paper prepared by staff of the International Bank for Reconstruction and Development.

UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

PROVISIONAL

E/SR.1458
27 December 1966

ORIGINAL: ENGLISH

Resumed Forty-first Session

PROVISIONAL SUMMARY RECORD OF THE ONE THOUSAND FOUR HUNDRED AND FIFTY EIGHTH MEETING

Held at Headquarters, New York,
on Tuesday, 20 December 1966, at 3.30 p.m.

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Basic programme of work of the Council in 1967 and consideration of the provisional agenda for the forty-second session (E/L.1147 and Add.1-2, L.1148 and Add.1, L.1151) (continued)

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Report of the International Finance Corporation (E/4273 and Add.1) (continued)

Amendments to rules 20, 22 and 23 of the rules of procedure of the Economic and Social Council concerning the Vice-Presidents (E/4291; E/L.1150)

Corrections to this record should be submitted in one of the three working languages (English, French or Spanish), preferably in the same language as the text to which they refer. Corrections should be sent in triplicate within three working days to the Chief, Conference and Meetings Control, Office of Conference Services, Room 1104, and also incorporated in mimeographed copies of the record.

AS THIS RECORD WAS DISTRIBUTED ON 27 DECEMBER 1966, THE TIME-LIMIT FOR CORRECTIONS WILL BE 30 DECEMBER 1966.

Publication of the final printed records being subject to a rigid schedule, the co-operation of delegations in strictly observing this time-limit would be greatly appreciated.

66-34928

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PRESENT:

President:	Mr. BOUATTOURA	(Algeria)
Members:	Mr. ABERKANE	Algeria
	Mr. BELEOKEN	Cameroon
	Mr. MACDONALD	Canada
	Mr. FIGUEROA	Chile
	Mr. MUZIK	Czechoslovakia
	Mr. ZOLLNER	Dahomey
	Mr. JATIVA	Ecuador
	Mr. VIAUD	France
	Mr. PITHER	Gabon
	Mr. CARANICAS	Greece
	Mr. PARTHASARATHI	India
	Mr. RAHNEMA	Iran
	Mr. KADRI	Iraq
	Mr. MERTZ	Luxembourg
	Mr. FILALI	Morocco
	Mr. Amjad ALI) Mr. AHMED)	Pakistan
	Mr. LOPEZ	Philippines
	Mr. MURGESCU) Mr. POPA)	Romania
	Mr. KAREFA-SMART	Sierra Leone
	Mr. WETTERGREN	Sweden
	Mr. MAKEEV	Union of Soviet Socialist Republics
	Sir Edward WARNER	United Kingdom of Great Britain and Northern Ireland
	Mr. KOTSCHNIG) Mr. BLAU)	United States of America
	Mr. ZULUAGA	Venezuela

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PRESENT (continued):

Observers for States Members of the United Nations:

Mr. ONKELINX	Belgium
Mr. TELL	Jordan
Miss TABARA	Lebanon
Mr. OMEISH	Libya
Mr. SELFE	South Africa
Mr. AKSIN	Turkey

Representatives of specialized agencies:

Mr. ORR	Food and Agriculture Organization
Mr. WOODS) Mr. MENDELS)	International Bank for Reconstruction and Development

Secretariat:

Mr. de SEYNES	Under-Secretary for Economic and Social Affairs
Mr. HILL	Deputy Under-Secretary for Economic and Social Affairs
Mr. KITTANI	Secretary of the Committee

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BASIC PROGRAMME OF WORK OF THE COUNCIL IN 1967 AND CONSIDERATION OF THE PROVISIONAL AGENDA FOR THE FORTY-SECOND SESSION (E/L.1147 and Add.1-2, L.1148 and Add.1, L.1151) (continued)

Mr. MURGESCU (Romania) observed that the note by the Secretariat (E/L.1151) showed that provision had been made for a joint meeting of the Committee for Programme and Co-ordination, the officers of the Council and the Administrative Committee on Co-ordination to be held in the week preceding the forty-third session of the Council. He had the honour to announce that his Government invited the Council to hold that meeting at Bucharest and was prepared to meet the additional expenditure occasioned by the organization of the meeting outside Headquarters or one of the regional offices.

Should the Council accept the invitation, his Government would work out the necessary technical and other arrangements with the Secretariat.

The PRESIDENT suggested that the Council should decide, in principle, to accept the invitation from the Government of Romania, subject to its formal acceptance by the Committees concerned, and that it should request the Secretariat to discuss the detailed arrangements for the meeting with the Romanian delegation and report to the Council at its forty-second session.

It was so decided.

Mr. AHMED (Pakistan) proposed, with reference to paragraph 10 of document E/L.1147, that the Council should include in its draft agenda for the forty-third session the question of a meeting of the Ad Hoc Working Group on the Question of a Declaration on International Economic Co-operation; that the Council should amend the title of item 5 in the draft agenda for the forty-third session (E/L.1147, p. 8) to read "External financing of economic development of the developing countries" and should add under item 5 a sub-item (c) entitled "Outflow of capital from the developing countries"; that, with reference to the suggestion on page 9 of document E/L.1148, the Council should use for the item in question the title of General Assembly resolution 2188 (XXI); that, with reference to the suggestion on page 18 of document E/L.1148 and the proposal already made by the representative of France (E/SR.1456), the Council should include an appropriate

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(Mr. Ahmed, Pakistan)

item in the agenda for the forty-second and forty-third sessions under which it would consider the implementation of the recommendation of the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies.

It was so agreed.

REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (E/4272 and Add.1) (continued)

REPORT OF THE INTERNATIONAL FINANCE CORPORATION (E/4273 and Add.1) (continued)

Mr. Amjad ALI (Pakistan) said that the most encouraging feature of the reports of the Bank and its subsidiaries was the marked flexibility evident in their recent operations. One example of the efforts of the Bank to adapt its policies to prevailing conditions was the departure from its original policy of lending for "bankable" projects only; the International Finance Corporation (IFC) and the International Development Association (IDA) had, in fact, been set up as a result of the Bank's recognition of the needs of the developing countries for investment in education, agriculture, transport and communications. The stark facts of the world food situation made the Bank's recent emphasis on agricultural projects all the more gratifying. It had become clear to the world community that, even if the developing countries succeeded in arresting population growth in the years to come, famine could not be avoided unless those countries' efforts to increase agricultural production were supplemented by external finance to enable them to mechanize and introduce modern farming methods.

As he had remarked at an earlier meeting of the Council, the external finance required could come from only two sources: aid and trade. The developing countries were justifiably concerned about recent trends in aid-giving; such factors as the failure of the industrialized countries so far to replenish the funds of IDA and the continuing high rates of interest on bilateral and multilateral loans were discouraging. International efforts to improve the trade revenues of developing countries had also been disappointing: the failure to secure agreement on a stable and reasonable market price for cocoa was an example of the reluctance of developed countries to abandon the control they exercised, through marketing arrangements, over the lives and destinies of the primary producing countries. It

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(Mr. Amjad Ali, Pakistan)

was therefore regrettable that the international financial institutions, while prepared to help producer countries to overcome the disastrous effects on their economies of fluctuating market prices, considered that they were not empowered to invest in such undertakings as the proposed cocoa buffer stock, which would avert situations of that kind.

In conclusion, it was his delegation's hope that the industrialized countries would act on the suggestion made by the President of the Bank for a joint examination of their policies and priorities in the granting of development assistance.

Mr. MAKEEV (Union of Soviet Socialist Republics) said that the reports of the Bank and IMF provided the clear picture of the international economic situation which United Nations bodies had come to expect in those annual reports. His delegation agreed with the general conclusion of both bodies that international conditions for the economic development of the developing countries had become less favourable in the year under review. One of the major reasons for that trend was the growing international tension caused by the war in South-East Asia: its effects on the world economy and on the capital market, in particular, were reflected in the decline in the developing countries' exports and in the flow of external resources to them.

The developing countries pinned their hopes on the international financial institutions and it was disappointing that the level of Bank and IDA loans - approximately $1,000 million in the year under review - had not changed noticeably in recent years. On the other hand, repayments to the Bank, at $328 million, and to its creditors had shown an increase, without any corresponding rise in lending.

The Bank defended the high cost of its credit to developing countries by asserting that, as one of many lending institutions, its policies had to be governed by the commercial and financial considerations affecting all banking operations. It was, however, also an organ of the United Nations system with specific responsibility for aiding developing countries and should therefore be expected to react to recent trade pressures by raising its rates on the international capital market rather than by increasing its interest rates on development loans from 5.5 to 6 per cent. Its reserves were, after all, sufficient for it to show restraint in such situations.

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(Mr. Makeev, USSR)

A number of developing countries were adversely affected by the Bank's continuing refusal to grant loans for State-owned or State-sponsored projects. Such a practice was surprising in an institution which had shown some readiness to change its policies in other matters, and it was to be hoped that pressure from its members would induce it to abandon that attitude in the near future.

The relationship of the Bank and IMF to the United Nations system required them to act in accordance with decisions and resolutions of the General Assembly and the Security Council. It was therefore regrettable that they had so far taken no steps to comply with resolutions on assistance to Portugal; loans had, in fact, been granted to that country and were being used to sustain its colonial wars in Africa. Moreover, the General Assembly had recently adopted resolution 2158 (XXI) which, inter alia, laid down guidelines for the operations of foreign investors in the developing countries. The co-operation of the United Nations financial institutions was vital in all such matters and the United Nations was entitled, under the respective articles of agreement, to demand it.

The development of a new compensatory financing scheme by IMF was encouraging, even if not a completely satisfactory solution to the problem. The recent limited participation of developing countries in the discussions on international monetary reform was also gratifying. His delegation believed, however, that the existing structure of the Fund was too rigid to allow the full participation of all countries in decisions on that subject and that only the Conference on Trade and Development provided the kind of representative forum required for the purpose.

Mr. PARTHASARATHI (India) remarked that assistance from the World Bank and its affiliates was particularly valuable to developing countries because it was not tied to purchases in any single country. It was gratifying that the Bank had intensified and expanded its assistance in the farm sector and had sent 115 agricultural missions to members countries in the period under review. The stronger emphasis on education was also welcome. The inclusion of tourism in IFC activities was very timely in view of the fact that 1967 had been designated International Tourist Year, and the new arrangements for a Bank loan to IFC would no doubt permit still further diversification of its activities. Four new members

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(Mr. Parthasarathi, India)

joined the Bank during the past year and Indonesia's decision to seek re-admission was welcome.

Another source of satisfaction was the close co-operation between the Bank and other United Nations organizations and specialized agencies, which would doubtless be extended to UNIDO. A number of studies were being carried at the request of UNCTAD and constructive relationships had also been established between the Bank group and the Inter-American, African and Asian Development Banks.

Emphasis had rightly been placed on creating capacity in developing countries for the large-scale manufacture of fertilizers. India had assigned the highest priority to the production of chemical fertilizers and had made firm financing arrangements, under which it had received the valuable support of the Bank and IFC for a number of projects which would meet its growing needs for chemical fertilizers in the next five years. In that connexion, the readiness of the Bank and its affiliates to consider financing certain Government-owned enterprises with a record of successful management was of particular importance, since the high level of capital and technical resources required left room for both public and private enterprise in fertilizer production.

The Bank had intensified its efforts to co-ordinate development assistance and a number of additional consultative groups had been formed. Although the work of those groups was sometimes difficult, misunderstandings could be eliminated if both developed and developing countries were genuinely committed to the achievement of economic progress and it was to be hoped that the Bank and the industrialized countries would take steps to correct the anomalous situation where donor countries insisted that the recipient countries should formulate longer-term development strategy and policies, while they themselves could make no commitment of aid beyond a period of one year.

The picture of trade and aid contained in the second part of the Bank's report was not encouraging: the growth rate of developing countries had been slow, their exports continued to lag, aid-flows were static and population growth and higher expectations had given rise to increasingly urgent demands. In that connexion, the

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(Mr. Parthasarathi, India)

response of the developed countries to the imaginative request for a substantially higher level of replenishment of IDA funds would show how much faith they really had in the Development Decade. It would be a tragedy if the response fell short of the high, but practical, level of replenishment requested. The development situation was indeed grim and required the mobilization of all possible resources. The initiative in development assistance clearly lay with the developed countries and it was therefore appropriate that the President of the Bank had suggested a thorough examination by those countries of the fair trade and aid policies.

Mr. BELEOKEN (Cameroon) commended the Bank on its efforts to accelerate the economic growth of developing countries. The intensification of assistance in the agricultural sector was particularly welcome, but it was regrettable that neither the Bank nor IMF was prepared to help those countries in the fundamental matter of stabilizing the export prices of their commodities. Because of the lengthy and difficult procedure of preparing and submitting projects, Cameroon had so far received little assistance from the Bank or the Fund, although as an essentially agricultural country it suffered greatly from fluctuations in commodity prices. The Bank and IMF should therefore review their statutes and policies so that, instead of asking developing countries to spend several years preparing and submitting projects, they could help to meet the urgent need to stabilize commodity prices and thereby to guarantee the financing of economic development.

His delegation was greatly concerned at the fact that during the recent negotiations on cocoa a paper had been circulated by IMF stating that the price of cocoa should be stabilized at eighteen or nineteen cents a pound. It was disturbing that IMF should have taken a position on the matter, particularly when the producers had rejected that low level as unrealistic. A representative of the Fund should therefore explain the premises on which the conclusions of the paper were based and IMF's general position in connexion with the negotiations.

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Mr. LOPEZ (Philippines) said that his delegation shared Mr. Wood's concern over the paradox of great poverty in the presence of great plenty. The prospects of receiving assistance from industrialized countries were indeed poor i: they were not even prepared to be generous in times of prosperity. Despite their commendable efforts and the record total of disbursements in 1965-1966, the Bank h been compelled to borrow in international capital markets at high rates of intere. while IDA reserves were dwindling. Although the request for the replenishment of resources at a higher level was welcome, due account must be taken of the terms as well as the gross amount of assistance, and it was therefore disappointing that bilateral and multilateral assistance was becoming more difficult to obtain, although a few donor countries had taken steps to liberalize their lending policie

The Bank could play a valuable role in co-ordinating aid from donor countries and the establishment of the new consultative groups was to be welcomed. The Philippine delegation shared the view that the providers of aid should give a reasonable indication of the level of assistance that might be expected during the period of the development plan for which the aid was to be used. The Bank should also try to offer loans at lower interest rates, with longer maturity and grace periods.

It was to be hoped that the Horowitz proposal for an interest equalization fund subsidized by developed countries would win general approval, especially as tl contributions required from the developed countries would be comparatively small.

Countries like the Philippines often found it extremely difficult to obtain external assistance because they were no longer in the first stages of development. Nevertheless, assistance was urgently required and a courageous and imaginative approach to development was needed.

Mr. CARANICAS (Greece) welcomed the intensification of the Bank's operations in both traditional and new areas. The formation of new consultative groups was a result of the desire of donor countries to internationalize aid and to spread the burden fairly. There was, however, no guarantee that an agreement to

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(Mr. Caranicas, Greece)

provide untied financial aid to a particular country on soft terms would not be upset by countries which were willing to finance their own exports. The difference between consultative groups and aid consortia was that the latter, which were generally preferred by recipient countries made specific pledges; however, Greece's own experience of a consortium had shown that the difference was not as great as might appear and that a consortium could become a vehicle for promoting its members' export trade. It was to be hoped that the consultative groups still in the formative stage would help to evaluate projects financed bilaterally and that the Bank would do its best to recommend better terms for aid and to co-ordinate assistance in particular sectors.

In view of the present high interest rates and the possibility of still further increases, the Bank might be advised to slow down its activities for the time being. A detailed study of the Horowitz proposal would be valuable, despite the reservations of experts from some developed countries.

A serious problem was the mounting indebtedness of developing countries and a further hardening of loan terms could be expected. It was to be hoped that the Bank would therefore protect those countries from harmful fluctuations by tackling the urgent problem of stabilizing commodity prices. Despite greater needs and expectations, the developed countries were not giving more aid to the developing countries, and it was significant that there had so far been no response to the call for a higher level of replenishment of IDA resources. It was clear that the developing countries, which had insufficient resources to pay for all the imports they needed, must either add to their debt burden or cut back vital imports.

Although Greece had not yet received any assistance from the Bank, it looked forward to the start of its operations in Greece and hoped that the Bank's invitation to send a mission to Washington indicated that such assistance would shortly begin.

Mr. RAHNEMA (Iran) paid a tribute to the work of IMF and of the International Bank and its affiliates. His delegation was particularly glad to note that the Bank had increased its activites in agriculture and education. At the same time, the failure so far to replenish the resources of IDA gave serious

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(Mr. Rahnema, Iran)

grounds for concern and he hoped that that problem could be solved as soon as possible so that there would be no lack of continuity in the operations of IDA. He agreed that the end of the General Assembly was not the best time to take up the reports of the Fund and the Bank and that it would be better to discuss them at the Council's summer session.

Mr. WOODS (President, International Bank for Reconstruction and Development) observed that the Council had held a useful exchange of views and that the Bank group would take into account the comments made by the various delegations. He assured the representative of Greece that the Bank would closely examine the points he had raised; if the Bank had invited a mission from Greece to Washington, it was certain that Greece's request for a loan was being favourably considered. He agreed with the representative of Cameroon that the procedures of the Bank might seem somewhat strange and complicated at first sight, but he hoped that with closer contacts the new members of the Bank group would come to understand its problems. He also assured the representative of Cameroon that the Bank was determined to expand its activities further in agriculture. He hoped that the Economic and Social Council would be used to an increasing extent for an exchange of views between the Bank group and both the industrialized and the developing countries. In particular, the Bank was prepared to contribute to a fuller discussion of international monetary problems at the Council's summer session.

Mr. PIÑERA (Chile) agreed with the President of the Bank that the time had arrived for the industrialized countries to make a joint and thorough examination of what they were trying to achieve in their relationships with the developing world. He suggested that a summit meeting should be held between representatives of the industrialized countries and representatives of the Third World to discuss the paradox of poverty in the midst of plenty.

Mr. BELEOKEN (Cameroon) asked the President of the Bank whether the Bank group had any plans for financing buffer stocks of primary commodities.

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Mr. WOODS (President, International Bank for Reconstruction and Development) replied that the officials of the Bank fully realized the importance of maintaining fair prices for primary commodities. He had discussed the financing of buffer stocks with the Secretary-General of UNCTAD and with the Permanent Representative of Pakistan to the United Nations but saw no point in repeating those conversations in the Council.

The PRESIDENT proposed that the Council should take note with satisfaction of the reports of the Bank and the International Development Association (E/4272 and Add.1) and of the International Finance Corporation (E/4273 and Add.1).

It was so decided.

AMENDMENTS TO RULES 20, 22 AND 23 OF THE RULES OF PROCEDURE OF THE ECONOMIC AND SOCIAL COUNCIL CONCERNING THE VICE-PRESIDENTS (E/4291; E/L.1150) (continued)

Mr. LOPEZ (Philippines) introduced draft resolution E/L.1150 which had been agreed upon during informal consultations. The words "concerning the Vice-Presidents" should be deleted from the title. The new text differed from the one put forward by the Philippines (E/4291) in that rule 20 now stipulated that each of the Vice-Presidents should be Chairman of one of the Sessional Committees. Also, an annex had been inserted setting forth the principle of equitable geographical distribution and making clear the fact that each year one of the regional groups would not be represented on the Bureau.

Mr. RAHNEMA (Iran) said it had been agreed that Iran should be a sponsor of draft resolution E/L.1150. He recalled that before the election of the President of the Council in 1966 the Asian group had withdrawn their own candidate in favour of the candidate put forward by the African group. He hoped therefore that the office of President for 1967 would be given to an Asian country and announced that Iran would put forward a candidate.

Mr. MUZIK (Czechoslovakia) supported the draft resolution, particularly the procedure set forth in the annex. During the informal talks, no agreement had been reached on the order in which the office of President of the Council would rotate among the various regional groups. That question was left open and the present wording would allow it to be solved at a later date. Nevertheless, the Socialist countries felt that one of them was entitled to the office in 1967.

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Mr. MAKEEV (Union of Soviet Socialist Republics) thought that the procedure suggested in the annex to the draft resolution would encourage unnecessary rivalry between the various groups of States. The fact that every year one group would be excluded from the Bureau of the Council would make elections very difficult. He therefore proposed that paragraph 2 of the annex should read: "The three Vice-Presidents of the Council shall also be elected on the basis of equitable, geographical distribution from the regional groups other than the two regional groups to which the President and outgoing President belong." The order of the groups given in paragraph 1 of the annex was purely alphabetical and in no way prejudged the question as to which group would provide the President in 1967. He hoped that by the spring session of the Council a new edition of the rules of procedure would be published incorporating the amendments that had been made during 1966.

Mr. RAHNEMA (Iran) said he had no objection in principle to the Soviet Union amendment to the annex but felt that, in the interest of flexibility, it would be better to retain the text as it stood.

Mr. LOPEZ (Philippines) agreed with the representative of Iran. The question of actual candidatures and the order in which the offices of the Council would rotate among the various groups should be left until later. The annex should therefore be kept unchanged with the list of States remaining in English alphabetical order. The Council should adopt the draft resolution without change, leaving the questions raised by the Soviet Union representative to be decided on in further negotiations.

Mr. ZOLLNER (Dahomey) supported the draft resolution as it stood and felt that any change in it would upset the delicate compromise which had been reached during the informal negotiations.

Mr. BELEOKEN (Cameroon) said that he too could support the draft resolution without any changes. The inclusion of the Soviet Union amendment might make the text too rigid.

Mr. MAKEEV (Union of Soviet Socialist Republics) said he still felt that the formula he had suggested would avoid unnecessary dissension among the various groups but he would not press it to a vote.

Draft resolution E/L.1150 was adopted unanimously.

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FROM: The Secretary

February 21, 1967

Study on Supplementary Financing
Second Session of the Intergovernmental Group on Supplementary Financing
Geneva, February 6-17, 1967

Attached herewith for information is a summary of the discussion at the Second Session of the Intergovernmental Group established under the UNCTAD Committee on Invisibles and Financing Related to Trade. The summary has been prepared by The Economic Adviser to the President.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Deputy Executive Vice President, IFC
Department Heads, Bank and IFC

Second Session of the Intergovernmental Group on Supplementary Financing, Geneva, February 6-17, 1967

1. The Intergovernmental Group on Supplementary Financing set up by the UNCTAD Committee on Invisibles and Financing Related to Trade met in Geneva from February 6-17, 1967. The first meeting of the Group took place from October 10-14, 1966.

2. The Group discussed certain aspects of the Scheme in a business-like manner under the Chairmanship of Mr. Mermolja of Yugoslavia. All members of the Group were present, including a representative from Poland plus a number of observers.

3. The Bank representatives were called on to explain many aspects of the Scheme while the Fund representatives explained the Compensatory Finance Scheme. The discussions were greatly facilitated and sharpened by the circulation of a comprehensive note by the German representative and by the oral contributions of the various representatives. All members of the Group participated actively in the deliberations as well as some of the observers.

4. The discussions in the Group and informal conversations outside brought out that the majority of the Members, including all the representatives of the developing countries, supported the Scheme essentially as proposed by the Bank staff. A few of the donor countries were critical; one of these submitted an alternative to the Bank staff proposal. A couple of countries took an encouraging but not definitive attitude towards the Scheme. One of the more critical potential donors felt that commodity agreements were a more basic attack on the underlying problems but also indicated that Supplementary Finance could be a useful complement to commodity agreements for those countries unable to conclude such agreements.

5. It was agreed that the assistance provided under the Scheme should be of a long-term nature and on concessional terms. The suggestion was made that the members of the Scheme might be grouped into three categories with the DAC "norm" being the middle category.1/ The view was expressed by many that Supplementary Finance should be regarded as supplementary to basic development finance.

6. The proposed export projections were carefully reviewed and discussed in some detail. The general feeling was that export projections of this kind formed a useful and feasible basis for the operation of the Scheme, especially taking into account the scope for improvement. However, one representative remained skeptical, particularly of the wisdom of relating financial assistance to such export projections. In principle, invisibles should be included in the export projections when feasible. In some cases projections of invisible earnings might well be possible for example where tourism was important. While it would be desirable to adjust for import prices it seemed impracticable because of statistical complexities and inadequacies.

1/ 25 years maturity, 7 years grace period, 3 per cent interest rate.

7. The content of the "policy package" was discussed at some length and a number of questions were raised. The Bank representative emphasized the central importance of performance understandings to the whole Scheme. All the representatives of the developing countries expressed their acceptance of the need for such performance understandings. They emphasized that for various reasons it would not be practicable or desirable to publicize detailed understandings. The public policy understandings should be expressed in broad macro-economic terms such as export earnings, public and private investment and domestic savings; private policy arrangements between the country and the Agency would implement, where appropriate, these broad publicized commitments. The actuality of performance would be checked at the time of shortfalls as well as during the projection periods. Thus the Scheme was essentially administered and not automatic, even though it aimed at speedy and timely assistance when needed.

8. The cost of the Scheme was discussed at some length. Some representatives expressed concern that the Scheme seemed open-ended. Several representatives requested a quantification of the factors taken into account in deriving the Bank's staff estimate of \$300-\$400 million a year for the initial five years of the Scheme's operations. A tabulation was given to the Group indicating how these figures were derived and this tabulation was discussed. The Bank representative pointed out that the cost figures were derived on the basis of available historical data regarding shortfalls and should not be taken as precise or certain forecasts of the amounts that will be needed in the future. The cost estimates were made to guide the countries at arriving at a judgment of what amount of financial resources would be needed to give the Scheme a reasonable chance of success in the initial five years. The alternative method of arriving at a cost figure was through negotiations and bargaining without the benefit of a reasoned initial starting point. The Bank staff recognized that there was the possibility that these cost estimates might prove too low or too high. The Scheme therefore provided for rationing, if needed, since the initial sum of resources would be limited. The Scheme was thus not open-ended. It was generally agreed to use the Bank's cost estimates as a basis for future deliberations.

9. The feasibility of the proposed Scheme was thoroughly discussed. One representative felt that it would prove unworkable because of the very broad nature of the policy package and the number of countries involved. The Bank representative pointed to the work that was already being done in the field of examination of development programs and related policies. It was not intended that the Supplementary Finance Scheme would go significantly beyond what was already becoming the general practice in this field. Given close collaboration between the World Bank Group and the IMF with the Agency, the Scheme should prove to be feasible and would not involve much extra work either for the countries or the Agencies concerned.

10. The viewpoint was expressed by nearly all delegations that administration of Supplementary Finance should be entrusted to the Bank Group, i.e. to IDA or another affiliate of IDA, if agreeable to the World Bank. As membership would be universal the question would arise of how non-members of IDA could participate in the Scheme, perhaps by parallel arrangements, etc. Close collaboration with the IMF was envisaged by all. The Bank representative expressed no view on the willingness of the World Bank Group to accept this responsibility, if and when requested.

11. The Bank staff was requested to prepare a background paper on the other external causes of instability beyond the members' control. Mention was made particularly of import requirements such as food and unexpected changes in this regard. It was clarified that the purpose of such a paper was not to extend the scope of the Supplementary Finance Scheme or to prepare other schemes to handle these problems or to arrive at a quantative estimate of the possible cost of such other schemes. With this understanding, the Bank representatives undertook to do a background paper on this subject.

12. Concluding the session the Chairman stated that agreement had been reached in several broad areas but that disagreement still existed on certain important aspects. One or more further meetings of the Group will therefore be necessary. In this respect, the representatives of developing countries expressed their preference for a third meeting in the near future (June) while those of the donor countries want more time for additional study and consultations with their governments. The Group will certainly meet in October and decisions concerning an earlier meeting will be taken by the Committee on Invisibles and Financing which meets in New York next April. The results of this second session of the Group will be presented as an interim report to this Committee. This interim report has been agreed by the Working Group and will be circulated to the Executive Directors as soon as it has been received in the Bank.

The Economic Adviser to the President
February 21, 1967

IMF
EBD/67/145

UNCTAD Progress Report on Activity
Relating to International Monetary Reform

This paper is a summary record of the discussions on monetary reform currently taking place in various expert groups and ministerial meetings. Two interrelated aspects of the problem of international monetary reform have received great attention in recent years, namely, the need for an improvement of the adjustment process and the problem of the adequacy of international liquidity.

1. The adjustment process: It is generally agreed that while fluctuation in the balance of payments may be unavoidable, the persistence of disequilibria could affect the soundness of the international monetary system. The supply of international reserves has an important bearing on the functioning of the adjustment process. While excess liquidity may permit undue delay in the process of adjustment and thereby add both to inflationary tendencies and to persistent payment imbalances, an inadequacy of reserves may force countries into abrupt adjustments, such as restrictions both on the level of domestic activity as well as on foreign transactions, thereby endangering the objectives of growth and stability of the world economy.

2. The need for additional reserves: It is now usual to distinguish in the definition of reserves between credit facilities and reserves. The adequacy of any given level and rate of growth of reserves is in the final analysis essentially a matter of judgment in relation to the prevailing symptoms of the international economy. There are indications that many of these symptoms are now present in the world economy. The fact that aid to the developing countries has failed to increase materially during the past few years despite rapid economic growth in the industrialized countries, that aid is tied not only by deficit but by surplus countries as well, that progress in the reduction of tariff and non-tariff barriers to the flow of international trade is very slow and that competitive increases in interest rates have been taking place suggests that countries' policies are being increasingly influenced by their preoccupation with the state of their reserves.

It has been agreed that at some point in the future, existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets. Although there appears to be a large measure of agreement that the new reserve assets should be held only by monetary authorities and should not be an instrument for direct official intervention in the exchange market, there is still a considerable divergence of views on the most desirable form of deliberate reserve creation. Should the new reserve assets take the form of drawing rights or of a reserve unit? The UNCTAD expert group came out in favour of the creation by the Fund of new reserve assets to be called "Fund units," and to be issued to all Fund members against national currencies contributed by them. The need for reserves is common to all countries, whatever their stage of development. Given the particular features of the trade of developing countries, the latter are in many cases more dependent on the use of reserves than are industrial countries. It now appears that earlier objections within the Group of Ten to a universal approach to the distribution of new reserve assets have been largely given up. However the effective implementation of the principle of universality could still be hampered in a number of ways, such as e.g. the establishment of self-qualifying criteria (under which a country could participate only if its currency had already been drawn from the Fund or used as a reserve currency) or the requirement that reserves created should be used in the first place to repurchase pro tanto any outstanding drawings on the Fund.

The acceptability of any new reserve asset to any individual participant would be primarily the result of obligations assumed by other participating countries to accept it. It has also been suggested that a new reserve asset would need to have certain additional features to enhance its acceptability such as a gold value guarantee and payment of interest. It has also been proposed that a country should not be required to hold more of the new asset than an agreed multiple of its cumulative allocation in order to avoid acquiring a disproportionate share of assets (relevant only for reserve assets in the form of units, in the drawing system the limit would be the size of the credit line).

A basic assumption in the Fund and in the Group of Ten is that no change will be made in the price of gold in terms of currencies in general. All but two members of the UNCTAD expert group share this view. The UNCTAD expert group emphasized the establishment of a link between the creation of international liquidity and the provision of development finance. This link cannot be established without a transfer of real resources.

The discussions on international monetary reform draw a clear distinction between the establishment of a contingency plan, i.e. planning against a future shortage of reserves, and the activation of that plan which would involve the first creation of reserves. It appears necessary that international monetary reform should be truly international. This creates problems of decision making. The latest report of the Deputies of the Group of Ten suggested that a majority of the Deputies favoured a two-stage procedure of decision making, so that whichever scheme is adopted, a proposal would "first be considered and decided upon by members of the limited group and, on being accepted by the requisite qualified majority vote, would be submitted to the appropriate body of the Fund which will decide, according to a specified voting procedure, whether it will be accepted or not." A precise method which would ensure participation for all countries in the decision-making process has not yet been worked out.

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