Currently, design and several senior would see him sitting down.

Must leave quite
guarantees of basic finance—
likely legal precedent

No need discuss.

Dear. Imperial: I'll see you next
whether I see need
amount difficulties.

Thanks. (related, though
is a form of format)
should not be
related to projects—metastable
and projects should not
perform to be judge.

If their need for
during chance—If her
about some don't read here.
Blistered and

Avoid over-donning
agency
Tends to cloud the long-term
need for flexibility. Needs
Ab initio, ten for
f lexibility - again-

III (para 2) again
assumptions

Instead - need
to take account import jobs
(See para)

All untenable - perfect right

Gossip
II para 2 - must also cover
fining in private sector - hop
projective descending pool of"mists" - Need to meet
Not go legal Cxmbt
now held
must really greater delay.
Then on basic journey
limited supply care for
men, can't leave
consultation.

Avoid duplication of
reviewing and consulting.
on plans
Can't a report without
how starts short fall.

United Kingdom: cumbt

Cayfan

Germany: few greater

judgment of partook
in ison - identify can't
doesn't have plan's interest?

Brii journey changes gel
select mixed journal? cumulative groups?
Is it possible to such a large numb.

O on Reviewers (para. 5)
 niekto agree with these?

Oструктор (para)

in ot of cases if not quite fulfilment. After partly failed want?

indeed need to pay the paper

which agree wouldn't frame theft full

with much indorse

prudence careful

not to overstep bounds
policy content
should be related to ability to help - don't have to deal with entire piece

Supplementary (supplementary to main frame)

Can center get basic frame when don't understand?
Almost, don't need

Prepare policy content on SBS with Agency - decide what is needed
What don't bad kip - reduce from first help

M. Boney formats

primes - doubt, don't
11. Can I supply
  computer?

2. Partially - how
  could I possibly require
  reports - not prepared.

3. How could I agree except
  regarding? (unrelated)

4. What coordination of
  Place - policy analysis?
   Most positive element of
   plan for colonies. I plan
   to save all vendors from
   regard regarding

   May have duplication -

6. Could agree to arbitrate?
In general objectives:

- Play pedagogy

II

Cautious cannot come

Already [IRM Ps

reap]

Would continue

Need shall

Would hematines

Acceptable?

About fighting?

Would continue

Fighting
Virginia: agree the part racial (other?

Agree with Deon qualification: design
need to develop paper

important

What about Bacc

farming

Differ with 1 share point

Cezar

of Babii logy - not

decided [Agree]

1. Agreed: opposition

Practically illegal as well

as rights.

(Still going)

(1) My fault. I gotta

for transfers in supply.
Islam between degree
- interest and degree

Word it add family
- making - hyperact and
- abstention and ideology
- sound to be integral
- faith
- limited becomes integral
- action

IMF: - in financial
- type interest to Fed
- plan

A - pay party
- cannot count for
- writers year a
- unity daily pay
1. para 1 -

Q: When do you draw lines for future potential scenarios?

Para 2: Are real developments "correct" and realistic?

Q: What climate factors have determined current needs?

3. para 3 -

A: Report places, some places in some areas to DC's.

2 & 3}

in general, can't put too much focus...
4K.  Fast quitter - select
instantly many with
recommendation.

Do people want free
from extra shit jobs
What is legacy led to do?

Pay cannot have
ability to interfere?

What are bend?
Minion request can
will want
(c) measure that
fall?
(2) people paid customer

Key
mentions mother
(c) must be treated
regard
First project review - in 1966 - when
judges of police were not
ever followed? To
attorneys NGOs.

Never mind - snug
2)
Appoint

What will they do if
not perform policy

On alternatives -
perhaps suggest
alternative by agency

US: - general opinion

Great firm final
past experience plus
best and mean except
1) Ref. to case

2) Unknown family to see
Better War.

4) Soft soap

Very thoughtful

3) Most group quartering

Our Oiem based on experience

Role in flage

Will call later

Colonial staff
Some delegates expressed that they were not legally competent to express opinions on the matter of tariffs.
Some delegations have refused the
justicia of
IT IS VERY DANGEROUS TO SPEAK
ONLY OF EXPORTS AND PROMOTION
OF PRIME QUALITIES.
EVERYTHING CAN BE EXPORTED
E.G. CHILE'S EXPORTS TO
EUROPE ARE LOW GRADE
SAWNWOOD (EUROPEAN
FIFTHS!) BUT CAN BE
BOUGHT CHEAPER!
AND TRADE IS
EXPANDING.
THERE ARE LESSES
FOR ALL TIMBER
WHEN APPROPRIATELY
PROMOTED!
NOT A MEETING BUT
THE IDEA OF A SEMINAR
OR REGIONAL TRADE
DEVELOPMENT CONSULTATION
MIGHT BE INTERESTING.
BUT THEN THE PARTICIPANTS
SHOULD ALL BE FROM
THE TRADE & INDUSTRY?!
Developing
Consultation
Inform PRO.
France: Construction.

Page 3 & 5 of any N.A.

Can I terms for supply

have correspondence & dates

France: terms for supply

India:

(2 or 3 lines)

Check
We have just started working on project X. As of now, we have made some progress on it.

We plan to complete this project by the end of the month. Meanwhile, we are also working on another project which is of similar scope.

As you can see, we have invested a lot of time and effort into this project. We believe that it will be a success.

Yours sincerely,
[Signature]

[Date]
Brazil

7.8.1 pm 15
6.2 (pm 9)

Japan:

pm 11 - (see
maximum point)

Directly
Maged mph

? Wissenschaften
Sagua: cane

Ceylon: sugar

US

UK
1. Understanding regarding basic development finance: Consultative Groups (U.K.): The German view is that this is not foreseen in the resolution.

2. The Scheme is complex (Germany).

3. Why was not a paper given on Cost Estimates: Is the Bank pushing for the Scheme or not? The psychological impetus seems to have been lost (Japan; others).

4. How can effective participation be limited? Is this realistic and politically feasible? (Germany)

5. Relations between Fund and Bank Staff - Compensatory Financing and Supplementary Finance Proposals (Japan).

6. Is this the best way of using the amount of $300 or $400 million? (USA)
The meeting started with a request from the Japanese Delegate for further explanations of the cost estimates circulated by the Bank. Mr. Friedman explained that two methods are possible in the calculations of the shortfalls. One can restrict it to countries likely to be eligible or compute a figure for all countries and then adjust for the countries that may not qualify. In principle, the Scheme was universal. The Bank followed the latter method. He also mentioned that the Bank had been rather conservative in allowing for the use of reserves, other sources of finance or adjustment measures. The $300-$400 million figure seems a reasonable one based on considerable discussions and some judgment. The $400 million figure may be taken as a maximum.

The Japanese then said that marginal errors are inevitable in this kind of calculation and he wanted to know how the original $1600 million figure for total shortfalls had been derived and also the $300 million overages which constituted only one-fifth of gross overall shortfalls. He also mentioned that there could be scope for rationing (see page 14 of the Bank Study).

Then the Representative for France expressed the opinion that the Bank estimate implied that once deductions were made the compensation will be an automatic one. He said that the Resolution contained two provisions. First one has to assess to what extent assistance is necessary and secondly a considerable part of the deficit should be made good. He asked a series of questions about what would happen when the other sources of finance are lacking and in particular when basic finance is lacking. He said that a net shortfall need not always provoke a disruption in the development plan and that this consideration should limit the automaticity of assistance.

The Delegate for Ghana first felt that the $300-$400 million was too
small a figure but now he agreed that this amount could be considered adequate as a starting figure. As participation for the Scheme increases, this may add to the cost but the conclusion of commodity agreements may help to keep the needs to this level.

The Representative for the United States asked if Fund repurchases are taken into account in the $400 million figure.

The British opinion was that it would be difficult to identify the non-eligible countries and that therefore a certain imprecision is understandable. Moreover, figures for four or five years ahead are necessarily tentative. There is, however, a difference between imprecision and open-endedness. The main thing is to know if one can agree on these estimates for operating the Scheme.

The Representative for Sweden said that two assumptions should be made in the adjustment for countries which did not use the Scheme:

i. The number of eligible countries would increase in the course of time; and

ii. It is not a Rolling Plan.

He felt that it was important to know which date was envisaged by the Bank for the starting of operations. He felt that the cost of the Scheme would probably not have a tendency to increase as diversification of exports and other improvements in the economic structure of less developed countries will tend to keep it down.

The Observer for Nigeria then took up the Japanese criticism and asked which figure would be considered as reasonable by the Japanese and donor countries in general.

The Brazilian Delegate pointed out that one should have a figure in
mind for future work and that this figure should be as realistic as possible.

The American Delegation then asked for a written statement about the relationship between the Compensatory Finance Facility and the Supplementary Finance Scheme. Mr. Fleming said that such a statement had already been circulated.

Subsequently, Mr. Friedman dealt with several questions relating to the cost estimates. He said that the cost figures were only intended as an element to facilitate discussions. He said that the figures had been derived by using samples and by relying on the advice of experts in this field. The IBRD Staff had been trying to estimate what would happen when different criteria were used and there will be no attempt to quantify the influence of a number of other factors. He also mentioned that he was happy to note that the LDC's accepted the principle of performance as a precondition. He especially emphasized that the word 'automatic' is not suitable for the Bank Staff Scheme. As to the questions of the relation with the Fund Facility, he once more reminded that the basic principle in this respect, namely: shortfalls financed by the Fund are not financed by Supplementary Finance. Thus, the burden for the SFS is diminished and it is normal that refinancing takes place out of overages.

Answering the Observer for Nigeria, the Representative for Japan said that he had only been referring to the imprecision and uncertainty of any estimates for the future. The Representative for the United Kingdom then reminded that the Japanese Delegation had asked about estimates of export shortfalls. The British Delegate mentioned that explanations in this respect could be found at Page 63 of the Bank Staff Study.
In his conclusion, the Chairman said that the Bank figure should be considered as an indicative one but that it seems reasonable to assume that it will be an adequate magnitude to start the Scheme with. The Representative for Japan said that though generally it was the view, the Bank's figure was still subject to reservations in this view. The Group then decided to adjourn in order to be able to prepare the further discussion of some subjects already dealt with. In a final remark, Mr. Friedman said that he would appreciate it if the Table submitted by the Bank was not reproduced in the Report.
Today's meeting was entirely devoted to the discussion of the German Note. Both sponsor countries were the first ones to comment on it. The Swedish position was one of strong endorsement of the Bank proposal, though they stated that the German Note constituted a constructive contribution in the sense that it contains elements for a further stage in the discussion. The Swedish Delegate said that the criticism made by the Germans about the Bank's Scheme was not justified, as the latter in fact does contain a close connection with the Fund scheme and is not open-ended. The German proposal does not eliminate the problems but still implies the need for one or another form of policy package and for a measure of shortfalls. Without any automatic feature it would be too much subject to discretion.

The U.K. Delegate welcomed the German proposal as a valuable criticism made in a constructive spirit. He distinguished six main points of concern in the German Note:

i. The political feasibility of refusing entry;
ii. The complexity;
iii. The unreliability of export projections;
iv. The quasi automatic payments;
v. The unlimited commitment; and
vi. The fact that this commitment includes basic aid.

Some of these criticisms are valid points for instance, No. (i) and to a certain extent No. (iii), others are based on misunderstandings; No. (ii) and No. (iv). The German scheme would probably be equally exposed to (v).

The Delegate for the United Kingdom especially stressed that item (vi) was not implied in the UNCTAD Resolution. Finally, the British Delegate asked the question, what are we to hope for in a Scheme of this kind? There will in any case be unforeseeable commitments and acts of judgment by the Agency but this does not mean that there will
be a new and complicated organ to supervise international aid. The specification of the terms of supplementary finance may constitute a guide for the donor countries.

Then the Representatives of several LDC's (Ceylon, India, UAR, Yugoslavia and Ghana) took the floor to discuss the criticism of the Bank's Scheme and the new proposal explained in the German Note. Most of the Delegates dealt with the German criticisms of the Bank Staff Scheme along the lines of their Swedish and British colleagues, stating that a number of features of the Bank Staff Scheme had been misunderstood. Some of them especially opposed the idea that supplementary finance would constitute a disincentive to the long term diversification of exports. In connection with the German proposal they stressed the danger of far reaching discretion and pointed out that the German proposal did not provide alternative solutions for a number of problems.

The Delegate for Ceylon asked how it would be possible to provide prompt and adequate assistance without an export norm. The Representative for Yugoslavia emphasized that the German proposal was not conforming to the Resolution as it provides no assurances for developing countries. A number of developing countries also showed much concern about the role of basic development finance. In this respect the Delegate for India disagreed with the United Kingdom Representative. He underlined that the word 'supplementary' should be interpreted as meaning supplementary to basic finance.

The Delegate for Japan took the floor to say that his delegation tended to agree with the criticisms of the Bank Scheme given by the Germans in Sections I & II; but that he was still unable to take definitive views about their proposal in Part III; in this respect
several clarifications were needed.

The Delegate for the United States said that the whole problem should be looked at in a broader context. In the export projections one should take into account not only the goods already produced but those whose production is planned, i.e. new items. A variety of economic factors play a role in this respect and the important question is to know how they are affected by the fluctuations in basic finance. Can revisions in development programs and export projections be avoided when shortfalls in basic finance occur?

The Observer for Nigeria found a number of valid elements in the German paper. Unlike his colleagues from other developing countries, he felt that the disincentive argument was a valid one and he strongly supported the point made by the United States Delegate about taking into account the possible gap between actual and basic finance.

As asked to comment on the possible implications of the German paper for the Compensatory Finance Facility, Mr. Fleming said that the CFF is a scheme for short term assistance for balance of payments deficits. It is based on precise prescriptions of the Fund. He was not certain if it would be legal and feasible for the Executive Directors of the Fund to agree to Joint Committee suggestion. He especially stressed that the Fund Facility is far more automatic.

The Delegate for Brazil also emphasized the link between supplementary finance and basic finance, and his colleague from Argentina said that the German criticism overlooks important aspects of the Bank's Scheme.

The French then took a position more or less similar to the Japanese one, in the sense that they agreed with the criticism of the Bank Scheme but wanted additional clarification of the proposal before formulating their view.
Asked to give his views on the problem, Mr. Friedman dealt with a few misinterpretations of the Bank Study in the German Note. He once more said that there are some forms of development planning in almost every country and that the only problem is to know if this planning will be unilateral or in understanding with an Agency. He said that the Bank Staff had no gigantic administrative machinery in mind and that legal commitments on basic finance had never been assumed; that it does not regard the Scheme as an automatic one; the Bank scheme was put forward in a responsible way and not unlimited, that is why a cost estimate had been produced.

Then the Delegate for Germany took the floor to answer the various questions raised. He first dealt with two misunderstandings. The German Note does not say that the Bank Scheme is contradictory with the Resolution and that it expressly refers to assurances in the field of basic finance. Then he dealt in a systematic way with the various questions.

i. The connection with the IMF:
It is not so far reaching in the Bank Scheme as provided for in the Resolution.

ii. Open-ended Finance:
The World Bank proposal is so far reaching that it cannot be operated with a ceiling.

iii. The procedure of consultation and policy package:
These features are certainly useful but the way they will operate in practice remains to be clarified, and seemed complex.

iv. How to define shortfalls.
He admitted that some yardstick would be needed, perhaps something similar to the Fund formula, of incorporating export projections related to development performance but firm commitments cannot be made on the
basis of export projections.

v. Automaticity:
The German Note says that the Bank Scheme was quasi automatic, not completely automatic.

vi. Ad hoc treatment:
Delays involved will certainly be limited in view of previous consultations.

vii. Institutional arrangements (Joint Committee):
He took note of the legal problems mentioned by Mr. Fleming but thought that some practical solution should be possible.

In summarizing the discussion, the Chairman said that it had been an extremely useful one. He said that the German Note should be regarded mainly as a criticism of the World Bank Scheme rather than as an alternative. In this sense it is constructive as it focuses on the main problem areas.

All the papers now had been examined; further discussions will concentrate on the main areas of disagreement such as policy package; export projections and cost.
In making some comments about conclusions of the sub-group's meeting the day before, the Chairman emphasized that the representatives now should talk about the drafting of a report and about pointing out the areas of agreement and disagreement. He especially stressed that it would no longer be appropriate to ask the IBRD Representatives many questions but that at this stage Government Representatives should try to reach some conclusions. He suggested that a drafting of the interim report should start early next week.

In relation to questions about studies not yet carried out, Mr. Friedman pointed out that as far as costs are concerned the delegates should go back to the simulation exercise in Annex IV of the IBRD Staff Study. Discussions about financial resources were going on among governments and international institutions with respect to IDA replenishment and other matters. With respect to the cost problem there was clearly a problem of timing and a problem of magnitudes. The financing of Supplementary Finance Scheme would not arise till about 1969.

The Delegate for the United States then made a comment concerning the investigation of factors other than export instability which may have disrupting effects on development programs, and again asked for a study of their relative importance. This view was supported by the Representatives of India, France and the United Arab Republic. The Representatives for Ceylon and the United Kingdom thought that the broadening of the scope would involve too much delay. The Japanese view was that all studies should remain within the limits fixed by the basic UNCTAD Resolution.

The United States Delegate answered that he was not seeking any delay, nor was it suggested to extend the scope of the Scheme.

In dealing with this, Mr. Friedman thought it possible to carry out a
study of the historical experience with several disrupting factors. This would be a background study which would not be linked with the Supplementary Finance Scheme.

The next point on the Agenda was the nature and form of the Agency.

A number of Delegations (Yugoslavia, Ceylon and India) said that the administration of the Scheme should be the responsibility of an experienced agency; preferably IDA or an affiliate of IDA. In this respect, the Delegate for India asked if it would be possible to be an affiliate of an affiliate.

The United Kingdom and the United Arab Republic especially stressed the need for collaboration with the IMF.

Mr. Friedman said that these institutional matters were a prerogative of the Executive Directors, but that in any case there was close collaboration between the Fund and Bank Group. The Chairman wondered about the situation of members of UNCTAD which are not members of the World Bank Group; this might be looked into.

The discussion then turned to a note circulated by the United Kingdom in the first session and to the German proposal circulated during this session. The United Kingdom Representative said that the paper of his delegation did not bring any new thoughts but that it was merely an analysis of the Bank's Staff Study in terms of the chronological sequence of operations, and was in summary form.

The Representative for Germany said his proposal had been inspired by the necessity to state the present position with respect to Supplementary Finance. The differences in opinion are still considerable. According to his delegation the IBRD Scheme is not feasible and even if it were
it would not be acceptable from the financial point of view. The German proposal aims at long term balance of payments support given on an ad hoc basis, either when the IMF Facility proves to be inadequate or when consolidation of the latter is needed. He especially emphasized that his proposal reflected the views of a country which is likely to contribute heavily in Supplementary Finance and in basic development finance, and hoped it would receive due consideration.
**Yugoslavia & Others**

Does the Policy Package requirements need a greater obligation than existing for basic finance?

**Germany & Others**

Who is qualified to participate - in addition to the requirement about having some kind of development planning.

**India**

Does the concept of residual lender mean interference with prompt and timely assistance?

Concern that the uncertainty about other resources of finance mean that the amount of total assistance both basic and supplementary is endangered by this uncertainty.

(Believe I answered this)

Would it be possible to qualify the amount of assistance that would be obtained - i.e. in effect, qualify the amount of adjustment a country would make for this.

**France**

How will it be possible to impute exports non-performance in certain public sectors? (when you only have partial plans).

How can the Agency accept responsibility for judging performance when it involves political as well as economic aspects?

**International Cooperation Plans -** Could the Agency do arbitration among countries?
Nigeria

Does the Agency go too far when after all the assistance is only supplementary?

Do you take into consideration actions of other countries affecting exports of developing countries?

What is basic finance? How do you determine the amount needed?

Query whether it was wise to have the Agency be judge of the Package purpose.

Will it be possible for the Agency to suggest alternative policies leaving it to the country to judge which was feasible.

Fund & Others

Can a Policy Package be concrete for more than one year?

Can countries bind themselves to general objectives or targets?

What if the recommendations of the Fund, Bank or Agency are not acceptable to the Member Country?

General Questions

Implicit in a number of questions by several of the Representatives:

Is the Scheme feasible?

Would it be easy to operate?

Does it contain sufficient elements of flexibility to adapt to changing circumstances?

(Only Schemes are simple which are automatic and non-administrative)
The meeting started with remarks by Mr. Friedman about several questions asked the day before.

Yugoslavia & Others

Does the Policy Package requirement need a greater obligation than existing for basic finance?

The Policy Package requirement for Supplementary Finance would not go significantly beyond what is in practice presently. The forms may be different and it will be applicable to all countries.

Germany & Others

Who is qualified to participate?

The scheme is intended to be universal, however, some countries may sometimes be inhibited because of the absence of at least some kind of development program or insufficient implementation of policies.

India

Does the concept of residual lender mean interference with prompt and timely assistance? Would it be possible to qualify the amount of assistance that would be obtained - i.e. in effect, qualify the amount of adjustment a country would make for this?

This is a question of Management, but the attempt is to maintain timeliness of assistance. Good management needs to have advance understanding with countries about what they might expect.
France

How will it be possible to impute exports non-performance to certain public sectors? (When you only have partial plans).

If a country implements reasonable policies, export shortfalls would be beyond their control. In this situation the problems of inter-relations between different sectors will probably not arise.

How can the Agency accept responsibility for judging performance when it involves political as well as economic aspects?

This question is a very basic one. It is the economic performance which the Agency will have to judge. In case of difficulties an objective approach along guidelines already established by existing international financial organizations should be adopted.

Could the Agency do arbitration among countries?

To some extent this arbitration is going on already (for example, railways in Zambia). One should deal with it in collaboration with regional organization and on the basis of economic criteria.

Nigeria

Do you take into consideration actions of other countries affecting exports of developing countries?

We do not assume changes in commercial policies unless countries have agreed to.
What is basic finance? How do you determine the amount needed?

Basic finance is the amount agreed upon between a developing country and the donor countries and international financial organizations, as required to meet a gap in external finance needed for the development program. The determination of its amount is an economic exercise.

Will it be possible for the Agency to suggest alternative policies leaving it to the country to judge which was feasible?

That happens in practice. There is not one way to deal with these things.

On the question of revision of Development Programs, Mr. Friedman said that several components of such a program cannot be considered as rigid (for example, Monetary Policy). Recent economic history proves that Rolling Plans are still impracticable. A Scheme such as the one elaborated by the Staff of the IBRD would not be easy to operate, only completely automatic schemes are easy to handle.

The Observer for Nigeria said that it would not be wise to change plans frequently and that alternative plans do pose a problem of choice. He asked if this would harm the speediness of the Agency's reaction.

The Delegate for Poland asked if the goals will remain in the field of sovereignty and if the program will only deal with the means to implement these objectives.
The Meeting then turned to the discussion of the Cost of the Scheme.

The alternatives seemed to be the following:

Shall one first agree about a precise Scheme and determine the cost accordingly?

Or, shall we first determine the cost and adapt the Scheme to the cost?

In his remarks about the subject, Mr. Friedman said that it was not the job of the World Bank Staff to prejudge whether the Scheme was acceptable to Governments or not. The IBRD Staff had been confronted with a problem and elaborated a method to meet it. The estimates only represented the cost implications of a reasonable proposal. The cost of international organizations depends on their objectives. The figure put forward by the World Bank is based on experience in the 1950's and derived by using export projections made for certain previous years, and did not represent a prediction of needs or actual use in future. Costs will be a function of:

(i) The political attitude towards the adjustment process. Are countries prepared to cut back consumption?

(ii) Are overages available for repayment of the Scheme, or for other uses?

(iii) Is the IMF Facility available?

(iv) To what extent can one assume that all
countries will use the Scheme? While the Scheme is universal in conception, not all countries will face shortfalls in any given year, and the Scheme was also set in the framework of development programs and agreed upon policies. It was necessary not to overfinance the Scheme, first as enough funds should be available to defend development programs when export shortfalls did occur.

(v) What will be the use of reserves?

The Representative for Germany then stressed that so far nobody knows what Supplementary Finance will cost. He considered the Bank's Scheme too ambitious and too comprehensive. He thought that 'feasibility' also meant that the Scheme has a chance to be accepted. That was impossible to answer this question without having precise cost estimates. He asked how the IBRD figure of $300-$400 million was reached.

The Representative for Brazil asked what the term 'limited Fund' meant in the German paper. The German Delegation answered that in this respect they thought of a system of ceilings.

The Delegates for France and Japan also asked for a paper on Cost Estimates in quantitative terms. The U.K. representative felt that cost
estimates were likely to provide a point of departure for further considerations of the Scheme.

The Ceylonese Delegate appreciates the difficulties involved in open-ended commitments and wondered whether some form of rationing might not constitute a solution.

The Meeting then discussed the IMF-Bank paper AC.3/15 dealing with the effects of recent changes in the Fund's Compensatory Financing Facility on the annual cost of the Supplementary Finance Scheme.

In a concluding remark, Mr. Friedman stated that the IBRD Staff did not suggest an open-ended commitment. The commitment was perhaps uncertain in magnitude but not open-ended.

The Chairman then consulted the meeting about the Working Program. The general feeling was that a measure of agreement had been reached on a number of subjects such as Forms and Terms of Assistance; Invisibles, and Import Prices; but that differences in viewpoint still existed with respect to questions relating to export projections; overages; policy package and cost of Scheme.
1. When Fund repurchase occurs in shortfall year with Agency, would this be added to the finance provided by the Agency in that year?

2. What about repurchases that fall due in respect of a previous period drawing; can current overages be used for that?

3. For this purpose, does it refer to all short-term sources used for reducing the shortfalls financed by the Agency?

The answer to each of the three questions is in the affirmative.

However, in so far as such refinancing of one kind or another is covered in the Scheme, there is a financial implication in the sense that the resources for the Scheme would need to be somewhat larger.
Page 12: my tale a little past which is for short folks

Page 13: in, the Combine

Page 16: even an orange — better met than first idea —

Us — orange — "warning for the brain" — so pleasant.

France — orange — used focal — Agrees.

India:

France (Alan) — more technical parts of many

UK — not really repeat earnings — "untaxed calories":

2 pages. (Appant damage)

US — possible flexibility of account by fraud.

Sweden: a fast solution

Urk: next engine cap is to be flexible —

Swed: next engine cap is to be flexible
Mr. Friedman first answered affirmatively three questions asked by Mr. Fleming the day before:

i. When Fund repurchase occurs in shortfall year with Agency, would this be added to the finance provided by the Agency in that year?

ii. What about repurchases that fall due in respect of a previous period drawing; can current overages be used for that?

iii. For this purpose, does it refer to all short-term sources used for reducing the shortfalls financed by the Agency?

The basic principle was that if Fund Facility had not been used, the Agency would have been operating.

Then the Group went on with the discussion of the 'Shortfalls and Overages' paper. The Representative for Japan made the following comments:

- The taking over of short-term indebtedness should be selective.
- The residual lender position of the Agency should not be undermined.
- Though the fact that net overages are not carried over provides an incentive, it will sometimes be better to carry them over.

The U.S. Representative and the French one, insisted distinguishing between several uses of overages and on the fact that overages should be available in certain situations (e.g. food shortages). The Indian
Representative stated that shortfalls might occur very early during the period and that overages in subsequent periods would be used to repay. Thus the country would not benefit from long-term aid. He proposed that overages be settled against shortfalls occurring at least five years later.

Dealing with these questions, Mr. Friedman pointed out that if overages are carried over the Scheme will have to be larger because one is giving up some overages. It is important that the reimbursement of the Agency be the primary purpose.

About the Indian proposal, Mr. Sarma said that it would have financial implications because it might involve the carrying over of overages from period to period, and in any case in the first few years overages would not be available.

Subsequently, questions were raised about the possibility of the Agency being an economic 'protectorate' (France), about the possible 'acceleration' of development programmes, (U.K.) and the need of considerable flexibility in the use of overages and the danger of their freezing. (U.S., Sweden, Brazil & Nigeria.)

In dealing with these questions, Mr. Friedman stated that the fear for an economic 'protectorate' was a very legitimate one but a system of international cooperation respecting the national sovereignty of the countries should be possible, on the current experience of existing international institutions. As to the problems of the 'acceleration' of the development plan, the normal rule should be that overages are not used for increase in development plans during the period.

At the end of this discussion the general feeling was that the Agency should have considerable discretion with respect to the administration of shortfalls and overages.
This Meeting was devoted to the discussion of the 'Policy Package Paper'.

In his introduction, Mr. Friedman emphasized that the Policy Package constitutes an essential feature of the Scheme and that export projections are only an outflow of Policy Package. The Delegate for Ceylon presented a procedure for a Policy Package which would be compatible with political and institutional reality and which would be suitable for parliamentary discussion, review and approval. It would consist of a set of national accounts, and projections would be made for each element of these accounts. The growth rates would be calculated after consultation between the Agency and the country involved, thus the Policy Package is systematically broken down into relevant elements, including investment and savings, and it can be translated in terms of rates of growth which are politically negotiable. He especially emphasized that assurances should be given about the levels of foreign aid over periods longer than the planning period. He also expressed serious reservations about the recent German proposal which implies undue formalization of the Fund/Bank relationship.

The Representative for Ghana stressed that if adequate advisory services are provided there will be less need for the services of this Scheme. He also insisted on the necessity of securing sufficient foreign assistance. The Representative for Japan stated that major policy criteria should be embodied beforehand in the Policy Package and that in the field of external resources it was impossible to give guarantees for periods of five years.

The Yugoslavian viewpoint was that the agreements under the new Scheme should not go beyond the present consultations with the Bank and the Fund.

Germany asked questions about the qualifications for participation in the Scheme; the setting up of Consultative Groups; the revisions of the Policy Package and the influence of extra economic factors.
The Representative for India and the Observer for Nigeria said that
the Agency's power to prescribe should be directly related and restricted
to the Agency's ability to help.

The French Delegation asked for some terminological precisions and
also referred to the influence of extra economic factors and to the
problems of international coordination of development plans.

The Representative for the U.K. then made a statement where he emphasized
that one should not be too ambitious and over estimate the Scheme's
possibilities. He said that a practical and experimental approach
will be needed. In this respect he considered the German paper a con­
structive contribution, that also needed to be examined.

Mr. Fleming of the IMF then reminded that his Organization was con­
siderably involved in several features of the Policy Package. He
said the nature of the collaboration of the Fund would depend upon
the nature of the adopted Scheme. He especially pointed out that :

i. According to Fund experience, a Policy Package
cannot contain precise monetary and balance of
payments requirements for more than one year
ahead.

ii. In Policy Package procedure it would be the
targets not the policies which are laid down:
would a country give full control or dis­
cretion to Fund or Agency in regard to Policy
prescription.

iii. The recommendations of the Fund cannot be
function of policies agreed upon a number of
years before.

Mr. Friedman then dealt with the several questions raised. He
started by saying that in these complicated matters not everything can
be answered in advance, and that faith is needed in the international
organizations created by governments and run by them. These organizations need a certain amount of authority. He expressed his support for the Ceylonese proposal. He reassured several delegations by pointing out that there is a safeguard against the domination by international public agencies because of their control by the Member Governments. He did not see any implications of the Policy Package for the Fund, because in regard to monetary and financial policies, it was expected that Fund views would prevail; what is involved for the country is the pursuit of these policies, in the framework of its development programme.

In dealing with the questions raised by Japan, he said that the Scheme will not enforce bilateral aid on a five year commitment basis, but that statements on the inflow of public foreign capital which can reasonably be expected are essential for the setting up of development programmes.

In dealing with the questions of the German Delegate, he said that there are at present very few countries without any form of economic programmes; Consultative Groups are not a prerogative of any International Agency; in the case of revisions of the Policy Package, when there is no agreement between Agency and the country one ought to be guided by the Agency; about the international coordination of development plans, he said that now already big efforts are made in this direction on a regional basis.
The Meeting started with discussions on the Conference Room Paper No. 15 dealing with the observations of Mr. Fleming about the compatibility of the Fund's Facility and the Bank's Scheme.

First of all Mr. Fleming made a few clarifications in the field of terminology, distinguishing between short-term fluctuations and medium-term fluctuations. He pointed out that Supplementary Finance refers to shortfalls from expectations (usually made for five years) whereas the IMF Facility refers to fluctuations around a medium-term trend which is partly based on past movements and partly on expectations. He emphasized that consequently the distinction between both schemes should not be based on periods of time but on differences in the adopted norms. Several delegates made comments on this statement. The most interesting comment came from the U.K. Representative who said 'that one should distinguish between objectives and techniques'. He felt that a joint operation should theoretically be possible, but that in practice some confusion might arise. Compatibility of objectives must be ensured first and then technical compatibility will follow. He also enquired about the nature of Bank projections, whether they would be for each year. The Representative for Ceylon supported the British views. The Representatives for France and Germany still felt that the distinction between both Schemes needed further clarification and asked for a paper dealing with the practical differences and their consequences.
Mr. Fleming pointed out that in the World Bank Scheme Supplementary Financing only deals with shortfalls from expectations, whereas the Resolution refers also to persistent shortfalls.

Asked to comment, Mr. Sarma first reminded that the export projections shown in the study were not made for the purpose of the Scheme, but in the course of the work of the Bank: as such, usually they are for terminal years in relation to a base year. At times, there were export values given for intermediate years. As the projections work improves, and for the purpose of the Scheme, increasingly it should be possible to attempt projections for intermediate years also. He mentioned that there was no incompatibility between both schemes; one being intended to deal with year to year fluctuations and the other one with unexpected shortfalls from reasonable expectations, as provided in the Resolution, so as to help avoid disruption of well conceived development programmes.

The meeting then turned to the discussion on a few documents submitted by the IMF Staff and dealing with recent changes in the Fund’s Compensatory Financing Facility and the adequacy of external liquidity. Then some delegates asked for the circulation of a few (U.N.) documents by the Secretariat which would be likely to clarify the problems relating to import prices. The Delegate for Ceylon asked also for the circulation of the 'U.K. Formula'.
The Group subsequently reviewed the IBRD paper on 'Forms and Terms of Assistance'. In his introductory statement, Mr. Sarma pointed out that the Bank Staff drafted this paper to establish a broad framework for the possible operation of the Scheme. He recalled that the Resolution stipulated that the Scheme should provide loan assistance, but not grant assistance. The Bank Staff thinks that project assistance is not appropriate, because of 'timeliness' consideration, and that the terms while conforming to those of basic development finance, should to a certain extent be tailored to specific cases. Several delegates participated in the discussions. Mostly the questions were related to grouping of countries in a few categories and to the taking into account of the already existing debt service burden and other possible factors.

The Delegate for France questioned the Bank on the following sentence:

'The choice between the other two alternative ways of providing Supplementary Finance cannot be decided on economic grounds'.

Mr. Sarma answered this by pointing out that the 'timeliness' criterion is of utmost importance in this respect. There seemed to be rather general agreement that the structure of the terms of Supplementary Finance should not be too complicated; that they should be concessional and linked to those which are applied to basic finance.

The Delegates for India and Ceylon asked a question whether the most
appropriate terms for Supplementary Finance would be those prevalent at the beginning of the planning period; at the end of the planning period; or during the actual shortfall period. Mr. Sarma noted that these aspects were briefly touched upon in the paper by the Bank Staff.

Mr. Friedman took the opportunity to explain the present Bank/IDA classification and procedures in regard to loans.

The Meeting then turned to the discussion of the paper 'Shortfalls and Overages'. The main questions raised here related to:

- The various factors determining the amount of the shortfalls.
- The position of the Monetary Fund with respect to the repayment of credits given under the Fund Facility, and its role in the assessment of the countries' reserve position.
- The implications from the viewpoint of the donor countries of the establishment of reasonable development programmes for which foreign exchange is needed, especially the question of basic development finance.

In dealing with these questions, Mr. Friedman took the opportunity to stress that every International Agency requires rules which involve a certain amount of discretion in management. In this respect the national governments should be the ultimate decision makers. One
should not try to answer all questions in advance as not everything can go into the Articles of Agreement, nor can be anticipated. Inevitably, problems do arise in the course of operations, with which one should deal. He pointed out that the setting up of development plans in the framework of the Scheme would not involve explicit legal commitments of donor countries in regard to basic development finance but a certain broad understanding. In connection with the questions involving the Fund, he said that the Fund would have the benefit of first claim on overages and that the Fund is the appropriate one to judge about the reserve position of countries.
The Meeting started with further comments on Paper AC.3/5 (A Comparison of the Methods used for the Calculations of Export Shortfalls by the IBRD and the IMF).

The Representative for India wanted to know if the Fund Scheme is intended to deal with overages and shortfalls or only with shortfalls. Mr. Fleming pointed out that under the new Scheme repayments can be made out of overages.

Subsequently, the Group started the discussions on the additional papers relating to the Supplementary Financing Measures study submitted by the IBRD.


After an introductory statement by Mr. Sarma several delegations questioned the Bank on this paper. The French wanted to know how projections are made for commodities of minor importance. The Japanese Delegate emphasized that some of the graphs in the Study show that the differences between the IBRD projections and export results have often been important. In his answer, Mr. Sarma mentioned that those particular projections were made before the Scheme had been proposed and that moreover deviations are in the nature of export projections and this constituted the very reason why the Scheme is necessary. He is confident that the Bank will
be able to improve further these projections in the future. Several other delegates (for example, Ceylon, Sweden and the U.K.) agreed that an uncertainty is an inherent feature of all export projections. The Delegate for the United States insisted on the fact that in making export projections one should not concentrate on the demand side but also consider the changes in supply and price which are also very important. Some export items considered as marginal in the IBRD paper have to be looked into very carefully. Japan, and especially Germany were very sceptical on the possibility of making reliable export projections. The Delegate for Germany pointed out that this would be impossible even in the case of his own country. In connection with this, several delegations raised the issue of periodical revisions of the export projections, but after some discussion there seemed to be a general feeling that the revision of export forecasts in the middle of a planning period would be inconsistent with the very idea of the Scheme. Some delegates, and especially the Japanese one went on however insisting on the necessity of periodical revisions. The Representatives for France and the United States agreed that the essential objectives of a development plan ought to remain constant but that adaptations to changing structural conditions are necessary.

Afternoon Session

The Paper on 'Invisibles'.

In his introductory statement, Mr. Sarma recalls that the Scheme as it is set up by the World Bank intends to include Invisibles 'where appropriate
on a country by country basis. The majority of the speakers were in favour of the inclusion of Invisibles; however, with certain reservations. The French Delegate pointed out that one should only take into account the important and recurrent movements in Invisibles. This type of earnings is to a certain extent the function of the exchange policy of a country; within the framework of certain exchange policies these earnings can indeed grow without being recorded as such. Finally, the U.K. Delegate pointed out that allowances should be made for the treatment of Invisibles considering two factors, namely:

Their importance in a particular country, and

The reliability and availability of data.

iii. Import Prices.

Mr. Sarma briefly commented on the Bank's position in this respect, which is that, the taking into account of import prices into the Scheme is desirable, but not feasible. The Delegate for India said that this factor could at least be considered from now on for some countries. Referring to Paragraph 10 of the Bank's paper, the Delegate for Ceylon asked that this meant that import projections would be made which are subsequently compared with the actual figures to see if there is a case to take into account import prices. Mr. Sarma pointed out that the reference here was to import price data; however, it was conceivable that with experience on the imports side this perhaps could be done at a later stage. The French Delegation stressed that in this respect one should pay careful
attention to the changes in composition of imports and also to the changes in quality which are not reflected in the statistics.

In answer to a question by the Delegate for Argentina, Mr. Sarma said that import prices were not taken into account in the computation of the original cost estimates of the Scheme and that it was up to the Governments to take the decisions in this respect. Several delegations and the UNCTAD Secretariat thought that alternative ways of taking into account import prices could be found which would avoid the use of unreliable statistical data. This, in any case, was for consideration.

The U.K. Delegation explained once again the formula they worked out in this respect at the first meeting of the Group.

At the end of the discussion of this paper, the general feeling seemed to be that further attention should be given to this matter and that no simplistic solutions could be found in this respect.
Mr. Mermolja, the Yugoslavian Delegate, was unanimously elected as Chairman.

First of all, the Group wanted to examine a few changes in Addendum 1 to the Interim Report of the discussions of the first Session. The U.K. and French Delegates proposed a few changes of minor importance in the wording of this document. The French Delegate especially pointed out that the notion of overages should be considered as having a statistical meaning without any monetary implications. Several delegates of donor countries referring to the Addendum asked the question whether the scarce available Aid resources of developed countries should be distributed among a large number of countries or only among a small number of countries experiencing poor exports. The sentence, 'moreover the supplementary financing could not necessarily be regarded as a residual element' was questioned by the delegates from France and Japan. In his answer, Mr. Sarma stated that the term 'residual' in the context of the Scheme does not mean that the Agency would only assist when all other resources of funds are exhausted, but past experience proved that other resources are often available and in this case the supplementary financing should only be part of the whole financing of the export shortfalls. The main thing was this was based on prior understanding, so that there is assurance to a country experiencing export shortfalls of prompt and
certain assistance from the Scheme.

Mr. Fleming of the I.M.F. supported the Bank's view by mentioning that this particular sentence had been adopted during the last meeting. The Delegate for Japan insisted on adding a restrictive phrase (for example, in certain cases). The Group decided to take up this matter later on in the framework of more substantial discussions.

The Conference Room Paper No. 13 dealing with the Comparative Effects on Economic Development of the Scheme Proposed and of other Possible Methods; and with The Status, Membership and Function of the Agency were adopted without any comments.

The Group decided that the Interim Report, its Addendum No. 1 and Conference Room Paper No. 13 would constitute the report to the Committee on Invisibles and Financing related to Trade.

In proposing an addition to the Addendum 1 Document, the French Delegate emphasized once more that overages and shortfalls should be considered from a statistical point of view and should have no monetary implications whatsoever. This was agreed to not in substitution of existing paragraph but an addition to it as one which expressed a view of a delegate. In order to ensure the efficient working of the Group, the Chairman
suggested that the members might first deal with the technical aspects, and later on with the more substantive aspects for which the setting up of sub-groups was envisaged. During this discussion on the organization of the meetings, it was quite clear that the donor countries wanted to raise the issue of the cost of the Scheme at a very early stage. The term 'missing papers' was frequently mentioned in this respect. The German Delegate announced officially that his Delegation was preparing an alternative proposal to this Scheme and several delegates from donor countries emphasized in this respect that so far only the UNCTAD resolution had actually been adopted and that the IBRD Scheme should be looked upon only as a basis for further discussion.

The discussion of Items 8 & 9 was then taken up again. France once more advocated Commodity Agreements and pointed out that the implementation of the IBRD Scheme would be costly and harmful to stability. The U.K. and Sweden emphasized that there was no opposition between Commodity Agreements and the Scheme. The Observer from Nigeria supported this view.

In his answer the French Delegate admitted that both systems could theoretically be complementary, but that taking into account the limited resources of both donor and developing countries, the adoption of the Scheme would leave no room for further Commodity Agreements.

In the discussion of Item 9 there was a general agreement that the Scheme should be managed by the IBRD in close cooperation with the Fund. Asked
by the Chairman to comment on this, Mr. Sarma said that the experience and expertise of the Bank Staff, in full collaboration with Fund Staff, was available, but that decisions about institutional arrangements were up to the Governments.

The Group then discussed the Note by the UNCTAD Secretariat on A Comparison of Methods used for the Calculation of Export Shortfalls in the IBRD Scheme and in the I.M.F. Compensatory Financing Facility. The conclusion of this paper is that the difference in results are determined by differences in objectives. The conclusion of the paper pointed out that 'the objectives of the two Schemes are compatible and both Schemes have essential roles to perform'. Mr. Fleming of the I.M.F. expressed serious doubts about the compatibility of both Schemes. He said that both were intended to insure development within the framework of adopted export norms. However, both Institutions have a different approach to export norms.

The U.K. Delegate raised the question about the economic planning in connection with export projections. The Group felt that both problems should be separated.

The Delegate for France enquired about the treatment of export products of minor importance in the calculation of export projections. Mr. Sarma
answered that the World Bank's export projections have so far been confined in the main to major export commodities but that when called upon, and certainly in connection with the Scheme, the Bank Staff envisaged inclusion of all export products. The experience gained in projecting the exports of the major commodities would be very helpful in this respect. Mr. Sarma took the opportunity to remark about the compatibility and complementarity of the IBRD and IMF Schemes by stating that the Bank agreed with the conclusions of the UNCTAD Document which was prepared in consultation with Fund Staff and Bank Staff.

GENERAL CONCLUSIONS

i. The donor countries want to deal with the cost of the Scheme as quickly as possible.

ii. So far, the developing countries have made little comment during the Meeting, but the general feeling is that they will concentrate on the policy package issue.

iii. Among donor countries, the final adoption of the Scheme is questionable. Germany will come up with an alternative proposal and one may expect that the Bank will have to provide the Group with quite a number of precisions during this Session.