Mr. Federico Consolo

Irving S. Friedman

UNCTAD Tenth Session - Supplementary Financing

May I suggest you reply that we would probably present our report in oral form. If at the time it seems necessary, perhaps Mr. Sacchetti could join you at the UNCTAD meeting.
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**REMARKS**

Will you please tell me what you prefer? Oral, I hope - it would avoid the "deadline," but, on the other hand, any statement might give rise to queries - and I should need "affirmative." I shall be at the "MTF Dinner" in August 27 - Sept 10 and for one day, I shall leave before the end of the month - but I shall certainly be there from when you choose to come. Thanks.
Dear Fred:

I have been asked by the Secretary of the Trade and Development Board to try and ascertain whether the World Bank intends to present its report on supplementary financing to the tenth session of the Board in written or in oral form. Either procedure would be perfectly acceptable from our standpoint, but in the event that you wish to submit a written report, it would be appreciated if the report could be made available to Mr. Chossudovsky in Geneva not later than 7 August, in order to give the necessary time for translation, reproduction and distribution.

With best personal regards.

Yours sincerely,

[Signature]

S. Dell, Director
New York Office of UNCTAD

Mr. Federico Consolo
Special Representative for UN Organizations
International Bank for Reconstruction and Development
1618 H Street, N. W.
Washington, D. C. 20433
Mr. Sacchetti phoned -- said he doesn't understand what trouble he is asking for as letter of March 2 (attached) to Perez-Guerrero states "Please be assured that there will be a report to the Trade & Development Board on progress in the field of supplementary financial measures".
Mr. Ugo Sacchetti

Irving S. Friedman

UNCTAD Annual Report

Why the last paragraph, particularly the last sentence -- are we looking for trouble?
OFFICE MEMORANDUM

TO:       Mr. Irving S. Friedman
FROM:     Ugo Sacchetti
SUBJECT:  UNCTAD Annual Report

DATE:     April 30, 1970

Further to my memorandum this morning on this subject, I would like to add that the Departments providing the material have given their clearance for it to be transmitted to UNCTAD.

I would suggest that since IFC has provided material for transmittal to UNCTAD, a copy of your letter be sent to either Mr. Gaud or Mr. Qureshi.
March 2 1970

My dear Perez-Guerrero,

This is in reply to your letter of February 19 regarding supplementary financial measures.

Please be assured that there will be a report to the Trade and Development Board on progress in the field of supplementary financial measures.

Your assurance that it remains within the discretion of the World Bank to decide when and in what form this report should be made to the Trade and Development Board is most appreciated.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. Manuel Perez-Guerrero
Secretary-General
United Nations Conference on
Trade and Development
United Nations
New York, N.Y.

cc: Mr. Demuth

Irving S. Friedman/dm
March 2 1970
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**Remarks**

Irving -

I think that you will want to handle the attached letter from Perez-Guerrero.

R.H.D.

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From: Communications Section, Room C219, Extension 2023.
Dear Mr McNamara:

The representative of Brazil at the recent session of the Trade and Development Board suggested that the World Bank be invited to report to the tenth session of the Board on progress in the field of supplementary financial measures. He did not propose a specific resolution on this matter and was, of course, aware that resolution 60 (IX) of the Board had invited the World Bank to "make available from time to time" reports on the extent of progress made in this field.

I am sure that a Bank report to the Board at its tenth session would be much appreciated. At the same time it is clear that it must remain within the discretion of the World Bank to decide when and in what form to report to the Board on this question.

Yours sincerely,

[Signature]

Mr Robert McNamara
President,
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
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**REMARKS**

**From**  
Richard H. Demuth
The United Nations is establishing a series of technical assistance teams, each to cover groups of smaller and less advanced developing countries. While formally attached to the Regional Economic Commissions, these teams will be controlled both as to budget and as to staffing by the Department of Economic and Social Affairs at UN Headquarters. The model for these new offices is the UN office in Beirut which, in the absence of a regional economic commission for the Middle East, has performed many of the reporting functions of an economic secretariat but has also furnished advisory assistance to governments in a variety of fields.

The UN is underscoring its pragmatic approach to this experiment. The number and exact nature of such groups will depend to a considerable degree on experience with the first two groups which the UN is setting up in Africa. If the experiment is successful, the UN would then gradually set up other groups in Africa, Asia, Latin America and the Caribbean. The recruiting of personnel particularly adapted to the scope and location of these groups would be a matter of the greatest importance.

The purpose of these operational teams (as distinct from the regional economic commissions which are non-operational) would be to give, when requested by governments, advice and technical assistance not only in the techniques of economic and social programming and planning, but also in specific sectors such as public administration, trade policy, industrial programming, agricultural programming and employment policy. This assistance would be conceived as broadly and as flexibly as possible, so that the needs of governments could be met at any stage in the preparation and execution of their plans. The term "trouble shooting" has been used to describe broadly the kind of service the UN hopes these regional teams will be able to provide to governments.

The teams would be organized within the framework of the UN, that is, with the participation of UNCTAD and UNIDO. The UN would also expect to enlist the support of certain Specialized Agencies. Preliminary contacts with FAO, ILO and UNESCO have been encouraging. It is premature to specify the form cooperation with the agencies would take.

The UN feels that the establishment of these teams is in line with some of the recommendations of the Jackson Capacity Study. These teams, once they had proved their worth, might be of help to governments and UNDP Resident Representatives in implementing the development cooperation cycle.
recommended in the Capacity Study. Should the UNDP Administrator so wish it, the UN would place the teams at the disposal of the Resident Representative to give him assistance. The UNDP would then be asked to share the cost of these teams.

cc: President's Council
   Area Departments
   Projects Departments
   All field offices and resident missions
   Mrs. Boskey
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**REMARKS**

**From**

[Signature]

**Date**

27/2/70

**NAME**

Mr. Friedman

**ROOM NO.**

A1221
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: FILES

FROM: Fritz Steuber

DATE: February 20, 1970

SUBJECT: UNCTAD, Trade and Development Board - Third Part of the Ninth Session - February 2 through 16, 1970

1. If this report has any semblance of orderliness, this is not necessarily a reflection of what actually happened during the discussions which went on for more than two weeks. A "second resumed session" of the Board had become necessary primarily to finalize the preparation of a document containing the contribution of UNCTAD to the United Nations Second Development Decade (DD II). Although there were about two dozen items on the agenda (a good many of them of interest to the Bank and referred to briefly below), the deliberations on DD II took up most of the time. At earlier sessions, beginning with the 8th session of the Board in January 1969, the Board had been unable to agree on a general strategy regarding DD II, mainly because the developing countries' desire to map out UNCTAD action during the 1970's on the basis of firm timetables had met with the opposition of the developed market economy countries. In September 1969, the Board entrusted its President (Ambassador Asante of Ghana) and Mr. Perez-Guerrero, the Secretary-General of UNCTAD, to produce a text regarding UNCTAD's contribution to DD II in close consultation with a number of permanent delegations in Geneva. With the exception of the problems of the volume of transfer of financial resources and of shipping, Messrs. Asante and Perez-Guerrero succeeded in presenting a compromise text which, in Mr. Asante's own words, while being a "disappointing document", still was the best possible solution in view of existing realities. The text did not engage any of the some 15 delegations which took part in its elaboration.

2. At the beginning of the present session there were a great number of exhortations from both developed and developing countries that this compromise text should be accepted without major alterations; otherwise there would be no hope for an agreed position. Delegations should therefore refrain from proposing any substantive amendments. While this view seemed to be shared by many during the first few days, at the end of the first week there was already a flood of proposed amendments from the various groups or from individual delegations. A contact group (open to all delegations) and later on a drafting group of 17 were established to reconcile these amendments. The second week at times saw extreme confusion since many of the amendments were either consolidated, changed again or withdrawn. It had been hoped earlier that most amendments were advanced mostly for tactical reasons in order to be withdrawn at a later date in a give-and-take exercise; this proved only partly to be true.

3. A number of delegations, most importantly the Latin American ones, but also some developed countries, clearly felt that regarding especially the volume of transfer of financial resources (perhaps the most important item on which agreement was not reached), it might be preferable to have the matter settled at the highest political level, i.e. the
To: FILES

February 20, 1970

United Nations General Assembly. This strategy might also accommodate a number of donor countries, most importantly the United States (the Petersen Report is still not out).

4. The session saw a further crumbling of group cohesion and solidarity. This applies to the 31 developing countries members of the Board (with the Latin American members still tending to take the most extreme positions), but even more so to the developed market economy countries (Group B). For example, there are now three different texts regarding the volume of transfer of financial resources emanating from Group B countries, with France, the Netherlands and Sweden going as far as agreeing that before the middle of the decade the one percent of GNP aid volume target should be reached. At the other extreme, the United States' position, supported by Australia, is very much more guarded. The final document regarding UNCTAD's contribution to DD II (which will not be ready for some time) thus contains, in footnotes and annexes, a host of amendments, statements by groups or individual delegations and clarifications to the original text presented by Messrs. Asante and Perez-Guerrero. In other words, the efforts of the Board to arrive at a reasonable compromise have failed in many important respects. A fuller discussion of substantive issues follows, after a brief review of a number of other items of interest to the Bank.

Tenth Session of the Board -- Inclusion of Agenda Item concerning Supplementary Financing

5. During the discussion of the provisional agenda for the tenth session of the Board, a number of Latin American countries, speaking first in their own name (Brazil, Chile, Colombia, Guatemala) and later on expressing a group position (through the representative of Costa Rica), requested that supplementary financing be included in the agenda of the tenth session. To this effect they asked the Bank to prepare a progress report on the subject. The Bank is of course under no obligation to furnish such reports at particular dates, since resolution 60(IX) invites the IBRD only to make them available "from time to time". After consultation with Head Office I made a statement to the Board, saying that the Bank will be ready to make such a progress report to the tenth session, but would want to leave open the question of whether it shall be in written or oral form. My statement was well received by the Latin American group; Guatemala specifically stated that they would not necessarily expect the Bank to come up at that date (August/September 1970) with final arrangements for supplementary financing. Several Latin American delegations also referred to a paragraph regarding supplementary financing in the final document of the CIES (Caracas, February 5–6, 1970), in which the IBRD is asked to "accelerate" its analysis of a supplementary financing scheme.

6. The position of the Latin American group was supported by Switzerland, Jamaica and Syria. Australia expressed doubts whether by late August the Bank would be in a position to say anything substantive, and the U.S. delegation was frankly hostile to the inclusion of a new agenda
item, advancing the main argument that the TDB should at least wait until after the 1970 Bank Annual Meeting; in any event, the Bank staff would in all probability not have enough time until August/September to complete its consideration of such a complex scheme. Referring to the document, the U.S. also explained that it had supported the paragraph concerning supplementary financing, but that their main intention was to "accelerate" things through the U.S. executive director in the Bank.

7. Finally a compromise solution was agreed upon; instead of having a separate agenda item, paragraph 7(c)(1) of the agenda now reads:

"financing related to trade, including the relevant part of the report of the Committee on Invisibles and Financing related to Trade, and a progress report by the IBRD on supplementary financing."

International Monetary Issues

8. Under this seemingly vague heading took place a brief discussion of the (by now well-known) proposed link between the IMF Special Drawing Rights scheme and development financing. The Board had before it a report of the Expert Group on International Monetary Issues (TD/B/285/Rev.1). The report envisages two "main avenues" for creating a link, either by way of direct contribution to IDA of some proportion of the developed countries' annual allocations of SDR's, followed by an immediate exchange of such SDR's, into the national currencies of the donor countries concerned; or through a contribution of national currencies to IDA in some proportion of the developed countries' annual SDR allocations.

9. The subject had already been referred to by Mr. Asante in his opening speech, where he had characterized the SDR scheme as a "prescription by a team of rich doctors to cure the gout of rich men". The report of the Expert Group required consideration in depth and concrete practical suggestions; it should also receive "the serious attention" of the IBRD (the IMF was not mentioned on that occasion). Mr. Perez-Guerrero also made a statement (attached), mainly paraphrasing the report of the Expert Group. The Secretary-General termed the report "a document of outstanding importance" and "a particularly constructive effort". Alluding to the widespread reservations, especially by Group B countries, regarding the experts' recommendations, he said that "the heresies of today may become the orthodoxies of tomorrow".

10. The IMF (Mr. Edgar Jones, Head of the IMF Geneva Office) made a rather detailed statement (attached) in which he pointed out that the IMF Articles of Agreement did not permit SDRs to be allocated to, or even held by, development financing institutions. However, if member countries wished to commit larger amounts to development
aid in consideration of their receipt of SDR allocations, that was an entirely different question. Furthermore, he stated that the IMF Managing Director hoped that the increased easing of reserve positions resulting from SDRs would lead to an expansion of aid. Owing to the proposed IMF quota increases, developing countries' quotas could increase by about 34 percent, broadening their possible access to the general facilities of the Fund as well as to the compensatory financing and buffer stock financing facility.

11. It is well known that most developing countries agree with the conclusions of the Expert Group. In view of the already full agenda, and following an intervention of Group B, everybody agreed that no substantive discussion should take place. It was therefore decided to refer the report of the Expert Group to the CIFT and to request the CIFT to report to the Board at the earliest opportunity, preferably at its 10th session.

**Special Measures in Favour of the Least Developed among the Developing Countries**

12. At its last session the Board had considered a Secretariat paper on the subject which, on the basis of six economic and social indicators, arrived at a composite index allowing for the ranking of 90 developing countries, 30 of which were considered to be "least developed". This approach had been heavily criticized. A new paper (TD/B/288), written by a group of experts, was submitted to this session. The approach taken is more pragmatic and policy-oriented. The experts recognize that any classification exercise of the type previously attempted was "of limited meaning in terms of international economic policy", and that any special measures had to be related to "special problems" in specific countries. The report then lists a number of characteristics pertaining to the least developed countries; but -- and this was pointed out several times in the subsequent debate, all of these characteristics apply to a greater or lesser degree to any developing country.

13. The experts then considered what "special measures" might be envisaged for the least developed countries within each of UNCTAD's fields of activities (commodities, manufactures, development finance, regional integration, invisibles, trade promotion, transfer of technology, etc.). Any such special measure should be designed, in the experts' opinions, to eliminate or attenuate the basic handicaps of the least developed countries. While the problem of the characterization of the least developed countries has probably still not been solved satisfactorily (supposing that the concept itself is really meaningful), the experts' recommendations still have a greater air of realism since they do not recommend, for example, one single "policy package" for any least developed country.

14. Chapter IV of the report regarding development finance is of special interest to the Bank. It is recognized that insufficient absorptive capacity is very much a problem for the least developed countries, and in the debate this was pointed out again by some delegations; especially the Italians thought that among the "special
measures", there should be foremost those designed to increase absorptive capacity. Among the special measures recommended in the financing field are: financing of local costs to the greatest possible extent; the use of "flexible criteria" in the assessment of project "profitability"; the widest possible use of grants or loans on IDA terms; the terms of supplementary financing to be not harder than IDA terms. Well enough, but another recommendation (see paragraph 40 of the report) seems puzzling and appears to go against the general approach taken by the experts, since they believe that "short-term financial assistance including suppliers' credits on appropriate terms is of special importance in meeting the capital requirements of the least developed countries."

15. Although about 20 delegations took part in the debate, not much of substance resulted from it. There was a consensus that the pragmatic policy-oriented approach, adopted in essence by the Group of Experts, was the most appropriate to deal with the highly complex problem of identifying the least developed countries. Most representatives stressed the need to continue the study of the specific problems of the least developed countries as well as the formulation of the corresponding measures to be adopted in their favor. Many also pointed out that it would be the responsibility of the continuing machinery of UNCTAD, in conjunction with other international bodies, to devise special measures. Some delegations expressed the view that co-ordination within the entire U.N. system was necessary.

16. A resolution on the subject (TD/B/L.210) was adopted unanimously; amongst other things, it requests each of the main committees and subsidiary bodies of UNCTAD to consider the problems of the least developed countries and submit concrete proposals to the Board on what effective measures might be taken within their fields of competence.

International Shipping Legislation

17. The UNCTAD Working Group on International Shipping Legislation held its first session in Geneva from December 1 to 12, 1969 (see document TD/B/289). The Working Group considered itself not so much as a body dealing with reform in the field of international shipping legislation, but rather concerning itself with the economic and commercial aspects of international legislation and practices in the field of shipping from the viewpoint of their conformity with the needs of the developing countries. The representatives of these countries in the Group pointed out that they did not have equal bargaining power in the ship-owner/ship-user relationship. They claimed that this affected their countries' balance of payments adversely. The developing countries' unequal position existed, it was claimed, because most of them did not have an opportunity to participate in the creation of the existing rules of maritime law. In the opinion of the developed countries members of the Group, the existing rules of maritime law seem to be working satisfactorily, but
they conceded that there might be room for certain improvements; it was up to the developing countries to point out what the actual imperfections were.

18. The main task of the Working Group was to agree on a program of work, and the following main priorities were established: (1) bills of lading; (2) charter parties; (3) general average; (4) marine insurance. All developing countries present in the Group agreed that bills of lading should receive top priority in the work program, mainly because of all the legal instruments regulating maritime transportation, bills of lading affected the greatest number of interests, groups and individuals. It was therefore agreed that the UNCTAD Secretariat should undertake a major study on bills of lading.

19. Although about a dozen delegations took the floor regarding the report of the Working Group, there was little substantive discussion. Both the developing and the Group B countries generally agreed with the work program proposed by the Working Group, and in particular with the priority to be given to a study on bills of lading. Some developing countries were concerned about indications given by the Secretariat that it would take as long as six years to carry out the full work program. Some smaller developed countries (e.g. New Zealand) warned that no artificial dividing line should be drawn between the interests of the developing and the developed countries, since many smaller developed countries did not have fleets of their own.

20. In the end the Board decided to transmit the report of the Working Group to the U.N. Commission on International Trade Law (UNCITRAL), and agreed that provided documents would be made available to governments for study at least six weeks in advance, the Working Group would hold its second session from November 30 to December 11, 1970; should this not be possible, that session would be held not later than early February 1971.

Preferences

21. In accordance with the undertaking given by the Group B countries during the third session of the Special Committee on Preferences, the Secretary-General of the OECD on 14 November 1969 transmitted to the Secretary-General of UNCTAD the substantive documentation entitled "Tariff preferences for developing countries", with ten annexes containing individual submissions of prospective preference-giving countries. The substantive documentation embodies the common position as well as individual positions of developed OECD countries concerning the principal characteristics of the generalized scheme of preferences as envisaged by them, including the hypotheses, reservations and conditions upon which the preference systems are based. Austria, Canada, Denmark, Finland, Ireland,
Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the European Economic Community presented submissions.

22. During the discussions at the Board, the Group B countries made it clear that so far there were only individual submissions, some of them still incomplete, some subject to further interpretation. Further consultations within the OECD would continue with a view to harmonizing the individual countries’ positions. This is of course what the developing countries want, although Belgium, for example, stated quite frankly that they did not see any possibility for the OECD countries to arrive at such a common position. Some developing countries (e.g. Afghanistan) stressed that the preference scheme would benefit only a small number of relatively advanced developing countries. Finally, it was decided that the next meeting of the Special Committee on Preferences should take place from March 31 to (possibly) April 17; further consultations between the Group B and the developing countries will take place at that session.

Calendar of Meetings

23. The Board decided on some changes regarding the calendar of meetings for 1970, as originally proposed in document TD/B/203. The main change of interest to the Bank is that in view of the session (newly scheduled) from March 31 to April 17 of the Special Committee on Preferences, the Committee on Invisibles and Financing related to Trade will meet at its 4th session on July 20 to 31, instead of April. Some delegations thought that the CIFT meeting was now too close to the 10th session of the Board (August 25 - September 18, 1970).

Preparations for the third UNCTAD Conference

24. There was a consensus that:

(a) consideration of the provisional agenda would be completed at the tenth session of the Board;

(b) the site of the Conference would, provisionally, be Geneva;

(c) the Secretary-General of UNCTAD would be requested to continue consultations on the date of the third session of the Conference but provisionally, early 1972 appeared to be the most suitable period.

Other references to the Bank

25. Early in the session the representative of the World Confederation of Labour made a rather long statement regarding the Confederation's views on development problems. He proposed, amongst other things, the transformation of the World Bank Group into an international development fund, very much along the lines of the old SUNFED.
I subsequently had lunch with this gentleman (Mr. Nguyen van Tanh,
Deputy Secretary-General of the WCL), and after a good talk he seem­
ed to recognize that his statement might have been a little rash.

26. The Pearson Report was referred to (only once) by the President
of the Board, who said he hoped that the United Nations would
consider the report "at the highest level".

Items Deferred

27. The following subjects were considered briefly but deferred to
a later date:

- UNCTAD and World Public Opinion (agenda item 17). It was
agreed that consideration of the two draft resolutions sub­
mitted at the first part of the Board's 9th session should
be postponed to the 10th session.

- Growth, development financing and aid (agenda item 6).
A draft resolution, remitted to the Board earlier by the
CIPT (TD/B/236/Rev.1), was again referred back to the CIPT,
without prejudice to its consideration at the Board's 10th
session.

Contribution of UNCTAD to DD II

28. The final document on the subject is still based on the compromise
draft arrived at late in 1969 under the sponsorship of Messrs.
Asante and Perez-Guerrero. The document will be fairly long and
probably somewhat confusing in view of the large number of state­
ments regarding group and country positions (about 20 were made at
the end of the session), proposed amendments, etc. which will ap­
pear in footnotes and annexes. Late in the session the delegation
of Ghana (most probably at the inspiration of their fellow country­
man, Mr. Asante) moved that the debate on item 3 of the agenda
UNCTAD's contribution to DD II) be closed; this in all probability
would have implied that most amendments and additions be dropped ex­
ccept for the (relatively insignificant) amendments on commodities,
terms and conditions of aid, trade relations, debt service, insurance,
and tourism agreed on earlier in the contact group and for the
sections in the report dealing with the volume of transfer of fin­
ancial resources and with shipping, the two subjects on which Messrs.
Asante and Perez-Guerrero had not been able to arrive at an agree­
ment. But the move by Ghana was defeated; most developing countries
voted against closure, while practically all developed countries were
in favor of it.

29. Regarding statements which reflect group positions, the two
most important ones came from the socialist countries and the
Group B countries (see TD/B/L.215 and L.217). The Group B statement
is in no way a reflection of any common position concerning major
issues; it rather lists briefly a number of reservations which particular groups of delegations within Group B had made. Finally, it was agreed after considerable and at times heated discussions regarding the precedence of texts, that each paragraph on which there had been no consensus be referred to in a footnote in the following way:

"This draft paragraph was submitted by the President of the Board and the Secretary-General of UNCTAD on their own responsibility after consultations with a number of heads and senior members of permanent delegations, as envisaged in the Board's decision of 22 September 1969. Alternative texts or amendments were submitted on which the Trade and Development Board was unable to agree. The Board will continue its efforts with a view to arriving at an agreed text for this paragraph. The alternative texts and amendments appear in annex ... page...".

30. The document (TD/B/L.216/Rev.1) as it is available now begins with a section on goals and objectives; three main concerns should guide UNCTAD in its work:

(a) the developing countries should achieve the maximum increase in their net foreign exchange earnings from exports;

(b) the resources at the disposal of the developing countries should be supplemented through financial and technical assistance from the developed countries;

(c) the flow of modern technology to the developing countries should be increased.

31. The substantive sections of most immediate interest to the Bank concern:

A. Commodities -

32. Efforts in this field should aim at securing the following benefits for the developing countries:

(1) stable, remunerative and equitable prices for primary commodities;

(ii) improved access to the markets of the developed countries;

(iii) measures to promote marketing and consumption of primary products including those in processed and semi-processed form;

(iv) a reduction in the dependence upon a narrow range of primary products.
33. Within the commodity field top attention is given to commodity agreements and arrangements, including buffer stock financing. A timetable for the consideration of these matters is to be drawn up before the launching of DD II. The formulation of a General Agreement on Commodity Arrangements will be kept under active consideration. Further paragraphs concern pricing policy, access to markets, and competition from synthetics and substitutes. Finally, a section is devoted to diversification programs; at the end of that section it is stated that "close co-ordination and co-operation between UNCTAD, FAO, IBRD, other competent organizations and governments should be continued or established, in order to avoid the diversification efforts of individual countries leading to, or perpetuating, over-supply of certain commodities in the world market."

B. Manufactures and Semi-Manufactures

34. The key section under this heading concerns, of course, preferences. Other sections deal with tariff and non-tariff barriers, export development and promotion, etc.

C. Financial Resources for Development

35. In a brief introductory statement it is recognized that "developing countries must, and do, bear the main responsibility for financing their own development", and that "external resources in support of development should not replace but should supplement domestic efforts". The statement that "the fullest mobilization and most effective utilization of the domestic resources of developing countries is possible only with concomitant and effective external assistance" brought reservations from some Group B countries, particularly the United States.

36. The section on the volume of transfer of financial resources was one of the most hotly debated. In the original compromise text, the section was left blank since no agreement had been reached. It is well known that most developing countries want the bilateral donors to achieve the one percent of GNP aid volume target by 1972. In addition, they also propose a target of 0.75 percent of GNP for net official transfers, equally to be attained by 1972. It was on these points that the Group B countries were most divided among themselves. It might have been possible for them to arrive at a common position, but some delegations wanted to avoid having a text which expressed only the lowest common denominator. Thus three different texts exist now, reflecting differing viewpoints of groups of OECD countries:

(a) France, Netherlands and Sweden:

This is the most "positive" text, since it recognizes the desirability for developed countries to reach the one percent of GNP aid volume target before the middle of the 1970's. In addition, it also states that an official transfer target (no percentage given) and a date for its
attainment "would represent a basic element for the implementation of the international development strategy".

(b) Germany, Italy and U.K.: On the target date for attaining the one percent of GNP aid volume, the text states that in the view of the developing countries, this should be achieved by 1972. All countries which have not yet attained the one percent volume target should do their utmost to meet it as rapidly as possible. On official transfers "it is desirable that a substantial part of the aid of the developed countries should consist of official development aid and that the developed countries should endeavour to increase, within their possibility, this part of their aid." Finally, the text touches on the possibility of individual declarations of intent by donors.

(c) Australia and United States: This is the most reserved and non-committal statement. Regarding the date for the attainment of the one percent volume target, the text mentions 1972 (as desired by the developing countries) and 1975 (as recommended by France, Netherlands and Sweden), but goes on saying that "other donor countries do not feel able to accept a precise date". Regarding official transfers, the text states that "governments of the developed countries supplying the bulk of resource transfers to developing countries encounter difficulty in committing themselves to specific targets to be fulfilled by pre-determined dates. Moreover, the resources which individual developed countries can make available differ in composition, in view of the difference in their economic structure."

37. Still under the heading of "Financial Resources", the section on terms and conditions of development assistance expresses the hope that DAC members will reach soon the norms set in the 1969 supplement to the 1965 terms recommendation. The Bank study on techniques of lending is also mentioned under this section, and it is hoped that the study will "facilitate further steps to improve the terms and conditions of assistance". Multilateral interest equalization is also referred to, but only "en passant". Another section is devoted to the debt problem; commercial credits are especially singled out in this respect. It is further said that arrangements for forecasting and, if possible, forestalling debt crises should be improved, and that both developed and developing countries should do their best to avoid them. Regarding multilateral financial transfers, the volume of resources made available through multilateral financial institutions should be increased. Brief references are made to the SDR link,
the outflow of financial resources from developing countries, and private investment. Finally, supplementary financing is referred to in one paragraph. The wording that "the IBRD is working out arrangements for supplementary financing" seemed somewhat unfortunate to Mr. Franco-Holguin and the writer, and I therefore suggested a change to "the IBRD is working on possible arrangements"; this amendment did appear in one of the early collections of amendments proposed by Group B, but since later Group B withdrew the paper, the earlier version is maintained.

D. Invisibles including Shipping -

38. Under this heading there is an interesting paragraph on tourism. It is stated that member states recognize tourism as a development industry. Governments of developed countries are then invited to endeavour to avoid exchange restrictions on tourism. The most controversial subject, however, was and is shipping. A draft text arrived at the contact group still shows wide areas of disagreement (see Misc.27) as evidenced by the large number of square brackets. In all the previous as in the present discussion, the main problem has been cargo reservation. There was also no agreement on more general propositions. Should the developing countries have an "increasing", a "substantially increasing", or a "substantial" participation in the carriage of maritime cargo? The "agreed" text regarding requests from developing countries for financial and technical assistance in the establishment and expansion of national merchant marines brought reservations especially from the United States, which considers that vessels should be financed exclusively through commercial channels and on commercial terms.

E. Implementation Review -

39. Under this heading it is recognized that "UNCTAD will have a major role to play with respect to matters within its field of competence in any review procedure that may be set up by the General Assembly for the assessment of progress towards the achievement of the overall goals and objectives" of DD II. Here again the Group B countries warned that this text should not read as in any way pre-judging the decision to be taken by the General Assembly on this question.

cc: Messrs. Demuth (4)
     Kamarck (3)
     Sacchetti
     Hilton (IFC)
     Karasz/Wishart

FS/mar
LIST OF DOCUMENTS

Only one copy of significant documents prepared during the session is forwarded.

- List of Participants

- International Monetary Issues
  . Statement by the Secretary-General of UNCTAD
  . Statement by the IMF representative

- Special Measures in Favor of the Least Developed among the Developing Countries: Resolution adopted (TD/B/L.210)

- Review of the Calendar of Meetings: Revised Calendar (TD/B/L.203/Add.2)

- UNCTAD's Contribution to DD II
  . Text presented by Messrs. Asante and Perez-Guerrero (TD/B/L.216/Rev.1)
  . Statement by Group B (TD/B/L.217)
  . Statement by the Socialist Countries (TD/B/L.215)
  . Text on Invisibles including Shipping (Misc.27)
  . Texts on Volume of Financial Resources presented by:
    - Germany, Italy, U.K. (TD/B/L.212)
    - Australia, U.S. (TD/B/L.213)
    - France, Netherlands, Sweden (TD/B/L.214)
WE AGREE TO STATEMENT THAT BANK WILL BE READY TO REPORT ON PROGRESS AT TDB TENTH SESSION BUT LEAVE OPEN WHETHER REPORT WILL BE ORAL OR WRITTEN

FRANCO-HOLGUIN

Ernesto Franco-Holguin
Development Services

Cleared with and cc: Mr. Friedman
cc: Messrs. Hoffman/Demuth
Mr. Consolo
Mr. Sacchetti
February 6, 1970

Dear Mr. Perez-Guerrero:

I have your letter of January 21, 1970, transmitting the agenda for the forthcoming session of the UNCTAD Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries and asking whether the Bank has any views as to subjects that might usefully be included in the review of programs in this area that you are preparing for consideration by the Intergovernmental Group.

We have carefully considered your letter and the proposed agenda. I note particularly your request for suggestions as to aspects of our organizations' action which relate to economic co-operation among developing countries and which might benefit from 'international consideration at this time.' I do not believe there are any aspects of the Bank Group's operations that fall in this category. The proposed agenda appears to be comprehensive and we have no additions to suggest or specific problems to be included in your review.

We will, of course, try to participate in the deliberation of the Group if invited to do so.

Sincerely,

Robert S. McNamara

Mr. Manuel Perez-Guerrero
Secretary-General
United Nations Conference on
Trade and Development
Palais des Nations
CH-1211 Geneva 10
Switzerland

Cleared with and cc: Mr. Friedman
Central Files with incoming correspondence
cc: Mr. France Mr. Kamarck
M. Hoffman: read
February 5, 1970
**Form No. 89**

**International Bank for Reconstruction and Development**

**International Development Association**

**International Finance Corporation**

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Remarks

Leif C. Christoffersen

From
Dear Mr. McNamara,

I should like to consult you about UNCTAD's continuing work in the field of economic co-operation among developing countries. In this context I would like to refer, in particular, to the forthcoming session of the UNCTAD Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries and our preparations for the session.

Economic co-operation and regional integration among developing countries is naturally of great concern to UNCTAD, and we regard the session of the Intergovernmental Group as a potentially important contribution to the achievement of the aims set out in the "Concerted Declaration on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries" (decision 23 (II)) adopted by the second Conference at New Delhi in 1968. By this Declaration the Conference recognized external finance and technical assistance would contribute to the solution of the problems faced by developing countries and would supplement the special efforts that they are making at present. In the Declaration the developed countries indicated their willingness to support the efforts of developing countries to co-operate among themselves. In particular, the developed market economy countries set out a number of possible measures of support for initiatives in regional co-operation instituted by developing countries, including assistance to help the less advanced areas of a particular group to share in its benefits.

It is my hope that the material prepared for the Intergovernmental Group, and its subsequent deliberations, will result in an improved understanding of those problems faced by developing countries in the fields

Mr. Robert S. McNamara
President
International Bank for Reconstruction and Development
1818 H Street N.W.
Washington D.C. 20433
USA
of economic integration and co-operation which can be surmounted more effectively with international support, and will form a basis for action by developed countries in the areas so identified.

I enclose a copy of the agenda for the Group's session. In our preparations for the consideration of the subjects of trade policy questions and financial and payments aspects of trade expansion, economic co-operation and regional integration, which you will see form a major part of the agenda, we have selected several topics which we feel may be usefully considered in an international forum at this time. Papers in preparation will examine policy measures with regard to multilateral payments arrangements among developing countries; measures in the field of suppliers' credit and credit insurance; the untying of aid to facilitate trade among developing countries; and means for ensuring that reverse preferences granted by developing to developed countries do not impede agreements for the expansion of trade among developing countries. I shall, in due course, send you the results of the work in these fields.

May I draw your particular attention to items 1 (a) and 1 (b) of the enclosed agenda, and in this connexion seek your assistance in our preparations for the Group's work. You will note that the UNCTAD secretariat has been asked to prepare a summary review of the progress made by developing countries in their economic and trade co-operation and in their efforts at regional integration. We have been requested to base this review on advance submissions by organizations dealing with these problems.

It is not our intention that this review should provide a general treatment of all aspects of economic co-operation and regional integration among developing countries. As you know, general debates on the subject of trade expansion and economic integration among developing countries have taken place in recent years in the Trade and Development Board and the Conference. These discussions, as well as submissions by regional and sub-regional groups, led to the formulation of the Concerted Declaration. Furthermore, an opportunity for the general discussion of these subjects is provided in the context of UNCTAD's periodic Review of International Trade and Development. I rather have in mind that our review should concentrate on the specific problems confronting developing countries which in your opinion might well be considered at this time. Our aim is to promote an exchange of information among developing countries and members of regional and sub-regional bodies, and to facilitate consideration of these questions by developed countries and the appropriate international institutions. Of course, not all aspects of your organization's activities which relate to economic co-operation among developing countries require international consideration at this time, but you may wish to highlight those areas where a specific difficulty has been encountered, or areas where international assistance has already facilitated the solution of a problem. Frank treatment of such problems in the secretariat document may contribute to their solution by prompting a joint analysis by representatives of developing countries, regional and sub-regional bodies, and developed countries.

It is of great importance to us that our review should be based upon practical experience obtained by organizations such as yours in recent years. I should therefore be very grateful if you could provide us with your ideas.
on the matters I have touched upon in this letter. I would be particularly happy to receive your views as to the subjects which might usefully be included in our review, supplemented, if possible, by specific examples taken from the experience of your organization.

In order to be able to issue the review in good time before the Group's session scheduled for July-August 1970, I would greatly appreciate it if we could receive your reply by 2 March 1970.

Yours sincerely,

[Signature]

Secretary-General of UNCTAD
OFFICE MEMORANDUM

DATE: January 14, 1970

TO: Mr. Irving S. Friedman
FROM: Ugo Sacchechi

I refer to your memorandum of January 8, 1970 on the subject.

Probably Mr. Kanarck has already informed you that he cannot send anyone from the Economics Department to the meeting. The staff situation in Development Finance Studies, as you know, is equally stringent.

The item of most direct concern to us is that of the "link" between SDR and development finance. Unfortunately, as I understand it, there are no precise dates given on the Agenda as yet and therefore, at this juncture, if I were to go I would have to stay for the whole period. This I am afraid is an excessively long time. In the meantime Mr. Steuber of the Paris Office has informed Mr. Consolo that he will attend the meeting. In an aide memoire which I prepared for him to apprise him of the status of the reports to be prepared for SDR, I have asked to be informed of the specific days, if any, on which the "link" is to be discussed so that I can decide if I can make a brief visit to Geneva for this purpose. If this should not prove feasible, I have asked Mr. Steuber to prepare a fairly detailed report on the subject. A similar request is made for items which are of interest to the Economics Department.
Mr. Andrew M. Kamarck

Irving S. Friedman

Trade and Development Board, third part of the ninth session,
Geneva, 2-13, February, 1970

As we discussed before, I do think that it would be worthwhile
having someone at the UNCTAD Conference for some of these items,
particularly Agenda items 2, 6, 15, and, possibly, 27.

I wonder if Mr. Sacchetti would be the right person for this?
Perhaps the two of you could discuss it and let me have your
recommendations.

Thank you.
TO: Mr. Irving S. Friedman
FROM: R. M. Sundrum
SUBJECT: UNCTAD Study of Performance

DATE: December 3, 1969

I am enclosing for your information, a copy of a memorandum I am sending to Messrs. Kamarck, de Vries and Henderson.
OFFICE MEMORANDUM

TO: DATE: December 3, 1969

FROM: R. M. Sundrum

SUBJECT: UNCTAD Study of Performance

1. UNCTAD Secretariat in New York have prepared a preliminary report on "Development Performance and Policies in Developing Countries". This is, presumably, in response to a TDB Committee on Invisibles request that the "secretariat should continue to collect and analyze indicators, including any practicable composite indicators which might be devised, in an effort to establish a more objective basis for assessment of what developing countries are achieving in mobilizing internal resources and in making effective use of available resources, both internal and external, and also to bring out more clearly particular problems in the field of development policy, which should be the aim of developing and developed countries, where appropriate in cooperation, to overcome."

2. UNCTAD Secretariat has convened an informal meeting of experts to discuss their report on Monday, December 8. I shall be attending from the Bank. I shall be grateful if you can give me any comments you may have on Chapter 4 of the report, a copy of which is enclosed. It discusses some new varieties of performance indicators, which you may find interesting. I am sure UNCTAD Secretariat would appreciate hearing from you, if you have comments after the meeting.

3. It has not been possible to make copies of the rest of the report, but interested staff members may borrow the one copy I have in my office. Chapter 5 on "A Comparative Analysis of Development Policy for Selected Countries" has not been circulated to us yet. For your information, Chapter 1 is introductory matter which does not raise any new issues. Chapter 2 plays about with ranking countries on the basis of income, education, health, other variables like cars, radios, telephones, steel and electricity consumption, and labor force in agriculture; using sum of ranks as a composite indicator for groups of these variables. Chapter 3 is mainly concerned with the following:

   (i) an explanation of variation in rates of growth by regression on investment ratios, population growth rate, imports growth rate;

   (ii) an explanation of variation in domestic savings rates by regression on export-income ratio, per capita income, income growth rate and population growth rate;

   this section considers the residuals from the regression as possible measures of a country's special performance over and above the average as norm;

   (iii) study of export performance, following Mr. de Vries' work, especially in terms of "competitiveness", and its regression on trade position, commodity and market concentration, and of inflation;
(iv) Tax revenue as a performance indicator and its regression on per capita income, extent of foreign trade, share of agriculture and rate of inflation; here also, residuals from regression have been considered as possible indicators of "extraordinary" effort. Countries have also been ranked by income elasticity of tax revenue.
November 5, 1969

Dear Mr. Perez-Guerrero:

I should like to acknowledge receipt of the report of the UNCTAD Expert Group on International Monetary Issues, "International Monetary Reform and Cooperation for Development".

I note with interest the recommendation of the report in favor of a link between the creation of SDRs and additional development assistance. In my closing remarks at this year's Annual Meeting of the World Bank Group I expressed the hope that SDR creation may help to lead to more favorable conditions for the growth of development aid. The report of the Expert Group is an important contribution to the further discussion of this issue.

Sincerely,

Robert S. McNamara

Mr. Manuel Perez-Guerrero
Secretary-General
United Nations Conference on Trade and Development

United Nations
U.N. Plaza
New York, N.Y. 10017

ISFriedman:rgw
Dear Mr. McNamara:

I enclose herewith a copy of the report of the UNCTAD Expert Group on International Monetary Issues entitled "International Monetary Reform and Cooperation for Development". Under separate cover we are sending you 60 additional copies for the Executive Board and staff of the Bank.

We expect the report to be considered by the Trade and Development Board at its second resumed ninth session in February 1970.

I should like to take this opportunity of thanking you most warmly for having sent Mr. Ugo Sacchetti and Mr. Patrick de Fontenay as your representatives to the meeting of the group. As on previous occasions, Messrs. Sacchetti and de Fontenay were most helpful in every way in responding to points raised in the group and in assisting its deliberations.

I hope that you will find the report useful and constructive.

Yours sincerely,

Enclosure

Mr. R.S. McNamara
President
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D. C. 20433
International Monetary Reform and Co-operation for Development

Report of the Expert Group on International Monetary Issues
LETTER OF TRANSMITTAL TO THE SECRETARY-GENERAL OF
THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

We have the honour to submit herewith our report, *International Monetary Reform and Co-operation for Development*, which we were invited to prepare in pursuance of resolution 55 (VIII) of the Trade and Development Board.

Meetings were held at the Headquarters of the United Nations from 17 to 25 September 1969. At the request of the Group, Dr. Gamani Corea served as Chairman, Mr. Albert Kervyn de Lettenhove as Vice-Chairman and Mr. Paul Streeten as Rapporteur.

As requested, we have examined, in the light of resolution 32 (II) of the United Nations Conference on Trade and Development, recent developments in the world economy in general, and in the international monetary system in particular, with a view to elucidating their impact on trade and growth of developing countries. We have also agreed on certain recommendations regarding desirable next steps.

We wish to express our gratitude for the valuable assistance so generously rendered by the observers from the International Bank for Reconstruction and Development, the International Monetary Fund, and the Organisation for Economic Co-operation and Development. We are particularly grateful to all the members of the secretariat who worked with us in various capacities. They gave us unstinted, skilful and devoted help.

Respectfully yours,

Carlos Massad
Philip Ndewa
I.G. Patel
Jenő Rédei
Guido Rey
Paul Streeten
Antoine Yaméogo

V.S. Alkhimov
Francis Bator
Ignacio Copete Lizaralde
Gamani Corea
Otto R. Donner
Claude Grison
Albert Kervyn de Lettenhove

United Nations, New York
25 September 1969
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EXPLANATORY NOTES

The term "billion" signifies 1,000 million.
Reference to "dollars" ($) indicates U.S. dollars, unless otherwise stated.

ABBREVIATIONS

IBRD  International Bank for Reconstruction and Development
IDA  International Development Association
IMF  International Monetary Fund
OECD  Organisation for Economic Co-operation and Development
SDRs  Special Drawing Rights
UNCTAD  United Nations Conference on Trade and Development
Introduction

This report is of major interest and importance as a contribution to current discussion of the future of the international monetary system, particularly as it affects developing countries.

It was prepared by a group of fourteen distinguished experts representing many different points of view. It is remarkable that they should have achieved unanimity on virtually all the issues which were placed before them, including particularly the question of linking the creation of Special Drawing Rights with the provision of development assistance. As they have pointed out, while hitherto a country acquired reserves only in exchange for real resources, it is an important feature of the new system of Special Drawing Rights that reserves can be created costlessly, without such a surrender of real resources. It would, as the Expert Group notes "be an expression of international solidarity and an auspicious beginning of the Second United Nations Development Decade if the developed countries declared that this saving of resources, whether viewed at the national or at the world level, should accrue to those most in need, the poorest countries, and that the richer countries should have to earn at least part of the addition to their reserves". 1 I believe that the Group's analysis of this matter warrants careful study and that it will assist in focusing attention on an important lacuna in the steps taken thus far to improve the international economic environment.

The report contains a number of other recommendations of importance which will, I am sure, receive due consideration in the effort to ensure that the interests and needs of developing countries are taken fully into account in any further action to improve the functioning of the world's monetary system. It is also significant that the Group should have expressed the hope "that conditions will prevail in which all nations will participate in world-wide monetary arrangements which would facilitate an over-all and general expansion of world trade and permit a considerable increase in the flow of aid to developing countries". 2

The report was prepared in accordance with resolution 55 (VIII) of the Trade and Development Board, and will be transmitted to the Board for consideration.

1/ See chap. 7, para. 36 below.
2/ See chap. 7, para. 80 below.
The members of the Group were: Mr. V.G. Abrikosov, Deputy Minister, Ministry of Foreign Trade of the USSR; Professor Francis Bator, John Fitzgerald Kennedy School of Government, Harvard University; Dr. Ignacio Copete Lizaralde, President, Corporación Financiera Colombiana; Dr. Camani Corea, Permanent Secretary, Ministry of Planning and Economic Affairs, Ceylon; Professor Otto R. Dorner, Professor emeritus, Free University, Berlin; Mr. Claude Grasce, Inspecteur général des finances, France; Mr. Albert Kervyn de Lettelinck, Institut des Sciences économiques, Belgium; Mr. Carlos Massad, President, Banco Central de Chile; Mr. Philip Mégva, Permanent Secretary, Ministry of Economic Planning and Development, Kenya; Dr. I.G. Patel, Special Secretary, Ministry of Finance, Department of Economic Affairs, India; Dr. Jenö Rédei, Director, Institute of Economic and Market Research, Hungary; Dr. Guido Rey, Professor, University of Urbino, Italy; Professor Paul Streeten, Warden, Queen Elizabeth House, Oxford, England; Mr. Antoine Yaméogo, Executive Director, International Monetary Fund.

The Group received invaluable assistance from the following observers: Mr. J. Xicrous Planning of the International Monetary Fund, Mr. Ugo Sacchetti and Mr. Patrick B. de Fontenay of the International Bank for Reconstruction and Development and Mr. Harry Verwey of the Organization for Economic Co-operation and Development.

I should like to thank the members of the Expert Group for their valuable contribution. I should also like to express my appreciation to the institutions with which the experts and observers are associated for their willingness to release them from their normal duties so that they might participate in this important meeting.

(Signed) Manuel Pérez Guerrero
Secretary-General of the United Nations Conference on Trade and Development
CHAPTER 2
Trends in the 1960s

1. The rate of growth of real output in the developing countries averaged 4.6 per cent per annum from 1950 to 1960. After a slight drop during the first half of the 1960s, the trend of output turned upwards, and present indications are that the average annual rate of growth during the second half of the 1960s may well reach the 5 per cent target set by the United Nations General Assembly.

2. This is a matter of some satisfaction. It is the result in particular of advances in agricultural production for domestic use which reflect a wider application of modern agronomic practices as well as favourable climatic conditions. An additional factor of considerable importance has been the upsurge in exports to industrial countries in response to the rapid growth of business activity in those countries.

3. Certain aspects of the present situation give grounds for concern. The growth record of countries exporting agricultural products has been far less satisfactory than that of those exporting minerals, particularly petroleum. Moreover, the rate of population growth in the developing countries, which averaged 2.2 per cent per annum during the 1950s, increased to 2.5 per cent during the 1960s. This has limited the rise in income per head associated with higher growth rates, so that the relative gap in levels of living between developed and developing countries has widened. While the rate of growth of income per head in the developing countries in the 1960s averaged 2.5 per cent per annum, the corresponding rate of growth for the industrial countries averaged 3.6 per cent per annum.

4. There is general agreement among the international community that while economic development is primarily the responsibility of the developing countries themselves, there is a pressing need for international action to create a favourable external environment for development, particularly through the adoption of liberal trade and aid policies by the developed countries. Unfortunately, there has been little progress in this direction. Although important efforts are being made to improve the prospects for commodity exports of developing countries, and active discussions are under way with a view to the introduction of a system of general preferences, the immediate outlook for commodity exports of developing countries, other than of minerals, is not encouraging, and the share of developing countries in world trade continues the decline which has persisted throughout the post-war period.
5. IBRD has stated that the developing countries could now absorb productively new external resources at least equal to what would correspond to 1 per cent of the gross domestic product of the developed countries as a group.2/ However, the developed countries that are members of the Development Assistance Committee (DAC) of OECD provided to the developing countries in 1967 not financial resources equal to only about 0.7 per cent of their gross national product. During the six years 1961-1967 the addition to the combined gross product of DAC countries exceeded $500 billion. However, according to United Nations data, total net capital flows to developing countries during the same period increased by only $2.1 billion (from $8.5 billion in 1961 to $10.6 billion in 1967).

6. A number of developed countries have recently announced their intention to increase the flow of development assistance; these include Australia, Canada, the Federal Republic of Germany, Japan, the Netherlands, Norway and Sweden. It is not yet certain how substantial the increase in the flow of development assistance from these countries will be in the aggregate, but in any event the general outlook is clouded by uncertainties attaching to the aid programmes of certain other countries, notably the United Kingdom of Great Britain and Northern Ireland and the United States of America.

7. It is also a matter of concern that the over-all terms of development assistance have tended to harden. While the terms of official lending have remained steady, the proportion of grants in total disbursements has declined from 70 per cent in 1961 to 56 per cent in 1967. The situation has been aggravated by the fact that with official assistance growing more slowly than the need for external financing, developing countries have resorted increasingly to export credits on hard terms. In a number of countries debt service is preempting 15 per cent or more of export earnings. The situation is likely to be further aggravated by the record high levels of interest rates prevailing at the present time. The growing use of the practice of tying aid to procurement in the donor country has also tended to reduce the real value of assistance provided to the developing countries.

8. One of the important factors in the deteriorating climate for aid is the concern felt by some countries, both surplus and deficit, about the state of their reserves. One of the principal conclusions of the first UNCTAD Group of Experts on International

2/ See United Nations, "Comments by Member States and organizations concerning international development strategy for the nineteen-seventies" (E/10.36/1.1 - E/12.34/1.33), p.43.
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.\[^4\] Since 1964 the absolute level of world reserves has changed relatively little while \(\text{trade has continued to expand at a relatively rapid rate.} \) As a result the ratio of world reserves to world imports has declined from 25 per cent in 1964 to 33 per cent in 1968.

9. Although the absolute level of world reserves increased slightly over this period, from \(\$69.6\) billion at the end of 1964 to \(\$72.9\) billion at the end of 1968, the source of the increase reflects the growing strains within the international monetary system, as has been shown in the 1969 annual report of the Executive Directors of IMF.\[^5\] Gold stocks in the hands of monetary authorities declined from \(\$40.8\) billion at the end of 1964 to an estimated \(\$38.9\) billion at the end of 1968. This fall in gold holdings reflected net sales of \(\$2.7\) billion from official holdings owing to heavy speculative demand during the six months preceding the suspension of gold pool operations in March 1968, superimposed on a rising trend of gold purchases for industrial use. The decline in gold stocks was more than offset by an increase in holdings of foreign exchange and in reserve positions in IMF. These, however, reflected in large measure the monetization of credits to countries in balance of payments deficits. As the Bank for International Settlements has pointed out, "... it is questionable whether assets created in special circumstances of this kind in response to the special balance of payments needs of the deficit countries can be counted as additions to the global stock of reserves."\[^6\] IMF has calculated that reserves held in a more or less "traditional" form—gold, claims on the United States payable in dollars and "normal" sterling—actually declined by \(\$4.4\) billion from the end of 1964 to the end of 1968, as shown in the table below.

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4/ See UNCTAD International Monetary Issues and the Developing Countries: Report of the Group of Experts (United Nations publication, Sales No.: 66.II.D.2), para.111.


Sources of reserve changes end of 1962-end of 1968: Summary
(billions of dollars)

<table>
<thead>
<tr>
<th>Source Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>&quot;Traditional&quot; sources</strong></td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td>-1.9</td>
</tr>
<tr>
<td>&quot;Regular dollars&quot;&lt;sup&gt;a/&lt;/sup&gt;</td>
<td>0.3</td>
</tr>
<tr>
<td>&quot;Regular sterling&quot;&lt;sup&gt;b/&lt;/sup&gt;</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-4.4</td>
</tr>
<tr>
<td><strong>Other sources</strong></td>
<td></td>
</tr>
<tr>
<td>Reserve positions in the Fund</td>
<td>2.3</td>
</tr>
<tr>
<td>Official claims on United States payable in foreign currencies</td>
<td>1.1</td>
</tr>
<tr>
<td>Official claims on United Kingdom in sterling, Western European holders</td>
<td>1.4</td>
</tr>
<tr>
<td>Official claims on United Kingdom in non-sterling currencies</td>
<td>0.3</td>
</tr>
<tr>
<td>Other (including official claims on Euro-currency markets)</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td>3.2</td>
</tr>
</tbody>
</table>


<sup>a/</sup> United States liabilities to official holders payable in dollars; excludes official holdings of dollars outside United States, in the Euro-dollar market.

<sup>b/</sup> United Kingdom sterling liabilities to official institutions other than in United States and Western Europe.

10. The obvious difficulty about any situation in which the total level of reserves is stable is that one country can increase its reserves only at the expense of another; and the difficulty is compounded if reserves in the "traditional" sense are actually falling. Although the problems that arise in correcting the imbalance which has arisen among the developed countries in recent years cannot be attributed primarily to the slow growth of world liquidity, the latter certainly constitutes a serious aggravation of the
Deficit countries feel compelled to introduce restrictions on their trade and aid, including aid tying, which would not necessarily be required if reserve positions were less tight. Surplus countries, even if they are ready to forgo further additions to their reserves, certainly do not wish to lose reserves, and therefore tend to be more restrictive in their policies and more reluctant to contemplate changes in their exchange rates than they might be if the general expansion of business activity, international trade and world reserves were sufficient to accommodate the needs of all. Inadequate reserves can also be a contributory factor to crises of confidence which cause large-scale movements of capital across the exchanges far in excess of the ability of any one country to deal with them by normal means.

11. Apart from the question of the over-all adequacy of reserves in the world economy as a whole, the question of the reserve needs of the developing countries also requires consideration. Many of these countries suffer from severe fluctuations in exports while others are vulnerable to sudden increases in demand for food imports consequent on fluctuations in harvest yields. At the same time, given the considerable structural weaknesses and rigidities which characterize the economies of the developing countries and also their limited access to the international credit markets, their ability to adjust to fluctuations in their external payments without undue sacrifice of their growth objectives depends, among other things, on the size of their reserves. However the accumulation of owned reserves also has associated costs, which can be quite significant in the case of many developing countries with pressing needs for an increase in productive investment and consumption. The question therefore arises whether some mechanism can be found to satisfy the developing countries' legitimate needs for reserves without involving them in the undue costs usually associated with the earning of reserves.

12. The emergence of difficulties in the functioning of the international monetary system has led to various forms of international monetary co-operation both inside and outside IMF. The network of mutual credit facilities established among the central banks of developed countries has been substantially expanded. An important element of co-operation has been the agreement to supplement existing reserve assets through deliberate international action to create special drawing rights in IMF. It will be recalled that one of the recommendations of the first UNCTAD Expert Group was that 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. This idea was accepted in the course of the arrangements made for creating Special Drawing Rights.
13. Another major conclusion of the first UNCTAD Expert Group was that it was 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. Unfortunately, this view did not find general acceptance at the time when the agreement on the creation of a new facility based on Special Drawing Rights was negotiated. On their part, the developing countries did not deem it desirable for the timetable for the liquidity reform to be put off merely because of the lack of a satisfactory decision on the question of the link. But now that agreement has been reached on the creation of Special Drawing Rights, renewed consideration needs to be given to the question of the establishment of a link between the creation of international liquidity and provision of development finance.

14. Subsequent chapters in this report examine the question of a possible link in some detail. But in view of the broad scope of our terms of reference, we have also felt it necessary to touch upon certain other matters.

15. The international monetary system is faced with important issues in the area of the adjustment process. In recent years major countries faced with persistent underlying surpluses or deficits have not succeeded in devising policies that would bring them back into balance in a manner that would not conflict with domestic policy objectives or the objective of more liberal trade and aid practices.

16. We do not feel called upon to deal in detail with the question of the improvement of the adjustment process among the industrial countries. However, we cannot help noting that the balance of payments difficulties of some major industrial countries have contributed considerably to the recent deterioration in the climate for development assistance. Moreover, the current impasse in international adjustment policies can have a serious impact on business activity in the industrial countries, and hence on their demand for imports from developing countries. In addition, certain suggestions for the improvement of the adjustment-process involving greater exchange-rate flexibility among the industrial countries have implications for the developing countries which need to be explored. These matters are considered further in a subsequent chapter.

17. Important issues also arise in the operation of a multiple reserve asset system. The developing countries hold the bulk of their reserves in the form of reserve currencies. It has been argued that in such a system shifts in the preferences for
various reserve assets can have serious adverse effects. The closing in March 1968 of the gold pool and the separation of the private and official markets for gold have helped to reduce the potential damage from private speculation. But a future crisis in the international monetary system cannot be ruled out if the price of gold in the private market remains consistently and considerably above the official price. The adoption of greater exchange-rate flexibility as implied in some recent proposals for the improvement of the adjustment process may also induce unpredictable shifts in the preferences of monetary authorities for various types of reserve asset.
CHAPTER II

Liquidity and developing countries

18. While the shortage of liquidity in the developed countries has had a harmful impact on the developing countries, these countries face liquidity problems of their own.

19. The export earnings of developing countries fluctuate widely. Moreover, the costs of adjustment to their economies can be particularly heavy because of their relatively high dependence on trade, and in particular on a few export products, and because of their difficulties in reducing imports without adverse effects on the rate of growth of output and the level of employment. Furthermore, few developing countries have easy access to capital markets or can afford to increase their reliance on buyers' and suppliers' credits at present high levels of interest rates.

20. The cost of holding reserves is extremely high for these countries, in view of the urgent claims of development. But the cost of being short of reserves can be even higher. Poor countries can ill afford the social costs which often accompany an inadequate level of reserves. A rise in unemployment, industrial underutilization or stagnation caused by import restrictions or deflation disrupt economic development and can inflict considerable damage. This is, perhaps, one of the reasons why the level of reserves of developing countries has been increasing since 1960. The increase appears to be widespread and includes approximately three-fourths of the countries for which figures are available. These figures lend strong support to the view of the previous expert group that the developing countries not only need additional reserves but could be expected, as a group, to recognize the advantages of retaining them.  

21. It is sometimes said that the provision of more ample reserves may delay the moment when a country begins to take corrective action. But we wish to emphasize that such provision also makes it possible to stretch the adjustment process over a longer period and to choose less harmful measures.

22. In the light of the above considerations, we are convinced that the needs of the developing countries for additional liquidity, whether in the form of reserves, or of credit facilities, is even more urgent than the needs of the developed countries.

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7/ See UNCTAD International Monetary Issues and the Developing Countries, (United Nations publication, Sales No.: 66.II.B.2), para. 36.
We consider that in the course of the quinquennial review of the quotas of all IMF members which is now in progress, agreement should be reached on a substantial increase in the total of the quotas in IMF. Bearing in mind the fact that developing countries do not enjoy access to the wide range of credit facilities outside IMF that is open to developed countries, and that the distribution of quotas provides the key to the distribution of Special Drawing Rights, it appears to us important to reconsider the basis on which the share of developing countries in the total quotas is determined. The Bretton Woods formula, which is the main criterion used as a basis for calculating the proportional shares of individual member countries in the total quotas, may tend to produce an increasing share of the developed countries in the total, because the formula is geared to such factors as gross national product and the volume of trade. We believe, on the contrary, that the special needs of developing countries would justify consideration of an increase in their share of total quotas, and that in any event no decline in that share should be permitted.

23. It will be recalled that in recommendation A.IV.17 adopted by the United Nations Conference on Trade and Development at its first session in 1964, it is recommended that Governments members of IMF:

"...explore ways to secure possible refinancing of compensatory financing obligations of the developing countries in the event of a persistent shortfall in export receipts beyond the control of the country affected."

24. We recognize that there are opportunities for refinancing on a short-term to medium-term basis

"...in the case where at the time when a repurchase falls due in the fourth or fifth year following a compensatory drawing there is a shortfall in export receipts beyond the control of the affected country. The repurchase would restore the compensatory financing facility pro tanto, and if at that time an export shortfall of the type described persisted, the member would be in a position to apply for a new drawing under this facility."2/

25. Moreover, the Fund recommendation that repurchases be made out of export excesses,2 to the extent that it is implemented, should reduce the likelihood of a repurchase obligation arising at the time of an export shortfall. However, this would not hold if export shortfalls persist for at least four years running or where a shortfall is followed by three years without export excesses and then by other shortfalls.


26. We therefore recommend that IMF give consideration to the system of repurchase for compensatory drawings with a view to ensuring that little if any repayment has to be made at times of export shortfall.

27. We wish to welcome the establishment by IMF of a new facility whereby members will be able to draw on IMF resources in connexion with their contribution to suitable international buffer stock arrangements. Drawings on the compensatory financing facility and on this new facility, taken together, may amount to 75 per cent of a member's quota, and are separate from and additional to the member's ordinary drawing facilities. We hope that opportunities may soon arise for the new facility to be put to use.

28. We also welcome the decision by the Trade and Development Board in its resolution 60 (IX) to invite the IBRD to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them. We consider that such arrangements would provide valuable additional protection to developing countries against disruption to development programmes resulting from adverse movements in export proceeds.
CHAPTER III
Special Drawing Rights

29. There is general agreement that an expanding world economy under a system of fixed exchange rates, or of limited exchange-rate flexibility, requires a long-term increase in the volume of international liquidity. As a result, efforts have been made since 1963 to devise a better working mechanism for the creation of world liquidity. These efforts resulted in the agreement in September 1967 on the outline of a scheme for the creation of Special Drawing Rights (SDR's) in IMF.\(^{10}\) At its annual meeting in September 1967, the Board of Governors of IMF requested the Executive Directors to submit by 31 March 1968 a report proposing amendments to the Articles of Agreement and the By-laws of IMF for the purpose of establishing a new facility on the basis of the outline, as also for possible improvements in the rules and practices applicable to IMF's traditional activities. The Executive Directors submitted their report in April 1968 and the resolution approving the amendment proposed in this report was adopted on 31 May 1968 by the Governors of IMF. The amendment entered into force on 28 July 1969, following its acceptance by the required three-fifths of IMF's members having four-fifths of the total voting power. In September 1969, the Managing Director of IMF proposed the activation of the facility. The Managing Director's proposal involves the creation of $3.5 billion of SDR's during the first three years, at the rate of $3.5 billion in the first year, $3 billion in the second year and $3 billion in the third year.

30. The new facility, which is designed to provide a supplement to existing reserve assets, is to be established by creating Special Drawing Rights operated through a Special Drawing Account in IMF. The operations of, and resources available under, the Special Drawing Account will be kept separate from the operations of IMF as at present constituted, which will be referred to as the General Account.

31. The distribution of SDR's to participants in the Special Account (which must be IMF members) will be expressed as a percentage of quotas, uniform for all members. Given the present distribution of IMF quotas, the developing countries' share of allocation of SDR's will be about 28 per cent.

32. A participant will be entitled to use its SDR's to acquire an equivalent amount of convertible currencies from other participants. In conformity with the present practice of IMF in the operations of the General Account, the country that is to provide

\(^{10}\) A more complete account of Special Drawing Rights can be found in the Articles of Agreement of the International Monetary Fund as Modified by the Proposed Amendment (See IMF, Annual Report of the Executive Directors for the fiscal year ended April 30, 1969 (Washington, D.C., 1969), appendix I) and in Joseph Gold, Special Drawing Rights (International Monetary Fund, Pamphlet Series No.13, Washington, D.C., 1969).
the currency in question will normally be determined through designation by IMF. Except in certain special cases, currencies will be acquired from participants with sufficiently strong balance of payments and gross reserve positions. Participants are to be designated in such a way as to promote over time a balanced distribution of holdings of SDR's among them. However, participants are not required to hold SDR's in excess of an amount equivalent to three times their original net cumulative allocations.

33. Participants will be expected to use their SDR's only to meet balance of payments needs or in the light of developments in their official reserves, and not for the sole purpose of changing the composition of the reserves as between SDR's and other components of reserves. Participants will be able to use SDR's without their judgement of need being subject to prior challenge but IMF may make representations to a participant failing to fulfill the above expectations.

34. The use of SDR's carries reconstitution obligations. Under the rules applicable to the first basic period, participants are required to ensure that their average daily holdings of SDR's over any five-year period do not fall below 30 per cent of the average of their daily net cumulative allocations of SDR's over the same period. Designation will be made in such a way as to assist participants in carrying out their obligations. These rules are to be reviewed before the end of each basic period and can be modified by an 85 per cent majority of the total voting power of the Board of Governors.

35. Decisions to create SDR's will be taken for a basic period, normally of five years' duration, and will specify the rate or rates at which SDR's will be allocated during that period. In all its decisions to allocate and to cancel SDR's IMF is required to meet the long-term global need to supplement existing reserve assets in a manner that will promote the attainment of the purposes for which it was established, including that of contributing to the development of the productive resources of all its members. The activation of the plan, i.e., the first decision to allocate SDR's, will be based on the existence of a collective judgement that there is a global need to supplement reserves, such collective judgement being interpreted as an 85 per cent majority of the total voting power in IMF. Other special considerations to be taken into account on this occasion are "the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future".11/ 

11/ See article XXIV, section 1(b) of the Articles of Agreement of IMF, as amended.
CHAPTER IV

The proposal

36. Special Drawing Rights are intended to provide a means whereby the growth of world reserves can be adjusted to the expansion of production and trade in an orderly and deliberate fashion. Hitherto a country acquired reserves only in exchange for real resources. One of the important features of the new system of SDR's is that reserves can be created costlessly, without such a surrender of real resources. It would be an expression of international solidarity and an auspicious beginning of the Second United Nations Development Decade if the developed countries declared that this saving of resources, whether viewed at the national or at the world level, should accrue to those most in need, the poorest countries, and that the richer countries should have to earn at least part of the addition to their reserves.

37. It has been pointed out that shortage of reserves may have forced countries into unnecessarily harsh and restrictive measures for correcting balance of payments disequilibria. By smoothing over such difficulties, SDR's may permit necessary adjustments to be carried out at a smaller cost in employment, output and investment. In such cases SDR's may permit a greater continuity of investment and may help to avoid restrictions on production. To the extent that international action can result, over time, in the creation of additional resources, and the fuller utilization of existing resources, it seems equitable that at least part of the resulting additional output should be channelled to the developing countries.

38. We may next ask whether it is feasible to combine the pursuit of two internationally agreed, though distinct, objectives: the creation of international liquidity and an increase in the flow of development aid. We agree with the first UNCTAD Group of Experts that the amount of new reserve creation should be determined solely by the monetary requirements of the world economy and not by the need for development finance. But we also agree with their conclusion that once the need for additional reserves has been demonstrated and the amount, timing and allocation have been determined by monetary requirements, the introduction of a link with development aid is both feasible and desirable.12/ The premise of our proposal for a link is that developed countries wish to contribute more towards development and are ready to do so, as long as this does not conflict with their own need for international liquidity.

12/ See UNCTAD, International Monetary Issues and the Developing Countries: Report of the Group of Experts (United Nations publication, Sales No.: 66.II.D.2), paras. 103 and 113.
39. The main advantage of a link between reserve creation and the provision of capital aid is that it makes it possible for developed countries to increase aid without the degree of concern for reserves which has hitherto impaired the quantity and quality of aid. Certain forms of the link might also meet the problem of those countries which have difficulties in making budgetary appropriations for additional aid.

40. We have considered whether we should, at this time, propose a specific method by which such a link should be established. We are convinced that there are several methods which would be sound from a technical point of view. We have deliberately refrained from choosing among them. Once there is agreement in principle on the desirability of a link, governments will wish to choose the most convenient way of establishing it, and this will involve broad issues of policy that go beyond the scope of this report.

41. It does, however, seem to us that two main approaches, by which the link proposal could be implemented, should be explored immediately. One method would involve an amendment of the Articles of Agreement of IMF to permit the direct contribution of SDR's by the developed countries to IDA out of their allocations. The other method would involve contributions in national currencies by the developed countries to IDA in proportion to SDR's annually allocated to them. While both approaches involve a collective decision by the developed countries, only the first would require an amendment to IMF Articles of Agreement. In either case the ratio of IDA contributions to the SDR's received by contributing countries would be a matter for prior agreement among the governments concerned. It would also be possible to envisage an arrangement whereby SDR's were allocated directly to IDA by IMF.

42. Each of these approaches has its own advantages and disadvantages. There is a certain simplicity in a direct surrender of SDRs to IDA. On the other hand, the IMF Articles of Agreement as amended rule out the holding of SDR's by multilateral institutions engaged in development assistance and further amendments may be difficult and would in any case take time. It would, moreover, be necessary to ensure that the receipt of SDR's by IDA did not lead to a temporary sterilization of the new reserves. This could be avoided if IDA were to convert immediately the SDR's contributed to it into the national currencies of the respective contributing countries.

12/ See article XXIII, section 3(4).
43. Both methods would of course require legislation in the contributing countries: in one case to ratify the amendment to the Articles of Agreement of IMF and in both cases to permit the requisite contributions to IDA to be made.

44. We have examined the arrangements that would be required at the national level to make this possible, and it is clear that these would have to differ from country to country. While we would not wish to draw any general conclusion as to the precise formula which might be adopted, it does seem likely that in most, if not all cases, the matter would best be handled through the Treasuries rather than through the Central Banks. Contributions to IDA are a government responsibility, and it would be advisable to maintain continuity in this respect.

45. It would in theory be possible for parliaments to authorize Central Banks to purchase special long-term bonds issued by IDA. While the choice is to a large extent a matter of legal convenience, an obvious difficulty for Central Banks would arise from the acquisition of an illiquid asset.

46. Whatever the form of the link, contributing countries should make a long-term forward commitment to provide assurance for this valuable component of the aid flow. Particular features could be subject to review, for example at the beginning of each new period of issue of SDR’s.

47. We have considered whether we should propose a specific proportion of SDR’s or their equivalent in national currencies to be contributed to IDA. While this is a matter for governments to decide, we feel that the initial percentage chosen should be sufficient to make a substantial contribution to the resources of IDA and that in the longer run the proportion could be increased progressively if the system were found to work satisfactorily. IDA would then be in a position to expand the scope of its operations and to render assistance to a growing number of developing countries.

48. We have cast the proposal for a link in terms of contributions to IDA. We recognize that not all developed countries members of IMF at present contribute to IDA. It would be highly desirable if such countries did become party to any form of agreement establishing a link between SDR’s and development finance. There is also no reason why the regional development banks or other international organizations concerned with
development financing should not also be designated as recipient agencies. The quality of the aid would be maintained if these organizations would in turn lend the resulting contributions on IDA terms.

49. In view of the urgency of increasing the flow of aid, we favour whichever approach to the link would most readily secure the requisite agreement of governments. A speedy agreement might have the advantage of facilitating the third replenishment of IDA at a considerably higher level. We are encouraged that the government of a developed country has already indicated its support for this proposal.
CHAPTER V
The case for the link

50. We now turn to a discussion of the implications of the proposed link for certain issues of concern to those who would participate in its implementation. First, there are the consequences for effective international co-operation for development and in particular for the quantity and quality of aid; secondly, the effects on international liquidity and the liquidity position of particular contributing countries; and thirdly, the possible effects on inflationary pressures in participating countries.

51. The adoption of such a proposal would be of considerable advantage from the point of view of more effective international co-operation for development. The developing countries would, initially at least, obtain a substantial accretion in the flow of development aid on easy terms. (It could be on easy terms, since IDA would not be charged any interest for currency subscriptions in the one case, and would not retain any SDR's transferred in the other.) International monetary reserves are now about $70 billion. The amount of SDR creation will be $9.5 billion for the next three years. If the proportion distributed through the link were to be 50 per cent of the allocation to the developed member countries of IDA, this would produce an annual increment of over $1 billion in capital aid (and this figure would be still higher if other developed countries which do not at present contribute to IDA were to participate in the schema). This would represent a substantial amount in relation to the current world flow of aid and to the present lending capacity of IDA, though at the same time a small amount in relation to the national incomes of the developed countries.

52. As far as the developed countries are concerned, we have already indicated that the link would make it possible for them to increase aid without the degree of concern for reserves which has hitherto deterred some of them; and that certain forms of the link might also meet the problem of countries that had difficulties in making budgetary appropriations for additional aid. Although it might be presumed that any international monetary reform which brought about a general increase in liquidity would tend to cause a liberalization of aid policies, it is doubtful whether this process would be as effective in increasing the flow of aid as would a scheme which linked the two things together right from the start. It is true that if a link were adopted, some contributing countries might feel that the existence of this new aid channel made it
unnecessary for them to go on giving so much direct aid and would reduce the scale of their bilateral aid. But it is to be hoped that, both for practical reasons and because of the changed aspect of the balance of payments problem, this would not produce more than a fairly small offset to the direct effect of the proposal on the volume of capital aid.

53. There is another reason for expecting that a link would lead to an increase in the total flow of aid. This is that once agreement has been reached, it could provide an automatic and unquestioned method of sharing the burden of the additional aid. It would thus avoid the disputes about burden sharing which have tended to occur in international aid operations and which tend to make any such operations small-scale and slow-moving.

54. The adoption of the proposed link would not only increase the total flow of aid but would also lead to a higher proportion of the flow being channelled through IDA. This must be reckoned as a considerable advantage, implying better administration of the aid on average and better value in relation to the aid given. It seems clear, therefore, that the adoption of the proposal would have substantial economic advantages for development.

55. We have next to consider whether, and to what extent, this gain would be matched by a "loss" or cost to the developed countries. To take the liquidity aspect first, the link would cause no immediate loss of liquidity to industrial countries (provided, according to one method, that IDA immediately converted the SDRs transferred to it into national currencies). As the additional contributions to IDA were spent, some redistribution of the newly-created reserves would occur. Industrial countries which increased their exports more than their contribution to IDA would gain in this redistribution, others would lose. The final distribution of reserves would thus depend on the extent to which individual advanced countries made real resources available to developing countries through the link. The redistribution of reserves could, however, only affect that proportion of SDRs pledged to IDA (directly or indirectly). At the worst an industrial country which did not increase its exports at all under IDA financed purchases, would still end up with that part of the liquidity initially allocated to it that it had not transferred to IDA.

56. Taking advanced countries as a group, they are unlikely to lose any part of the liquidity they receive, since additional aid can be expected to be matched by a corresponding flow of additional exports. It is, of course, possible that some
developing countries may wish to strengthen their owned reserves by running a surplus with advanced countries, although this is now less likely since SDR's allocated to them will partly fill their need for more reserves.

57. Some of the advanced countries may be concerned at the prospect of increased pressure of demand on their economies, already over-employed and suffering from inflation. If a country is prepared to make an additional transfer of real resources to the developing countries, it should also be willing to take action to restrain total demand to the limited extent necessary.

58. The quantitative impact on the domestic economies of additional "link" finance is in any case extremely small. The unequal distribution of world income is highlighted by the fact that an operation which can make such a large proportional contribution to the resources of IDA should have a negligible impact on the economies of contributing countries. On the assumption that $1 billion per annum are devoted to additional aid, the demand for output in the rich countries, which amounted to about $1,700 billion in 1968, would be raised by little more than one half per mille.

59. One objection that has been advanced relates to the time pattern of the two operations which it is desired to link. This point has been stated as follows:

"From the point of view of international monetary management, full flexibility of decision is called for as to whether assets should be created or not. From the point of view of development, on the other hand, planning both by donors and by recipients requires firm commitments over considerable periods. This would introduce an inflexibility into the monetary aspects of the scheme and thus impair the monetary quality of the asset."

This criticism has little substance. Under any scheme which does not sterilize SDR's the volume, timing and distribution of SDR's would be determined by the estimated monetary needs of the world economy, not by development needs, and the monetary quality of the new asset would therefore not be impaired. We recognize that the amount of new SDR's to be created in any particular year or period of years may go up or down. If contributions to IDA bore a steady relationship to these SDR allocations, they too would fluctuate accordingly. We do not consider that this would present great difficulties to IDA. There is in any case no long-term guarantee as to the amount of national contributions to IDA, and the superimposition of a link would therefore create no new problem.

60. It should be possible to achieve a satisfactory degree of continuity from the point of view of IMF/IDB planning; indeed, "link" finance might well be an improvement on the type of finance available to IDA at the moment, particularly as it would constitute a source of funds supplementing traditional sources.

61. From this discussion of the probable consequences of adopting a form of the "link" the following conclusions emerge:

(a) The adoption of the proposals would in practice probably result in:
   (i) a larger total volume of aid to the developing countries;
   (ii) a higher proportion of aid channelled through IDA with consequential gains in the quality;
   (iii) an opportunity for donors to earn reserves by meeting export orders, at some cost in diversion of resources to and from domestic use where such resources are already fully employed.

(b) There need not be any conflict between the amount, distribution or timing of the monetary operation and the provision of development finance.

(c) The fear of an over-all inflationary impact has not much justification. If in a particular case additional exports would create inflationary pressures, the country concerned, if willing to give more aid, would presumably take the monetary and fiscal measures required to free resources for this purpose.
CHAPTER VI

Other aspects of international monetary reform

62. There has been much discussion of the possibility of increasing the price of gold as a major ingredient of reform. The case for retaining gold as an integral part of the international monetary system depends largely on the view that gold provides the most suitable foundation for a system in which governments desire to maintain a considerable degree of independence in the management of their economies but partly also on considerations of psychology.

63. The idea has been advanced that gold is the only unconditional and universally acceptable means of international payment. There are, it is said, circumstances in which holdings of particular currencies could be blocked by decision of the issuing countries concerned. And any international means of payment established by collective decision, such as SDRs, is subject to the will of a duly constituted majority. The fact that, despite recent difficulties in the gold market, gold is still generally regarded as an indispensable element in the system is reflected in the decision to guarantee the value of SDRs in terms of gold.

64. We do not, as a group, feel called upon to pronounce upon the future role of gold. At the same time we consider that if the world is to evolve in the direction of greater co-operation and interdependence, it will be necessary to move towards a collectively managed international monetary system. The majority of the Group considers that a collectively managed system should not be subject to the vagaries of the gold market or the fortunes of the key currency countries. It is also of the view that the apparent properties of gold as a form of "outside money" are themselves subject to the decisions of governments regarding the price at which gold will be bought and sold for monetary purposes. The majority of the Group is in any case in full agreement with the majority view of the first UNCTAD Expert Group in considering that a rise in the price of gold - a uniform devaluation of all currencies in terms of
gold - is neither necessary nor desirable as an ingredient of reform. And we also agree with the reasons advanced for this opinion. 137

65. Two experts, however, consider that although the SDR scheme may to a certain extent relieve the liquidity problems of the developing countries, especially if the Group's proposals are accepted, it does not in itself solve the very real and urgent problems of the international monetary system with all their adverse effects upon the developing countries. They reaffirm their belief that the problems of liquidity can be solved in a fundamental sense by increasing the price of gold, and that this would be in the interests of all countries and would create the type of liquidity which would facilitate a steady growth of world trade and income, assure full employment, and promote an increase in the flow of economic aid to the developing countries. These experts agree with the reasons for this view advanced by two experts in the

137 The reasons given were the following:

"(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 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." See UNCTAD, International Monetary Issues and the Developing Countries: Report of the Group of Experts (United Nations publication, Sales No. 66.II.B.2), para. 61.
first UNCTAD Group of Experts on International Monetary Issues. 16/ These considerations are in their view reinforced by the fact that the SDR scheme increases liquidity only to a minor degree; and that SDRs are themselves linked to gold, which thus appears indirectly as the ultimate and real source of value. While these experts recognize the possibility of an auxiliary beneficial effect of SDRs on the developing countries, they are concerned that the use of SDRs by some developed countries may lead to a weakening of the efforts of these countries to reduce the deficits in their balances of payment, which would impede the process of restoring confidence in the reserve currencies.

66. Having dealt with the question of reserve creation, we now turn to the problem of balance of payments adjustment, which provides a second item for consideration on the agenda of the managers of the world's monetary system.

16/ "Two members consider that given the need for more liquidity, the best way to increase it would be by raising the price of gold. Their view is based mainly on the following considerations:

"(i) First, the price of gold (in terms of US dollars) has not changed since the thirties, while the average price of commodities has risen two and a half times. This implies a substantial decline in the price of gold relative to other commodities. An increase in price would certainly lead to an increase in supply.

"(ii) Raising the price of gold would immediately lead to an increase in gold reserves, and hence to an increase in liquidity in real terms. Such an increase in liquidity would stimulate economic activity, world trade, and the flow of capital and aid to developing countries.

"(iii) Further, there is a question of confidence in reserve currencies. Central banks regard gold as a more reliable backing to the monetary system than any new international currency or asset, based on international conventions.

"(iv) The proposed increase in liquidity could take into account the needs of developing countries." (Ibid., para. 60.)
67. The view has recently gained ground that there are certain defects in the way in which the Bretton Woods system has been operated in practice. While in the developed countries high employment levels have been maintained and world production and international trade have continued to grow, the system has revealed growing strains, at least during the past decade. The orderly and agreed adjustments envisaged by the Bretton Woods system did not take place and the record shows "hot money" crises, emergency rescue operations, domestic restrictions and, at least in deficit countries, restrictions on the international movement of goods, services and capital (including aid). Some damage has been done in misguided attempts to avoid changes in exchange rates - changes which, in the end, turned out to be inevitable, and were often made too late.

68. The bias built into the politics of the industrial countries against changes in parities has meant that the degree of flexibility provided for in the Bretton Woods system has not been fully used. Thus governments have deprived themselves of at least one instrument of policy in the attempt to reconcile internal and external objectives. More and more during the past few years, the result has been, not any slowing down of inflation, but creeping protectionism, a progressive locking up of some of the larger capital markets, and restrictions on aid to the developing countries.

69. The proposal has therefore been made that the international community should explore the possibility of allowing changes in exchange rates to play a greater, less episodic and hence less dramatic and more efficient role in securing balance of payments adjustment. It is not our task here to examine the many schemes which have been proposed, ranging from fully flexible rates, with no official intervention save for "smoothing", to wider bands and "crawling pegs" governed by voluntary, mandatory or presumptive "rules of the game". Suffice it to say that, if a reform is decided upon, the choice among the various proposals must not be governed exclusively by their consequences for the industrial nations alone. The forthcoming study and debate must take full account of the impact - both direct and indirect - of the various possible schemes on the developing countries. In particular, the following two questions arise:

   (a) How would any proposed changes in exchange rate arrangements affect, directly and indirectly (through consequential policy changes) the development prospects of developing countries?
(b) What would be the implications of such arrangements for the policies to be pursued by the developing countries themselves? To what extent should they adopt or adapt such arrangements, or are quite different policies appropriate?

70. The developing countries will be indirectly but vitally affected by the ways in which changes in exchange rate arrangements shape the economic policies and behaviour of the developed countries. If changes can be devised which will give rise to faster growth in the industrial countries, to more liberal trade practices - particularly with respect to goods in which the developing countries have a potential comparative advantage - and to a greater flow of net aid on better terms, then clearly the developing as well as the developed countries will benefit. Indeed, the harmful effects which present balance of payments maladjustments in major industrial countries have recently had on the trade, foreign investment, aid and, in some instances, growth policies of the industrial nations - with their inevitable consequences for the developing countries - is one of the most powerful reasons for seeking improvement in adjustment mechanisms.

71. The more direct implications for developing countries of frequent small changes in the relative values of major currencies relate to the value of their reserves, their terms of trade, and to their ability to pursue appropriate stabilization and adjustment policies.

72. It is inevitable that a multiple reserve asset system in which the exchange values of particular assets are apt to fluctuate in relation to one another may create difficult problems of portfolio management. Unless special arrangements are made, countries holding the bulk of their reserves in the form of a particular asset may stand to lose in the event of a depreciation of that asset. The only effective long-run solution to this problem would appear to lie in the development of a fully fledged international reserve instrument to replace the reserve currencies. The creation of SDRs is advantageous from this standpoint also as offering a modest first step in this direction. Any agreement to increase the exchange flexibility of the reserve currencies would make it imperative to achieve more significant advances towards this goal.

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17/ The real burden of external indebtedness may also vary as a result of such fluctuations.
73. The terms of trade of the developing countries may also be affected by the adoption of widened bands or crawling pegs by the developed countries, although it is difficult to generalize on this matter. The outcome for the terms of trade would depend on the geographical direction and commodity composition of trade of developing countries, as well as on institutional factors influencing prices of exports. If a developing country's export prices are largely determined by the demand pattern in one country or area while its imports are largely obtained elsewhere, a relative depreciation of the currency of the developed country or area concerned would tend to have an adverse effect on the terms of trade of the developing country. Equally, of course, other developing countries with a different geographical distribution of trade might well gain on the terms of trade. If, however, a developing country's export prices are determined in world markets, there may be no change in the terms of trade.

74. Important problems of stabilization may also arise. If developed countries adopted a system of limited exchange-rate flexibility, many developing countries, particularly the smaller ones, may decide to peg their currencies to those of their major trading partners in order to avoid frequent fluctuations in that important relation. If many did this, the system might evolve into one of currency areas with flexible rates between themselves and fixed rates within the area. Participation in such currency areas would reduce some of the uncertainties attached to exchange-rate flexibility. It would enable participating countries, even those without fully developed financial institutions, to take advantage of the forward markets in the main financial centres in order to reduce some of the risks of foreign transactions. It would also reduce the administrative burden which flexibility in the major currencies would otherwise impose on an exchange control administration. Ways should be explored by which access to forward markets could be facilitated, thus reducing exchange risks for a wider class of exporters in developing countries.

75. On the other hand, pegging also has important drawbacks. Under that system, the developing countries would lose whatever advantage they could derive from the adjustment of their own currencies to that of their main trading partner. More important still, values of currencies of the developing countries would reflect changes in relative values of major currencies, in response to supply and demand conditions relevant to the latter, rather than to the developing countries themselves. Thus a developing country might, under the pegging system, find its currency crawling upward, whereas the restoration of equilibrium would require a downward movement. Pegging would then aggravate balance of payments difficulties.
76. A further problem arises among developing countries exporting similar products if they peg their rates to different currencies. Their competitive position vis-à-vis one another could then be affected by relative changes in the value of the major currencies, in ways possibly detrimental to both. Where such relative changes are large, the long-run drawbacks of pegging would appear to outweigh its short-run advantages.

77. We now turn to the question whether developing countries themselves might consider adopting some form of limited exchange rate flexibility. The arguments for such flexibility have little bearing on the adjustment problems of the majority of developing countries. There is a small group of countries which have succeeded in avoiding inflationary pressures and have maintained stable exchange rates. A system of limited exchange-rate flexibility could no doubt be operated by countries of this type, which are in approximate equilibrium and are capable of sustaining this equilibrium with only minor adjustments in the values of their currencies.

78. But the majority of developing countries experience persistent pressures on their balances of payments, which are not in most cases the result of inadequate or unsound policies. Such countries either use exchange controls and quantitative import restrictions to maintain the par values of their currencies, or also maintain dual or multiple exchange rates, or operate rates which fluctuate within wider limits than those applicable in the case of a sliding parity. In some cases exchange rates have registered a high rate of depreciation over time. For these countries, the various proposals for limited flexibility have little relevance, since their contribution to the correction of basic disequilibrium is not likely to be substantial.

79. In the light of the special conditions prevailing in developing countries, the rules laid down by IMF should be reexamined with a view to determining whether they take adequate account of these conditions. Such consideration should involve examination of the possible usefulness of dual or multiple rates of exchange in appropriate circumstances. It is recognized that IMF does allow a certain measure of flexibility in practice, but this is usually regarded as being in the nature of a temporary derogation from the rules. It would be appropriate to consider how far the rules themselves require adaptation to take account of the long-term needs of developing countries.
CHAPTER VII
Summary of recommendations

30. One of the main conclusions of the previous Expert Group on International Monetary Issues was that the reform of the international monetary system should be truly international. We agree with this view and express the hope that conditions will prevail in which all nations will participate in world-wide monetary arrangements which would facilitate an over-all and general expansion of world trade and permit a considerable increase in the flow of aid to developing countries.

31. A link should be created between SDRs and additional development assistance. We have considered two main avenues of implementing this proposal. These would involve a collective decision of the developed countries, either:

(a) for a direct contribution to IDA of some proportion of their annual allocations of SDRs, followed by an immediate exchange of such SDRs into the national currencies of the donor countries concerned,

or

(b) for a contribution of national currencies to IDA in some proportion of their annual allocations of SDRs.

In view of the urgency of increasing the flow of aid and the technical feasibility of either proposal, we favour whichever approach would most readily secure the agreement of governments.

32. In addition to the need for an increase in reserves in general, we recognize that developing countries have an urgent need for additional liquidity and that one way of meeting this need is to increase their IMF quotas. It also appears important to us to reconsider the basis on which the share of developing countries in total IMF quotas is determined. The special needs of developing countries would justify consideration of an increase in their share of total quotas, and in any event no decline in that share should be permitted.

33. Consideration should be given to liberalizing the terms and conditions, and particularly the period of repurchase, applicable to drawings under the compensatory financing facility.

34. Studies of the improvement of the adjustment process among the developed countries, including use of limited exchange rate flexibility, should take fully into account their impact on the developing countries, and modifications of the system and institutional arrangements should be considered which would meet the special needs of the developing countries. It would also be desirable to reconsider the rules governing exchange rate policies from the special standpoint of developing countries.
Dear Mr. Perez-Guerrero:

I should like to acknowledge receipt of the report of the UNCTAD Expert Group on International Monetary Issues, "International Monetary Reform and Cooperation for Development".

I note with interest the recommendation of the report in favor of a link between the creation of SDRs and additional development assistance. In my closing remarks at this year's Annual Meeting of the World Bank Group I expressed the hope that SDR creation may help to lead to more favorable conditions for the growth of development aid. The report of the Expert Group is an important contribution to the further discussion of this issue.

Sincerely,

Robert S. McNamara

Mr. Manuel Perez-Guerrero  
Secretary-General  
United Nations Conference on  
Trade and Development  
United Nations  
U.N. Plaza  
New York, N.Y. 10017

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REMARKS

From Richard H. Demuth
A resolution was introduced earlier this month at the UNCTAD Trade and Development Board to authorize the convening of an inter-governmental group to consider the question of establishing a multilateral interest equalization fund. (You will recall that the establishment of such a fund was the core of the so-called "Horowitz Proposal" on which the Bank reported to UNCTAD.)

An earlier canvassing of governmental views indicated that 16 (developing) countries favored the convening of such a group; eight (including New Zealand and Norway) raised no objection, and nine did not favor it. The latter group included six (Australia, Belgium, Italy, Japan, Spain and the United States) which were unconditionally opposed, on the ground that the question of establishing a fund had already been intensively studied and that the approach did not seem to be a practicable or effective way of increasing the flow of concessional finance. France, Germany and the Netherlands also opposed the idea, but indicated that they would not object if a substantial majority of the TDB members supported it (Germany), if there was a consensus in favor (France), or if the developing countries attached much importance to it (the Netherlands).

The resolution itself evoked a negative response from the developed countries and, as no agreement could be reached, it was withdrawn and the matter referred to the April 1970 meeting of the TDB's Committee on Invisibles.

The report which will be prepared on the Trade and Development Board session for the information of the Executive Directors will cover this item.

cc: President's Council
    Messrs. Consolo/Franco
Mrs. Shirley Boskey

Alexander Stevenson

Bank Representation at UNCTAD Group Meeting.

In Mr. Friedman's absence, this has been passed on to me. The suggestion in the last paragraph still holds and I would be glad if you would inform Mr. Perez-Guerrero accordingly.

Attachment

cc: Mr. Friedman
    Mr. Sacchetti

AStevenson: js
July 3, 1969

Dear Mr. Perez-Guerrero:

On Mr. McMamara's behalf, I wish to acknowledge and thank you for your letter of June 16, 1969, inviting the Bank to send a representative to the meeting of a group of experts to be held in New York from September 17 to 25 next, to examine recent developments in the world economy in general and in the monetary system in particular in connection with trade and growth of the developing countries.

We much appreciate your invitation and will communicate to you the name of our representative at a later stage.

Sincerely yours,

Ernesto Franco-Holguin
Deputy Special Representative for United Nations Organizations

Mr. Manuel Perez-Guerrero
Secretary-General
United Nations Conference on Trade and Development
United Nations
New York, 10017

cc: Mr. Friedman
    Mr. Stevenson
    Mr. Sacchetti

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OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

FROM: Ugo Sacchetti

SUBJECT: Bank Representation at UNCTAD Group Meeting.

DATE: June 30, 1969

This is in response to your request for suggestions as to Mr. McNamara's answer to Mr. Perez-Guerrero's letter of June 16, 1969, whereby the Bank was invited to nominate a representative to attend a meeting of a group of independent experts to examine recent economic developments in the world economy in general, and in the international monetary system in particular. I am reacting more specifically to Mr. Demuth's anticipation that one of the major subjects will be the link between the SDRs and development finance.

As a background, I refer to the letter which Sir Denis Rickett has sent to Dr. Ossola on the "link", where the general interest of the Bank on the subject was expressed but no precise position was taken. In view of this I would suggest that we defer our decision on the Bank representative until we have advanced further in our relations with the Group of Ten and have defined our position more clearly. The possibility cannot be ruled out that the group of experts take a rather critical view of developed countries, in which case it would be desirable that our representation be at a rather low key so as not to damage our position viz-a-viz the Group of Ten.

I would therefore suggest acknowledging Mr. Perez-Guerrero's letter, thank him for the invitation, and inform him that we will be able to designate a representative at a later stage. You may note that the group meets in New York from September 17 to 25.

cc: Sir Denis Rickett
1. I refer to the request of the Secretary General of UNCTAD (letter to Mr. McNamara of February 27, 1969) for information which might be included in the preparation of a report entitled "Review of International Trade and Development, 1969". This report is to serve as background to the Ninth Session of the Trade and Development Board under its agenda item on "Review and implementation of the recommendations of the Second UNCTAD Conference".

2. So far as I know, none of UNCTAD II's recommendations on commodities were directed specifically to the Bank. However, possibly the UNCTAD Secretariat believes it necessary or desirable in preparing its report to mention the discussions that have been taking place in the Bank on the subject of stabilization of prices of primary products. If such is the case, they might wish to use as a basis of such reference the following excerpt on the subject which has been prepared for inclusion in a brochure on the Bank (the "Blue Book") which is to be published some time this summer:

"In response to resolutions adopted by the Boards of Governors of the Bank and the IMF at their Annual Meetings in Rio de Janeiro in September 1967, the staffs of the two institutions have been carrying out a special study concerning the problem of the stabilization of prices of primary products. The general section of the Study was completed during 1968. That section was devoted to a factual review and analysis of the commodity problem, considered the problems arising from fluctuations and adverse trends in commodity prices and trade and in a general way examined possible measures for dealing with them. Upon completion of this first stage of the study additional work was initiated by the Bank staff with a view to examining financial and other ways in which the Bank group might assist toward finding feasible solutions to the problem. This work has been going on since September 1968 in close collaboration with the Executive Directors of the Bank and its results will be transmitted by the Executive Directors to the Board of Governors by June 30, 1969, together with such comments or recommendations as they may wish to make on the entire study and a report on any actions regarding it which they may have taken."

cc: Mr. Friedman
Messes. Kamarok/Stevenson

AJMacone/h1
Mr. Robert S. McNamara

Irving S. Friedman

Letter from Secretary-General of UNCTAD

I believe that Mr. Perez-Guerrero would like you to be aware of the attached letter.
Dear Mr. Friedman,

I was pleased to receive your letter of 9 May 1969 concerning the proposed visit to Washington by the Director of my Commodities Division for consultations with Bank officials in connexion with the Study on Rubber.

Mr. Chidzero, the Director of the Commodities Division, will communicate directly with Mr. Macone as suggested in your letter. I should mention, however, that in view of his commitments related to the Preparatory Meeting on Cocoa, scheduled for 16 - 27 June, it will not be possible for Mr. Chidzero himself to visit Washington at this stage. Instead, I am sending Mr. A. Maisels, Assistant Director in the Division, who will be accompanied by Mrs. 't Hooft-Welvaars, our Consultant on Rubber.

Please convey to Mr. McNamara my sincerest appreciation of the Bank's ready co-operation in this matter.

Yours sincerely,

Mr. Irving S. Friedman
Economic Adviser to the President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.
MAY 16, 1969

REURLET OF APRIL 3 INVITING WORLD BANK REPRESENTATION AT FOURTH SESSION COMMITTEE ON COMMODITIES GENEVA MAY 19 TO 30 STOP REGRET BANK UNABLE TO BE REPRESENTED AT THIS MEETING STOP WOULD APPRECIATE YOUR SENDING RELEVANT DOCUMENTATION TO MACONE, ECONOMICS DEPARTMENT, AT THIS ADDRESS

CONSOLO
INTRAFArad

Federico Consolo
Development Services

Cleared with Mr. Rej
Cleared with in substance and cc:
Mr. Friedman

cc: Messrs. Stevenson/Macon
Central Files with incoming correspondence
PARIS
605 FOR KARASZ

DUNCAN RIDLER LETTER MAY 9 TO JONES OF GENEVA IMF OFFICE CLEARLY STATES ANY STATEMENT ON BEHALF BANK WOULD BE MADE BY SOMEONE FROM PARIS OFFICE AND REQUESTED JONES TO ALERT WASHINGTON IF HE ASKED MAKE STATEMENT.

FRIEDMAN
MAY 21, 1969

236PM

ACTION COPY: MR. FRIEDMAN

ITT TELEX /21

INTRA FRAD

PARIS

750 FOR FRIEDMAN

RETURNED MAY 16. IF NECESSARY WE CAN ARRANGE FOR SOMEBODY FROM EUROPEAN OFFICE TO DELIVER STATEMENT TO COMMITTEE ON COMMODITIES IN GENEVA BUT WOULD APPRECIATE BEING ALERTED AT EARLIEST POSSIBLE MOMENT. WE HEARD THIS MORNING FROM SIMONET OF IMF-GENEVA OFFICE THAT LETTER JUST RECEIVED FROM WASHINGTON STATED THAT BANK HAD AGREED TO IMF-GENEVA OFFICE MAKING STATEMENT ON PART TWO COMMODITY STUDY ON BEHALF OF BOTH FUND AND BANK. PLEASE CLARIFY. REGARDS

Karasz
INCOMING CABLE

DATE AND TIME OF CABLE: MAY 21, 1969 236PM
LOG NO.: ITT TELEX / 21
TO: INTBAFRAD
FROM: PARIS

TEXT:

750 FOR FRIEDMAN
RETERMAY 16. IF NECESSARY WE CAN ARRANGE FOR SOMEBODY FROM EUROPEAN OFFICE TO DELIVER STATEMENT TO COMMITTEE ON COMMODITIES IN GENEVA BUT WOULD APPRECIATE BEING ALERTED AT EARLIEST POSSIBLE MOMENT. WE HEARD THIS MORNING FROM SIMONET OF IMF-GENEVA OFFICE THAT LETTER JUST RECEIVED FROM WASHINGTON STATED THAT BANK HAD AGREED TO IMF-GENEVA OFFICE MAKING STATEMENT ON PART TWO COMMODITY STUDY ON BEHALF OF BOTH FUND AND BANK. PLEASE CLARIFY. REGARDS KARASZ

MAY 21 1969
10.05 a.m.
INCOMING CABLE

ROUTINE

SIGN

DATE AND TIME

FROM: CABLE

TO: CABLE

DEPART I.B.

DOCKAGE

RECEIVED

Do you require

It is necessary that we can arrange for shipment from

unloading office to deliver statement to customer on completion of

inquire at the most appropriate office. We are pleased to

moment in which the company from our office

thirty-two just received from navigation team, that bank may

arrived at the company office, marking statement for part two

inquiries and receive others in which the office.

KANSAS

MAY 3, 1968

20.0

COMMUNICATIONS

MAR 21 945 AM 1969

TYPED

FOR INFORMATION RECORDED CABLES PLEASE CALL THE COMMUNICATIONS UNIT EXT. 2051.
OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman
FROM: Alexander Stevenson
SUBJECT: Bank Attendance at Meeting of UNCTAD Committee on Commodities, Geneva, May 19-30, 1969

DATE: May 9, 1969

We have concluded that we should decline an invitation to send an observer to the above meeting on the grounds that the agenda of the meeting makes no reference to the Bank’s Commodity Stabilization Study and the Trade Policies and Export Projections Division is hard pressed.

Against the possibility that the subject does come up, however, I have asked Mr. Macone to draft a suitable statement that could be delivered at Geneva. The statement would be sent, after clearance with you, to our Paris Office, who would be alerted to the possibility that they might have to go. We would then be in a position, if the subject comes up, either to send someone from Paris to deliver the statement or send Mr. Macone from Washington if there was to be any substantive discussion.

This proposal is similar to what the Fund is doing. A statement is being sent to Edgar Jones in Geneva for him to use if, and only if, he is asked for it. We would ask Mr. Jones to inform us if the Bank’s presence was needed.

Do you agree?
May 16, 1969

Mr. Arthur Karass  
International Bank for Reconstruction  
and Development  
4 Avenue d'Isaia  
Paris, 16e, France

Dear Arthur:

Due to conflicting obligations, we are not sending an observer from Headquarters to the Fourth Session of UNCTAD's Committee on Commodities, which meets in Geneva, May 19-28. However, it may become necessary for someone representing the Bank to make a brief appearance for the express purpose of presenting a statement to the Committee on the status of our commodity stabilization study. We do not know whether this in fact will become necessary but if the request is made to us it will require speedy action.

Accordingly, I would be very appreciative if we could call on the Paris Office at short notice, if the need arises, to supply an appropriate representative for the purpose of delivering the enclosed statement. I also enclose a copy of UNCTAD's invitation which gives details on the meeting.

We do not expect that any questions will be addressed to the Bank representative after he makes his statement. However, if there are points in the statement on which you believe some briefing is necessary, perhaps you might make a note of them and we can handle them by telephone, if we need to call on you for the assistance mentioned above.

With kindest regards,

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman  
The Economic Adviser to the President

cc: Mr. Demuth

AJMacone/hl
Statement by IIEC Observer to the Fourth Session of the Committee on Commodities on the status of the study on stabilization of prices of primary products

On behalf of the World Bank, I am pleased to have this opportunity to brief [join my colleague from the IMF in briefing] the representatives of the member countries of the Committee on Commodities on the status of the work being done in the World Bank on the problem of stabilization of prices of primary products.

The origin of this study goes back to the Annual Meetings of the Bank and Fund which took place in Rio de Janeiro in September 1967. At those meetings the Boards of Governors of the Bank and Fund adopted parallel resolutions inviting the staffs of the two institutions, in consultation with each other, to prepare a study of this problem, its possible solutions and their economic feasibility.

The general section of this study was completed and distributed to governments in September 1968. This section was devoted to a factual review and analysis of the commodity problem in its many aspects. It reviewed the postwar trends and developments in commodity trade, considered the problems and consequences of fluctuations and adverse trends in commodity prices and trade and, in a general way, examined possible measures for dealing with them.

Upon completion of this first stage of the study additional work was initiated by the Bank staff with a view to examining possible courses of action by the Bank Group in the field of commodity problems. At the suggestion of the Board of Governors, as expressed in a further resolution during its Annual Meeting in Washington in September 1968, this work has
been particularly directed toward considering specific financial measures and other ways in which the Bank might assist in finding feasible solutions to the problem.

I am happy to be able to report that the work on this section - or Part II - of the study has now reached an advanced stage of completion. The Board of Governors, at its September 1968 meeting, had expressed the wish that this section of the study be transmitted to them by the Executive Directors of the Bank by not later than June 30, 1969, together with such comments or recommendations as the Executive Directors may have on the entire study and a report on any actions regarding it which the Executive Directors may have taken. We have every expectation that this deadline will be met.

You will understand, I am sure, that it is impossible, pending completion and final consideration of Part II of the study within the Bank, for me to discuss its substance. I can report that in this section of the study the emphasis has been on developing concrete, practical measures that the Bank Group, in its role as an institution for promoting economic development, might take as part of the international effort to move toward a feasible solution of the commodity problem. I am also happy to report that Part II of the study has proceeded at all times under conditions of close and continuous collaboration between the Bank staff and the Bank's Executive Directors.

May 16, 1969
UNITED NATIONS DEVELOPMENT PROGRAMME
AND
PARTICIPATING AGENCIES

SENIOR OFFICE STAFF
AND EXPERTS
SEoul
KOREA
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### Notes

1. Abbreviations:
   - Technical Assistance - Technical Assistance funds of UNDP
   - Special Fund - Special Fund of UNDP
   - Regular Programme - Regular Programme funds of the specialized agency concerned

2. The UNDP Office should be informed immediately of any changes of the details noted herein.

3. This revised address list supersedes all previous issuances.
TELEPHONES

(Central Exchanges)

New Itaewon .................. 4-2261/6
Old Itaewon .................. 4/2231/9
UN Village .................... 54-9112/9

The telephone numbers of the individual apartment or house are identical to the apartment or the house number noted in this publication.

January 1969
<table>
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<tr>
<th>Name</th>
<th>Position</th>
<th>Address</th>
<th>Tel</th>
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<tbody>
<tr>
<td>Mr. Hans W. Kamberg *</td>
<td>Resident Representative</td>
<td>17-1 Changsung-dong, Chongno-Ku</td>
<td>74-3409</td>
</tr>
<tr>
<td>Miss Nina Nash</td>
<td>Deputy Resident Representative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. A. G. Dorson-Thompson *</td>
<td>FAO Senior Agricultural Adviser</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. A. R. Khan</td>
<td>World Food Programme Project Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. D. Khader *</td>
<td>Assistant Resident Representative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. So. Moon Sup *</td>
<td>Senior Administrative Assistant (Programme)</td>
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<tr>
<td>Mr. Alan E. McBain</td>
<td>Representative</td>
<td>28 Samchung-dong, Chongno-Ku</td>
<td>75-2310</td>
</tr>
<tr>
<td>Mr. Kim, Jung Iyoon *</td>
<td>Assistant Programme and Supply Officer</td>
<td></td>
<td>75-7477</td>
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<tr>
<td>Dr. Chia-chi Ma *</td>
<td>Representative</td>
<td>13, 1-ka, Taepyung-ro, Chung-ku</td>
<td>75-7462</td>
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* Accompanied by wife
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<tr>
<td>CARIM, T. *</td>
<td>Urban and Regional Planning</td>
<td>The Korean Institute for Physical Planning Ministry of Construction</td>
<td>House 38 Old Itaewon</td>
<td>75-8206</td>
</tr>
<tr>
<td>(Turkey)</td>
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<tr>
<td>TOMBRE, E. *</td>
<td>Urban Traffic Engineer</td>
<td>- ditto -</td>
<td>Apt. 111-B Old Itaewon</td>
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<td></td>
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Agency: UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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<tbody>
<tr>
<td>MORRIS, H.C.</td>
<td>Physical Planner</td>
<td>The Korean Institute for Physical Planning Ministry of Construction</td>
<td>Apt. 208 Old Itaewon</td>
<td>75-8206</td>
</tr>
<tr>
<td>(Australia)</td>
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</table>
Specialized Agency: INTERNATIONAL LABOUR ORGANISATION (ILO)

Special Fund

Central Vocational Training Inst. Project (KOR 26)

Tel: 53-9102/6 Ext. 13/14 54-2986 (Direct Line)
C.V.T.I. - Sosa Tel: 76

CRABBE, L.J. * Vocational Training - ditto - San 30, Kusan-Dong, Fook-Ku, Inchon

FOOTJES, H.C. * Vocational Training - ditto - House 26 UN Village Ext. 268
(Netherlands)


VOCATIONAL TRAINING

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WANG, Y.F. (China) Industrial Hygiene Office of Labour Affairs Apt. 404-B UN Village Ext. 465
Tel: 53-9102/6 Ext. 38


Special Fund

Extension Services Department in the Medium Industry Bank (KOR 21)

JENKINS, R.H. * Chief of Project Medium Industry Bank 112/4, Itaewon
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(Special Fund) Choong-Ku, Seoul Tel: 4-4953
(Industrial Engineering)
Tel: 24-3761/9 Ext. 255, 258

WILLBANK, A.T. Production Engineer - ditto - Apt. 1010 Hill Top

SCHOLTZ, H. * Cost Accounting - ditto - House 59 UN Village Ext. 330
(Germany)
Specialized Agency: UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION (FAO)

Technical Assistance:

<table>
<thead>
<tr>
<th>Name</th>
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<th>Specialized Fund Project</th>
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<tr>
<td>YANG, Y. H.</td>
<td>Applied Nutrition</td>
<td>Agriculture and Fishery Development</td>
<td>Apt. 804 Hilltop UN Village Ext. 629</td>
<td></td>
</tr>
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<td>(China)</td>
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<tr>
<td>STEINBRING, A.</td>
<td>Food Marketing Economist</td>
<td></td>
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<td>JHA, M. P.</td>
<td>Agricultural Statistician</td>
<td></td>
<td>Metro Hotel</td>
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Special Fund

Soil Fertility Project (KOR 9)

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<tr>
<td>YAMAGUCHI, H.</td>
<td>Project Manager</td>
<td>Soil Fertility Project</td>
<td>P.O. Box 17, Suwon</td>
<td>2758</td>
</tr>
<tr>
<td>(Japan)</td>
<td>(Soil Fertility)</td>
<td></td>
<td>c/o Office of Rural Development Tel: 4101/9 Ext. 88</td>
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<tr>
<td>PRASAD, T.</td>
<td>Agricultural Statistician</td>
<td></td>
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<tr>
<td>van den BERG, B.J.</td>
<td>Agronomist</td>
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<tr>
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<tr>
<td>YAZAWA, F.</td>
<td>Plant Nutrition</td>
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Specialized Agency: UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION (FAO)

Deep Sea Fishing Training Centre Project (KOR 10)

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<th>Position</th>
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<tr>
<td>LUSYNE, P.A.</td>
<td>Project Manager</td>
<td>Deep Sea Fishing Training Centre</td>
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<td>PO Box 36, Pusan</td>
<td>Tel: 22-3290</td>
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<td>KITAGAWA, S.</td>
<td>Masterfisherman</td>
<td>- ditto -</td>
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<tr>
<td>LARSEN, K.</td>
<td>Fisheries Technologist (Training)</td>
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<tr>
<td>(Norway)</td>
<td>and Assistant Project Manager</td>
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Soil Survey Project (KOR 13)

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<tr>
<td>STEELE, F.</td>
<td>Project Manager (Soil Survey)</td>
<td>Soil Survey Project</td>
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<td>PO Box 12, Suwon</td>
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<td>c/o Office of Rural Development, Suwon</td>
<td>Tel: 4101/9 Ext. 80</td>
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<td>DERTING, J. F.*</td>
<td>Soil Survey</td>
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<tr>
<td>(U.S.A.)</td>
<td></td>
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<td>DONNEY, C. E.</td>
<td>Soil Interpretation</td>
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<td>DEWAN, H. C. *</td>
<td>Soil Analyst</td>
<td>- ditto -</td>
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<tr>
<td>(India)</td>
<td></td>
<td>House 83 Old Itaewon</td>
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**Specialized Agency:** UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION (FAO)

**Forest Survey and Development Project (KOR 23)**

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<th>Position</th>
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<tr>
<td>MCDONALD, H. C.*</td>
<td>Project Manager (Forest Inventory)</td>
<td>Forest Survey Project</td>
<td>House 130 New Itaewon</td>
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<td>(Australia)</td>
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<td>San-1 Chongyang-ri,</td>
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<td>Dongdaemun-Ku, Seoul</td>
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<td></td>
<td></td>
<td>PO Box 66 Dongdaemun</td>
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<tr>
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<td></td>
<td>Tel: 92-6744, 92-7797</td>
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<tr>
<td>MARSHALL, W. E.</td>
<td>Reforestation &amp; Erosion Control</td>
<td>- ditto -</td>
<td>Apt. 301 Old Itaewon</td>
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<tr>
<td>ANDELS, S.*</td>
<td>Forest Inventory</td>
<td>- ditto -</td>
<td>Apt. 9-B UN Village</td>
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<td>(Netherlands)</td>
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<td>HAUFE, H. R.*</td>
<td>Afforestation Erosion Control</td>
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<td>c/o Chollapuk-da Provincial Office</td>
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**Pre-Investment Naktong River Basin Survey Project (KOR 16)**

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<tbody>
<tr>
<td>MOCK, F. J.*</td>
<td>Project Manager (Hydrologist)</td>
<td>Pre-Investment Naktong River Basin</td>
<td>Same as Office</td>
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<tr>
<td>(Germany)</td>
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<td>PO Box 94, Taegu</td>
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<td>MACDONALD, I. O.*</td>
<td>Land Use and Farm Management</td>
<td>- ditto -</td>
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Specialized Agency: UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION (FAO)

Upland Development and Watershed Management Project (KOR 22)

GIL, N. *  
(Israel)  
Project Manager  
(Soil Conservation)  
Upland Development & Watershed Management Project  
House 140  
Rm. 803 Sabop Sosa Building  
Kongpyong-dong, Chongno-Ku, Seoul  
PO Box 46, Kwangwhamun  
Tel: 72-9103/4

HARTY, W. *  
(Ireland)  
Farm Management  
UNDP Office  
Chollapuk-do  
Provincial Office  
PO Box 29, Chonju  
Tel: 4111

VARISLIGIL, A.*  
(Turkey)  
Soil Conservation  
Reclamation Section  
Kyongsangpuk-do  
Provincial Office  
Taegu  
c/o Naktong Project Compound  
PO Box 94, Taegu  
Tel: 3-2040/2

JOHN, B. G.  
(U.K.)  
Soil Conservation  
Reclamation Section  
Kyonggi-do Provincial Office  
Suwon  
Tel: 2758

Tubewell Irrigation Project (KOR 22)

YOUNG, R.A. *  
(U.S.A.)  
Project Manager  
(Hydrogeology)  
Tubewell Irrigation Project  
Apt. 908  
4th Floor, Press Centre Bldg.  
1-31, Taepyongro, Seoul  
Tel: 74-8290

RAJAKONE, W. *  
(Ceylon)  
Irrigation Engineer  
- ditto -  
House 139  
New Itaewon

KAROGLIAN, A.H.*  
(U.K.)  
Drilling Superintendent  
- ditto -  
Apt. 206  
Old Itaewon
Specialized Agency: UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION (FAO)

**Fishery Advisory Services Project (KOR 28)**

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<tr>
<td>(U.K.)</td>
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<td>House 40 Old Itaewon c/o Office of Fisheries</td>
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<td></td>
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<td>Tel: 24-1620/9 Ext. 84/92 22-2384 (direct line)</td>
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<td>ELLEN, W.</td>
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**Coastal Fishing Training Centre (KOR 25)**

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Specialized Agency: UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION (UNESCO)

Special Fund

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<td>MELEY, H. D. * (Canada)</td>
<td>Electric and Electronic Instruments</td>
<td>House 81, Old Itaewon</td>
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<tr>
<td>THOMMEN, H.W.* (Switzerland)</td>
<td>Fine Mechanics</td>
<td>208-15, Itaewon-dong, Yongsan-Ku Seoul Tel: 8-2529</td>
<td>208-15, Itaewon-dong, Yongsan-Ku Seoul Tel: 8-2529</td>
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<td>STEENBERG, K.* (Denmark)</td>
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<td>200, 2-Ka, Changchung-dong, Chung-Ku Seoul Tel: 52-0201</td>
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<td>TUTTLE, W.D. Jr.* (U.S.A.)</td>
<td>General Workshop Practice</td>
<td>House 201, New Itaewon</td>
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<td>RYDER, P.C.* (U.K.)</td>
<td>Electro Plating &amp; Metal Finishing</td>
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Specialized Agency: WORLD HEALTH ORGANIZATION (WHO)

Regular Programme:


Sta. MARIA, M.E.* Sr. Malaria Adviser Malaria Project CPO Box 540, Seoul Tel: 38-0045 Apt. DF-4 UN Village Ext. 472

MITCHELL, Miss E. Nurse Educator Education and Training Project CPO Box 540, Seoul Tel: 38-0045

KEY, F. T. * (U.K.) Sanitarian/Instructor - ditto - House 111

LIN, H. T. * (China) TB Adviser TB Project CPO Box 540, Seoul Tel: 75-7167 Apt. H-205 UN Village Ext. 545

FILLMORE, Miss H. Nurse Educator Nurse Educator Project CPO Box 540, Seoul Tel: 74-6981/9 Ext. 4786

KUO, Y. T. * (China) Public Health Local Health Services Project CPO Box 540, Seoul 72-8296, 74-0943 Ext. 26

REQUENA, H. F. * (Bolivia) Sanitarian - ditto - Hilltop

MIMM, Miss E.E. (U.S.A.) Health Educator - ditto -

ILIYAS, K. (Pakistan) Adviser on Public Health Administration School of Public Health Project CPO Box 540, Seoul Tel: 72-0223 Apt. B-6 UN Village Ext. 449

ANTAL, G.M. * (Germany) Epidemiologist Epidemiology and Statistical Service Project CPO Box 540, Seoul Tel: 75-6284, 7605 Apt. H-503 UN Village Ext. 581
Specialized Agency: INTERNATIONAL MONETARY FUND (IMF)

PANDIT, S.A.* Adviser Ministry of Finance
(India) Tel: 72-3208

House 161
New Itaewon
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### Experts in Korea by Agency

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### Experts in Korea by Localities

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22 Nationalities 70
April 21, 1969

Irving S. Friedman

UNCTAD Meeting in New York on April 28 and 29

I am planning to have Mr. R.M. Sundrum, the Director of our Development Studies Group, attend this informal meeting, and have so informed him.

cc: Mr. Sundrum
OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman
FROM: R. M. Sundrum
SUBJECT: UNCTAD Meeting

DATE: April 17, 1969

I have seen the letter from UNCTAD. I can attend the meeting if you wish.
Dear Mr. Consolo:

At its recent session, the Committee on Invisibles and Financing related to Trade addressed the following request to the UNCTAD secretariat:

"It was agreed that the secretariat should continue its work on this subject, on which document TD/B/C.3/58, "Objectives for the mobilization of domestic resources by the developing countries", was an interim report. Such continuing work was part of the mandate given to the secretariat by the second Conference. It was proposed that the secretariat should continue to collect and analyze indicators, including any practicable composite indicators which might be devised, in an effort to establish a more objective basis for assessment of what developing countries are achieving in mobilizing internal resources and in making effective use of available resources, both internal and external, and also to bring out more clearly particular problems in the field of development policy which it should be the aim of developing and developed countries, where appropriate in co-operation, to overcome. The secretariat should make further attempts to identify the relevant circumstances of different developing countries which influence the standards of effort which it is reasonable to expect. In order to be as objective as possible, this work should take full account of relevant aspects of the problem which are measurable, but at the same time it should pay due attention to qualitative aspects of development policy." (TD/B/236, paragraph 21).

We are convening a small informal meeting here on 28 and 29 April at which we hope to consult a number of experts in this field on ways of approaching the above study. It would be much appreciated if the World Bank would find it possible to designate an expert member of the staff to assist us on this occasion, if convenient.

Mr. F. Consolo
Special Representative for UN Organizations
International Bank for Reconstruction and Development
Washington, D. C. 20433
The precise time and place of the meeting will be communicated later.

With kindest regards.

Yours sincerely,

S. Dell, Director
New York Office of UNCTAD
April 22, 1969

Dear Mr. Dell:

I am writing to acknowledge your letter of April 7, 1969 addressed to Mr. Consolo, and to thank you for having invited the International Bank for Reconstruction and Development to be represented at the informal meeting to consider ways of approaching the study on "Objectives for the mobilization of domestic resources by the developing countries" to be held in New York on April 28 and 29, 1969.

I am pleased to inform you that the Bank will be represented at this meeting by Mr. R.M. Sundrum, Director, Development Studies Group. I should appreciate your arranging for any further documentation relating to this meeting to be sent to Mr. Sundrum at this address.

Sincerely yours,

Richard H. Demuth
Director
Development Services Department

Mr. Sidney Dell
Director
New York Office of UNCTAD
United Nations
New York, 10017

Cleared with and cc: Mr. Friedman
cc: Mr. Sundrum

Central Files with incoming correspondence

:med
OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

FROM: N. A. Sarma

SUBJECT: Certain Viewpoints on Supplementary Finance

DATE: March 12, 1969

While attending the Third Session of CIFT recently in Geneva, I learned the following informally:

1. The LDC's are likely to take up S.F. with the Bank Management, through some of their E.D.'s, before the next meeting of the Inter-govermental Group on S.F. convenes in June '69. I was given to understand that a decision to this effect was taken by the '77'.

2. With respect to the viewpoint of Germany on S.F., while the officials in the Ministry of Finance have been critical, those of the Ministry of Economic Affairs are more favorable. (I gathered this in informal talks with the Swedish and British delegates.) It may be recalled that Mr. Karl Schiller, Minister of Economic Affairs, had stated at UNCTAD II in New Delhi, in his statement to the plenary meeting on February 5, 1968; "The Government of the Federal Republic of Germany would cooperate in a constructive spirit in further deliberations on the problem of supplementary financing."
This brief note may be of some interest.
CERTAIN PROPOSALS IN DEVELOPMENT FINANCE

1. There are three proposals that have attracted nearly unanimous support among developing countries:

(i) Buffer stock financing; what is contemplated is not investing in stocks on a continuing basis, but the provision of loan finance by an international agency to buffer stock managements set up for particular commodities, under appropriate conditions and safeguards - loans that would be repaid as their own resources are built up;

(ii) Interest subsidy; some form of interest equalization, so as to facilitate the greater flow of private capital market funds to developing countries without unduly worsening their debt servicing burdens; and

(iii) Supplementary finance scheme; to provide timely assistance to a country faced with an unexpected export shortfall that otherwise would disrupt its development program.

2. The technical aspects, as well as the feasibility, of each of these proposals have been studied carefully and in detail. It is for governments to consider policy implications and seek agreed viewpoints. It is recognized, even among some governments that are critical of the proposals, that they serve useful purposes. Some donor countries would not be prepared to accord one or the other proposal a high enough priority, relative to other existing bilateral or multilateral aid programs. For instance, the U.K. obviously gives higher priority to IDA replenishment. West Germany and U.S.A. are
opposed to any interest subsidies on an international basis. France would prefer commodity arrangements, including financial support therefor, to other innovations or extensions of development aid programs. More generally, certain major donors are pre-occupied with the uncertainties of the international monetary mechanism and with their own payments or budgetary difficulties, and are reluctant to take up additional aid commitments of any kind. On the other hand, the smaller donor countries, in particular Sweden, the Netherlands, Canada, Australia and Switzerland, are forward looking in aid matters and have considerable sympathy to the viewpoint of LDC's.

3. The three specific ideas mentioned above have wide support, both governmental and expert, mostly in developing countries but also in some industrial countries. Secondly, their total cost is unlikely to exceed $500-600 million a year: about $100 million for buffer stock financing, $200 million for interest equalization, and $250 million for supplementary finance. Initially, interest subsidy would cost less; it would increase in subsequent years. New contributions to buffer stock finance could be expected to taper off, and the funds would be essentially revolving once they have been built up. Again, supplementary finance needs may be larger or smaller in one year or the other but it should be possible to manage within a total of about $1.5 billion for a five-year period. Even after five years, the total cost of the three schemes together need not exceed $500-600 million a year.

4. If donor countries should decide to examine the proposals closely, for implementation by early '70's (i.e. to help forward efforts in the Second Development Decade), at such limited additional cost, they would secure the response of developing countries in a most significant manner.
The psychological and political impact would indeed be considerable on international economic cooperation and harmony. This would surely induce more adequate self-effort on their part and greater willingness to subject their programs and policies to performance evaluation by international agencies. It may be recalled that performance evaluation and policy understandings based on periodic consultations are central to the scheme of Supplementary Finance formulated by the Bank Staff.

5. With the high and rising interest rates in the capital markets - which may be expected to persist - some way has to be found urgently to facilitate channelling private capital market funds to LDC's without worsening their debt situation. This is now a real problem to the World Bank Group itself. The interest subsidy could be confined to new loans channelled through international institutions, and be limited to 2 or 3 percent - i.e. the lending rates would be that much less than the rates at which the market funds are borrowed currently.

6. Illustratively, may I recall a suggestion I made in a note in February, 1966 about IDA Replenishment? "to impart some flexibility in IDA operations, while retaining their soft character; to secure larger resources from governments, matching grants with repayable loans, preferably on soft terms; to use the Bank's contribution to IDA not for direct credits but to subsidize interest on loans to borrowers, on a larger scale and at more favorable terms to recipients than would otherwise be possible." Perhaps, this could be a possible approach when the next replenishment of IDA comes to be considered on a much higher level.
7. The cost — $500-600 million annually — may be seen against total official aid flows of $6 billion a year; the total cost is hardly one-half of the annual cost to donors of technical assistance. As such, this financing need not be envisaged at the expense of existing bilateral or multilateral assistance, nor as diverting funds from IDA replenishment at a higher level. While no implementation dates have been agreed to by several donor countries, all of them have accepted in principle that aid volume should amount to at least 1 percent of GNP. A few have indicated 1972 as target date; even those who have not done so, have undertaken to step up their aid effort. Accordingly, a higher level of IDA, as well as the above three proposals, could be accommodated in this framework.
May 9, 1969

Dear Mr. Perez-Guerrero:

Thank you for your letter of April 19, 1969, to Mr. McNamara on the conclusion of the UNCTAD Permanent Group of Synthetics and Substitutes that there should be consultations among UNCTAD, FAO, the Bank and the International Rubber Study Group in order to define their respective contributions to the World Rubber Study of the International Rubber Study Group. I am replying in his absence on business abroad.

We in the Bank are well aware of the importance of natural rubber in the export earnings of developing countries, and have indicated to the International Rubber Study Group our desire to help in any way we can. We would be happy to receive a visit from the Director of your Commodity Division to discuss the subject.

I would suggest that you plan the visit of your Director for the early part of June, at which time the officials with whom he will wish to meet expect to be available. He should let Mr. Macone, Chief of the Trade Policies and Export Projections Division, know about his specific travel plans.

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. Manuel Perez-Guerrero
Secretary-General of UNCTAD
United Nations
New York City, N.Y.
March 6, 1969

A. M. Kamarck

Your request on UNCTAD Annual Report

For material on trade and commodities, you should see Mr. Macone;
For material on manufactures and regional integration, Mr. Kalmanoff;
For recent trends in the developing countries, Messrs. Hawkins/Carter.

You would appreciate, of course, that preparation of material for
the UNCTAD Annual Report must have a considerably lower priority
than preparation of material for our own Annual Report.

cc: Mr. Friedman

Mr. Macone
Mr. Kalmanoff
Messrs. Hawkins/Carter

AMK/vhw
I am sending to each, herewith attached, letter from Dr. Prebisch requesting information from the Bank to include in the Secretariat's Annual Report.

The material on the various items, which I hope members of your staff will be able to provide, will be assembled by me and I intend, of course, submitting the final product for your approval before sending it to UNCTAD. I would, therefore, greatly appreciate your letting me know, by this coming Friday (the 7th), to whom I should address myself for this material.

For your convenience, the relevant resolutions of the IIInd Conference will be found in the reports on UNCTAD II to the Executive Directors (SecM68-63 March 14, 1968 and SecM68-136, May 13, 1969).

Encls.
Dear Mr. McNamara,

I am writing with reference to item 4 of the provisional agenda for the ninth session of the Trade and Development Board (TD/B/233, paragraph 251) entitled "Review of the implementation of the recommendations of the Conference", and to resolution 19 (II), adopted by the Board at its 50th plenary meeting on 15 September 1965, whereby it decided to consider regularly each year the report of the Secretary-General of UNCTAD "as a background document for the review and assessment of implementation of the recommendations of the Conference" (TD/B/71).

As has been the case for the preparation of the previous reports under this resolution, the UNCTAD secretariat hopes to draw for the preparation of this year's report on information made available to it in accordance with the resolution's operative paragraph 3, in which the Board invited in particular the specialized agencies of the United Nations to co-operate with the Secretary-General of UNCTAD by providing information relevant to the preparation of the above-mentioned report, a provisional outline of which is attached.

Mr. Robert S. McNamara
President
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
1969 MAR - 5 DH 6: 24

Page 1

Dear Mr. [Name]

I am writing to express my concern regarding the [specific issue or problem].

As you are aware, [background information or context].

I have been following the developments in [relevant area] and it has become evident that [specific issue or problem].

I believe that it is necessary to take immediate action to address [specific issue or problem].

I would appreciate it if you could [specific action or contribution requested].

Thank you for your attention to this matter.

Sincerely,

[Your Name]
I should like to invite your Organization to provide me with such information as in your opinion would assist the UNCTAD secretariat in the preparation of this year's report.

In order to ensure that the best use is made of the information provided, I should be grateful if the relevant information could be made available to the UNCTAD secretariat not later than 30 April 1969.

May I thank you in advance for your valuable co-operation.

Yours sincerely,

[Signature]

Raul Prebisch
Secretary-General
ANNEX I

Provisional outline of the Review of International Trade and Development, 1969

to be prepared for the ninth session of the Trade and Development Board, in connexion with agenda item 4 "Review of the implementation of the recommendations of the Conference".

Part One
Recent trends in trade and development

Part One will review recent trends in world trade, including trade flows between the developing countries, developed market economy countries and socialist countries, changes in terms of trade and import capacity of developing countries. It will also give an account of economic performance in different regions and countries, with particular reference to the rates of growth in developing countries.

Part Two
Major policy developments

Part Two will describe major policy developments observed and measures taken in the period which has elapsed since the last report (i.e. since the latter part of 1967). The following main subjects will be covered:

General review of trade policy developments
- Developed market economy countries
- Developing countries
- Socialist countries of Eastern Europe.
Apart from giving a summary of major trade policy developments, it is intended to cover under this heading the main issues related to recommendations of the first and the second sessions of the Conference and to those of the Trade and Development Board in so far as they are not covered in the following chapters.

Primary commodities
- International commodity actions
  - intergovernmental commodity agreements
  - other actions or consultations relating to commodities
  - multilateral food aid
- National measures of importance for commodity trade.

Under this heading, the report will deal with the issues referred to in recommendations in Annex A II of the Final Act of the first Conference and resolutions 9 and 16 to 20 (II) of the second Conference as well as in recommendations approved by the Committee on Commodities at its third session and endorsed by the Trade and Development Board at its eighth session.

Manufactures and semi-manufactures
- Review of trade in manufactures and semi-manufactures
- General preferences
- Elimination of tariff and non-tariff barriers
- Export development
- Industrial branch agreements.

The issues involved are those referred to in recommendations in Annex A III of the Final Act of the first Conference and resolutions 1, 21 and 25 (II) of the second Conference as well as decisions adopted by the Committee on Manufactures at its third session and by the Trade and Development Board at its eighth session.

Financing of trade and development
- Mobilization of domestic resources
- Volume of international flow of financial resources
- Terms of external development finance
- Flow of private capital
- International monetary issues
- Compensatory and supplementary financing.
Under this heading, it is intended to cover recommendations A.IV.21 to 24 and 26 of the first Conference and resolutions 2 to 8 and 12 to 14 (II) of the second Conference.

**Invisibles** - recent developments and actions in the fields of:
- Shipping
- Insurance and re-insurance
- International travel and tourism
- Other invisibles (transfer of technology, etc.).

Under this heading, it is intended to cover recommendations A.IV.21 to 24 and 26 of the first Conference and resolutions 2 to 8 and 12 to 14 (II) of the second Conference.

x x x

Attention will be given in the body of the report to the following subjects:
- Trade expansion, economic co-operation and regional integration among developing countries and developments related to resolution 23 (II) of the second Conference;
- Special measures in favour of the least developed among the developing countries (resolution 24 (II) of the second Conference);
- Special problems of the land-locked developing countries (resolution 11 (II) of the second Conference).
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Remarks

I think you might be interested in glancing at this.

From

Irving J. Friedman
The third session of the (UNCTAD) Committee on Invisibles and Financing Related to Trade was held during February 17 - March 1, 1969. I thought it might be useful to give this quick, somewhat personal, report. Mr. Wishart would be sending the usual, more detailed, report in a few days.

The new Supplement to DAC 1965 Recommendation on Terms was discussed, and the Committee adopted a Resolution on the subject. There was some extended discussion on the flow of financial resources and the mobilization of domestic resources, but no Resolutions. On Supplementary Finance, the representatives of LDC's reiterated and reaffirmed their support for Recommendation A IV 18 of UNCTAD I; in their view a scheme broadly on the lines of the Bank Staff Scheme would meet the objectives. The Secretary-General is invited to appoint a small group of independent experts to examine recent developments in the world economy, in particular in the international monetary system, to consider their impact on the trade of LDC's.

On the whole, the session was a frustrating one. The various agenda items stand where they were left at New Delhi.

1. Development Finance: The representatives of developing countries wanted implementation of 1 percent of GNP aid target by 1972, together with a minimum for official flows of 0.75 percent. They urged continuity of aid, and channelling it through multilateral institutions increasingly. IDA replenishment was urged by LDC's and donor countries equally. Canada and France pointed out how their temporary difficulties (balance of payments or budgetary) were not allowed to interfere with their aid allocations. The U.K. attached importance to multilateral aid, as also to continuity. Japan pointed to the rapid increase in its net official flows. Germany, while emphasizing private capital, agreed that continuity of aid and volume were both important. Sweden felt that the real transfer of resources to developing countries was much less than the published data on financial flows would indicate, and suggested a study of this question. In their view, the gross overstatement of official aid figures was, perhaps, having an adverse effect on public opinion in donor countries.

2. 'Terms Target': The Resolution adopted by the Committee notes that the new DAC terms target indicated progress over the 1965 Recommendation, and requests the UNCTAD Secretariat to prepare an analysis of the practical effects to be expected from its implementation.
Certain donor countries expressed inability to agree to implementation within a specified time period. The general view was that the DAC Supplement represented a step forward in the right direction, and that it was more than a mere Resolution. The omission of export credits from its scope, and the lack of greater certainty with respect to implementation worried the LDC's.

The representative of Denmark, as Chairman of Group B, introduced the DAC Supplement on Terms. For the first time, it was intended to ensure that at least a minimum volume was provided on the terms indicated. The spokesman illustrated the benefits from the new terms thus: if, say, $5 billion of new loans were provided each year on the new terms, debt servicing over 25 years would be $17 billion less than if the loans were all made at terms called for in the 1965 Recommendation - the so-called DAC average terms. (Statement attached hereto).

3. Supplementary Finance: The Chairman of the Inter-governmental Group, Mr. Mermojlia of Yugoslavia, introduced this agenda item, and urged the need for an agreed Report at the next meeting of the Group (in New York, at the end of June '69). In view of the forthcoming session of the Group, it was agreed that extended discussion of the subject was not called for at this stage in this Committee. Ceylon's statement on behalf of the '77' is attached hereto.

On February 21, at the request of the Convener of the Group of '77', I was present informally at their meeting called to discuss S.F. After statements by Messrs. Sidney Dell and Mermojlia, there was discussion for about two hours. I had the distinct impression from this meeting that the LDC's are anxious that S.F. be implemented early, broadly on the lines of the Bank Staff proposal. Towards the end of the meeting, invited by the Chairman, I stated my personal view that the S.F. Recommendation was one of the useful initiatives that emerged from UNCTAD I, and that the features of the Bank Staff Scheme necessarily follow from the objective - assurance of timely assistance when a country was faced with an unexpected export shortfall that otherwise would disrupt the development program of the country.

4. Other matters: The Secretary-General of UNCTAD is requested to consult member governments with a view to exploring the possibility of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund. (U.S.A. stated it would not respond positively, as they did not support any such proposal.)

The Secretariat suggestion for setting up an international group of experts for reviewing performance of individual developing countries was not acceptable to DAC countries, as also to several developing countries. On the whole, LDC representatives did not want proliferation of institutional machinery; the present Fund, Bank and Consortia procedures seemed adequate.
The representatives of donor countries on the whole did not like the idea of asking a group of independent experts to go into international monetary issues; some of them felt it might add to the prevailing uncertainty. The representatives of LDC's wanted an organic link between newly created liquidity and development finance.

There is a Resolution on outflow of capital from LDC's (initially sponsored by U.S.S.R. at UNCTAD II, and now substantially modified) which requests the Secretary-General of UNCTAD for a study, paying particular attention to the question whether measures could be taken at the international level to control the outflows. 'B' Group countries were critical of this, mainly on the ground that it might raise doubts in the minds of private investors.

'World Bank Group matters': There was no discussion in the Committee; the subject is remitted to the next session of the Committee (March 1970).
Resolution 29 (II) adopted at New Delhi reads: "The Conference notes with appreciation that a review of the terms and conditions specified in the Recommendations of DAC is to be undertaken this year and expresses the hope that it will result in further liberalisation of them."

The Development Assistance Committee of the OECD has now reached agreement on a new and improved set of objectives for the financial terms of development assistance.

(Refer to TD/B/C.3/...)

Before describing the new terms objectives of DAC Member countries, I should recall the nature of the objectives in the original 1965 Recommendation. These called for Members to provide either 70 per cent of their aid in the form of grants plus soft loans - i.e., loans at so-called "DAC average" terms or better (that is loans with a 25-year maturity, a 7-year grace period, and at 3 per cent interest). It is significant that a number of DAC Members who formerly provided loans at harder terms have, since the 1965 Recommendation was adopted, been able to shift at least part of their lending to these softer terms. The DAC Chairman, in his 1968 review of development assistance described at length the progress of Members under the objectives established in 1965. These comments have also been included in TD/B/..."
full text of the original 1965 Recommendation.

A number of general points should be made about the new DAC Recommendation. In the first place, it represents a supplement to the 1965 Recommendation, which covered the full range of topics concerned with the financial terms and conditions of aid and which all DAC Members have reaffirmed.

Secondly, the new supplementary Recommendation establishes new objectives for aid terms, which all DAC Members have now accepted; it should be noted that this supplementary Recommendation, like the 1965 Recommendation itself, has been agreed to by all Members of the DAC.

The DAC has examined all aspects of this problem at great length in its efforts to achieve an agreement on terms, which while recognising the difficulties that some Members must face in improving their terms, nevertheless represents a real step forward from the original objectives stated in the 1965 Recommendation.

The new Recommendation provides for three alternative targets that DAC Members are asked to reach.

To qualify under the first alternative, a Member must have a large grant programme - 70 per cent or more of its official development assistance must be in this form (described in paragraph 8).

To qualify under the second alternative (described in paragraph 9 A), a Member must ensure that at least 85 per cent of official development assistance is in the form of grants or loans with a large concessional element - larger in fact
than that provided for in the 1965 Recommendation. This method of qualifying calls for loans as soft as those specified in the agreed text from UNCTAD II, namely loans with a concessional element of at least 61 per cent (for example, the terms cited at UNCTAD II, loans of 30 years maturity, 8-year grace period and at 2.5 per cent interest). The Recommendation cites other examples of loan terms which have an equivalent concessional element.

Both of the alternatives so far described are similar to those originally in the 1965 Recommendation. The grant method of qualification remains at the high level established then; the qualification through providing a specific percentage of grant and loan transactions, each with at least a minimum concessional element, represents a distinct improvement over the former target. First of all, the percentage called for is somewhat higher - 85 per cent of the total rather than the 81 and 82 per cent set forth in the original Recommendation; and secondly, the minimum qualifying terms have been improved. Compared with the so-called "DAC average" terms which up to now served as the standard, continued use of the new minimum terms would convey a substantial benefit to developing countries in the form of reduced debt service payments in the future.

Let me illustrate this benefit with a hypothetical example. If, say, $5 billion of new loans were provided to developing countries each year at these new minimum qualifying terms, the debt service repayments over a period of 25 years would total more than $17 billion less than if this stream of loans were made at the minimum standard terms previously called
for in the 1965 Recommendation - the so-called "DAC average" terms. This would represent a reduction of 20 per cent in the total debt service charges and therefore an increase in net transfers over the 25 years.

In fact, many DAC Members provide large portions of their assistance in the form of grants and loans considerably softer than even the new target, but for DAC Members who have thus far only been able to provide their softest loans on so-called "DAC average" or even harder terms, this new alternative target calls for a significant improvement in terms.

The supplementary Recommendation provides a third alternative, which was not present in the original 1965 text. This alternative (described in paragraph 9 B) bridges the gap left in the old Recommendation by the sharp difference between two methods of qualifying - the grant method and the minimum degree of concessionality standard for individual transactions. This new alternative sets a standard for qualification requiring that a Member have a very high average concessional element in the softest 85 per cent of its official development assistance - in fact, it would have to reach an average concessional element of 85 per cent in order to qualify. I shall have more to say on this question of the "concessional" element later in this statement.

The new standard established here is a high one. For Members with a relatively small pure grant programme, this new alternative is a much more difficult standard to reach than the second alternative, based on individual loan transactions. However, for Members able to provide 50 per cent or more in the
form of pure grants, this new standard permits some flexibility as to the terms of loans which will enable them to qualify under the target.

On comparing the three different alternatives, it should be noted that a Member could qualify by providing 70 per cent in the form of pure grants. Another Member might provide, say, 60 per cent of its programme in the form of pure grants, with 25 per cent of its programme in the form of loans on slightly harder terms than the present "DAC average" (for example, 25 years maturity, 6-year grace period and 3.5 interest); this would enable the Member to qualify under the third alternative. Another Member might qualify under the second standard by providing 45 per cent of its programme in the form of pure grants and 45 per cent in loans (of the kind described in paragraph 9 A), i.e. loan terms, for example, such as those cited in the agreed text from UNCTAD II.

Members able to qualify under the pure grant standard are free of any constraint on the terms of any loans they make in the balance of their total programme; for many Members this loan portion of the programme is extremely small but under the standard described it can be as large as 30 per cent of the total official development assistance. In the case of the other two alternatives, the targets specified cover all but 15 per cent of total official development assistance commitments.
The objectives of the Recommendation apply to official development assistance which is intended to be concessional in character. They do not apply to export credits which are of a different nature. Borderline cases are being examined with a view to defining such credits with more precision. Moreover, the new supplementary Recommendation stresses the importance of further careful study of export credits and their relationship to development considerations and the indebtedness problem facing less-developed countries.

Another feature of the new Recommendation, which is important and is introduced for the first time, is the intention (described in paragraph 11) of assessing not only the terms of a particular D.C member's programme but also ensuring that at least a minimum volume be provided on such terms. Thus, very concessional but very small programmes relative to the Gross National Product of particular donor countries would not qualify.

It is necessary to say a word about the use of the concept of "concessional element" as a measure in defining the two alternatives to the pure grant method of qualifying. For convenience, the calculation adopted for this purpose has been made on the basis of a discount rate (admittedly somewhat arbitrary) of 10 per cent.

It should be stressed that the standards could also be expressed using other discount rates - either higher or lower than 10 per cent - without greatly affecting the actual levels selected under the various alternative targets. Both of the
alternatives to the grant target represent higher levels of accomplishment than previously called for in the original wording of the 1965 Recommendation. This would be true even if they were re-stated using other methods for expressing the degree of concessional nature of particular financial transactions.

We think that the avoidance of the rigidity of the original targets while, at the same time, raising the objectives is in itself a worthwhile improvement, enabling both donor and recipient countries to concentrate on the concessional quality of aid while avoiding unnecessary requirements that each particular transaction be identical in all respects with a cited standard.

The new terms objectives will have not only the benefit of encouraging many DcC Members to improve their terms but should also help to reassure other DcC Members, who have been able to provide much softer terms, that better harmonization of terms is being strived for.

Finally, it should be noted that this new supplementary Recommendation calls for regular review within the DcC of the progress of Member countries under it.
Statement made by Mr. R.C.S. Koelmeyer (Ceylon) on 25th February, 1969, on behalf of the Group of 77 on -- SUPPLEMENTARY FINANCIAL MEASURES --

I am authorized to make the following statement on behalf of the Group of 77 and that include members of the Group represented on this Committee as well as the many observers from developing countries, members of the Group, who have been following our proceedings during this Session.

The Group of 77 wishes to reiterate and to reaffirm its strong support of recommendation A IV 18 for the early implementation of a Scheme of Supplementary Financial Measures along the lines of that recommendation.

The developing countries on the Inter-governmental Group on Supplementary Financing issued a joint statement at the Third Session of the Group (TD/41). That statement set out in some detail the objectives which a scheme of Supplementary Financial Measures should achieve and the principle elements which a Scheme should embody if it were to provide the basic features of assurance and timeliness of assistance needed to maintain the integrity of the development plans of developing countries faced with disruption due to unexpected shortfalls in their export earnings of a nature and duration that cannot be met by short term balance of payments support.

The developing countries, members of the Group of 77, are firmly of the view that a Scheme broadly on the lines of that proposed by the staff of the World Bank could adequately meet the objectives of A IV 18. If it is the earnest hope of those countries that the Scheme of Supplementary Financial Measures would be implemented by the international community no later than the beginning of the Second Development Decade and that it would form an essential and important element in the international development policy for the 1970s.
The developing countries endorse the view that the Scheme should be based on objective criteria so as to ensure that "reasonable expectations" of development support envisaged in A IV IS would be both assured and timely.

The developing countries also fully endorse the view that the Scheme of Supplementary Financial Measures should not be established in such a way as to give rise to an open-ended commitment on the part of donor countries. They are satisfied that a workable scheme could be set up on the basis of a fixed commitment on $300 - 400 million per annum for an initial five year period as recommended by the staff of the World Bank.

It is pertinent in this Statement, to refer to the decisions of OAU/ECU meeting held last January:

"that African countries support wholeheartedly the scheme for supplementary financing and urge that agreement should be reached to enable it to enter into force from the start of the Second United Nations Development Decade."

It is also pertinent to refer to the consideration given to the Scheme at the highest political level at the meeting of Commonwealth Prime Ministers in London last month. The Communique of that Meeting stated:--

"Heads of Government expressed the hope that the consideration of the scheme of supplementary financing would lead to early results of benefit to developing countries."

In expressing this hope the Commonwealth Prime Ministers were endorsing the views of the Commonwealth Finance Ministers in their meeting in London in September 1966, when they expressed concern that no decision had been reached on the proposal for a scheme of supplementary financing and urged that the work of the inter-governmental group on this should be finalised as soon as possible.

The Commonwealth Finance Ministers placed their comments on supplementary financing in the context of the chronic shortage of foreign exchange of developing countries and stated as
"The chronic shortage of foreign exchange was a matter of increasing concern particularly to developing countries. Ministers stressed that increased export earnings through fair and remunerative prices for their major exports, commodity agreements, and improved access to and development of export markets, were essential to continued economic growth in developing countries. In this context Ministers were concerned to note that no decision had yet been reached on the proposal for a scheme of supplementary financing and urged that the work of the inter-governmental group on this should be finalised as soon as possible."

It should be stated that the meetings of Commonwealth Prime Ministers and Commonwealth Finance Ministers included many developed and developing countries represented on this Committee as well as on the Inter-governmental Group on Supplementary Financing.

The Group of 77 requests all developed countries, both market economy and socialist, to bring to the attention of the appropriate authorities in their countries the strong and resolute support of developing countries for the scheme of supplementary financing and appeals to these countries to consider taking positive measures to make possible the early implementation of the Scheme.

GENEVA,
25 February, 1969,
/-ERM.