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INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING:
REPORT ON ITS SECOND SESSION

<table>
<thead>
<tr>
<th>Contents</th>
<th>Paragraphs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1-3</td>
</tr>
<tr>
<td>Chapter I</td>
<td>4-15</td>
</tr>
<tr>
<td>The basis of the Scheme</td>
<td>4-5</td>
</tr>
<tr>
<td>The policy package</td>
<td>6</td>
</tr>
<tr>
<td>Export projections</td>
<td>7-8</td>
</tr>
<tr>
<td>Import prices</td>
<td>9</td>
</tr>
<tr>
<td>Shortfalls and overages</td>
<td>10</td>
</tr>
<tr>
<td>Form and terms of assistance</td>
<td>11</td>
</tr>
<tr>
<td>Cost of the Scheme</td>
<td>12</td>
</tr>
<tr>
<td>The commitment of donor countries</td>
<td>13</td>
</tr>
<tr>
<td>Alternative proposal by the Federal Republic of Germany</td>
<td>14-15</td>
</tr>
<tr>
<td>Chapter II</td>
<td>16-61</td>
</tr>
<tr>
<td>The policy package</td>
<td>16-17</td>
</tr>
<tr>
<td>Export projections</td>
<td>18-22</td>
</tr>
<tr>
<td>Import prices</td>
<td>23-26</td>
</tr>
<tr>
<td>Invisibles</td>
<td>27-29</td>
</tr>
</tbody>
</table>

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Contents

Shortfalls and overages ........................................ 30-40
Form and terms of assistance .................................. 41-48
Cost of the Scheme .............................................. 49-51
Administration of the Scheme and relationships between the Agency and other international organizations ......................... 52-54
An alternative scheme submitted by the delegation of the Federal Republic of Germany ........................................ 55-61

Chapter III
Organizational matters ........................................... 62-67

Annexes:
A Observations on the policy package
B Alternative scheme submitted by the delegation of the Federal Republic of Germany and observations thereon
C General comments by Mr. S. Allain (France) on the Scheme proposed by the International Bank
D Comments by Mr. James Mark (United Kingdom) on the tasks of the Group in relation to the Scheme proposed by the International Bank
E List of participants
Introduction

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

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

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

\(^2\) TD/B/113, paragraph 9 and annex.
\(^3\) The terms of reference of the Inter-governmental Group are annexed to the report of the Committee on Invisibles and Financing related to Trade on its resumed first session (TD/E/73-TD/B/C.3/22) and to the report of the Group on its first session (TD/E/C.3/41-TD/B/C.3/AC.3/16).
CHAPTER I

The basis of the Scheme

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

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

The policy package

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

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

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

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

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

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

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

(vii) Should there be provision for a revision of development programmes in the course of a planning period and if so, under what specific circumstances? Should revisions be confined to a reallocation of resources among sectors or could they also include the over-all size of the programme?
(viii) Use of IMF facilities: the question arises of the relationship between the compensatory financing and other facilities of the Fund and the Bank Scheme and also the general relationship between the Fund and the Agency administering the Scheme on matters which are within the jurisdiction of IMF.

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

Export projections

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

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

Import prices

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

Shortfalls and overages

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

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

Cost of the Scheme

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

The commitment of donor countries

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

Alternative proposal by the Federal Republic of Germany

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

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

The policy package

The content of the policy package

16. The Bank's paper on the policy package (TD/B/C.3/AC.3/6) covered the following elements:
   (a) Plans and programmes;
   (b) Export policies and projections;
   (c) Monetary and financial policies (including mobilization of domestic resources);
   (d) Adjustment to changing conditions.

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

   General observations

   (i) There was general agreement in the Group that external assistance and domestic plans, policies and performance were of necessity closely related. It was also agreed that assessment of performance should be based only on economic criteria. However, there were considerable differences of opinion with regard to the content of the proposed policy package. Many members expressed the view that the policy package was likely to be too complex or too comprehensive. A large number of members felt that its scope should not extend much beyond that of the existing consultations that recipient countries already undertake with the World Bank, the Fund and others. Some members considered that this eventuality would not in fact arise owing to the nature of existing arrangements. Some members of the Group wanted to know if countries unable to formulate a development plan would be eligible for participation in the Scheme. However, it was generally agreed that this question did not have much practical importance since most developing countries have a programme of one sort or another. It was pointed out that under the Bank staff Scheme comprehensive planning would not be a precondition of participation in the Scheme and, in appropriate cases, it would suffice to have a partial plan covering only public investment.

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

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

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

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

Specific questions

(i) Export projections

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

(ii) External assistance

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

(iii) Export policies

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

(iv) Monetary and financial policies

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

(v) Revisions and adjustments

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

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

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

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

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

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

19. While it was generally agreed that the methodology applied by the World Bank was sound, the question of the role which export projections would play in a scheme for supplementary finance was not settled. On the one hand, it was argued that export projections were an essential component of a development plan and that the uncertainty facing planning authorities in relation to export prospects was the primary justification of the Bank staff proposals. On the other hand, the view was expressed that export projections were too unreliable, especially for periods as long as 4-6 years and could therefore not be regarded as providing a secure basis for financial commitments by donor countries. Some delegations expressed the view that despite the limitations on their accuracy, they would taken together serve as a reasonable guide to the estimate of the funds which donor countries would be asked to provide.
20. Frequent revision of projections was said to be one means of basing the operation of the Scheme upon more reasonable expectations. The greater degree of flexibility which would result from such revision would benefit all parties: donor countries would be assured of a firmer basis for the financial commitments of the Agency, while recipients would achieve a greater degree of responsiveness to internal and external changes. However, the contrary view was also expressed that frequent revision of the export projections underlying a country's participation in the Scheme would defeat the basic objective of supplementary finance. Furthermore, downward revisions of export projections might result in requirements for additional basic finance or undesirable revisions of development plans and programmes.

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

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

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

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

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

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

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

Invisibles

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

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

2/ In this connexion reference was made to pages 29-42 of TD/B/C.1/PSC/5 as a particularly useful statement.
countries for which sufficiently detailed data are available. In this paper it is suggested that the appropriateness of including invisibles in export projections be decided on a country-by-country basis. The reasons were that data on invisibles are subject to uncertainties due to the complexity of invisible transactions, insufficiently detailed information concerning specific items or the grouping of disparate transactions under general headings, and reporting of information on a net basis—a procedure which underestimates gross receipts.

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

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

**Shortfalls and overages**

30. According to the Bank staff study (TD/B/C.3/AC.3/7), an export shortfall is to be measured by the extent to which actual exports during a particular period fall short of the pre-agreed projected value of exports for that period. However, it is envisaged that the amount of assistance provided under the Scheme would be "less than the amount of export shortfall in accordance with prior understanding between the member and the Agency, by deducting (a) accumulated overages, (b) drawings on a member's own reserves, where feasible, (c) use of the IMF Compensatory Financing Facility or other credit facilities, if available, and (d) that portion of the shortfall that could be absorbed by the country without disruption of the development effort" (Bank staff study, p. 66).
31. One unsettled question was whether there could be legitimate uses for overages outside those envisaged in the Scheme. It was pointed out that if a country accumulated overages in the early years of a planning period and then experienced unexpected and justifiable calls on foreign exchange, one could not assume that these overages would be available to offset future export shortfalls. It was also pointed out that there might be more general difficulties in capturing overages for the purpose of offsetting shortfalls. One view expressed was that arrangements for this purpose might require surveillance by the Agency of the foreign exchange policies and operations of the country concerned.

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

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

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

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

1/ The proposal of the delegation of the Federal Republic of Germany (Annex B.1) relies on an ex post determination of a shortfall and consequently there would be no overages.
36. The Bank staff proposals assume that a country's repurchase obligations in respect of such Fund drawings, compensatory and other, and repayments of such short-term debts as had been used to help finance shortfalls under the Scheme, whether in the current or earlier planning periods, would constitute a prior claim on the use of overages. It is also understood that under these proposals the Agency would have to finance repurchases of such Fund drawings and repayments of such short-term debts as had helped to finance shortfalls under the Scheme even when there were no overages. It was suggested that the Agency should undertake the refinancing of short-term debts only if these were incurred with its consent.

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

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

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

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

Form of assistance

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

1/ The Group's discussion of this subject was based on document TD/B/C.3/8.
projects could not generally be provided speedily since project preparation and evaluation is a time consuming process. There was therefore general agreement in the Group that this form of assistance would not serve the basic objective of the Scheme. However, one opinion was expressed that there could be cases where it might be desirable to promote specific projects e.g. for purposes of diversification or for earning foreign exchange, in which cases assistance could be tied to such projects.

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

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

Terms of assistance

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

45. It was suggested that the terms of supplementary finance should reflect the terms of basic finance applicable at the time of a shortfall and not necessarily those applicable to basic finance at the beginning of the plan. In support of this suggestion it was pointed out that an export shortfall implies a deterioration in the prospects for exports and an increased debt-service burden compared with the beginning of the planning
period; consequently the terms of basic finance itself should in general become softer than before and the terms of assistance for supplementary finance should reflect the new terms required for basic finance. One view was expressed that a part of the objectives of recommendation A.IV.18 could be construed to mean that the Scheme would cover medium-term shortfalls and that therefore the terms of assistance could in such cases be of corresponding duration.

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

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

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

Cost of the Scheme

49. A major issue which arose during the Group's discussion of this item concerns the approach which could be adopted to determine the amounts required to operate the scheme. One means would be that adopted by the World Bank staff, i.e. to estimate the likely magnitude of the aggregate annual shortfall, and then to derive an estimate of the Scheme's annual financial requirements on certain assumptions concerning the number of countries qualifying for assistance and also with respect to internal adjustments and use of overages and other sources of finance. The second approach would limit the scope of a scheme from the outset to the amounts which donor countries would agree to make available and would tailor its operations accordingly.
50. It was widely recognized in the Group that whichever approach was adopted, the funds available to the Agency would be a specific amount since no open-ended obligation was contemplated. Some delegations, however, expressed the fear that the financial requirements of the proposal of the World Bank staff, by the very concept of the Scheme, could not be limited. It was also argued that an increase in the number of countries receiving assistance from the Scheme above the number implied by the cost estimates of the IBRD staff might result in pressure on the resources of the Scheme or requests for additional funds even during the initial period. The negotiation of successful commodity agreements and improvements in projections might on the other hand result in a reduction.

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

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

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

1/ TD/B/C.3/44 - TD/B/C.3/AC.3/17, Chapter I, section 3 (g) and (h), pages 9 and 10.
53. There was general agreement in the Group that the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications, and that among the existing agencies the World Bank group would be the most appropriate. It further agreed that the Scheme should be administered in close co-operation with IMF. The specific arrangements which would be necessary would require further consideration.

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

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

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

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

57. The note suggested a solution to the questions posed by recommendation A.IV.18 that it regarded as more realistic and feasible than that put forward by the World Bank. Essentially, the note envisages (a) a Joint Committee co-ordinating IMF and the Agency administering supplementary finance which would examine the cause of shortfalls when they arise and all relevant circumstances including the performance of the country and would decide whether the shortfall should be referred to the Fund's Compensatory Facility or
to the Agency for Supplementary Financing; (b) the establishment of a limited fund for supplementary financing within the World Bank Group; and (c) that the amount and terms of supplementary financing would be determined on the merits of each case.

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

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

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

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

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

Adoption of the agenda
63. The provisional agenda issued before the session (TD/B/C.3/AC.3/14) was adopted unchanged, and is reproduced below:
   1. Adoption of the agenda
   2. Election of Chairman
   3. Consideration of the interim record of the Group's first session
   4. Study of the proposed scheme for supplementary financing including consideration of the studies requested by the Group
   5. Any other business
   6. Adoption of the report of the Intergovernmental Group on Supplementary Financing to the Committee on Invisibles and Financing related to Trade.

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

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

Organization of work
66. In addition to the documents submitted at its first session 1/, the Intergovernmental Group had before it the following documents:

- Provisional agenda (TD/B/C.3/AC.3/4) and agenda as adopted (TD/B/C.3/AC.3/14)

- A comparison of methods used for the calculation of export shortfalls in the IBRD staff scheme for supplementary finance and the revised IMF facility for compensatory finance - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/5)

- The policy package of the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/6)

- Shortfalls and "overages" in the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/7)

- Supplementary finance: Form and terms of assistance - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/8)

- Information note by the UNCTAD Secretariat (TD/B/C.3/AC.3/9)

- Adequacy of external liquidity - Tables submitted by the staff of the International Monetary Fund - Note by the Secretary-General of UNCTAD (TD/B/C.3/AC.3/10)

- Export projections in the World Bank - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/11)

- The contribution of "invisibles" to foreign exchange earnings - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/12)

- Supplementary finance: Consideration of import prices - Paper prepared by the staff of the International Bank for Reconstruction and Development - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/13)

- Effects of recent changes in the Fund's compensatory financing facility on the annual cost of the supplementary financing scheme - Paper prepared by the staff of the International Monetary Fund in consultation with the staff of the World Bank - Note by the UNCTAD Secretariat (TD/B/C.3/AC.3/15)


- Compensatory Financing of Export Fluctuations - report of the International Monetary Fund - Note by the UNCTAD Secretariat (TD/B/C.3/L.35)

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

Observations on the policy package

## CONTENTS

| A.1 | Mr. Lal Jayawardena, delegation of Ceylon (9 and 15 February 1967) |
| A.2 | Mr. Irving S. Friedman, International Bank for Reconstruction and Development (10 and 15 February 1967) |
| A.3 | Mr. J.M. Fleming, International Monetary Fund (8 and 9 February 1967) |
| A.4 | Mr. James Mark, delegation of the United Kingdom (15 February 1967) |
| A.5 | Mr. V.C. Shah, delegation of India (17 February 1967) |
1. As Mr. Friedman has indicated in his introductory remarks, the question of the policy package is indeed at the heart of the whole supplementary financing scheme. I should like to address myself for the most part to one aspect of the policy package and to sketch out a possible format for the package that is compatible with the political and institutional realities of countries attempting to develop within a democratic framework. The policy package as outlined in the Bank's paper on the subject, in effect, formalizes the series of understandings that emerge in the course of present-day relationships between the Bank and member countries. The distinguishing characteristic of the present situation, on the other hand, is its informality. There is no formal document which can be said to embody the package. Rather, the whole is compounded of several ingredients - of informal exchanges of letters between Bank missions and member country officials, of occasionally more formal communications usually outlining a work programme that has to be put under way before the Bank missions' next visit, and of the observations of periodic Bank missions to the country which comment on its over-all policies prior to consultative group meetings at which aid is negotiated. An essential facet of this informality is that there is no explicit advance understanding of the conditions under which the Bank would or would not co-operate with the country concerned in furthering its development efforts.

2. The situation may, however, be completely transformed when these relationships become formalized in a policy package. A country might then be obliged to enter into a scheme where it expects a benefit but has as a quid pro quo to enter into a more or less tangible and specific contract. In these circumstances, it will usually tend to be extremely difficult for governments not to accede to requests for a public debate in parliament and if necessary for a tabling of the package in the house. It is true that a similar formal understanding arises when a country has to make a drawing on the Fund but it is understood that such drawings are of a short-term ad hoc character, and that the policy prescriptions involved are of an emergency nature which do not usually have to be observed for longer than the period of the drawing. It is therefore, in these cases, not too difficult to secure parliamentary approval and matters are eased often by the consideration that the domestic negotiating party is the central bank.
3. The situation is considerably more delicate in the case of a policy package which is designed to govern a country's normal development and which it will always have to live with so long as it maintains a development plan and expects to benefit from the supplementary financing scheme. Parliamentary oppositions can justly claim that governments which enter into such agreements are transitory and could seek the right to be consulted about understandings that may affect economic policy should governments change. In these circumstances, a minimum requirement for the acceptance of a policy package under conditions of parliamentary democracy is that it should be a public document available for legislative inspection or criticism.

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

5. Is it then possible to devise a policy package that provides a similar degree of objectivity in the case of developing countries that would qualify for membership in the supplementary financing scheme? The tentative answer would be that the
possibilities for doing this are rather greater than might seem the case at first sight. It is always possible to derive from a development plan a set of objective criteria based upon the national accounting interrelationships contained in it. A common method of plan formulation is to present the base-year data in the form of an integrated set of national accounts on lines similar to that recommended by the United Nations and the OECD with appropriate modifications to take account of the availability of data for developing countries. Mr. Reddaway's work on the Indian economy1 for instance, contains five separate accounts - an account indicating the availability and utilization of resources; a revenue and capital account for the public sector; an income and current expenditure account for the private sector; a consolidated capital account for the whole economy; and an international transactions account. The process of macro-economic planning should then eventually wind up with a projection of the various components of each account for some future year so that annual rates of growth can be derived for each. The policy package can then be tied to the rates of growth of these macro-economic variables. There would of course be room for flexibility as regards the number of variables that can be included in the package, depending on the nature of statistical data in the country. The manner in which these rates of growth are to be achieved can be the subject of a continued dialogue between the Bank and the member country concerned, and annual reviews would serve to determine how successfully the country was living up to its obligations.

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

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

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

8. There is a further consideration to be borne in mind. Supplementary financing must be recognized as being supplementary. That is to say there must be adequate guarantees of the basic finance required for a development plan. This is not to imply that donors should necessarily be asked to accept legally binding commitments extending over a five-year period. But there must be sufficiently firm assurances of levels of assistance extending over a plan period of a kind that the present annual pledges of aid do not provide, so that countries can embark with some measure of confidence at the beginning of a plan on an investment programme that generates a continuing requirement for external finance over subsequent years. In the context
of present informal relationships, the Bank and a member country have, in a rough-
and-ready way, to co-ordinate guesses about future aid availabilities. But the
formal assumption of an obligation by a developing country to adhere to a policy
package must be matched by some sort of concomitant obligation on the part of
donors in regard to basic finance, if the whole arrangement is to be a politically
negotiable one in the country concerned. It would again be extremely difficult
for parliaments to be persuaded to accept a policy package in the knowledge that the
benefits guaranteed thereby would, in the ordinary course of things, represent only
a relatively small proportion of the external resources required to underwrite a
development plan.

9. Having said this, Mr. Chairman, my delegation must reaffirm its commitment to
the basic purposes and broad outlines of the Supplementary Financing Scheme as set
forth in the Bank staff study. In this respect, I must confess to having certain
reservations regarding the modifications to the Bank's Scheme suggested by the
delegation of the Federal Republic of Germany. While reserving my detailed comments
on this for a subsequent occasion, I might add that an undue formalization of the
relationship between the Bank and the Fund might be inadvisable and that there is
still a need for the kind of norm that the Bank has had in mind against which export
shortfalls should be measured. Nor does my delegation feel that the operation of
the Supplementary Financing Scheme would require a gigantic administrative machinery
if the work is entrusted to the Bank which is already engaged in the process of
working out policy understandings with member countries in the ordinary course of
its business. These are points which I hope will be further clarified in subsequent
discussions. In our view, however, the Bank Scheme does fill a genuine lacuna in
the presently existing structure of facilities available to developing countries in
quantifying reasonable expectations of export proceeds by means of an export
projection, so that countries experiencing shortfalls are spared the burden of
deflationary adjustments that would disrupt their development plans. My delegation
would like to bring forward the day when the Bank Scheme comes into operation, and
the suggestions that have been made in the course of these observations have been
presented with the intention of making just this advance possible.
A.2 Observations by Mr. Lal Jayawardena (Ceylon) on 15 February 1967

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

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

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

4. The second problem concerns the question of the formality of the policy package in the Supplementary Financing Scheme. I think the essential issue is that as relationships between the Bank and member countries stand at the moment, there is no explicit advance understanding of the conditions under which the Bank would or would not co-operate with the country concerned in furthering its development efforts. The relationship between the Bank and the country develops informally in the course of numerous Bank missions on the basis of an interchange of suggestions for economic policy. The essential point about the Supplementary Financing Scheme is that there is something called the policy
package, however loose the understanding involved in it, which the country has to follow if it is to qualify for a benefit under the arrangement. Parliaments will want to know what this is about in a sense in which they may not under present arrangements between the Bank and a country.

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

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

7. This view, I must confess, came as a surprise to me but on looking at the legal argument involved it carried to my mind complete conviction. I should like therefore with your indulgence to quote, Mr. Chairman, from Dr. Kirdar's definitive work on the structure of United Nations economic aid to under-developed countries to illustrate his reasoning. The argument derives from a consideration of the Charter of IDA and proceeds as follows:
"The most remarkable feature of the IDA's Charter is that it recognizes the necessity of assisting the less developed countries as an international obligation. Contrary to the old traditional public international law - the system which dealt only with a completely decentralized society and was concerned almost entirely with the formal delimitation of areas of sovereign competence by leaving even such important matters, as the use of armed force by one State against another, to domestic sovereignty 1/ - the developing modern international law has as its main task the organization of a peaceful and a prosperous world community 2/ In the light of this new role of modern international law, the preamble of IDA's Charter declares that the Governments on whose behalf the Charter is signed consider:

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

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

"That achievement of these objectives would be facilitated by an increase in the international flow of capital, public and private, to assist in the development of the resources of the less developed countries. 2/

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

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2/ For a profound study of the differences between the two systems of international law see also the following article and booklet by the same author: "The Progressive Development of International Law", BYIL, 1947, pp. 301-330; The Progress of International Law, published by the Syndics of the Cambridge University Press, 1960.
A.3 Summary of observations by Mr. Irving S. Friedman (World Bank) on 10 February 1967

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

Nature of the policy package

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

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

Elements to be embodied in the policy package

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

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

Limits to the Agency's role.

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

International and inter-agency co-ordination

7. Sometimes development programmes of different developing countries may to a certain extent be in conflict with one another. In this case the Agency may well perform a kind of economic arbitration role. To some extent this sort of arbitration is already going on in international financial organizations. The attempt should be made to deal with this problem in collaboration with regional economic organizations and on the basis of economic criteria. As to the co-ordination with the requirements of other organizations, it can be assumed that these requirements fit into a reasonable development programme.
So far as monetary and exchange policies are concerned, the views of the IMF would presumably guide the Agency. In general, the policy package represents what a country discusses with and agrees upon with donor countries and international organizations about its development programme when it seeks basic finance. The Agency, in such cases, would not duplicate these efforts or arrive at separate and different understandings. Thus, there is no need for duplication involved in several agencies going over the same ground concurrently.

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

Feasibility

9. The policy package cannot aim at precise enumeration but all the time should seek reconciliation of the sovereignty of a nation with the needs of international co-operation. Therefore, the proposal made by the representative of Ceylon seems a very constructive one, that the public policy understandings would be in broad macro-economic terms, including in particular export earnings, public and private investment, domestic savings etc, while implementation would be left to working relations between the country and Agency. The policy package and the Scheme in general would certainly not be "easy" to operate since it was not automatic, but this is true of any non-automatic scheme of international finance. Given the co-operation of member countries, and with the application of objective standards, the administering Agency, with the necessary degree of technical competence, should however be in a position to implement the Scheme successfully. Dealing with the more difficult aspects is already part of the going activities in development finance.
A.4 *Summary of observations by Mr. Irving S. Friedman (World Bank)*
on 15 February 1967

**General remarks**

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

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

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

(i) How comprehensive should a policy package be?

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

(ii) Formality

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

(iii) Criteria

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

(iv) The nature of the claim

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

Supplementary finance should be considered as additional.

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

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

(vii) Does it underwrite basic aid?

The procedures suggested in the Scheme would lead to a greater degree of comprehension by creditors and donors of the external aid requirements of countries. There would, however, be no legal commitments for the projection periods. It is hoped that the careful examination of development programmes internationally might facilitate the required flows of development capital.
A.5 Observations by Mr. J.M. Fleming (International Monetary Fund) on 8 February 1967

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

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

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

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

5. I will admit that the SFS does contain an element of smoothing out within the projection period. The fact that overages are offset against shortfalls, means that, if the projections for the individual years are themselves smoothly distributed over the period, the export availabilities of the country will be smoothed out also, so that
one of the objectives of the CFS will, to some degree, be fulfilled though not by the CFS itself. However, the other main objective of the CFS, which is to keep export availabilities from getting too far away from actual exports, will not necessarily be fulfilled. The effects of this will show up at the end of such a projection period, when there may be a rather abrupt transition from a level of export availabilities which is supported by large amounts of supplementary financing back to a level at which projected and actual exports coincide. In other words, there may be an abrupt fall in export availabilities at the end of such a period, the very sort of thing which compensatory financing is supposed to try to smooth out. But the CFS is in no position either to prevent this taking place, or to mitigate it. I would say that in such a situation, the objectives of the SFS would not be implemented.

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

7. At this point perhaps, I should make it clear that I have not been discussing the question of compatibility as between the UNCTAD recommendation on supplementary financing and the CFS. Frankly I believe that the recommendation contained two separate and possibly not quite consistent trends of thought; on the one hand, it dealt with persistent shortfalls and seemed to assume that these were the same type of shortfalls as the Fund was dealing with, except that they went on for a long time. On the other hand, it also suggested a new definition of shortfall in terms of reasonable expectation. Now as I understand it, the Bank, in its study, has essentially followed up the second strand of thought rather than the first, and has made it into a consistent system. Therefore, my remarks about problems of reconciliation do not relate to that part of the original resolution which deals with the persistence of shortfalls of the Fund type.
8. Coming back to what the distinguished representative of the United Kingdom was saying, I would certainly agree that technically the two schemes are completely compatible, but technically you can have a cooling mechanism and a heater operating simultaneously in the same room. That would be technically compatible but it would not make sense. This is an exaggerated analogy, but it brings out the point. The whole question is not whether the two schemes in their present form could run together but whether, if they did so, they would attain their respective objectives. However, I would like to say that there is not the slightest doubt in my mind that the objective of smoothing out export availabilities and the objective of providing for adequate finance for sound development are as such, entirely compatible.

9. I would be inclined to agree with the distinguished representative of Ceylon that the main difficulties are those which arise over the policy package - the difficulties we have been discussing, though important, are not the most important. But the difficulties with regard to policy packages arise more on ordinary Fund drawings, or Fund advice to its members, than on the CFS because that Scheme is to a considerable extent automatic in its application; the policy conditions are lighter than those that are normally applied to Fund drawings in the credit tranches. I also agree with him very much that the Bank and Fund have always managed in the past to co-ordinate their activities and I am sure they will do their best to do so under all circumstances, but clearly the closer the principles of the Supplementary Financing Scheme are to the principles of which the Fund is the guardian internationally the easier such co-ordination will be.
A.6 Observations by Mr. J.M. Fleming (International Monetary Fund) on 9 February 1967

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

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

3. What is to be the content as far as Fund matters are concerned of the initial agreement regarding the policies to be followed by the country concerned over the five-year planning period? In the first place it seems clear that it cannot contain concrete prescriptions as to monetary, fiscal and exchange policies to be adopted in various possible contingencies over the planning period as a whole though it might do so with respect to the initial year of that period. The Fund, in making stand-by agreements, does not attempt to prescribe policies for more than a year at a time for the simple reason that the balance of payments situations to which these policies have to be adapted cannot be predicted for more than about a year ahead, if as much.
4. Certain broad policy objectives could, no doubt, be laid down, which countries might seek to attain over the five-year period. For example, that there should be no inflation, no balance of payments restrictions, realistic exchange rates, etc., but countries could scarcely undertake to succeed in attaining such objectives, where success depends as much on circumstances as on the good intentions of governments.

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

6. I would conclude by saying that, while I have no ready solution for these difficulties, they are likely to be more easily overcome if the Scheme itself is such as to encourage and reward the maximum flexibility in the development process.
A.7 Observations by Mr. James Mark (United Kingdom) on 15 February 1967

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

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

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

(a) its comprehensiveness;
(b) its duration;
(c) its formality;
(d) the influence to be exercised by the Agency;
(e) the nature of the claim which the recipient country is entitled to make.

4. On comprehensiveness we need the advice of the Bank and the Fund. How much further does the policy package go beyond what happens under existing arrangements? My only comment is that we have had two different suggestions which may limit the policy package. The first is the suggestion (now repeated by our Indian colleague) that it should be limited to export performance. The second is the suggestion by our colleague from Ceylon that a macro-economic framework should be agreed upon between the government and the Agency, but that the detailed methods for achieving the goals...
which have been set must remain the responsibility of the recipient country. These are, of course, alternatives. My own delegation would favour the second since it seems to offer a solution of the problem of distinguishing between economic and political aspects of the development programme. On the other hand, we doubt whether the package can be limited to export performance, since this is hardly separable from the other aspects of a country's economy. Inflation, for example, will affect export performance.

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

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

7. As regards the question whether or not the Scheme will mean the exertion of greater influence by the authority over the recipient countries' policies than is exercised by the Bank or the Fund at present, perhaps this question will look different if we come to agree that the formula suggested by our colleague from Ceylon should be applied. In any case, there will be a considerable difference between any formulation of the general principles of the Scheme, which may seem very far-reaching, and the manner in which it will operate in practice.
8. On the nature of the claim which the recipient country will be able to make, my delegation has two comments. Firstly, the most obvious comparison (apart from that with compensatory financial facilities) is with drawing rights on the Fund. Supplementary financial measures loans would probably be of much longer maturities than the time within which the Fund expects drawings to be repaid. But it would be useful to know how such loans would differ, both in the amount of resources available for the Scheme and the degree of scrutiny which a country's economy would undergo before receiving help. Our second point is on the question whether or not the policy package would underwrite basic aid. My delegation has already expressed its views on this point. It might be reasonable to add, however, that although we find no such implication in the policy package, it might be reasonable to expect that some better degree of assurance would eventually emerge from the development of the processes of international consultation to which supplementary financial measures would contribute. This is a personal reflection rather than an expression of the views of my own Government, and I think that it is about as far one can prudently go in making any positive comment on this point.

9. Let me sum up those comments. Firstly, the Bank's study on supplementary financial measures is necessarily in general terms and this may well give a somewhat over simplified and over-emphatic picture of how the arrangements for individual countries would work. Secondly, my delegation thinks that the policy package may well go somewhat beyond present understandings in comprehensiveness and duration, though we are not clear whether it need do so in the formality with which it would be expressed. Thirdly, it would, we think, increase the general influence of international institutions on the economic policies of individual countries, though it is not easy to be precise on this point. Fourthly, it does not underwrite basic aid (though it certainly involves an understanding of a country's reasonable expectations of it) but as the international dialogue develops it may be reasonable to expect that developing countries might receive more assurance on this vital matter. Lastly, we must not exaggerate the magnitude of these developments.
A. Observations by Mr. V.C. Shah (India) on 17 February 1967

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

2. Before I turn to an examination of the concept of the policy package, I must state that my delegation has, indeed, been gratified to note that the debate on the policy package in the last week did clarify some of the issues as a result of the valuable contribution made by the distinguished representatives of the Bank and several members of the Group. It was rightly pointed out that the concept of the policy package is not an entirely new one and that it traces back to the days of Marshall aid. Therefore, what is envisaged with regard to the policy package is an extension of dialogue which already exists between international financial institutions and developing countries. This is fine as far as it goes. However, in the view of my delegation, it is essential to consider in depth some of the complex issues which may arise concerning the concept of the policy package. These may better be analysed, as stated earlier, by considering the implications of the policy package for the three basic ingredients of a sound development programme, viz. its internal consistency, feasibility and optimality.
3. As far as the consistency of both macro-economic and sectoral targets is concerned, we are fully in agreement with the statement on the policy package made by my distinguished colleague from Ceylon. I wonder, however, if the Agency would be satisfied merely with an examination of the consistency of such targets. It is quite conceivable that a country can prepare a perfectly consistent set of targets for a 5 per cent growth rate or for a 10 per cent growth rate for the same period. In view of this, the Agency would like to go beyond an examination of the set of targets from the consistency point of view and it would be justified, in the view of my delegation, in doing so. It is here that the question of the relevance of the concept of the policy package to the feasibility of a development programme arises.

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

(a) What are the objective criteria for regarding these policies as "appropriate"?
(b) Is it desirable and necessary for the Agency to consider "basic policies"?

As to the first question - criteria for judging the appropriateness of all development take, for instance, the methods of achieving a given savings rate: taxation, earnings of public enterprises, economy in public consumption, policies of ploughing back of profits and so on. How would the appropriateness of the various methods of raising domestic savings be determined by the Agency? Take, again, monetary policy. It is a perfectly valid point that monetary policy should be geared to maintaining reasonable stability. But the crucial question is: how will the Agency determine that a particular type of monetary policy is "appropriate" for ensuring financial stability during the plan period?
5. In the opinion of my delegation, the second question is even more important: is it desirable or necessary for the Agency to examine what the Bank paper refers to as basic development policies? Let me hasten to add that we do recognize the relevance of all economic policies for evaluating the feasibility of a development plan. What we would like to emphasize is that since supplementary finance is complementary to basic development finance and supplementary to compensatory finance, both the logical and time sequence dictate that consideration of all the basic development policies may not be necessary for the successful operation of the Supplementary Finance Scheme. In fact, our apprehension is that insistence by the Scheme management on a prior examination and periodical review of the "appropriateness" of all economic policies may tend to impair the objective of the Scheme viz. to provide timely assistance to a country. I would, therefore, like to reiterate our view stated earlier that the concept of the policy package should be confined to the export sector and trade policies. In this connexion, the Bank paper states, and I quote, "The policies which are relevant relate to contemplated investments, particularly in the export sector, the incentives to be given to producers in this sector and the exchange and trade policies which might affect the country's competitive position in world trade."

6. Even in this field of trade policies as stated in the Bank paper, my delegation may refer to some difficult questions. Will the Agency accept a policy of export incentives or will it question the theoretical basis of export incentives? Will it raise doubts about the economic wisdom of plan investment in a specific export industry on the basis of the doctrine of comparative costs which, as we all know, has its limitations in a dynamic sense? Again, since the theories of trade and development have yet to cover a good deal of ground before suggesting clear-cut criteria for trade policies conducive to development, will it not be desirable for the Agency to confine itself to an examination of export targets, export investments, perhaps, projects for export industries and some aspects of trade policies, such as quality control and import priority for export industries?
7. These, Mr. Chairman, are the difficulties and doubts in our minds so far as the relevance of the policy package to the feasibility of a development programme is concerned. Turning now to the important question of the optimality of such a plan, let me first quote once again from the Bank paper on the policy package - page 3 - "In the first place, given the long-term goals of the country, the programme must be formulated to achieve those goals as efficiently as possible". Now we know how controversial are the various "investment criteria" discussed extensively by economists, especially development theorists. We also know how complicated and difficult they are at the operational level. True, we have some useful consistency growth models but we are still not sufficiently advanced in setting up optimal growth models which are operationally meaningful. In view of these limitations, a question would arise as to the nature of the measuring rod which the Agency would adopt for the purpose of discussing with a developing country its development programme from the point of view of determining the efficiency of the goals and of the path of achieving these goals. If economic theory does not provide adequate help for this purpose, would the Agency be inclined to adopt non-economic criteria to judge the efficiency of a plan?

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

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

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

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

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

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

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

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

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

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

CONTENTS

B.1 Note by the delegation of the Federal Republic of Germany
B.2 Introduction by Mr. Helmut Koinzer (Federal Republic of Germany) to the note submitted by his delegation
B.3 Comments by Mr. James Mark (delegation of the United Kingdom)
B.4 Comments by Mr. J.L. Myrsten (delegation of Sweden)
B.5 Comments by Mr. Lal Jayawardena (delegation of Ceylon)
B.6 Comments by Mr. K.G. Vaidya (delegation of India)
B.1 Note by the delegation of the Federal Republic of Germany on supplementary financial measures

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

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

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

I.

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

5. The study by the IBRD staff is now before us, and it is our task to discuss it thoroughly from all relevant points of view. The study proposes a highly elaborate and comprehensive scheme with many interesting features. All of us have paid it the tribute it deserves. Nevertheless, the proposed Scheme raises many questions which up to now, in our opinion, are not yet answered, and there are serious doubts as to whether it can be carried out in practice.
6. It is important to note that with regard to some essential aspects of supplementary financing the IBRD staff proposes solutions or procedures which are not entirely the same as those which are outlined in recommendation A.IV.18. The authors of the Scheme, apparently, thought it advisable to interpret some of the guidelines given in recommendation A.IV.18 rather extensively in order to arrive at a more comprehensive scheme, which was, of course, a legitimate approach. Nevertheless, it is interesting to list the points in which there are distinctions between the IBRD staff study and the guidelines given in the recommendation:

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

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

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

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

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

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

(d) The recommendation envisages that the resources for the scheme are prescribed in advance.
The IBRD staff Scheme provides for open-end financial obligations of donor countries. The financial requirements of the Scheme are determined by its working criteria and are, therefore, theoretically unlimited.

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

II.

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

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

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

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

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

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

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

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

III.

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

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

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

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

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

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

11. The following procedure might be conceivable:

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

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

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

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

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

(f) The terms of supplementary financing should be flexible and correspond to the stage of development of the country concerned as well as to its particular situation. Normally, supplementary financing would be extended in a form not tied to particular projects. However, if the Agency were to determine that, e.g. for purposes of diversification or for earning foreign exchange, it is essential and urgent to promote specific projects it could tie its assistance to such projects and thereby assure maximum effectiveness.
B.2 Introduction by Mr. Helmut Koinzer (Federal Republic of Germany) to
the note by his delegation

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

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

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

4. This being the purpose of our note, Mr. Chairman, and our motive in submitting it,
I may say again what is the essence of our position: we think that the Scheme for
supplementary financing measures as envisaged in the study of the staff of the IBRD
is, because of its great complexity, not feasible and that even if it could be made
technically feasible it would hardly be acceptable in view of its unlimited and uncertain
financial requirements. I shall not repeat here the arguments which we have brought
forward to sustain this view at earlier occasions.
5. On the other hand, we believe that in 1964 there was an agreement among most of the countries taking part in the first United Nations Conference on Trade and Development that the existing short-term facilities to deal with problems arising from adverse movements of export receipts of developing countries were not completely adequate in all cases and that they should, therefore, be supplemented by some new system of longer-term balance of payments assistance. This, I believe, was truly the objective of recommendation A.IV.18 and it was on this understanding of the recommendation that my delegation in 1964 voted in favour of it and thereby agreed to asking the IBRD to make a study of the feasibility of a scheme with the objective mentioned above.

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

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

(a) Creation of a financial mechanism for longer-term balance of payments assistance to developing countries that suffer from setbacks in their export receipts which cannot be adequately dealt with by short-term balance of payments support; and for this purpose, the establishment of some kind of special fund attached to IBRD/IDA with a fixed amount of resources;
(b) This fund would operate on an ad hoc basis and would mainly serve two purposes: (i) giving assistance in cases where the short-term assistance by the IMF would from the outset appear to be inadequate in view of the nature of the difficulties that have arisen; (ii) to consolidate short-term IMF credits in cases where it turned out later that the difficulties were of a longer-term nature than originally assumed and which should, therefore, be dealt with by longer-term assistance.

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

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

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

9. But I think that there would be reasonable assurance for developing countries that they could rely on financial assistance of a longer-term nature in cases of balance of payments difficulties due to serious export setbacks, difficulties that cannot be overcome by short-term balance of payments support from the IMF or from other sources.
10. I should like to limit myself to these remarks. I would, of course, be glad to give any additional explanation. In conclusion, Mr. Chairman, I should like to say that the ideas we have put forward are the views of the delegation of a country which is expected to contribute substantially to a scheme of supplementary finance at the time when any supplementary financial scheme would come into existence. I would be much obliged if these views would find consideration by the members of this Group. Indeed, Mr. Chairman, I am now looking forward with the greatest possible attention to the comments of the members of the Group on our note and I would be particularly grateful if the representatives of the developing countries would present their views. We would certainly contemplate all these comments very seriously and we intend to think about possible elaborations or improvements of our ideas.

11. With regard to further procedure, I consider the proposal made by the United Kingdom delegation to consider both the IBRD Scheme and our proposal in a parallel way is a very sensible one. In this respect, I should like to commend the secretariat for the very fast and excellent work it has already done in order to facilitate that task. Of course, general comments to our note would be also very valuable and welcome. I thank you, Mr. Chairman.
B.3 Comments by Mr. James Mark (United Kingdom) on 13 February 1967

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

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

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

(i) the first is that it would be difficult to refuse entry into the Scheme to any country which could meet a bare minimum of requirements, and that this would much increase the demands which the scheme would involve (paragraph 8 (e));
(ii) the arrangements for prior consultation on all the matters included in the policy package are unrealistically complicated (paragraph 8 (e));

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

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

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

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

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

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

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

7. The second (the complexity of the policy package) is a point on which a great deal of misunderstanding can arise and has arisen. This is perhaps due, paradoxically, to the very quality of the Bank's study: to the comprehensiveness and thoroughness with which these questions are discussed in it. But the Bank has explained that, in fact, the existing work done on individual countries would provide
the basic data. I think that we ought to expect little more than some enlargement of the existing processes of consultation. Certainly the Scheme should not depend upon a large increase in the number of consultative groups, for which the Bank has only limited plans. The Agency will certainly wish to discuss beforehand the matters referred to on page 48 of the study; and, if a shortfall should arise, the adjustments for which it would wish to ask (set out on page 50 of the study). But we all realize the probable limitations on the information available and on the ability of an international agency to influence the policies of an individual country, though this is not to underrate the value of the influence exercised by these agencies. We should not expect any revolutionary change though, as the distinguished delegate for Ceylon has pointed out, existing arrangements would probably become more formalized.

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

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

10. On the fifth concern, the commitment will be limited because the countries concerned will only contribute limited funds. We should not regard this as unduly restrictive; it is a characteristic of all international financial arrangements and we should not expect SFM (whatever form the Scheme may take) to be any different. We shall make the best estimate we can, with the advice of the Agency, of the funds needed to operate a worthwhile scheme; we may hope that these funds will be provided
and that they will be adequate. But the Agency will have to operate with them and within whatever limits they may enclose. It was no doubt for this reason that the recommendation expressed the hope that "assistance could cover a substantial proportion of a shortfall from reasonable expectations". It did not provide for full cover, and the Group has already discussed the possible need for rationing. The scheme proposed in the German paper would be equally exposed to this possibility once the size of the fund which it envisages had been determined. We need not, however, be too pessimistic about the probable adequacy of resources (once allowance has been made for offsetting factors and policy adjustments) especially if, as my delegation hopes, progress is made with agreements for individual commodities.

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

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

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

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

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

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

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

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

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

20. These are substantial aims, though much more modest than those for which some may hope and which some may fear. These are the aims which my Government had in mind when it put forward the original proposal, in company with the Swedish Government. These are the aims which we should wish to see embodied in whatever Scheme this Group may recommend.
B.4 Comments by Mr. J.L. Myrsten (Sweden) on 13 February 1967

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

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

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

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

5. Let me start with part I. The first ground set forth to substantiate the German contention is worded as follows: "The ERP-staff Scheme contains no such close connexion between supplementary financing and IMF compensatory financing; recourse to the IMF is only a possibility."
6. In the opinion of this delegation the Bank Scheme does, however, contain such a close connexion between compensatory and supplementary financing. Let me refer to the last paragraph of page 7 of the study where it is stated: "It would be expected that as far as possible, a part or even all of the shortfall would be offset by use of the country's own reserves or by drawings on the IMF. To the extent that export shortfalls, as defined under the scheme, were to overlap shortfalls under the IMF compensatory financing facility, the IMF should, if possible, be the source of help".

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

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

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

10. Had the German delegation contended that it would not be feasible to transform recommendation A.IV.18 into a workable scheme, I would have had to stop with noting the two opposite views. But the German delegation takes a positive approach to the recommendation and outlines an alternative to the Bank Scheme. That makes it possible for me to go one step further and to compare some basic features of the two alternatives. In doing so let me first state that it seems to me unfair if one would hold it against the German proposal that there are many things left unclear or not dealt with. We should instead concentrate on the most basic features that distinguish the two alternatives.
12. First, the German proposal aims at eliminating the problems connected with the policy package. But does it in fact? According to the proposal "a country wishing to avail itself of the Scheme undertakes to consult fairly regularly with the Agency about its development and economic policy" (paragraph 11 (a)). These consultations would then, it seems to this delegation, form the base for the judgement of the Agency on whether the country's "general performance" merits compensation under the Scheme. I do not think that there will in practice be a great difference between the policy package under the Bank Scheme and the procedure outlined in the proposal. I would very much like to know the opinion of the German delegation on this point.

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

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

15. Much more could be said, Mr. Chairman, but I have already taken too much time from this Group. Permit me just to reiterate that our point of departure here has been that the Bank Scheme is feasible whereas our German colleagues doubt that. For that reason, it is evident that we have not found it possible to agree on some essential points. But I do not want to give our German friends the impression that we have not appreciated deeply their effort, which indeed will be of great help to us all in our endeavours to hammer out a workable scheme.
1. I have listened with great care to the statements made by my Swedish and United Kingdom colleagues and the sentiments of my own delegation are very much in accord with what has been said in those interventions.

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

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

4. So far as the export projection is concerned, I think it is important to state that such projections, with all their deficiencies, are an essential tool of planning. There are several points involved. When the projection is juxtaposed against the import requirements of a planned rate of growth, the magnitude of basic finance necessary for that rate of growth becomes immediately obvious. If that rate of growth is not to be sacrificed, then basic finance of a certain more or less precise order of magnitude has to be forthcoming and a country needs some assurance of this. What the Bank seeks to do is to supplement this basic finance if downward deviations occur from the projection which, if not financed, would threaten the development plan. On this score, I would like, at
the risk of some digression, to correct a misunderstanding that appears to have arisen in
the mind of my United Kingdom colleague in regard to my earlier observations on the policy
package (see Annex A.1, paragraph 8). Supplementary finance would operate only in the
case of an agreed plan. The plan would assume some assurance of assistance that might
reasonably be expected over the plan period, in the joint judgement of the Agency and
the country. Hence, participation in a supplementary financing scheme presumes adequate
basic finance.

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

6. There is another sense in which an objective export projection is essential. It enables
quick access to the resources needed. When I say this, I do not mean that access should
be automatic, and here I agree entirely with the sentiments expressed by the United Kingdom
delegation. But I find it difficult to believe that in the absence of an export norm, a
sufficiently quick access to assistance and a precisely determined access, can be found.
7. Finally, on the question of export projections, they do provide an objective basis for the assessment of need. In the form urged by the German delegation, the whole arrangement becomes a totally discretionary one and there is some element of inconsistency between this aspect of the matter and the concern expressed elsewhere, in the German proposal, about the policy package. Here I must endorse the sentiments very clearly expressed by my Swedish colleague that there is considerable discretionary power in the German version of the proposal.

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

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

10. Finally, Mr. Chairman, on the question of Fund/Bank relationships, I think our recent discussion in this room has clarified matters to a considerable extent. It is clear that where the Bank export projections prove pessimistic, as Mr. Fleming has argued, the Fund compensatory facility alone will continue to operate. In other circumstances, the Bank facility will add to the finance provided by the Fund's compensatory facility, so that it is far from true to say that resource to the IMF only remains a possibility.
B.6 Comments by Mr. K.G. Vaidya (India) on 14 February 1967

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

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

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

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

5. Paragraph 6 (c): Here the German paper argues that while the original UNCTAD recommendation speaks of the compensation of a "substantial portion" of any shortfall, SF envisages complete or nearly complete compensation. What was meant by a "substantial portion" here is very much a matter of interpretation. SF, in fact expects prior use of (a) reserves, (b) IMF's Compensatory Financing Facility, (c) other sources of short-term finance, (d) adjustment measures and (e) the exclusion of that part of a shortfall in exports which would not cause disruption of a development plan. Thus, SF can scarcely be said to contemplate complete or nearly complete compensation of a given export shortfall.
6. **Paragraph 6 (d):** Here it is suggested in the German paper that SF would provide for an open-ended financial commitment for the donor countries. We do not share this view. And, in any event, we think that it would be quite reasonable to start with an initial fund of $300-400 million for SF.

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

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

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

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

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

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

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

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

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

17. **Paragraph 11 (a):** We agree.

18. **Paragraph 11 (b):** Barring the proposal of the establishment of a Joint Committee, the SF Scheme makes substantially similar proposals, except that it does not see the need for the case to be argued out in view of the procedure proposed of regular consultations on economic policy between a member and the Agency.
19. **Paragraph 11 (c):** The *ex post* projections as proposed here could conceivably be simpler than *ex ante* ones but will certainly take longer to make than those which already pre-exist and will eliminate the element of certainty from the Scheme.

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

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

22. **Paragraph 11 (f):** It is suggested here that the terms of SF should be flexible and should correspond to the stage of development of the country concerned. While we fully subscribe to the need for flexibility, it is not quite clear to us why the terms should correspond to the stage of development. Both IBRD and IDA have developed the criterion of debt servicing liability as a proportion of export earnings which seems to us to be more relevant as a determinant of the terms of assistance.
General comments by Mr. S. Allain (delegation of France) on the Scheme proposed by the International Bank (15 February 1967)

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

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

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

I. Supplementary financing - a false remedy

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

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

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

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

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

9. This is likely to result in a highly inequitable and ineffectual distribution of international aid. Here I endorse the criticism expressed by the delegation of the Federal Republic of Germany, to the effect that a country suffering from a serious, but foreseen, fall in its exports would not be entitled to any aid, whereas a country for which optimistic forecasts had been made but which could not live up to them would be entitled to generous assistance from the Agency even though its exports had yielded relatively satisfactory results.
10. The same applies, of course, to all extensions of the Scheme envisaged such as including invisible earnings or allowing for the level of import prices. As Mr. Cassen, our United Kingdom colleague, has so rightly said, this again would be merely a matter of correcting any discrepancies that might arise in relation to the forecast, which again might have been for a decline.

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

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

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

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

15. The greater the rigidity imposed by the Scheme on a country’s economy, the ruder will be the awakening. The fact is that the countries affected will tend generally to implement their plans without paying particular attention to international economic developments, and will thus be the less prepared to make the needed adjustment.

Moreover, the Scheme might well itself exert a depressive effect on the international market in a given commodity, inasmuch as by encouraging increases in production beyond the level of international demand it would, in a deteriorating situation, have the effect of weakening the world commodity markets still further.

16. Equally, however, the Scheme would, in our opinion, be unable to ensure the proper execution of development plans, first because they rely only in part on the amount of export earnings and secondly because, as our discussions have shown, when there is a wide discrepancy between projection and achievement, no one is willing to continue implementing such plans.
17. Execution of the plans is based on the use of a fund of resources which includes, in addition to export earnings, basic international financing and domestic savings, both public and private.

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

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

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

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

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

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

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

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

26. On the other hand, the developing countries have already told us that, should their achievements exceed the projected level, they might see fit to speed up the execution or increase the size of their plans, whereas the developed countries would
wish, in these circumstances, to see surpluses built up and reserves of foreign exchange increased in order to reduce the risk that the Scheme might have to be introduced in ensuing years.

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

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

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

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

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

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

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

33. But apart from these officially sanctioned controls, I am personally convinced that the Agency will have to take its day-to-day control even further. In particular it will have to check on actual export performance, since some developing countries have
no satisfactory statistics and are liable to show export patterns unrecorded in any statistical terms.

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

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

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

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

38. On this point there seem to be two hypotheses: firstly, that put forward by the Bank, according to which there would in theory be no limit to the scope of supplementary financing, though this would be accompanied by the very detailed and severe controls I have been describing, so as to prevent the burden from becoming too great; and secondly the hypothesis put forward by the delegation of the Federal Republic of Germany, which envisages lighter controls but assumes that the funds available to the Agency would be limited from the start. This implies, I take it, that some form of rationing would be applied if the needs proved to be greater than the resources available. What strikes us as even more serious than the cost of the Scheme itself is the extent of the additional commitments which member States are asked to make or at least to anticipate with regard to the basic financing of the recipient countries' development plans.
39. The requests that will inevitably be addressed to the donor countries in this connexion are already a source of concern to several delegations in this Group and, I think, rightly so. I am aware that the Bank representatives have told us that no formal legal undertaking would be requested of the donor countries on this point, but it is nevertheless a logical consequence of the system that, as a general practice, consortia, or at any rate consultative groups, would be set up to arrive at assumptions with regard to financing for periods of about five years.

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

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

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

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

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

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

46. I shall do no more than mention for the record the difficulties that will beset the Agency in making projections concerning secondary products for which there is no international market but which will have to be taken into account because the system requires projections for all exports, not merely for those of a few basic commodities.
47. I also wonder how the Agency will allow for unexpected developments in fields in which a given country has not hitherto been an exporter.

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

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

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

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

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

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

III. The cause of the difficulties

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

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

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

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

58. Lastly, it entails short-term repayment, as a priority charge on any export overages that may occur.
59. The supplementary financing system, on the other hand, seems to me too ambitious to be feasible. It compensates for only one of the elements that may be lacking in the development process and, designed as a form of assistance to development on highly liberal terms, it must be of a residual nature which can only limit its effectiveness.

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

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

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

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

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

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

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

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

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

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

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

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

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

74. For the developing countries, furthermore, the stabilization of raw material prices would have the advantage of halting the deterioration in the terms of trade, while leaving them the masters of their foreign exchange resources and economic policy. Again, it would provide them with a genuine remedy, whereas supplementary financing can hardly claim to be more than an anaesthetic.
75. What we are afraid of is that, if countries whose economy suffers from a decline in export earnings become addicted to the morphine of supplementary financing, it will grow more and more difficult to apply the true remedies later on. There are several reasons for this. We think that, once the developed countries had agreed to bear the burden of supplementary financing, they would be somewhat averse to making a second financial effort in order to stabilize the prices of raw materials. We also fear that the developing countries, lulled by the false security of supplementary financing, would be less inclined to accept the discipline of production and diversification which is essential to market organization. Lastly, as I suggested at the beginning of my statement, it is open to question whether the elements of rigidity imparted to the economy by supplementary financing might not make bad conditions on the international markets even worse, in that the Scheme would not do enough to discourage the expansion of lines of production already in surplus.

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

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

78. But what appears to us to have been lacking so far is the political will to embark on the course I have just outlined.
Comments by Mr. James Mark (delegation of the United Kingdom) on the tasks of the Group in relation to the Scheme proposed by the International Bank (16 February 1967)

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

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

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

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

(a) The first is on its political and administrative feasibility. Can a scheme of this kind be operated, or does it need modification? This kind of comment includes its relationship to existing aid programmes and international financial arrangements.
(b) The second is its compatibility with other policies which governments may wish to pursue in the fields with which the scheme has to do.

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

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

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

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

List of participants

MEMBERS

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

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

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

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

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

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

ETATS-UNIS D'AMÉRIQUE
Representative: Mr. Jo W. SAXE
Associate Assistant Administrator
for Multilateral Aid Programs
Agency for International Development

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

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

Représentant: M. S. ALLAIN
Administrateur civil au Ministère de l'Économie et des Finances

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

GHANA

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

INDIA

Representative: Mr. K.G. VAIDYA
Joint Director
Ministry of Commerce

Alternate representative: Mr. V.C. SHAH
Economic Adviser,
Embassy, Brussels

JAPAN

Representative: Mr. Sashichiro MATSUI
Minister
United Nations Bureau
Ministry of Foreign Affairs

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

Advisers: (suite)

Mr. Koichi KIMURA
Secretary
Economic Affairs Section
United Nations Bureau
Ministry of Foreign Affairs

Mr. Sosuke KAWAHARA
Secretary
Export Insurance Section
Trade and Development Bureau
Ministry of International Trade and Industry

POLOGNE

Representative:

Mr. W. PLawecki
Deputy Director
Ministry of Finance

Alternate representative:

Mr. J. BILINSKI
Ministry of Foreign Trade

REPUBLIQUE ARABE UNIE

Representative:

Mr. Hussein Kamel BADR
Deputy Director
Department of Research
Central Bank of Egypt

Advisers:

Mr. Hassan S. Abdel-Aal
First Secretary
Permanent Mission, Geneva

Mr. Mohamed Roushdy Abdel-Kader
Secretary
Permanent Mission, Geneva

REPUBLIQUE FEDERALE D'ALLEMAGNE

Representative:

Mr. Helmut KOINZER
Federal Ministry of Economic Affairs

Alternate representative:

Mr. Hans SCHUSSLER
Federal Ministry of Economic Affairs

Advisers:

Mr. Hubert LINHART
Federal Ministry for Economic Cooperation

Mr. Hans-Otto SCHULTE
Federal Ministry of Finance
ROYAUME-UNI DE GRANDE BRETAGNE ET D'IRELANDE DU NORD

Representative: Mr. James Mark
Under-Secretary of State
Ministry of Overseas Development

Advisers:
Mr. P.H.E. Marshall
Counsellor
Permanent Mission, Geneva

Mr. R.H. Cassen
Economic Division
Ministry of Overseas Development

SUEDE

Representative: Mr. John L. Myrsten
Head of Section
Ministry of Finance

Advisers:
Mr. H. Ewerlof
First Secretary of Embassy
Permanent Mission, Geneva

Mr. B. Wrangmark
Head of Section
Board of Commerce

Mr. B. Kjellen
First Secretary
Ministry for Foreign Affairs

YOUgoslavie

Representative: Mr. Mirko Mermolja
National Bank of Yugoslavia

Advisers:
Mr. Kaziimir Vidas
Counsellor
Permanent Mission, Geneva

Mr. Ratoljub Dodic
Counsellor
Federal Secretariat for Finance

Mrs. Nada Zivanovic
Head of Section
National Bank of Yugoslavia

OBSERVERS

AFRIQUE DU SUD

Observers:
Mr. G.C. Van Wijk
Embassy, Berne

Mr. H. Heese
Permanent Mission, Geneva
ALGERIE

Observateurs:
M. Mohammed Lamine ALLOUANE
Chargé d'affaires a.i.
Mission permanente, Genève

M. Rachid HANNOUZ
Attaché
Mission permanente, Genève

AUSTRALIE

Observers:
Mr. J.C.G. LLOYD
Financial Counsellor
High Commission, London

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

AUTRICHE

Observer:
Mr. Johannes POTOCNIK
Secretary
Permanent Mission, Geneva

CANADA

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

CHILI

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

CHINE

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

CONGO (REPUBLIQUE DEMOCRATIQUE DU)

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

COSTA RICA

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

DANEMARK

Observer:
Mr. E. Hübertz CHRISTENSEN
Secretary of Embassy
Permanent Mission, Geneva
Observadores:
Sr. Enrique MUNOZ-VARGAS
Delegado Permanente Adjunto para los
Asuntos del GATT, Asuntos Comerciales
de la CEE y de la UNCTAD

Sr. Juan MORO LOPEZ
Ministerio de Hacienda

Sr. Carlos FRANCISCO BORGES
Misión Permanente, Ginebra

Observateur:
M. Georges PAPCULLAS
Délégué permanent adjoint, Genève

Observador
Sr. Eduardo PALOMO ESCOBAR
Representa Permanente, Ginebra

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

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

Observateurs:
Mlle Hava HARELI
Représentant permanent adjoint, Genève

M. Itzhak SHEFI
Adjoint principal du Directeur de Département
Ministère des affaires étrangères

Observateur:
M. Augusto ZODDA
Ministère du Trésor

Observer:
Mr. P.V. MARSH
Counsellor
Permanent Mission, Geneva
NIGERIA
Observers:
Mr. M.T. ADEBANJO
Permanent Mission, Geneva
Mr. E.G.O. BEECROFT
Permanent Mission, Geneva

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

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

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

PAYS-BAS
Observer:
Mr. A.P.R. JACOBOVITS DE FREGED
Permanent Mission, Geneva

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

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

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

REPUBLIQUE DU VIET-NAM
Observateur:
M. LE VAN LOI
Représentant permanent, Genève
ROUMANIE

Observateurs:

M. Ion PAH
Deuxième secrétaire
Mission permanente, Genève

M. Costel MITRAN
Deuxième secrétaire
Mission permanente, Genève

SENEGAL

Observateur:

Mr. Moustapha FALL
Directeur adjoint du Commerce
Ministère du Commerce

SUISSE

Observateurs:

M. Hans BUHLER
Vice-directeur de la Division du Commerce du Département fédéral de l'économie publique

M. Arthur DUNKEL
Adjoint à la Division du commerce du Département fédéral de l'économie publique

TUNISIE

Observateur:

M. Taoufik LARGUI
Secrétaire d'Ambassade
Mission permanente, Genève

TURQUIE

Observateurs:

Mr. Uner KIRDAR
First Secretary
Permanent Mission, Geneva

Mr. Oktay AKSOY
First Secretary
Permanent Mission, Geneva

VENEZUELA

Observador:

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

ZAMBIE

Observer:

Mr. W.K. SIKALUMBI
Trade Commissioner (Western Europe)
SPECIALIZED AGENCIES

BANQUE INTERNATIONALE POUR LA RECONSTRUCTION ET LE DEVELOPPEMENT

Mr. Irving S. Friedman
The Economic Adviser to the President

Mr. Nori Sarma
Economist
Office of the President

Mr. Roger Adams
Economist
Economics Department

Mr. Heinrich J. Ziegler
European Office

FONDS MONETAIRE INTERNATIONAL

Mr. John Marcus Fleming
Deputy Director
Research and Statistics Department

Mr. Edgar Jones
Representative, Geneva Office

Mr. Asahiko Isobe
Geneva Office

INTERGOVERNMENTAL ORGANIZATION

ORGANISATION DE COOPERATION ET DE DEVELOPPEMENT ÉCONOMIQUES

Mr. Francis Black
Counsellor for Special Studies
Secretary-General's Private Office

Mr. D. Beier
Administrator
Development Department

NON-GOVERNMENTAL ORGANIZATION

CHAMBRE DE COMMERCE INTERNATIONALE

M. Jean Royer
Conseiller en politique commerciale internationale près la CCI

M. Jacques L'Huillier
Représentant permanent de la CCI auprès de l'Office Européen des Nations Unies
DISCUSSION OF DOCUMENT TD/B/C.3/AC.3/8: SUPPLEMENTARY FINANCE:
FORM AND TERMS OF ASSISTANCE

Form of Assistance

1. Realization of the basic objective of the Scheme, namely prevention of the
disruption of a sound development plan in the event of an export shortfall, would
depend greatly on the speed with which assistance was made available. Assistance
related to projects could not generally be provided speedily since project prepara-
tion and evaluation is a time consuming process. There was therefore general
agreement in the Group that this form of assistance would not serve the basic
objective of the Scheme. However, one opinion was expressed that there could be
cases where it might be desirable to promote specific projects, e.g. for purposes
of diversification or for earning foreign exchange, in which cases assistance
could be tied to such projects.

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

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

GE.67-2397
Terms of assistance

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

5. It was suggested that the terms of supplementary finance should reflect the terms of basic finance applicable at the time of a shortfall and not necessarily those applicable to basic finance at the beginning of the plan. In support of this suggestion it was pointed out that an export shortfall implies a deterioration in the prospects for exports and an increased debt service burden compared with the beginning of the planning period; consequently the terms of basic finance itself should in general become softer than before and the terms of assistance for supplementary finance should reflect the new terms required for basic finance. One view was expressed that a part of the objectives of recommendation A.IV.18 can be construed to mean that the Scheme would cover medium term shortfalls and that therefore the terms of assistance could in such cases be of corresponding duration.

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

7. The suggestion was advanced that instead of tailoring the terms of assistance to the economic circumstances of each country individually, it would be administratively more convenient to group countries into categories, each of which would have specified terms of assistance. There might be three such categories of which the "DAC norm" (25 years maturity, 7-years grace period, 3 per cent interest) might be the middle one.
8. Under the Bank staff proposals, the Agency would have the right to request repayment earlier than originally stipulated if the resource and foreign exchange position of a country improved so substantially as to enable it to repay its debts to the Agency before maturity without affecting the progress of agreed development programmes. This point of view was defended on the grounds that the right would enable the Agency to recover and relend these funds at long term and on favourable rates of interest to countries whose need was clearly greater. It was, however, felt that such a provision would be unduly stringent, especially if it were intended to use such improvements during one planning period to repay loans obtained to offset shortfalls in a previous period. It was suggested that instead of speeding up repayment to the Agency, investment or reserves should be increased.
Trade and Development Board
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on
Supplementary Financing
Geneva, 6 February 1967

Observation on the policy package by Mr. Jayawardena (Ceylon) on 15 February 1967

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

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

3. The issue under discussion at that time was compensatory financing, and many developing countries felt that compensation was due to them as a matter of justice for the secular decline in the terms of trade from which many of them had suffered. They argued that such declines in the terms of trade had wiped out and in some cases more than wiped out the inflows of capital received by them. Many developed countries, on the other hand, felt unable to subscribe to the view that compensation was due to developing countries to make up for the real loss in aid receipts and took the view that any

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financial assistance should be regarded as supplementary - that is supplementary to basic finance. It was in the attempt to provide a constructive outcome to this debate that the United Kingdom and Sweden came up with the recommendation on supplementary financial measures which gave primary emphasis to meeting shortfalls in export proceeds rather than to adverse movements in the terms of trade, and secured agreement to call such assistance supplementary to ordinary financial flows.

4. The second problem concerns the question of the formality of the policy package in the supplementary financing scheme. I think the essential issue is that as relationships between the Bank and member countries stand at the moment, there is no explicit advance understanding of the conditions under which the Bank would or would not co-operate with the country concerned in furthering its development efforts. The relationship between the Bank and the country develops informally in the course of numerous Bank missions on the basis of an interchange of suggestions for economic policy. The essential point about the supplementary financing scheme is that there is something called the policy package, however loose the understanding involved in it, which the country has to follow if it is to qualify for a benefit under the arrangement. Parliaments will want to know what this is about in a sense in which they may not under present arrangements between the Bank and a country.

5. The third area of misunderstanding has grown out of the suggestion I made in paragraph 8 of Conference Room Paper /21 that there should be adequate guarantees of basic finance. I did not mean to imply that guarantees were required in any firm legal sense - in the sense of underwriting a plan - but since a development plan usually pre-supposes some level of basic finance, I suggested that there must be sufficiently firm assurances of assistance of a kind that present annual pledges of aid to not provide. No developing country would feel comfortable about planning its development on a hand-to-mouth basis and some assurance has therefore to be forthcoming of assistance that might reasonably be expected over the plan period in the joint judgement of the Agency and the country if planned development goals are to be realized.
6. The reasonableness of what has been suggested here, would I think be thrown into relief when one considers the present situation of international law in regard to the obligations that devolve on donor countries in assisting developing countries. I am no international lawyer myself but since the question of legal guarantees has been raised I sought the advice of a very distinguished international economic lawyer and jurist from among the delegations present here, the observer for Turkey - Dr. Uner Kirdar. In his view, international law has developed to the point when assistance to developing countries is no longer merely a moral duty of States, but through new international legal instruments - such as the Articles of Agreement of IDA, the Charter of Punta del Este, and the new Part IV on Trade and Development of GATT, etc. - is also becoming a contractual obligation.

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

"The most remarkable feature of the IDA's Charter is that it recognizes the necessity of assisting the less developed countries as an international obligation. Contrary to the old traditional public international law - the system which dealt only with a completely decentralized society and was concerned almost entirely with the formal delimitation of areas of sovereign competence by leaving even such important matters, as the use of armed force by one State against another, to domestic sovereignty 1/ - the developing modern international law has as its main task the organization of a peaceful and a prosperous world community. 2/ In the light of this new role of modern international law, the preamble of IDA's Charter declares that the Governments on whose behalf the Charter is signed consider:

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

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

2/ For a profound study of the differences between the two systems of international law see also the following article and booklet by the same author: "The progressive development of international law", BYII, 1947, pp. 301-330; The progress of international law, published by syndics of the Cambridge University Press, 1960."
"That higher standards of living and economic and social progress in the less developed countries are desirable, not only in the interests of those countries, but also for the international community as a whole; and

"That achievement of these objectives would be facilitated by an increase in the international flow of capital, public and private, to assist in the development of the resources of the less developed countries. 2/

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

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Observations by Mr. Mark (United Kingdom) on 16 February 1967

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

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

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

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

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

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

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

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

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

7. May I even suggest, finally, that this consideration should influence the nature and extent of discussion in the Committee on Invisibles and the Board? Countries not represented here will no doubt wish to express their views on our reports, but my delegation hopes that the discussion will not go too far, it would be a pity if attitudes were to be taken up before the material is available on which judgments should be based.
Observations by Mr. Shah (India) on 17 February 1967

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

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

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

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

(a) What are the objective criteria for regarding these policies as "appropriate"?
(b) Is it desirable and necessary for the Agency to consider "basic policies"?

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

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

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

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

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

(1) What would be the real content and depth of the basic development policies included in the policy package which will not be tantamount to undue interference in the domestic decision making right of a developing country?
(2) Are there objective criteria for judging such policies as "appropriate" or otherwise?

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

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

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

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

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

9. I hope that the collective wisdom of the Intergovernmental Group and the Bank representatives will throw satisfactory light on this set of questions. The search for their answers, let me emphasize, will be continued, keeping constantly in view what has been repeatedly pointed out by the distinguished representatives of the World Bank and other colleagues of this expert group, viz. the supreme need for reconciliation between safeguarding the right of the developing countries to
reserving for themselves the decision-making powers, on the one hand, and the fulfilment of the requirements of the policy package so vital for the successful operation of the scheme, on the other. Let me conclude, Mr. Chairman, with a restatement of our position that we have faith in the wisdom and the rich experience of the international institutions to manage a complicated scheme such as this. This faith of ours will, however, be strengthened and deepened if some broad guidelines could be evolved regarding the concept of the policy package as it will have a direct bearing on the consistency, feasibility and optimality of a development programme at the time of arriving at a prior consensus between the Agency and the member, as also on the review of economic policies pursued during the plan period.
FORM NO. 75
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
(2-60)
INTERNATIONAL FINANCE
CORPORATION
INTERNATIONAL DEVELOPMENT
ASSOCIATION

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REMARKS

There was no discussion in the "Plenary" of supplementary financing. The technical and committee reports being approved without a word.

From: Courtois
TRADING AND DEVELOPMENT BOARD

COMMITEE ON INVISIBLES AND FINANCING RELATED TO TRADE

SECOND SPECIAL SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE FIRST MEETING

Held at Headquarters, New York,
on Monday, 10 April 1967, at 3.20 p.m.

CONTENTS

Election of officers
Supplementary financial measures: report of the Inter-Governmental Group on Supplementary Financing (TD/B/C.3/41, 44)

Acting Chairman: Mr. KEMOLJA Yugoslavia
Chairman: Mr. SAXE United States of America
Vice-Chairman/Rapporteur: Mr. RAFFAElli Brazil
Secretary of the Sub-Committee: Mr. CHOSKIDOFSKY

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ELECTION OF OFFICERS

Mr. MARK (United Kingdom) nominated Mr. Saxe (United States of America) for the post of Chairman.

Mr. NAJA (Lebanon) seconded the nomination.

Mr. Saxe (United States of America) was elected Chairman by acclamation.

Mr. ZAMORA BATIG (Mexico), speaking on behalf of the developing countries, nominated Mr. Raffaelli (Brazil) for the post of Vice-Chairman/Rapporteur.

Mr. Raffaelli (Brazil) was elected Vice-Chairman/Rapporteur by acclamation.

SUPPLEMENTARY FINANCIAL MEASURES: REPORT OF THE INTER-GOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING (TD/B/C.3/41, 44)

Mr. MERMOLOJA (Yugoslavia), speaking as Chairman of the Inter-Governmental Group on Supplementary Financing, recalled that it had been recommended in annex A.IV.18 of the Final Act of the first United Nations Conference on Trade and Development that the International Bank for Reconstruction and Development should be invited to study the problems arising from such adverse movements in the export proceeds of developing countries as proved to be of a nature or duration which could not adequately be dealt with by short-term balance-of-payments support but required longer-term assistance if development programmes were not to be disrupted. The staff of the Bank had accordingly prepared a study (TD/B/43) and submitted it to the Secretary-General of UNCTAD. In due course, an inter-governmental group on supplementary financing had been set up to examine the study and report on it. The Group had met in October 1966 and again in February 1967, and the reports on its two sessions were contained in documents TD/B/C.3/41 and 44, which were now before the Sub-Committee. The Group's discussions had centred on a number of major issues raised by the Bank staff's scheme, the main ones being the basis of the scheme, the policy package, export projections, import prices, shortfalls and overages, form and terms of assistance, cost of the scheme and the commitment of donor countries. Those issues, all of which were central to the realization of a supplementary financing scheme, were dealt with in chapter I of the Group's second report (TD/B/C.3/44).

An alternative proposal to the Bank staff's scheme, based on a different interpretation of UNCTAD recommendation on A.IV.18, had been submitted to the Group by the delegation of the Federal Republic of Germany. The Group had
discussed the proposal and annexed it to its report (TD/B/C.3/4, annex B). Several members of the Group had expressed the view that the proposal should be treated as constructive criticism of the Bank staff's scheme rather than as an alternative scheme in itself.

Although agreement had been reached on various issues raised by the Bank staff's scheme, many important points still required further consideration and discussion. However, almost all the developing and some of the developed countries represented in the Group had given the scheme their qualified support. He hoped that the Sub-Committee's discussion of the two reports would elicit comments and suggestions on the scheme, especially from the delegations of countries whose Governments were not represented in the Inter-Governmental Group. Supplementary financing was an important matter for all developing countries, and their contributions would be of considerable value to the Group at its third session, to be held later in 1967.

The meeting rose at 3.45 p.m.
United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

Second Session

SECOND SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE SECOND MEETING

Held at Headquarters, New York,
on Tuesday, 11 April 1967, at 3.20 p.m.

CONTENTS

Supplementary financial measures (TD/B/43; TD/B/C.3/41, 44) (continued)

Chairman: Mr. SAXE United States of America

Secretary of the Sub-Committee: Mr. MYIT

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67-35807/A
SUPPLEMENTARY FINANCIAL MEASURES (TD/B/43; TD/B/C.3/41, 44) (continued)

Mr. SARM (International Bank for Reconstruction and Development) said that representatives of the Bank had attended both sessions of the Intergovernmental Group on Supplementary Financing, in order to clarify aspects of the Bank's supplementary financing scheme and to answer criticisms of it. The Bank was still as interested as ever in promoting its scheme and would welcome the comments of members of the Sub-Committee, particularly those which had not been represented in the Intergovernmental Group.

Mr. DUNK (Switzerland) said that supplementary financing gave tangible expression to the concept of international solidarity. While the developed countries would be the main suppliers of funds, the developing countries would have to exercise self-discipline in regard to their development process, particularly in connexion with the policy package. The observations on the policy package made by the delegation of Ceylon in the Intergovernmental Group (TD/B/C.3/44, annexes A.1 and A.2) indicated how supplementary financial measures could effectively synchronize the efforts of donor and recipient countries. It was essential to convince the public and the parliaments of the developed countries that development assistance was based on the combined efforts of the two groups of partners.

The report of the Intergovernmental Group on its second session (TD/B/C.3/44) had correctly diagnosed the problem of the assurances or guarantees sought by the donor countries, as concerned the ceiling of financial resources for a supplementary financial scheme, and by the recipient countries, as concerned the extent to which the scheme could operate effectively when the circumstances it was designed to remedy arose.

Another important problem was the definition of export shortfalls. The use of export projections raised technical and economic difficulties. His delegation still hoped, however, that criteria which were as objective as possible could be evolved, although primary responsibility would rest with the administering Agency. It would also be necessary to reconcile the objectives and practical details of the IMF compensatory financing system with the proposed Bank scheme.

While his Government would continue to follow the work of the Intergovernmental Group with interest, it still felt that parallel efforts should be made to
stabilize the prices of major raw materials, particularly through the conclusion of commodity agreements. Supplementary financial measures and commodity agreements were complementary and not mutually exclusive.

Mr. WHITELEY (Australia) recalled that his Government had always been somewhat sceptical about the idea of a supplementary financing scheme and had reserved its position on it at the first Conference and at subsequent sessions of the Board. That attitude had been based on four points of principle. First, his Government approved the IMF technique of providing financing to help countries to overcome temporary export shortfalls and balance-of-payments difficulties on an ad hoc short-term basis, but it doubted whether that technique could be applied to long-term export shortfall problems. The latter should be solved through a basic structural reorganization of the production system of the country concerned or of the overseas market which had caused the difficulties, according to the real source of the problem. Secondly, his Government feared that the proposed scheme might be prejudicial to international commodity agreements and also to price levels, since the developing countries might regard themselves as being insured against market and price weaknesses. Thirdly, his Government had some doubts as to whether the proposed scheme was the best way to distribute aid, since the country with an export shortfall was not necessarily experiencing development disruption. Lastly, his Government was worried about the scheme's fundamental principle of basing the transfer of resources on export shortfalls; exports were only one item in the balance of payments, and development programmes could be disrupted by other factors, such as imports or capital flows.

In addition, there were a number of obscurities with regard to the actual operation of the scheme which led his Government to wonder whether it was practicable. The scheme would make payments on the basis of export shortfalls, which were expected to disrupt development programmes. However, one country could have an export shortfall without its development programme's being disrupted, whereas another's programme could be jeopardized by other balance-of-payments factors, even though it had no export shortfalls. He wondered whether the first country would be allowed to benefit from the scheme, while the second would not.
Secondly, the scheme would make payments on the basis of shortfalls in relation to export projections for a five-year period. However, it was very difficult to make accurate long-term forecasts of exports, especially in the case of primary commodities, the prices of which fluctuated. Moreover, the statistics on exports actually effected might be inaccurate. It was argued that the administering Agency would be able to make reasonably accurate export projections over a period of five years, but if they were accurate they would coincide with actual exports, and hence there would be no shortfall. On the other hand, if the projections were highly inaccurate there would be large shortfalls, involving substantial payments under the scheme; it might then be necessary to ration the scheme’s financial resources, and some developing countries might not obtain the funds they needed. It had been suggested that long-term projections should be revised periodically to eliminate inaccuracies. That was sensible, but the less the scheme was based on long-term projections, the closer it resembled the existing IMF system.

It had been proposed that overages should be set off against subsequent shortfalls, but that would deprive the developing countries of the incentive to expand their exports. In order to overcome that difficulty, it had been suggested that overages should not be carried over from one five-year period to the next, but a country might then be induced to concentrate its overages in the fifth year. Another school of thought considered that overages should not be set off against subsequent shortfalls, but the scheme would then be financing shortfalls even if they did not disrupt development and would be called upon to make many non-essential payments.

The scheme was supposed to supplement basic finance; that was illogical, however, since basic finance could not be predicted five years in advance. It depended upon budgetary decisions, and most Governments were elected for terms of less than five years and could not commit themselves so far ahead.

The scheme was to be based on a "policy package" and on the development plan of the country concerned. The term "policy package" was not clearly defined, however, and its content would obviously depend on how it was interpreted by the administering Agency. The Agency would also presumably have to approve the
necessary changes in a country's development plan during a given five-year period. Thus, it would have to exercise considerable discretion if the scheme was to be rational and flexible. The studies envisaged would, of course, show whether the scheme was feasible, but he would welcome clarification at the present session of the points he had raised.

Mr. KOINZER (Federal Republic of Germany) said that, in his view, the main purpose of the discussion was to give delegations of countries which were not represented in the Intergovernmental Group an opportunity to express their views on the Group's report, so as to facilitate its future work.

As explained in the note it had submitted to the Group at its second session (TD/B/C.5/44, annex B.1), his delegation felt that the proposed scheme was too ambitious and too complicated to be practicable. Financial claims and obligations could not be based automatically on the uncertain foundation of long-term export projections. For practical and political reasons, it was doubtful whether policy package agreements could be reached and implemented in the far-reaching way envisaged by IBRD. The scheme would probably prove unworkable over a long period with limited resources established in advance; it would require unlimited resources, which would not be available. Lastly, his delegation would prefer a much stronger link with the IMF compensatory financing facility. Fortunately, IBRD seemed to have an open mind on that point.

The Group's discussions had done little to allay his delegation's misgivings; in fact, they had confirmed its conviction that the scheme was unrealistic and impracticable. In its note, his delegation had proposed an alternative solution which was simpler and more realistic.

Mr. PARKINSON (Canada) said his delegation assumed that the Intergovernmental Group, of which it was not a member, had concluded that in the present circumstances it was preferable to channel any additional resources which might be available into the proposed scheme, rather than into conventional development assistance.

The Group's report had clarified some of the problems involved in establishing a workable supplementary financing scheme but, as the representative of Australia had pointed out, many questions remained unanswered. The crucial problem was that
of the policy package. In his view, the administering agency and the country concerned would have to work out a realistic package before the agency approved the development programme, and all details of the package should be understood and agreed to in advance, in order to avoid possible misunderstanding and disappointment later. Furthermore, the package would have to be revised periodically in the light of changing economic circumstances. He agreed with the Bank's suggestion that a country should no longer be eligible for assistance from the Agency if a periodic review showed that it was not following the policies agreed to initially (ID/B/C.3/SC.3/6, para. 6), but the application of that principle would involve political difficulties and would call for very discreet action by the Agency. Furthermore, it was not certain that the developing country would always be ready to co-operate. In the final analysis, it was questionable whether it would be politically and practically feasible to hammer out and review the kind of policy packages needed if the scheme was to be workable. It had been argued that the scheme was really only an extension of the consultative procedures already used by IBRD and IMF, but in fact the administering Agency would be much more closely involved with the developing country's plans and aspirations.

He agreed with the representative of Australia regarding the difficulty of making accurate export projections five years in advance and the need to revise such projections periodically.

The representative of Australia had also mentioned the problem of forecasting basic aid flows five years in advance. It might be possible to make broad projections for the developing countries as a whole, or for groups of countries, but it would be difficult to make accurate projections for individual countries. The problem was further complicated by the difficulty of forecasting aid provided by multilateral institutions, which was often granted on a project basis and was therefore discontinuous.

The difficulties involved in the detailed policy package method had led his delegation to consider an alternative system, under which the Agency and the developing country would agree on certain broad macroeconomic targets, including export targets. However, the Agency would have to be given wide discretionary powers to determine whether export shortfalls were due to factors beyond a country's
control and how much assistance the country should receive. There was also the basic moral issue of whether a needy country should be refused aid because its problems were the result of its own errors.

In short, the proposed scheme had great potentialities, but many problems must be solved before it could be considered practicable.

Mr. VAIDYA (India) explained, with respect to the Canadian representative's opening comment, that the Intergovernmental Group, of which he was a member, had not expressed any value judgement on the relative merits of channelling aid through the proposed scheme or through development assistance; such a judgement was outside its terms of reference.

The meeting rose at 4.35 p.m.
United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

SECOND SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE THIRD MEETING

Held at Headquarters, New York, on Wednesday, 12 April 1967, at 12.30 p.m.

CONTENTS

Supplementary financial measures (TD/B/43, 43/Rev.1 (French and Spanish only) and Rev.1/Add.1 (Spanish only); TD/B/73-TD/B/C.3/22; TD/B/C.3/41-TD/B/C.3/AC.3/16; TD/B/C.3/44-TD/B/C.3/AC.3/17 and Corr.1 (Russian only)) (continued)

Chairman: Mr. Saxe United States of America

Vice-Chairman/Rapporteur: Mr. Raffaelli Brazil

Secretary of the Sub-Committee: Mr. Myit

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67-35054/A

The CHAIRMAN announced that the Sub-Committee would continue to hear general statements by members on the report of the Intergovernmental Group (TD/B/C.3/44-TD/B/C.3/AC.3/17).

Mr. FRANZI (Italy), while endorsing most of the observations which had been made on supplementary financing, noted that the Intergovernmental Group had not replied to all the questions at issue, and that some points remained obscure. The Sub-Committee should therefore try to formulate the questions clearly, and could perhaps ask for a reply before the Committee's next session.

Among the questions which were still unanswered, the Italian delegation wished to draw attention to three. First, there was the question how to choose the countries to benefit from supplementary financing, in the light of their level of development, their productive capacity and the state of the international market for the product they exported.

Next, how was it to be determined at what moment supplementary financing should be provided? Should it be provided when the recipient Government requested such financing or only after other methods of overcoming the difficulties had been tried, for example, measures to stabilize prices? The third question was exactly how much financing to provide. That might appear to be a matter of minor importance, but actually it was a genuine problem for the donor Government, which needed to know in advance how large an appropriation it would have to make. Every budgetary item of expenditure for participation in supplementary financing had to be balanced by a corresponding item of revenue. That point had been raised at Rome during an interministerial meeting.

Mr. GARCIA OLIVAR (Argentina) said that his country was a member of the Intergovernmental Group set up to lay the groundwork for the Committee's study of the scheme proposed by the Bank. Several delegations had raised objections, those raised by Australia being perhaps the most comprehensive. He would reply to two of them in particular. First, it had been said that the decline in export prices was not the only cause of the difficulties being experienced by the developing countries. That was no doubt true, but no machinery existed for
protecting those countries against falling prices, and supplementary financing had the virtue of diminishing their effects. Another delegation had criticized the proposed scheme by saying that it was not realistic to make export projections for a period of five or six years. True, no economist would make projections for more than two years in advance; the Bank, therefore, merely claimed to give an idea of the "reasonable expectations" which might serve as a basis for the system of supplementary financing. To illustrate his point, he quoted the example of the International Development Association, which had had to overcome numerous obstacles in its infancy but whose success was not now disputed. Many thought that it was the best method of redistributing aid. The assistance machinery proposed in the Bank's document amounted to providing insurance for exports. For instance, a country with a development plan exported raw materials which were subject to price fluctuations, and had inadequate financing; the proposed scheme ensured the financing of the development plan by guaranteeing the continuity of operations. Indeed, it represented a form of mutual insurance, in the sense that the supplier country would participate in providing assistance to the developing countries which imported its capital goods and would in return be assured of a continued market for those capital goods. Argentina was even ready to agree to the supplier country's being placed in a privileged position with regard to payment for the capital goods.

As to the view expressed by the representatives of Italy and the Federal Republic of Germany that a ceiling should be fixed for commitments, Argentina accepted the figure of $400 million proposed by the Bank for the initial capital and working capital fund of the scheme for five years. He agreed that it was logical and necessary to fix a ceiling. For their part, some developing countries had expressed the fear that the policy package for the supplementary financing scheme might mean interfering in the internal affairs of the recipient country. He hoped that they would say what practical difficulties they anticipated and pointed out that in actual fact the scheme would oblige the country receiving aid to express its wishes, since it would have to make a choice and embark on a development plan.

Lastly, he proposed that at their meeting in October the twelve countries should ask UNCTAD to prepare a preliminary document containing the observations...
made during the Sub-Committee's meetings. He took the present opportunity to point out that in the Spanish text of document TD/B/C.3/44 he would prefer the word "donor" to be translated by "apportantes".

The meeting rose at 12.55 p.m.
United Nations Conference on Trade and Development

TRADING AND DEVELOPMENT BOARD

COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

Second Session

SECOND SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE FOURTH MEETING

Held at Headquarters, New York,
on Thursday, 13 April 1967, at 10.30 a.m.

CONTENTS

Supplementary financial measures (TD/B/13; TD/B/73-TD/B/C.3/22;
(continued)

Chairman:  Mr. SAXE  United States of America
Vice-Chairman/Rapporteur:  Mr. RAFFAELLI  Brazil
Secretary of the Sub-Committee:  Mr. MYIT

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Services, Room 1104, and also incorporated in mimeographed copies of the record.

AS THIS RECORD WAS DISTRIBUTED ON 18 APRIL 1967, THE TIME-LIMIT FOR
CORRECTIONS WILL BE 21 APRIL 1967.

Mr. VILLAR (Spain) said that from the outset his country had attached especial importance to the problems of supplementary financing and had followed, through its observers, the discussions of the Intergovernmental Group. Spain supported the idea of establishing a supplementary financing mechanism to help the developing countries tackle the difficulties caused by an unexpected shortfall in their export receipts. For the consideration of that question the Sub-Committee had before it the study by the World Bank on supplementary financial measures (TD/B/43) and the reports of the Intergovernmental Group on Supplementary Financing on its first and second sessions (TD/B/C.3/41-TD/B/C.3/AC.3/16 and TD/B/C.3/44-TD/B/C.3/AC.3/17), all of which were excellent.

The study by the Bank revealed the most delicate points involved in the elaboration of the proposed scheme and threw light on the forms it might take. It was only after consideration of the various proposals and after having heard the views of delegations that the Group could work out a well-conceived system and entrust its operation to a given body. The proposals which he himself was about to put forward were designed solely to facilitate consideration of the question by the Group.

During the discussions in the Intergovernmental Group a number of delegations had requested clarifications of the "policy package" which was the crux of the scheme conceived by the Bank and which he would prefer to call the "economic policy package". The developing countries had a legitimate desire, which should be taken into account, to avoid all interference in their economic decisions. It would perhaps be useful to model the scheme on the method employed by international aid organizations. They merely made recommendations and allowed the countries concerned to take their own decisions subsequently.

There seemed to be little point in establishing an entirely new organization to administer the scheme. Most countries thought that it should operate in close co-operation with the International Monetary Fund and the Bank. Accordingly, Spain considered that the proposal put forward by the Federal Republic of Germany deserved the closest attention; it advocated the establishment of a co-ordinating
body or joint committee that would harmonize the decisions of the Fund and of the Bank and also the creation of a financial mechanism. It was important that the latter body should harmonize its decisions with those of the Fund for, when a country encountered difficulties in one sector, they had repercussions on other sectors. Besides supplementary financing, the recipient country would necessarily have recourse to the compensatory financing facility of the International Monetary Fund and to the basic financing provided by the Bank or IDA. The body responsible for administering the scheme could consult the studies carried out by the Fund or the Bank before granting assistance instead of carrying out studies which would merely cause duplication. It was then that the problem of financing and its terms would arise.

The forms and terms of the supplementary financing were important for both capital-receiving and capital-exporting countries. In view of the difficulties giving rise to the scheme, the financing would be medium-term. It was designed to prevent an unforeseeable shortfall in export proceeds from disrupting a development plan, an aim that was different from the long-term one of basic financing. Actually, recommendation A.IV.18 of the Conference on Trade and Development did not speak merely of long-term assistance but of "longer term assistance", i.e., longer in comparison with short-term balance-of-payments support. Among the proposals for a supplementary financing scheme Spain had taken particular note of those suggested by the Federal Republic of Germany and Ceylon. The former was designed to supplement other methods of financing and the latter would reinforce the basic financing essential for the execution of development plans.

Turning to the question of including invisibles in the scheme, he noted how discreetly they were mentioned in recommendation A.IV.18 on supplementary financial measures. It spoke of the level of export proceeds "(including, in appropriate cases, invisible exports)". Invisibles could be discussed in a special study and deserved the same treatment as visible exports for they exerted just as great an influence on the balance of payments. The quantitative as well as the qualitative importance of invisibles should be taken into account. According to the paper submitted to the Intergovernmental Group by the staff of the Bank (TD/B/C.3/AC.3/12), it was only on a country-by-country basis that the question whether or not to
include invisibles in export projections should be decided. It was doubtless difficult to draw up statistics on invisibles because of the complexity of the transactions involved by Governments should nevertheless be urged to obtain fuller data. It was important that countries should know in advance to what extent they would have recourse to the supplementary financing scheme.

No mention had been made of the consequences of an exchange policy on the export proceeds from commercial goods because the study was mainly concerned with receipts from visible exports to the detriment of receipts from invisibles.

Mr. KHANACHET (Kuwait) said that for the developing countries development meant the raising of living standards. Different factors retarded development: poor utilization of natural resources, an unfavourable climate, lack of skilled labour and a feudal agricultural system. The first concern of Governments was to find capital for financing development. They could not count on domestic savings for per capita income was ridiculously low. With a predominantly agricultural economy, they depended on primary commodity exports prices which were subject to fluctuations. They could not therefore count on regular export receipts and were compelled to have recourse to bilateral or, preferably, multilateral aid.

To assist the efforts being made by the developing countries to obtain capital, Kuwait was contributing one third of the capital of the Afro-Arab Development Bank and additional sums to other financial institutions which lent money on reasonable terms for the execution of development programmes.

While exports provided the main income of the developing countries, they were intimately linked to imports. The Secretary-General of UNCTAD had favoured a mechanism which would seek to remedy the effects not only of export shortfalls or fluctuations in export prices but also of increases in the prices of imported capital goods. The supplementary financing scheme could not replace measures taken to increase the prices of primary commodities and bring them closer to those of capital goods. So far, fluctuations in commodity prices, particularly of food-stuffs, had caused such losses that they had absorbed the whole of the external aid given to the developing countries. The supplementary financing scheme was undoubtedly laudable but
it should not serve as a pretext to the developed countries for shirking their obligations towards the developing countries. The developed countries could help the less developed in several ways: they could open up their markets, eliminate customs barriers and, in general, abandon the two-faced policy of adopting protectionist measures at home and preaching free trade to the developing countries.

Mrs. GINOR (Israel) said that the IBRD study on supplementary financial measures and the Horowitz proposal could be regarded as complementary. The supplementary financial system advocated by the Bank was designed to deal with unexpected deficits in the developing countries' foreign exchange earnings from their exports. The Horowitz proposal was aimed at increasing the total amount of financial aid. Some of the funds raised in that manner might be used for the suggested supplementary financing system, which should be effective in spite of its complexity. It was very important to ensure that the implementation of development programmes was not held up merely because the countries concerned lacked foreign exchange resources to purchase the necessary imports. Loans made on liberal terms would be a means of dealing in good time with situations of that kind. The technical difficulties involved in the establishment of the proposed system were not insurmountable.

The developing countries were to receive supplementary financial assistance only if they suffered an unexpected deficit in their export earnings and could not make the necessary adjustments without throwing their development programme out of gear. That meant that preliminary agreements would have to be concluded between countries and the agency. Great care had to be taken, however, to avoid any interference in the domestic policy of recipient countries; the agreements could doubtless be of a merely general character. If measures of that kind were to be genuinely supplementary, the basic financing would of course have to be provided according to the agreed time-table. Furthermore, while some flexibility in export projections was undoubtedly desirable, too many adjustments might have adverse effects on some long-term projects, such as the construction of electric power stations or irrigation systems. Another important question was whether the machinery proposed by the Bank could be used in cases where a foreseeable decline in the prices of or demand for certain commodities resulted in a foreseeable - but
nonetheless harmful - deficit in the foreign exchange resources of certain countries, thus holding up the implementation of their development programmes. Any accurate estimate of the deficit in export earnings had to allow for possible increases in the prices of imports used by the exporting industries. For certain countries that could be of considerable importance. The loans obtained through the supplementary financing system should be granted on liberal terms, to avoid any aggravation of the balance-of-payments situation in recipient countries. As to financial adjustments at the national level, the implementation of certain projects could in some cases be delayed, without interrupting the development programme, which would be contrary to the very objectives of the system proposed by the Bank. Serious reductions in the rate of economic growth should also be avoided.

She agreed with the view expressed by several representatives that the solution of most of the problems she had mentioned should be left to the agency which would be responsible for administering the supplementary financing system.

Mr. MARK (United Kingdom) said he wished to comment on the value of the supplementary financing system proposed by the Bank, the difficulties involved in applying it and the possible effect on existing multilateral aid agencies of the establishment of a new organization to administer the system.

The value of the supplementary financing measures was undeniable, for no other solution had yet been advanced for dealing with the adverse effects of fluctuations in the exports of developing countries. The measures proposed would complement the compensatory financing system operated by the International Monetary Fund. The French representative had argued in favour of action to organize the world market; but it was doubtful whether that approach would be equally suitable for countries as different from one another as the developing and the industrialized countries. The practical implications of organizing the market would have to be worked out for each commodity. Lastly, a system of that kind might lead to some rigidity in international trade relations. Another substitute solution suggested had been the conclusion of agreements for each commodity.
The representative of the Federal Republic of Germany had expressed some concern both at the complexity of the system proposed by IBRD and the vagueness of the information given on the cost of the suggested method of supplementary financing. In point of fact, the Bank had stated that the proposed operations would differ little from those at present being undertaken by IMF and by IBRD itself. As to the cost, a more accurate estimate, with a reasonable margin of error, would have to be made. In that connexion, it was for the Bank to supply the additional information.

It had also been suggested that the financial resources of IDA should be increased considerably. But it might be difficult for Governments to contribute to the reorganization of IDA and to increasing its resources while at the same time supplying the capital required for the supplementary financing system. The expansion of IDA would certainly have repercussions on the development of other multilateral aid systems and on the implementation of the Horowitz proposal. As a result, an element of competition might appear in the field of multilateral aid.

The Intergovernmental Group should study the practical details of putting into effect the supplementary financing system proposed by IBRD.

Mr. KAILASVUORI (Finland) said that supplementary financing was fully justified by the fact that fluctuations in trade earnings were much larger for primary commodities than for other goods. In spite of the IMF compensatory financing system and other means of assistance, the methods at present available for offsetting the unfavourable effects of such fluctuations on development were entirely inadequate. It was therefore essential to adopt new international compensation measures to supplement the existing commodity agreements.

In spite of the excellent work it had done, the Intergovernmental Group had not solved all the problems. For instance, if export projections covering a period of four to six years were not flexible enough, then donor countries could hardly use them as a basis for calculating their financial commitments. On the other hand, it had been pointed out quite rightly that if the projections were revised too often, no deficits would appear and no supplementary financing would be necessary. But the purpose of making adjustments in the projections was to allow for variations in demand on the world market and ensure a degree of continuity in the implementation of development programmes.
Nor had the question of the proper use of surpluses been settled satisfactorily. Care had to be taken to ensure that the accumulation of surpluses during the first years of the planning period did not, by reducing a country's chances of receiving supplementary financing, also reduce its propensity to export or its desire to increase its marketing and sales promotion efforts.

The system was also too restrictive in the sense that it mainly took into account earnings from trade in primary commodities. It would be logical to include all the elements of the balance of payments, especially the terms of trade. Measures designed to compensate for a fall in exports must at the same time ensure the maintenance of the level of imports, particularly in the case of goods essential to the implementation of a country's development plan.

The expression "terms of trade" could mean either the ratio of exchange between commodities, or the interchange of productive resources, or trading profits. Generally speaking, variations in the terms of trade relating to commodities, factors and income were more important for the developing countries than variations in the other elements. Naturally, if a country's foreign trade included a large proportion of invisibles, the terms of trade affecting goods were not a reliable indication of its import capacity. As variations in the terms of trade differed greatly according to whether they were considered from the point of view of exchange proper, of a particular factor or of income, the choice of a relevant criterion for the calculation of supplementary financing requirements would have important repercussions on the development of the recipient countries.

Before the aid-supplying countries undertook to finance the system, it would be necessary to determine the order of magnitude of the financial requirements and to establish criteria for the distribution and phasing of contributions. Financial requirements would naturally depend on the scale of the system. If the system was to be an effective instrument of development, both the supplementary financing needs and the possibilities of financing the proposed machinery would have to be taken into account. The sheer complexity of the problems meant that there were many difficulties, but practical solutions must nevertheless be sought. From that point of view, the Bank study and the reports of the Intergovernmental Group provided an excellent basis.
Mr. FINKEL (United States of America) said that he had listened to the statement by the Chairman of the Intergovernmental Group with great interest. The documentation before the Committee faithfully reflected the discussions which had so far taken place. The representative of the Federal Republic of Germany had put forward an alternative proposal, and it seemed that further discussion would be necessary before the details of an appropriate supplementary financing system could be finally settled. The United States Government needed time for reflection before deciding on its position. He wished, however, to state that he regarded the replenishment of IDA resources as a matter of priority.

Mr. LALOUX (Belgium) said that his country, while not belonging to the Intergovernmental Group, was keenly interested in the question of supplementary financing. As the Group's work had not yet been completed, his Government was not at present in a position to express a view based on full knowledge of the facts. He thought, however, that supplementary financing should not be regarded as an alternative to solving the problem of stabilizing commodity prices; the solution of that problem was a matter of the utmost urgency, although the difficulties that remained to be overcome must not be underestimated.

His delegation, like those of Australia and Canada, had grave doubts regarding the scheme which was emerging from the initial discussions. It attached particular importance to the question of the respective spheres of competence of the international agencies concerned - a point to which the IMF representative had drawn attention at the last session of the Intergovernmental Group. In particular, the respective areas of application of compensatory and supplementary financing must be clearly defined. The policy package which the developing countries would have to accept in order to participate in the system and enjoy the benefits of supplementary financing involved undertakings in respect of both monetary and financial policy.

His delegation thought that exchange policies, internal financial policies and trade policies considered from the point of view of the balance of payments were matters falling within the immediate competence of the International Monetary Fund, which must not be encroached on. Close co-operation in those specific fields must therefore be ensured between the IMF and the body in charge of the supplementary
financing system. With the two systems existing side by side, it was almost inevitable that a country in deficit would wait until it found itself in a position to take advantage of the most favourable terms, namely, those envisaged under the proposed supplementary financing machinery, which would involve no precise and specific undertakings but merely the recognition of certain broad aims of economic policy. Recipient countries might find such a comparatively easy-going procedure more attractive than the more stringent rules of the IMF. As a result, the supplementary financing system would ultimately upset not only the compensatory financing machinery but also the drawing terms of loan tranches. It was therefore important that the two systems, compensatory and supplementary financing, should perform their respective functions. The competent organizations must define the field of activity of each of the two bodies precisely. If a system of supplementary financing was to be introduced, its satisfactory functioning would depend on the way in which that problem was solved.

So far as the availability of money for a supplementary financing fund was concerned, the problem of replenishing the capital of IDA must not be overlooked, especially as the President of the World Bank had proposed in that connexion that the annual contribution of the industrialized countries should be quadrupled.

Finally, his delegation had noted with interest the proposals submitted by the representative of the Federal Republic of Germany, which had been generally acknowledged as constructive and deserved careful study.

The meeting rose at 12 noon.
United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

Second Session

SECOND SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE FIFTH MEETING

Held at Headquarters, New York,
on Thursday, 13 April 1967, at 5.20 p.m.

CONTENTS

Supplementary financial measures (TD/B/43; TD/B/C.3/41, 44) (continued)

Chairman: Mr. SAXE United States of America

Vice-Chairman/Rapporteur: Mr. RAFFAELLI Brazil

Secretary of the Sub-Committee: Mr. MYIT

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As this record was distributed on 17 April 1967, the time-limit for corrections will be 20 April 1967.
SUPPLEMENTARY FINANCIAL MEASURES (TD/B/43; TD/B/C.3/41, 44) (continued)

Mr. VIAUD (France) said that the main purpose of the discussion was to enable the members of the Committee, particularly the representatives of countries which are not members of the Intergovernmental Group, to express their views on the Group's reports, so as to guide it in its future work. The Group's work had so far proved fruitful: it had led to a deeper knowledge of the developing countries' external financing problems and had produced useful information, such as the study on invisibles submitted to the Group's second session. Furthermore, the discussion at that session had revealed more clearly than ever the imperative need for the developing countries to prepare and implement comprehensive and effective development plans.

However, the Group had not succeeded in eliminating the ambiguities of the IBRD scheme or in dissipating his delegation's misgivings about the concept on which it was based. Since the Group had not yet completed its work he would not comment on the technical difficulties involved in the scheme, which had already been analysed by previous speakers. It was, however, regrettable that the study on the respective importance of export shortfalls and other causes of instability in external development financing had not yet been prepared.

His delegation still had reservations about the basic principle of the scheme, which was merely a palliative and did not attack the root of the problem. The scheme would not ensure an equitable distribution of the financial burden, for the developed countries' contributions would not be related to their volume of trade with the developing countries. The scheme's resources might be distributed among recipient countries in an inequitable and even arbitrary way. The scheme would subject the recipient countries to constraints incommensurate with the benefits they would reap. The proposed machinery was cumbersome and complex; it would involve complete and permanent supervision of the developing countries' economic and financial policies, but those countries would receive only limited financial resources in exchange. The scheme was basically hybrid: technically, it was a compensatory financing device, but it also purported to serve the more ambitious economic purpose of assuring the developing countries of a regular flow of financing for economic development. Those two aims were difficult to reconcile in practice, and the scheme would therefore lead to a regrettable confusion of various possible courses of action.
It would be more realistic to draw a careful distinction between the various levels at which action should be undertaken. A posteriori compensatory financing could be handled by the existing IMF machinery, which could be modified as appropriate. However, curative measures should be combined with preventive action at the economic level of trade and prices. His Government would prefer methods designed to create more favourable export conditions for the developing countries, even if that meant restricting the free play of economic forces. Such action would be more constritive to the industrialized countries, but the technical difficulties involved could be overcome if the necessary political will existed.

The CHAIRMAN informed the representative of France that IBRD was working on a study of the respective importance of export shortfalls and other causes of instability in external development financing.

Mr. WILMOT (Ghana) said that his Government continued to be interested in a supplementary financing scheme designed to prevent development programmes from being disrupted by unexpected shortfalls in export earnings. In the absence of an organized, objective system of basic financing, such a scheme would help the developing countries overcome the difficulties resulting from erratic fluctuations in the prices of their exports caused by the present imbalance in the structure of international trade. The basic concepts of the IBRD scheme were sound and deserved favourable consideration. There were of course many outstanding problems, but they did not detract from the scheme's importance and urgency and efforts should be made to expedite their solution.

There were two major issues to be resolved, the first being the question of the policy package. The related difficulties were ably described in chapter I of the Intergovernmental Group's report on its second session (TD/B/C.3/144), but the crux of the matter was the need to evolve an arrangement which would satisfy donor countries that export shortfalls were beyond the control of the developing countries concerned, i.e., allay the developing countries' fear that the package would become a means of interfering in the policies of sovereign States. The solution might be to apply the methods used in the existing consortia and consultative groups established to help finance the development plans of certain countries. The second major issue was that of the scheme's resources. His delegation was not yet ready
to commit itself to any specific figure, but believed that objective criteria could be applied to determine the funds needed to ensure the attainment of the scheme's objectives. Some representatives had contended that action should be concentrated on preventive rather than curative measures, but in his view efforts should be pursued simultaneously in both spheres.

The Committee, which was not the proper forum for the detailed analysis of the outstanding issues, should endorse the Group's work and ask it to expedite its activities so that the scheme could be considered by the second Conference.

Mr. MYRSTEN (Sweden) said that the views expressed during the discussion would undoubtedly give the Group valuable guidance for its future work. His Government's basic views on the IBRD scheme were explained in the documents of the Group and he would not repeat them. However, he wished to comment on the relationship between supplementary financing and commodity policy. The Scandinavian countries had devoted special attention to problems relating to commodity trade and would continue to work for the conclusion of commodity arrangements whenever feasible. Supplementary financing and direct action in the commodity field were equally necessary and efforts should be pursued simultaneously in both spheres. The discussion in the Group and the Committee had revealed a measure of agreement about the weaknesses of the IBRD scheme, but views differed as to their importance and the virtues of possible alternatives. His delegation considered the scheme practicable, but would accept modifications that would improve it without jeopardizing its basic structure. The scheme was very important to the developing countries and he hoped that it would be adopted at the second Conference.

The meeting rose at 5.50 p.m.
PROVISIONAL

TD/B/C.3/SC.5/SR.6
19 April 1967
ENGLISH
ORIGINAL: FRENCH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE
SECOND SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE THIRD MEETING

Held at Headquarters, New York,
on Friday, 14 April 1967, at 12.30 p.m.

CONTENTS

The Horowitz proposal: consideration of the report of the group of experts (TD/B/C.3/1 and Add.1 and 2; TD/B/C.3/23 and Corr.1 and 2)
Supplementary financial measures (TD/B/43 and Rev.1)

Chairman: Mr. Saxe United States of America
Vice-Chairman/Reproriteur: Mr. Raffaelli Brazil
Secretary of the Sub-Committee: Mr. Myit

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67-35904/A
THE HOROWITZ PROPOSAL: CONSIDERATION OF THE REPORT OF THE GROUP OF EXPERTS
(TD/B/C.3/1 and Add.1 and 2; TD/B/C.3/23 and Corr.1 and 2)

Mr. DELL (Director, New York Office of UNCTAD) said that the group of experts appointed to consider the Horowitz proposal (TD/B/C.3/23) had undoubtedly been influenced by the unfavourable conditions prevailing in the capital markets at the time of its meeting. Actually, it appeared that substantial resources would be available in the world markets in the years to come and could be transferred to the developing countries. Likewise, the balance-of-payments pressures experienced by the principal donor countries could not continue indefinitely. In any case, there might be ways of engineering the Horowitz proposal so as to take into account existing balance-of-payments positions.

A substantial volume of resources would also be available in the international bond market.

The group of experts had studied both the original and the amended versions of the Horowitz proposal. The original proposal provided for an international institution to borrow funds on commercial terms and to re-lend those funds, through IDA, to developing countries at low rates of interest for a suggested period of thirty years. The difference between borrowing and lending rates would be covered by an interest equalization reserve. The indebtedness of IDA would be guaranteed by the Governments of the developed countries. Thus the Bank's credit standing would not be adversely affected by such a transfer of resources to IDA - a protection considered essential by the group of experts in paragraph 13 of its report. In the amended version of his proposal, Mr. Horowitz had not provided for a system of separate guarantees, which might prove difficult to obtain. The members of the group of experts had been divided in their views as to the maximum annual amount the Bank would be able to lend IDA, unless there were a separate system of guarantees, without impairing its credit standing. In any event, the representative of the Bank had made it clear that the Bank would not be prepared to make any advances to IDA that were not secured by additional guarantees.

He drew attention to the arrangement whereby Associated States of the European Economic Community, when borrowing from the European Investment Bank, could request that an interest rebate be made by the European Development Fund. Since the European Investment Bank raised part of its resources on private capital markets, that system had some elements in common with the Horowitz proposal.
In the foreword to the report of the group of experts, Mr. Prebisch had stressed the need to maintain the credit standing of the World Bank in world markets, at the same time expressing the view that there should be no insuperable obstacle to a major expansion in the flow of resources from capital markets to developing countries if the political will existed.

SUPPLEMENTARY FINANCIAL MEASURES (TD/B/43 and Rev.1)

Mr. DODIC (Yugoslavia) said that his delegation wished to stress, as it had in the Intergovernmental Group on Supplementary Financing, the importance it attached to the application of the recommendation of the first Conference concerning supplementary financial measures. The scheme proposed by the staff of the International Bank was an excellent one. Some elements, such as the policy package and the export projections, could clearly be improved, so as to make the system better suited to the needs and interests of recipient and donor countries. The Committee should therefore request the Intergovernmental Group to continue its work without delay; the results could be submitted to the second Conference.

He expressed his appreciation to the Swedish representative for his extremely valuable, comprehensive and pertinent observations on that point.

The meeting rose at 12.40 p.m.
United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

Second Session

SECOND SESSIONAL SUB-COMMITTEE

PROVISIONAL SUMMARY RECORD OF THE SEVENTH MEETING

Held at Headquarters, New York,
on Friday, 14 April 1967, at 3.15 p.m.

CONTENTS


Chairman: Mr. Saxe United States of America
Vice-Chairman/Rapporteur: Mr. Raffaelli Brazil
Secretary of the Sub-Committee: Mr. Mytt

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67-35910/A
THE HOROWITZ PROPOSAL: CONSIDERATION OF THE REPORT OF THE GROUP OF EXPERTS
(TD/B/C.3/1 and Add.1-2, 23 and Corr.2) (continued)

Mrs. GINOR (Israel) proposed that, as an exception to the general rule, the statement made by Mr. Dell at the preceding meeting should be issued in full as a Committee document.

It was so decided. 1/  

Mrs. GINOR (Israel) said that the discussion in the Committee had demonstrated the need to increase the net flow of capital to the developing countries on soft terms which were compatible with their debt-servicing capacity. The Horowitz proposal was designed to meet that need. Since the mobilization of resources on the world capital markets involved the payment of the interest rates prevailing on such markets, provision was made for the creation of an interest equalization fund and a system of guarantees by the developed countries. The purchasers of the international bonds would be not only private investors but also institutions such as pension funds, insurance companies, investment trusts and banks and even central banks, if the bonds received the financial backing of the developed countries in the form of guarantees.

In paragraph 6 of its report (TD/B/C.3/23), the group of experts had stated that the way in which the really large amounts of soft aid required could be quickly provided through multilateral channels was by increased budgetary grants or by governmental loans direct to IDA. If such amounts had been forthcoming, however, there would have been no need for the discussions in the Committee or for the Horowitz proposal. The improvement of the situation in capital markets which the group had foreseen (TD/B/C.3/23, para. 7) was already taking place; annual new issues amounted to over $30,000 million.

The amended version of the Horowitz proposal (TD/B/C.3/23, annex A) had been submitted in order to show the flexibility of the scheme. That version, which did not involve government guarantees, could have been tested on a limited basis and Governments would then have been more willing to give their approval to the guarantees needed for the implementation of the proposal on a wider scale. However, in the light of the comments of the group of experts, her delegation agreed with Mr. Dell that it would be preferable to revert to the original proposal.

1/ The full text of Mr. Dell's statement has been issued as document TD/B/C.3/SC.5/L.1.
The implementation of the proposal depended on the political will of the countries concerned. The group of experts had been relatively optimistic about the possibility of Governments' granting access to their capital markets. However, it had drawn attention to the difficulties which would be involved in a separate system of joint and several guarantees by Governments to IDA, as outlined in the report by the staff of the Bank (TD/B/C.3/1). It seemed that there would be no difficulty in obtaining contributions to an interest equalization fund.

Governments were already making certain budgetary allocations for the development of the developing countries. The advantage of the Horowitz proposal was that, with the same allocations, a much larger volume of capital could be mobilized - about twenty-five times more than the highest annual amount to be paid as interest differential. Balance-of-payments difficulties were only temporary and should not influence government attitudes towards the long-term problem of aid to the developing countries.

The borrowing power of the World Bank would change and there had been times when the Bank had not used its full borrowing power. It was only natural for the Bank to make a conservative estimate of its borrowing power and of the factors which might affect its credit rating. The Bank's strong standing in world markets should naturally be maintained; however, that standing would not be impaired if its full borrowing power were used. The group of experts had stated that, if IDA were the borrowing agency, "the appearance of a new borrower would probably add significantly to the total funds that could be raised by IDA and the Bank combined" (TD/B/C.3/23, para. 11). It might therefore be advisable to consider reorganizing IDA so as to enable it to borrow on world capital markets.

Reference had been made to the constitutional difficulties arising from the long-term nature of the required government commitments. The same method as that adopted by Governments for internal long-term loans with annual interest payments would have to be adopted in the case of budgetary allocations for the interest equalization fund and government guarantees for the bonds.

As two members of the expert group had stated, the Horowitz proposal offered "new possibilities in the field of development financing" (TD/B/C.3/23, annex F). The United Nations could do useful public relations work by informing the developed countries of the effectiveness of aid and the capacity of the developing nations to use more assistance. The Horowitz proposal, together with the other main proposals
for the channelling of capital to the developing countries, should form the basis for negotiations between developed and developing countries at the Second Conference on Trade and Development.

Mr. MEULEMANS (Belgium): said that in order to implement the Horowitz Proposal, the Governments of the developed countries would have to make certain commitments. First, they would have to guarantee loans to be issued by IDA, both for reimbursement of the principal and payment of interest; secondly, they would have to guarantee the possible refinancing of such loans; thirdly, they would have to contribute to the interest equalization fund; and fourthly, they would have to authorize the issuance of loans on their capital markets. While the first three long-term commitments would raise legislative, and especially budgetary, difficulties, access to capital markets was determined by the situation of the market, balance-of-payments problems and development needs in the developed country concerned. The report of the group of experts (TD/B/C.3/23) showed the difficulty of using capital markets to accelerate the transfer of resources to the developing countries, and was realistic enough to point out that the best way to provide large amounts of soft aid through multilateral channels was by increased budgetary grants or by governmental loans direct to IDA. For the Horowitz Proposal to succeed, the developed countries would also have to agree to supply additional funds if the administering institution could not place its bonds on their markets. However, if they did so, the situation of the capital market in most developed countries and the way in which funds were allocated might prevent the achievement of the main objective of the Horowitz Proposal, namely, that funds from the capital market should be substituted for budgetary grants.

Mr. Dell said he had referred to the possibility of applying the Horowitz Proposal within the framework of the treaties of association between ECE and certain countries. The European Investment Bank had used a similar procedure for its loans to Turkey under a treaty of association which had been financed by the members of ECE from budgetary funds.

He agreed with the group of experts that it would be difficult to use IDA as a borrowing agency, and that, if the Bank made loans to IDA which were guaranteed by the developed countries, the credit standing of the Bank might be adversely affected.
It would be difficult for the Bank to make direct loans to IDA, as had been suggested in the amended version of the Horowitz proposal, for several reasons. First, IFC and IDA, while both affiliates of the Bank, were quite distinct in terms of both capital and objectives. Secondly, a modification of the charters of the Bank and of IDA would be required. Thirdly, even if the sums involved were relatively small, they would have a disproportionate effect on the credit standing of the Bank. Fourthly, government guarantees would be required.

The best way to increase the transfer of resources on favourable terms, in view of the way in which funds were allocated at present and the nature of the capital market, was to replenish IDA resources by means of budgetary allocations.

Mr. WILMOT (Ghana) expressed support for the Horowitz proposal. Even in existing conditions, the capital market was sufficiently flexible to support the proposed scheme and there was every indication that it would show a substantial improvement in the near future.

An arrangement whereby Governments made budgetary allocations to an interest equalization fund should present no insuperable difficulties, if the political will existed. In addition, an alternative arrangement had been suggested whereby some of the Bank's net earnings would be transferred to the interest equalization fund. Alternatively, funds could be raised through an international taxation system, such as his delegation had proposed (TD/B/C.3/SR.47). The Secretary-General of UNCTAD should be requested to reconsider the Horowitz proposal, in the light of recent and prospective changes in the world capital markets, and to give special consideration to possible sources of revenue for the interest equalization fund. The studies on the proposal should be brought up to date since the proposal would be a suitable subject for negotiation at the Second Conference on Trade and Development.

Mr. MARK (United Kingdom) said that the Horowitz proposal was an ingenious yet simple attempt to tap capital resources for development which were not otherwise available. It was, moreover, not a completely new idea since a number of donor countries already raised funds in the private market for part, at least, of their aid programmes. The question was how far the scheme could be developed. The Bank's report (TD/B/C.3/1) and the report of the group of experts (TD/B/C.3/23)
seemed sceptical about it, although they recognized that, within limits, it could be useful. A particular problem raised in the Bank's report was the long-term nature of the commitments implied. Governments would have to accept an obligation to make regular allocations of budgetary funds for development assistance purposes over a long period. That would be a radical departure from current practice since no aid allocation was exempt from annual revision in the light of financial and economic policies.

While the scheme did, at least initially, circumvent the budgetary restrictions involved, it had no real effect on the question of the transfer of economic resources; that was true whether the funds came from the private capital market or from budgetary allocations. Moreover, he did not feel that short-term fluctuations in the private capital market could be considered relevant. The problems involved in the scheme went much deeper; all that could be said was that in the long term the resources of capital markets would expand as the economies of the countries concerned expanded.

More important, however, was the policy issue raised at the end of the Bank's report. It asked whether, if there were general agreement that IDA's resources should be substantially increased, the increase should come from increased annual subscriptions to IDA or by increased direct contributions to IDA in the form of grants or loans. The question of the replenishment of IDA, and its demand on the resources of Part I IDA members was of great importance. The problem was not so much one of political will, as had often been observed, but more a question of priorities. The Horowitz proposal as such had been amply discussed and there was no need for further technical analysis of it. It would perhaps be best to wait and see whether the other major proposals which were in a more advanced stage of consideration, such as the replenishment of IDA or supplementary financial measures, gained acceptance before considering any further action on the Horowitz proposal.

Mr. FERNANDEZ (Argentina) said that, in view of the favourable effects which the Horowitz proposal was likely to have on the development of the developing countries, and the fact that favourable movements seemed to be occurring in the international capital market, he would support the suggestion made by the representative of Ghana that the UNCTAD secretariat should bring its studies of the proposal up to date.

The meeting rose at 4.15 p.m.
Supplementary financial measures (TD/B/43; TD/B/C.3/22, 41, 44) (continued)

The Horovitz proposal: consideration of the report of the group of experts (TD/B/C.3/1 and Add.1 and 2, TD/B/C.3/23) (continued)

Chairman: Mr. Saxe United States of America
Vice-Chairman/Rapporteur: Mr. Raffaelli Brazil
Secretary of the Sub-Committee: Mr. Myit

Corrections to this record should be submitted in one of the three working languages (English, French or Spanish), preferably in the same language as the text to which they refer. Corrections should be sent in triplicate within three working days to the Chief, Conference and Meetings Control, Office of Conference Services, Room 1104, and also incorporated in mimeographed copies of the record. As this record was distributed on 19 April 1967, the time-limit for corrections will be 24 April 1967.
The CHAIRMAN suggested that the Sub-Committee should recommend that the third session of the Intergovernmental Group on Supplementary Financing should be held in Geneva in late October 1967 for a period of two to three weeks. The Sub-Committee might also recommend that the Intergovernmental Group should complete its work in time for the second UNCTAD Conference and that, if necessary, a fourth and final session of the Group should be held in early December 1967.

It was so decided.

Mr. RAFFAElli (Brazil) said that when the plenary Committee had examined item 4 of the agenda, which was closely related to the question of supplementary financial measures, it had found that the gross flow of resources from developed to developing countries had diminished in absolute terms and in 1965 had been only slightly higher than in 1961. The flow was far below the level of 1 per cent of the gross national product of the developed countries which had been advocated for the Development Decade. If the present trend continued, the net flow might reach zero by 1975. While the total amount of grants and concessional loans had decreased, the proportion of ties and hard loans had increased, as had average interest rates. Moreover, the rate of growth of the foreign trade of the developing countries had been lagging and their share of world trade had declined. Therefore, despite the efforts of the developing countries to mobilize their internal resources for development, rates of growth had often failed to reach the annual target of 5 per cent. The gap between developed and developing countries was becoming wider. Both in trade and finance urgent measures must be taken to give the necessary impetus and continuity to the economic development of the developing countries.

The supplementary financing scheme proposed by the Bank must ensure that resources were adequate and that assistance, which should be on concessional terms, was reliable and timely. While a minimum level of resources for supplementary financing should be established, he did not think that the scheme
necessarily constituted an open-ended commitment. The "policy package" should not be defined too rigidly; otherwise it could only be interpreted by the agency operating the scheme. While he would agree that commodity agreements, and measures to expand and diversify trade as well as to increase the flow of basic finance, were perhaps more fundamental, he felt the supplementary financing scheme would make a useful contribution.

Although difficult to construct, export projections were essential for any development plan and should become increasingly accurate with the operation of the scheme. Import prices, whenever possible, must be taken into account when calculating export shortfalls, while export overages, which were generally the result of an additional effort by a developing country to expand its exports, could be usefully used for development purposes.

In order to guarantee the effectiveness of the supplementary financing scheme, immediate steps must be taken to increase the flow of resources to the developing countries and to soften the terms and conditions of aid. There were already enough studies to show the diminishing flow of resources, the worsening terms and conditions of aid, and the increasing indebtedness of the developing countries. The success of the scheme in increasing development aid and in preventing the disruption of development programmes depended on an adequate flow of international resources. So far, the problem had been studied but the necessary practical steps had not been taken.

At the fourth session of the Trade and Development Board, the developing countries had urged that the second Conference should consider measures to increase the flow of international capital to developing countries, to improve the terms and conditions of aid, and to deal with the problem of international indebtedness. At that time, however, the developed countries had indicated that they were unwilling to discuss such measures. His delegation, however, was convinced that it was now time to consider both the facts and the action to be taken. Accordingly, on behalf of the delegations of Argentina, Brazil, Chile, the Democratic Republic of the Congo, Ecuador, Mexico, Sudan, Tunisia, the United Arab Republic and Yugoslavia, he would submit to the Sub-Committee a draft resolution,\(^1\) recommending the establishment of an inter-governmental group of

\(^1\) Subsequently issued as document TD/B/C.3/L.49.
(Mr. Raffaelli, Brazil)

experts to study and report to the second session of UNCTAD on measures to improve basic finance. While it might be argued that the experts would not have sufficient time to fulfil their task, at least they must make a start. Time was of the essence for the developing countries and the establishment of an inter-governmental group of experts should be a further positive step forward towards solving the problems of development.

Mr. MARK (United Kingdom) said he would wait until the draft resolution introduced by the representative of Brazil had been circulated before commenting upon it. However, his first impression was that the scope of the proposal went beyond the terms of reference of the Sub-Committee.

The CHAIRMAN said that the Sub-Committee had now concluded its consideration of item 8, subject to any comments which might be made at a later stage on the draft resolution.


The CHAIRMAN recalled that at the previous meeting the representatives of Ghana and Argentina had suggested that the Secretary-General of UNCTAD, if necessary, with expert advice, should review the report of the Group of Experts (TD/B/C.3/23), in the light of developments since the report had been prepared. The Sub-Committee should consider whether it wished to recommend that course of action to the plenary Committee.

Mr. AYARI (Tunisia) said that his country would support any plan to establish flexible machinery that would ensure the developing countries of adequate inflows of long-term capital on acceptable terms. It was questionable whether the Horowitz scheme fulfilled those criteria. It was not certain that the private capital markets, which were limited in number, could be relied on to produce the regular flows the developing countries needed, for their capacity to absorb bond issues was influenced by various unpredictable factors, including balance-of-payments considerations. Furthermore, the Horowitz scheme was complex and would involve substantial administrative costs.
It was therefore necessary to study alternatives to the Horowitz scheme which would be less cumbersome and ensure a regular flow of resources to the developing countries. For example, those countries' needs could be met if IDA’s resources were increased by $1,000 million a year, as suggested by the President of IBRD. The Bank’s paid-up capital was quite small in relation to its subscribed capital: some of the callable capital could be lent to IDA on favourable terms. The Articles of Agreement of IDA could be revised if necessary.

His delegation had co-sponsored draft resolution TD/B/C.3/L.49, calling for the establishment of a group of experts to study the whole problem of development financing and report to the second session of UNCTAD. The group should study the Horowitz plan and all possible alternatives; the main points to be considered were the way in which funds should be obtained, the way in which they should be administered and the terms on which they should be made available to developing countries.

Mrs. GINOR (Israel) observed that the Tunisian representative had criticized the Horowitz scheme for its complexity. Yet the supplementary financing scheme proposed by IBRD, which was much more complicated, seemed to be well on the way to implementation. The Horowitz scheme was in fact relatively simple, and at the Sub-Committee’s seventh meeting the United Kingdom representative had said that his country had already used a similar scheme successfully at the national level. It was true that the Horowitz scheme would be unnecessary if large amounts of capital were made available to IDA, but at present it could not reasonably be expected that IDA’s resources would be increased by the requisite amount.

Furthermore, time was a very important factor in development; under the Horowitz scheme, the constitution of the interest equalization fund would permit the immediate mobilization of substantially increased resources and the annual interest differential payments would be very small. Some speakers had referred to the uncertainty of the private capital market as a source of funds, but $30,000 million were raised on those markets annually.

Mr. MARK (United Kingdom) explained, for the benefit of the Israel representative, that he had said that a scheme similar to the Horowitz scheme was used in certain donor countries but not in the United Kingdom.
Mr. PARKINSON (Canada) observed that there was a tendency to over-estimate the untapped resources of the private capital markets, which were tight at present, owing to the many demands made upon them. The Bank raised substantial sums on those markets and the Governments of developed market-economy countries had recourse to them to finance their own schemes, including loans to developing countries and contributions to IDA. Any substantial increase in the funds available on all or one of those markets would mean that the world economy, or the economy of the country in which the market concerned was situated, was undergoing a recession or a depression. That situation would be detrimental to the developing countries as well as the developed ones, for it would make it difficult for the former to sell their products to the latter. The developing countries derived greater benefit from sales to developed countries than from the private capital that would be released for the Horowitz scheme or some similar scheme by a downswing in the economy of the developed market-economy countries.

The CHAIRMAN declared the discussion on item 5 closed, subject to consideration of draft resolution TD/B/C.3/L.49.

The meeting rose at 4.20 p.m.
Draft resolution submitted by ten developing countries (TD/B/C.3/L.49)


Chairman: Mr. Saxe
United States of America

Vice-Chairman/Reporteur: Mr. Raffaelli
Brazil

Secretary of the Sub-Committee: Mr. Myit

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As this record was distributed on 20 April 1967, the time-limit for corrections will be 25 April 1967.
DRAFT RESOLUTION SUBMITTED BY TEN DEVELOPING COUNTRIES (TD/B/C.3/L.49)

The CHAIRMAN suggested that, as the scope of the draft resolution was somewhat broader than the scope of the Sub-Committee's work, it should be referred for consideration to the plenary Committee.

It was so decided.


TD/B/C.3/SC.5/L.2 (Supplementary financial measures)

In response to a request from Mr. FINKEL (United States of America), Mr. RAFFAELEI (Brazil), Rapporteur, said that the following would be added after the first sentence of paragraph 4: "Several representatives expressed the view that in the course of the discussions Governments represented on the Intergovernmental Group would have the opportunity to receive the views of those not represented on it. They expressed satisfaction that this had been the case and said that those views would be most helpful to the Intergovernmental Group."

Mr. LEKOWA (Democratic Republic of the Congo) observed that the draft report had not yet been circulated in French.

The meeting was suspended at 2.25 p.m. and resumed at 4.15 p.m.

Mr. RAFFAELEI (Brazil), Rapporteur, announced that paragraph 1 should begin with the words "At its 39th meeting on 5 April 1967, the Committee...". In response to a request from a delegation, he had altered the first sentence of paragraph 14 to read: "The representative of one country expressed the view that earnings from invisible items should be included in projections of external receipts." He had altered the second sentence of paragraph 16 to read: "One representative stated that supplementary finance should...." Similarly, he had altered the second sentence of paragraph 18 to read: "The representatives of two countries advocated a stronger link between...."

Mr. WITWER (France) reserved his delegation's right to make some suggestions to the Secretariat regarding the translation of certain passages. He failed completely to understand the last sentence of paragraph 5, for instance.
Mr. MAHK (United Kingdom) said that that sentence was also unclear in English.

The CHAIRMAN said that the point of the sentence was that countries assured of assistance under the scheme would equally be assured of being able to pay their bills and that in turn would give assurance to the lending countries. The sentence, originally drafted in Spanish, would be clarified.

He suggested that the Sub-Committee should adopt the section of the draft report in document TD/3/C.3/SC.5/L.2.

It was so decided.

TD/3/C.3/SC.5/L.3 (The Horowitz proposal)

Mr. LAIJOUX (Belgium) proposed that the words "the best way of increasing IDA resources" in the last sentence of paragraph 5 should be replaced by "the best way of replenishing IDA resources".

It was so agreed.

Mr. CHANTAS (Lebanon) said that the last sentence of paragraph 5 applied only to representatives who had spoken in the debate; in that case silence could not be taken to mean assent. The sentence should be suitably amended.

The first sentence of paragraph 4 should indicate the number of representatives of developing countries who had favoured the basic ideas of the Horowitz proposal. The figure could be easily determined from the summary records.

Regarding paragraph 8, he was not aware that any such recommendation had been approved by the Sub-Committee. His delegation for one opposed the recommendation. It favoured a global approach to the problem and not one based solely on the Horowitz proposal or any other individual plan.

The CHAIRMAN recalled that the recommendation had been suggested by the delegations of Ghana and Argentina. He had put it to the Sub-Committee and heard no dissent.

Mr. FATAVALLI (Brazil), Rapporteur, suggested that the last sentence of paragraph 3 should be amended to read: "It was noted by representatives participating in the debate that...." The first sentence of paragraph 4 might begin "The representatives of three developing countries said that...."
Mr. CHAMMAS (Lebanon) endorsed the suggested changes and proposed to state his reservations on paragraph 5 more fully in the plenary Committee.

In reply to a question from Mr. LALOUX (Belgium), the CHAIRMAN said that the words "seeking such expert assistance as he may consider appropriate" in the English text of paragraph 8 accurately reflected what had been agreed upon; on that point the other language versions should be brought into strict line with the English.

Mr. KHANACHET (Kuwait) did not think that paragraph 8 properly reflected the position and action of the Sub-Committee, which to his knowledge had not taken any decision in the matter. He entered the formal reservation of his delegation and reserved its right to state its position in the plenary Committee. The draft resolution which the Sub-Committee had decided to refer to the plenary Committee had a direct bearing on the contents of paragraph 8, and so long as the Committee had not taken a decision on the draft resolution, it was improper for the Sub-Committee to take an executive decision connected with it.

The CHAIRMAN observed that the recommendation stemmed from a particular question that had arisen in connexion with the Horowitz proposal. That question was whether there had been significant changes in capital markets in recent times and whether they would affect the findings of the group of experts on the proposal. An answer to that question would be useful regardless of the relative merits of the Horowitz and other proposals and in fact would make the comparison of proposals easier.

Mr. KHANACHET (Kuwait) said that precisely because the matter of recent changes in capital markets went far beyond the Horowitz proposal, the study should cover the implications of the changes for the entire problem and not focus on a single scheme.

The CHAIRMAN pointed out that the agenda item under which the recommendation had been suggested related to the Horowitz proposal alone. Obviously, agreement on paragraph 8 was not unanimous, and that would be made clear to the plenary Committee.
Mr. PARKINSON (Canada) said it might help to remove the impression that paragraph 8 was all the Sub-Committee had to say about the Horowitz proposal if the paragraph began with the words: "In order to clarify the questions raised by the previous paragraph,...."

He himself thought that emphasis should be placed rather on reviewing the general long-term prospects in capital markets; there were not likely to be many future occasions when there would be unfilled gaps in capital markets. It might therefore be preferable to speak in paragraph 8 of the general prospects of capital markets in the longer-term future rather than of recent developments.

Mr. LALOUX (Belgium) endorsed that proposal.

Mr. CHAMFAS (Lebanon) thought the Canadian proposal was realistic, although he himself would opt for the proposal contained in draft resolution TD/B/C.3/L.49 since all proposals concerning basic finance should be given equal consideration. The question of expert assistance could be dealt with when the draft resolution was discussed in the plenary committee.

Mr. WETZELS (France) recalled that his delegation's traditional position was that any group of experts should be inter-governmental in nature. He would, moreover, reserve his position concerning the financial implications of paragraph 8.

Mr. BAPAZELI (Brazil), Rapporteur, suggested that, since the wider issue of basic financing was to be dealt with in the plenary Committee when draft resolution TD/B/C.3/L.49 was taken up, the Sub-Committee should adopt its report on the Horowitz proposal, as amended by the representative of Canada, and leave a final decision to the plenary Committee.

Mr. NEDIVI (Israel) felt that the first part of the Canadian proposal did not accord with what had actually happened during the Sub-Committee's discussions. It would be an unusual precedent to change a factual description of what had occurred because objections had been raised subsequently.

Mr. MARK (United Kingdom) agreed with that view. It might, moreover, be advisable to use simpler wording in paragraph 8 and replace the words "recent developments" by the word "changes". He endorsed the suggestion made by the representative of Brazil.
Mr. FERNANDEZ (Argentina) said that in his original proposal, on which paragraph 8 was partly based, he had not meant to exclude any other proposals for improving basic finance. It was related to the Horowitz proposal only because it had been made during the discussion of that question by the Sub-Committee.

Mr. CHAMMAS (Lebanon) said that he could not accept paragraph 8 of the report, either as it stood or as amended by the representative of Canada.

Mr. KHANACHET (Kuwait) and Mr. HASSAN (Sudan) supported that view.

The CHAIRMAN suggested that the Committee should approve its report on the Horowitz proposal (TD/B/C.3/SC.5/L.3), replacing the words "recent developments" in paragraph 8 with the words "the general prospects of capital markets in the longer-term future", subject to the reservations expressed by the representatives of Lebanon, Kuwait and Sudan.

It was so decided.

TD/B/C.3/SC.5/L.4

The CHAIRMAN noted that a document (TD/B/C.3/SC.5/L.4) giving the financial implications of the recommendation by the Sub-Committee in paragraph 8 of its report on the Horowitz proposal (TD/B/C.3/SC.5/L.3) was now before the Sub-Committee.

Mr. CHAMMAS (Lebanon), supported by Mr. KHANACHET (Kuwait) and Mr. HASSAN (Sudan), said he would reserve his position on document TD/B/C.3/SC.5/L.4 in line with his position on paragraph 8 of the Sub-Committee's report on the Horowitz proposal.

Mr. KHANACHET (Kuwait) said he was not sure that it was appropriate for the document in question to be before the Sub-Committee, since any decision on the matter would have to be taken by the plenary Committee.

Mr. CHAMMAS (Lebanon) noted that the Sub-Committee had approved paragraph 8 of its report on the Horowitz proposal before it had been informed of the financial implications of the recommendation in that paragraph.
The CHAIRMAN suggested that the Sub-Committee should take note of document TD/B/C.3/SC.5/L.4, and of the reservations expressed by the representatives of France, Lebanon, Kuwait and Sudan.

It was so decided.

The CHAIRMAN observed that the Sub-Committee had now completed its work on the items assigned to it.

The meeting rose at 5.35 p.m.
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REMARKS

From Mr. Theaker
May 12, 1967

To: Members of the Executive Board
From: The Secretary
Subject: UNCTAD Report on the Second Session of the Committee on Invisibles and Financing related to Trade

The Committee on Invisibles and Financing related to Trade of the UN Trade and Development Board held its second session at the Headquarters of the United Nations, New York, from April 4 to April 19, 1967 with 43 of the Committee's 45 members participating. Attached for information is a report on the proceedings, prepared by the Fund representatives at the session (Mr. Edgar Jones and Mr. Pierre Simonet).

Att: (1)

Other Distribution:
Department Heads
Division Chiefs
The second session of the Committee on Invisibles and Financing related to Trade was held in New York from April 4 to April 19, 1967. The session was preceded by meetings of various specialized groups which had studied matters for consideration by the Committee and had produced reports thereon: the Expert Group on the Horowitz Proposal (April 1966), the second session of the Expert Group on International Monetary Issues dealing with regional payments arrangements among developing countries (June-July 1966), and the Intergovernmental Group on Supplementary Financing, which held two sessions in October 1966 and in February 1967. The Committee, as a subsidiary body of the Trade and Development Board, was also to provide guidance to the Secretary-General of the UNCTAD in the preparation for the Second Conference. The report of the Committee will be examined by the Trade and Development Board in its fifth session (August-September 1967) together with the reports of its three other Committees, i.e., Shipping, Commodities, and Manufactures. Of the 45 members of the Board, 43 were represented.

There were observers from 24 governments, a number of which attended only a few meetings. Four specialized agencies including the Bank and the Fund were represented by observers. The UN Economic Commission for Africa, the European Economic Commission (EEC), the Organization for Economic Cooperation and Development (OECD), the Organization for American States (OAS), and the Council for Mutual Economic Assistance (COMECON) also sent observers. Five nongovernmental organizations including the Afro-Asian Organization for Economic Cooperation were represented. Mr. M. Mermolja from Yugoslavia and Mr. Franciszek Hofmokl from Poland were elected as Chairman and rapporteur respectively.

Early in the proceedings the Committee set up two sessional subcommittees, the first to consider the progress report on the program of work on invisibles (insurance and reinsurance, and tourism), the second to consider the report on the first two sessions of the Intergovernmental Group on Supplementary Financial Measures and the report of the Expert Group on the Horowitz Proposal. In the second week a small working group of six members was established to propose comments, observations, and recommendations on the substance of the items relevant to the Committee in the draft provisional agenda for the Second Conference.
1. Adequacy of rates of growth achieved by the developing countries

Under this broad item of its agenda the Committee examined the flow of financial resources to developing countries, the problems of indebtedness, the mobilization of internal resources of developing countries, and suppliers' credits. On each of these subjects a report has been prepared by the Secretariat or by consultants or international bodies.

a. Growth and basic finance

Concern was expressed by several representatives of both developed and developing countries that developing countries as a group had failed to realize during 1960-1965 the Development Decade target of a 5 per cent annual rate of growth of output. It was generally emphasized that the current absorptive capacity of developing countries exceeded considerably the resources being made available to them by the developed countries. The representatives of both developing and developed market economy countries stated that their governments attached great importance to the attainment of the development assistance target set by the 1964 Conference as the equivalent of 1 per cent of the national income of each economically advanced country. Balance of payments difficulties and budgetary constraints were cited by some developed countries as factors inhibiting a better performance in this field. It was pointed out that legislatures did not, at present, fully appreciate the need for additional assistance.

It was also recognized that there had been a recent deterioration in the over-all terms and conditions of financial flows to developing countries. Representatives of several developing countries noted that the recommendations of the 1964 Geneva Conference on the terms and conditions of aid had not yet been fully implemented by a number of developed countries; they also stated that there had not been full compliance with the relevant recommendations of the Development Assistance Committee of the OECD, and of the General Assembly. Frequent references were made to a set of illustrative projections prepared by the Secretariat on the external debt and debt service of developing countries. According to these projections, if one assumed that in the next few years the gross flow of financial resources was no more than maintained at the level it had reached since 1964, then the net transfer of resources to developing countries would actually decline to zero around 1975 and become negative thereafter. Many representatives from both developed and developing countries recognized that in order to maintain the present net transfer of resources, a substantial rise in the volume of gross resources transferred and substantial softening of terms would both be required. It was suggested that the projections should be further refined and disaggregated to take into account the actual terms of lending. The Fund observer made a statement reproduced in Appendix I giving a brief account of the Fund's work on debt problems of its member countries.
b. Suppliers' credit

The question of suppliers' credit was introduced by the observers from the IBRD and from the Department of Economic and Social Affairs of the UN Secretariat which had prepared documents relating to the subject.¹/

It was generally agreed that while commercial credits played an important and useful role in world trade, excessive reliance on those credits could lead to debt service crises and, in some cases, had already done so. Representatives of developing countries stressed that some of these countries had to resort excessively to commercial credits whenever development aid was not forthcoming at the level necessary to sustain economic growth. It was urged that donor countries should not extend, and recipient countries should not accept, commercial credits which were beyond a country's debt servicing capacity.

The representatives of several developing countries requested the IBRD and the UN Secretariat to extend their study of export credits to cover the use of such credits as a means of assisting developing countries to increase their exports and also as a means of financing trade among developing countries. It was generally agreed that it would be desirable to improve the collection of information on suppliers' credits and, in this connection, reference was made to the joint reporting system of the IBRD and the OECD. Reference was made by representatives of several developed countries to the efforts undertaken in the OECD and the EEC to study possible joint principles governing the flow of aid and suppliers' credits to developing countries. It was stressed that developing countries should be able to count on the constant cooperation of international financial institutions, particularly the IMF, in the effective administration of their external debt.

c. The Consensus paper

As mentioned above, after the discussion on the substance had progressed in plenary, a small working group of six members consisting of delegates from Australia, India, Mexico, Switzerland, Tunisia, and the U.S.S.R. was established under the chairmanship of Mr. Vaidya from India.

The terms of reference of the working group stemmed from a request by the Trade and Development Board at its fourth session, for comments, observations and recommendations on the substance of the items relevant to the Committee in the draft provisional agenda of the Second Conference. The group held eight meetings and produced a report giving an agreed diagnosis of the problems of common concern to all members of the Committee in the field of economic growth, development assistance, private capital, and indebtedness. During the discussion this report was referred to as the "consensus paper" and was unanimously recognized as an unprecedented and fruitful approach to the Committee's work. The report was adopted by the Committee and is reproduced in Appendix II.

¹/ "Suppliers' Credits from Industrialized to Developing Countries", a study by the staff of the World Bank, and "Export Credits and Development Financing" prepared by the UN Secretariat.
The report calls for the implementation of Resolution 2170(XXI) of the General Assembly relating to the rates of interest and period and conditions of repayments. The spirit of compromise is reflected in the preamble which invites the Secretary-General of UNCTAD "to arrange for whatever studies may be most conducive...to the formulation of proposals for achieving the objective of UNCTAD...dealing with quantitative and qualitative aspects of the financing of development." Studies expressly mentioned in the paper concern the following topics: repayments of debts in local currency or in goods which are of interest to certain countries, aid administration in donor and recipient countries, the tying of aid, an analysis of the whole question of indebtedness differentiating among the various types of debt involved, measures to promote the exports of developing countries, measures to stimulate and promote the flow of private capital, and an empirical study of various effects of private capital investment from the viewpoints of the investors and of the recipient.

In summing up the debate the Chairman of the Committee noted with satisfaction the spirit of cooperation which had animated the working group and the Committee, and expressed the hope that the agreed diagnosis of problems by all representatives would lead to positive progress and action.

2. Supplementary financial measures

This question was considered by a sessional sub-committee of the whole with Mr. J. W. Saxe (United States of America) as Chairman and Mr. M. Raffaelli (Brazil) as Vice-Chairman and rapporteur. This sub-committee dealt also with the Horowitz proposal (see below) and had before it the reports of the Intergovernmental Group on Supplementary Financing on its first and second sessions. The discussion gave governments not represented in the Intergovernmental Group an opportunity to express their views. Four representatives of developed countries not members of the Group advanced arguments similar to those made previously by the members of the Group about various features of the scheme which needed further study (export projections, overages, policy package, the cost of the scheme, the form and term of assistance, import prices, invisibles, and the administration of the scheme) and expressed doubts about the feasibility of the scheme in its present form.

The representative of a Group B country expressed the hope that some concrete proposal could be presented to the Second Conference and added that supplementary financial measures should go hand in hand with efforts to stabilize the prices of major raw materials.

1/ See SM/66/112 and SM/67/26 on the first two sessions of the Intergovernmental Group.

2/ See DM/67/12, Appendix IV for lists of states in the various UNCTAD groups.
Further points were made concerning the administration of the scheme. It was emphasized that there would be a need for close cooperation between the proposed Agency and the Fund. The representatives of two countries advocated a stronger link between the Agency and the Fund than was envisaged in the IBRD staff study. They considered that a body to coordinate the operations of the IBRD, the Fund, and the Agency might have to be established. The representative of a developed, market economy country said that the functions of the Agency and of the Fund in the operation of the scheme would have to be clearly demarcated. He thought that exchange policies, internal financial policies, and trade policies considered from the point of view of the balance of payments were matters falling within the immediate competence of the Fund. With the existence of the supplementary financing scheme, a country in deficit would wait until it found itself in a position to take advantage of the favorable terms of the scheme, which would involve no precise and specific undertakings, but only the recognition of certain broad aims of economic policy; this could weaken not only the compensatory financing machinery but also the Fund's tranche policies. The representatives of two countries stated that the alternative proposal made by Germany in the second session of the Group was worthy of a careful study.

The Committee agreed that the third session of the Intergovernmental Group should be held toward the latter half of October 1967 for a period of two or three weeks. In order to permit the Group to complete its work in good time for the Second Conference, the Committee felt that a fourth and final session of the Group might be necessary, perhaps early in December 1967.

During the last day of the session a group of 14 developing countries produced a statement reaffirming their interest in the early implementation of a Scheme on Supplementary Financial Measures. This statement is reproduced in Appendix III.

3. The Horowitz proposal

The proposal envisages an international institution borrowing funds in the financial markets of the world on commercial terms, and re-lending these funds through the IDA to developing countries at low rates of interest for a suggested period of thirty years; the difference between interest paid and charged would be covered by an "interest equalization fund." The resources for such a fund could be obtained through budgetary allocations by the developed countries to IDA, through the allocation of some portion of the net income of the World Bank, or through some combination of both methods. Moreover, the proposal envisages a system of guarantees by governments of the developed countries to back the indebtedness of IDA.

A first analysis of the scheme had been presented in an IBRD staff study in February 1965. A group of experts appointed by the Committee in its first session met in April 1966 to consider its economic and financial implications. The report of this group of experts pointed to the difficulties in utilizing capital markets for expanding the flow of resources to developing countries.
In the Committee's discussions, the representative of some developing countries noted that the situation in the capital market had improved since the experts had met. They proposed that the Secretary-General of UNCTAD should review the significance for the Horowitz proposal of the general prospects of capital markets in the longer-term future. The Committee adopted this proposal but several developing countries expressed reservations concerning the usefulness of such further studies.

4. Draft resolution on basic and supplementary financing

A representative of a developing country thought that the Horowitz plan was not a workable solution to the problem of transfer of resources to developing countries. There were many alternatives such as the replenishment of IDA, the transfer to IDA of the profits of the IBRD and of its accumulated reserves; he mentioned also the possibility of calling up an additional fraction of the capital of the IBRD. In his view, a group of experts should be appointed to study all the alternative approaches to basic finance and supplementary finance including the compensatory financing facility of the Fund, the Horowitz proposal, and others. There was a need for an integrated approach to development finance with a view to determining the optimum use of available resources. This idea of an integrated approach was supported by a large number of developing countries and included in a draft resolution (see Appendix IV). This draft resolution was not discussed in substance but was noted by the Committee which decided to transmit it for consideration by the Board at its fifth session to be held in August 1967.

5. Payments arrangements among developing countries

The Committee had before it the report by the Group of Experts on payments arrangements among developing countries which met in New York in June-July 1966. The conclusions and recommendations of that group are reproduced in Appendix V.

Discussion of this item was relatively short and inconclusive. One of the conclusions of the Group of Experts was that "payments arrangements in general (whether clearing arrangements, credit arrangements or monetary unions) could make a positive contribution in varying degrees toward the expansion of trade among developing countries." Representatives of both developed and developing countries felt that the existence of actual trade between a group of countries was a necessary condition for a useful payments arrangement and stressed the importance of regional economic cooperation and integration efforts.

Another recommendation of the Expert Group was that "credit arrangements should be supported by contributions to a central fund from the member countries themselves," and that "contributions by developed countries to such fund would represent an efficient use of development finance," a conclusion which was questioned by one representative. Another representa-
tive from a developed country argued that regional payments arrangements would be contrary to the Articles of Agreement of the Fund because they involved discriminatory exchange practices.

The Committee agreed to draw the attention of the appropriate bodies of UNCTAD to the Expert Group's report and to consider these matters further at its next regular session, by which time the Committee would have at its disposal the results of the Secretariat's study on the financing aspects of regional development.

6. International monetary issues

Discussions and documents on this item have been reported to the Board in EBD/67/64.

7. Progress report on the program of work on invisibles

This agenda item was considered by a sessional Subcommittee of the Whole with Mr. Souheil Chammas (Lebanon) as Chairman and Mr. C. Dyson (Australia) as a Vice-Chairman and rapporteur. The Subcommittee had before it the Report of the Expert Group on Reinsurance on reinsurance policy and operations in developing countries. It considered also questions of tourism. One matter of substance, the provisions calling upon reinsurance companies to invest their available capital in developing countries, was debated at length. The Committee adopted unanimously a resolution dealing with a comprehensive program of work for the Committee in the field of insurance and tourism, and with a program of technical assistance by the UNCTAD Secretariat in those two areas. It also requests the Secretary-General of UNCTAD to convene, in cooperation with the Statistical Office of the United Nations, a meeting of insurance statisticians, with a view to formulating proposals for minimum statistical standards and definitions for insurance and reinsurance transactions.

8. General

The proceedings of the second session of the Committee on Invisibles and Financing related to Trade were much more restrained than during the first session. This can be attributed in part to the fact that a number of outstanding matters remained unresolved, such as supplementary financing measures, international monetary issues, and the Horowitz proposal. In part also, the device of a "consensus" paper avoided intense debate over the wording of resolutions submitted by developing countries as took place during the first session. This procedure, if emulated by other Committees of the UNCTAD, could result in a firmer and freer basis for discussion of fundamental issues at the Second Conference through member countries not having taken voted positions for and against these issues beforehand.

Statement by the Fund Observer
on Thursday, April 6, 1967 at 3.30 p.m.
Agenda Items 4 (a) and (b)

Mr. Chairman

I thought it would be useful for the Committee to have a brief account of the work of the Fund on debt problems of its member countries, having in mind that these discussions are meant to clarify issues and present practices in preparation for the Second Conference. The distinguished delegate for the United Kingdom in his statement yesterday drew attention to the fact that these debts are, in large part, medium- or short-term character. It is not surprising therefore that the Fund Staff when "reviewing the balance of payments position" of member countries and in helping to correct imbalances has been confronted with the additional problem of massive medium- or short-term debt.

During the past several years the Fund has become in fact increasingly concerned with the rising foreign indebtedness of several of its member countries and the associated burden of servicing the debt. These developments need not in themselves be a cause for concern provided the original external financing has enabled a country to increase the gross flow of its total output in a manner permitting its balance of payments to improve by more than the associated debt service payments. However, the terms on which debt is incurred may create difficulties if there is a lack of agreement between debt maturities and the time phasing of productivity increases and, even where this is not a problem, difficulties of international transfers may arise because of unwise domestic policies or an unfavorable movement in the country's terms of trade, or a leveling off in the aggregate inflow of long-term capital, or for other reasons.

The Fund has acted in several directions. Firstly, it has increased the attention given to debt problems in the annual consultations during which the staff has attempted to ensure that the problem is realized by debtor countries and anticipated by appropriate action. The staff has emphasized the need for continuous scrutiny and review of the indebtedness situation. Secondly, where debt servicing problems had already resulted in disrupting the balance of payments, member countries have been assisted in devising corrective measures. Some have adopted comprehensive programs of financial stabilization which have included limitations on the contracting of certain categories of credits from abroad. Finally, in extreme cases where the debtor country was faced with a choice between default and a sharp curtailment of import levels, which would be destructive to the normal functioning and growth of the economy, the Fund has assisted the debtor country and its creditors to renegotiate debt contracts when such arrangements appeared appropriate to the particular circumstances that had developed. On these occasions, the Fund staff, at the request of all parties concerned, has provided information on the economy and policies of the debtor country and has
also assisted it to develop suitable assurances with respect to future policies on the incurring of new short-term and medium-term debt. Examples of these negotiations with respect to outstanding debts are Turkey in 1958/59, Brazil in 1961 and 1964, Argentina in 1962 and 1965, Liberia in 1963, Indonesia in 1963 and 1966, Chile in 1965 and Ghana in 1966. Naturally we have worked closely also with the World Bank in these and other cases.

While addressing itself primarily to the debtor countries, the Fund has emphasized that capital exporting countries have responsibilities in at least two directions. Firstly, it is important not to press on borrowers unrealistically short-term conditions of repayment. Secondly, care must be exercised to ensure that in dealing with their own balance of payments problems, developed countries do not throw too great a burden on developing countries which depend on large inflows of capital for sustaining their growth.
AGREED STATEMENT OF THE PROBLEMS OF DEVELOPMENT

Prefatory Note

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

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

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

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

1/ Also to be issued as document TD/B/119-TD/B/C.3/52.
Agreed Statement

The Volume, Terms, and Conditions of Development Assistance

A. Internal resources and external assistance

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

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

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

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

B. The terms of aid

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

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

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

C. Difficulties of aid administration

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

D. The tying of aid

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

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

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

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

(i) the form of tied aid (by project, by commodity, and by source of procurement);
(ii) the effects on the real value of aid from the standpoint of countries which provide it and those which receive it;
(iii) an examination of alternative proposals for dealing with the problem of tied aid.

These studies should be enlarged to cover, inter alia, the following additional aspects:

(a) the proportion of tied aid to the total volume of aid;
(b) the implications of various measures and degrees of untying aid.

E. Problems of indebtedness

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

14. Further analysis of the whole question of indebtedness is required, differentiating between the various types of debt involved. The debt structure of individual countries and the seriousness of the conditions of their debts and of their debt service obligations vary considerably. Furthermore, the seriousness of a country's indebtedness cannot be considered in isolation, but must be judged in relation to its debt servicing capacity, its external trade and its rate of growth. The problem of indebtedness is also linked with the problems of terms and volume of aid.
15. Because of the variations in the positions of individual countries, the action to be taken must be determined on an ad hoc basis, taking into account the special features of the country concerned. The problem of external indebtedness has to be resolved both by softening the terms of and improving the conditions of aid to developing countries as well as by an effective utilization by developing countries of the aid they receive. Developed countries should therefore help by softening the terms and improving the conditions of the assistance while the developing countries should also undertake a sound policy of debt management. Where difficulties do arise the countries concerned should stand ready to deal reasonably with them within the framework of the appropriate forum in cooperation with international institutions involved.

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

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

F. Commercial credits, including suppliers’ credits

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

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

20. Four main questions arise:

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

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

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

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

1/ Commercial credits having a duration of less than one year are excluded from the scope of discussion of the present paper.
21. It would be desirable for the UNCTAD secretariat to have further information on both guaranteed and unguaranteed commercial credits. It will be desirable to have a further report dealing with the questions raised in discussions, including measures to promote the exports of developing countries.

G. Private capital

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

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

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

Submitted by the delegations of Argentina, Brazil, Ceylon, Congo (Democratic Republic of), Ghana, India, Lebanon, Mexico, Sudan, Tunisia, Yugoslavia, Chile, Ecuador, and Kuwait.

1. The second session of the Committee on Invisibles and Financing related to Trade has provided the opportunity for a review of the work done so far by the Intergovernmental Group on Supplementary Financing.

2. The developing countries take note with appreciation of the reports of the first and second sessions of the Intergovernmental Group and recognize the value of the efforts of the Group at clarification of the main features of the Scheme on Supplementary Financial Measures proposed by the IBRD staff.

3. The developing countries reaffirm their interest in the early implementation of a Scheme on Supplementary Financial Measures, based on the proposal of the IBRD staff study, which will contribute effectively to protecting the development plans of developing countries from disruption due to unforeseen export shortfalls, in the light of the principles stated in Part A of recommendation A.IV.18 of the first Conference.

4. The developing countries express their conviction however that the effectiveness of the Scheme on Supplementary Financial Measures in whatever form it may ultimately be adopted will be enhanced by simultaneous action in the field of international trade and the provision of basic development financing which are

1/ In accordance with rule 75 of the Committee's rules of procedure.
necessary for the expansion and diversification of the external trade of developing countries and for the acceleration of their rates of economic growth.

5. It is the conviction of the developing countries that the scheme of supplementary financing should be based on the following main conditions:

(a) adequate resources should be provided to ensure the attainment of the objectives of the scheme, i.e. to prevent disruption of the development programmes of the participating countries;

(b) certainty and timeliness of the assistance which should be on terms and conditions not less favourable than the terms and conditions of assistance under the International Development Association (IDA).

6. The developing countries hope that the Secretary-General of UNCTAD would convene the Intergovernmental Group as appropriate to ensure that its work could be completed in time for the second Conference.
Appendix IV

United Nations Conference on Trade and Development

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

Joint draft resolution

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

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

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

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

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

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

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

67-08356
Expressing the conviction that for this purpose it is urgent to start studies and preliminary consultations,

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

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

3. Requests the Secretary-General of UNCTAD to convene the group as soon as possible, in order to allow sufficient time to prepare a report to the second session of UNCTAD.
Payments Arrangements Among the Developing Countries for Trade Expansion

Conclusions and Recommendations of the Report of the UNCTAD Group of Experts (New York, June 20 - July 1, 1966) 1/

81. Payments arrangements in general (whether clearing arrangements, credit arrangements, or monetary unions) could make a positive contribution in varying degrees toward the expansion of trade among developing countries.

82. Payments arrangements must take into account a number of factors, particularly the degree of multilateralism of payments already achieved, and the stage of cooperation or integration attained or desired.

83. The extent to which such payments arrangements could contribute to expansion of trade may depend, among other things, upon the provision of credit facilities in those arrangements.

84. Credit arrangements should be supported by contributions to a central fund from the member countries themselves.

85. Contributions by developed countries to such funds would represent an efficient use of development finance, and would promote more efficient use of other development finance.

86. Clearing arrangements should be non-discriminatory, except where the alternative would be reliance on bilateral arrangements.

87. For purely practical reasons, and because of the non-economic considerations involved, a payments arrangement is likely to be confined at least at the outset to a relatively small number of countries. Any such arrangement which originates mainly from economic considerations should, as a general rule, make provision for the addition or association of other countries.

88. The International Monetary Fund should take special account of the payments problems posed by trade expansion among developing countries, and should consider sympathetically, on a case-by-case basis, requests for increases in quotas that may be called for in the light of such trade expansion.

FROM: The Secretary

May 5, 1967

REPORT ON THE SECOND SESSION OF UNCTAD
COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

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

DISTRIBUTION:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Deputy Executive Vice President, IFC
Department Heads, Bank and IFC
Report on the Second Session of UNCTAD

Committee on Invisibles and Financing related to Trade

1. The 45-member UNCTAD Committee on Invisibles and Financing related to Trade met in New York from April 14 to 19. Mr. Mirko Mermolja (Yugoslavia) was elected Chairman of the Committee.

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

3. The following matters of interest to the Bank were discussed:
   a) Terms, coordination and effectiveness of aid and problems of debt servicing

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

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

   It may be interesting to mention some of these suggestions:

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

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

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

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

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

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

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

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

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

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

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

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

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

b) Suppliers' credits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The report is too brief on the causes of excess suppliers' credits (France).
The IBRD should continue to elaborate the study, both by updating figures and by giving a fuller explanation of present practices and policies of donors' coordination, and present a second study at UNCTAD II (Japan).

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

c) Mobilization of internal resources

The major points raised were:

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

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

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

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

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

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

d) The Horowitz Proposal

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

e) Supplementary financial measures

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

The following specific points were made:-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Development Services Department
May 4, 1967
April 6, 1967

Lewis Perinban

Committee on Invisibles and Financing related to Trade
(2nd Session), New York, April 4 - 19, 1967

* * *

The second session of the Committee on Invisibles and Financing related to Trade opened in New York on April 4 with the election of its officers and the adoption of its agenda.

1. **Election of Officers**

The following were elected:

**Chairman:**
- Mr. Mirko Nenolja (Yugoslavia)

**Vice-Chairman:**
- Mr. Ricardo Ffrench-Davis (Chile)
- Mr. Chech Ayari (Tunisia)
- Mr. Souheil Chams (Lebanon)
- Mr. Jackko Ilonjemi (Finland)
- Mr. Roberto Villar (Spain)

**Rapporteur:**
- Mr. Franciszek Hofschi (Poland)

2. **Adoption of Agenda**

The Committee considered the draft provisional agenda prepared by the Secretariat. In view of the present lack of documentation two items namely 4 (b) (Problems of measuring the net flow of resources to developing countries) and 4 (c) Financing and Regional Development were deleted from the agenda for consideration at a later meeting. The Committee also decided to discuss item 4 Sub-Section (c) - Terms, Co-ordination and effectiveness of aid and 4 (d) debt servicing together.

* * *

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

3. **Sessional Sub-Committees of the Whole**

   The Committee decided to set up two sub-committees of the whole - one to consider agenda item 9 dealing with Invisibles and the other to consider agenda items 5 and 6 dealing with the Horowitz proposal and Supplementary Financial Measures.

cc: Mr. Desuth
    Mr. Friedman
    Mr. Consolo
    Mr. Kalmannoff
    Mr. Karsen (Paris Office).
TO: Mr. Kamarck
FROM: Irving S. Friedman
SUBJECT: UNCTAD

DATE: March 22 1967

Are you watching out for this, or is Messrs. Kalmanoff, Sarma, etc.?
March 21, 1967

Dear Dr. Prebisch:

Further to Mr. Consoi's letter to you of February 22, I am now pleased to inform you that the Bank will be represented at the Second Session of the Committee on Invisibles and Financing related to Trade which is to be held in New York from April 4 to 19 1967 by Mr. Consoi and Mr. Lewis Perinbam, U.N. Liaison Officer. They will be joined by the following when items of special interest to the Bank are under discussion:

Mrs. S. Boskey, Development Services Department
Mr. H.D. Davis, Economics Department
Mr. R.K. Hawkins
Mr. A. Karaosmanoglu
Mr. P. Leon
Mr. U. Sacchetti
Mr. N.A. Sarma, Office of the President

In the meantime, I should appreciate it if you could arrange to have all documentation sent to Mr. Consoi at this address.

Sincerely yours,

Michael L. Hoffman
Associate Director
Development Services Department

Dr. Raúl Prebisch
Secretary-General
United Nations Conference
on Trade and Development
UNCTAD Liaison Office
United Nations, New York

cc: Mr. Demuth
    Mr. Consoi, Geneva
    Mr. Perinbam
    Mrs. Boskey
    Mr. Kazarck
    Mr. Davis
    Mr. Hawkins

Mr. Kalmanoff
Mr. Karaosmanoglu
Mr. Leon
Mr. Sacchetti
Mr. Sarma
Mr. Steckhan

LPerinbam/bmb
March 2, 1967

Copies of TD/B/C.3/33 sent to:

Mr. Frank
Mr. Sarma
Mr. Macone
Mr. Jalan
Mr. Sundrum
Mr. Adams
OFFICE MEMORANDUM

TO: Messrs. Friedman and Kamarck

FROM: Federico Consolo

SUBJECT: UNCTAD Committee on Invisibles and Financing Related to Trade

DATE: March 1, 1967

I refer to my memo of February and my letter to Dr. Prebisch of February 28, copy of which was sent to you.

The provisional agenda of the meeting, document TD/B/C.3/33 has arrived and I am sending you herewith a copy. Whilst the provisional agenda is the same as the one I sent you on February 24, the annotations have been amplified.

I would appreciate your letting me know as soon as possible the names of the staff members whom you will designate for the discussions of the items of particular interest.

Encl.

cc: Mr. Demuth
Mrs. Boskey
United Nations Conference on Trade and Development

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

PROVISIONAL AGENDA

1. Opening of the session
2. Election of officers
3. Adoption of the agenda
4. Consideration of the adequacy of the rates of growth achieved by the developing countries:
   (a) Mobilization of internal resources and the flow of external assistance
   (b) Problems of measuring the net flow of resources to developing countries
   (c) The terms, co-ordination and effectiveness of aid
   (d) Problems of debt servicing
   (e) Suppliers' credit
   (f) Stimulation of the flow of private capital
   (g) Financing and regional development: Aspects of the expert group report entitled "Trade expansion and economic co-operation among developing countries" (TD/B/68)
5. The Horowitz proposal: Consideration of the report of the group of experts
6. Further consideration of the report of the Expert Group on International Monetary Issues (TD/B/32)
7. Report of the Group of Experts on Payments Arrangements among Developing Countries
3. Supplementary financial measures

9. Progress reports on the programme of work on invisibles

(a) Insurance and reinsurance
   (i) Report of the Expert Group on Reinsurance
   (ii) Other activities

(b) Tourism

10. Provisional agenda, date and place of the third session of the Committee

11. Adoption of the report of the Committee to the Trade and Development Board

12. Any other business

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1/ It is expected that the Committee may wish, at the beginning of the session to establish a sessional sub-committee of the whole to consider this item. As it is not anticipated that the discussion on item 9 will take more than a week or ten days, the Committee could also consider referring selected items of financing to the sessional sub-committee, thereby reducing the time spent in plenary session. The Committee might review this possibility towards the end of the first week, in the light of the progress made both in the plenary and in the sessional sub-committee. It is hoped in connexion with the discussion of item 9 in the sub-committee that the delegations to the session will include experts in the field of insurance, reinsurance and tourism.
ANNOTATIONS TO THE PROVISIONAL AGENDA 1/

Item 1: Opening of the session

Item 2: Election of officers

Rule 18 of the rules of procedure of the Committee (TD/B/63/Rev.1-TD/B/63/Rev.1) states that "each year at the commencement of the first regular session, the Committee shall elect a Chairman, five Vice-Chairmen and a Rapporteur from among its members. These officers shall constitute the Bureau of the Committee. In electing the officers, due account shall be taken of the need to ensure an equitable geographic distribution".

Rule 19.2 provides that "the officers of the Chairman and Rapporteur of the Committee shall be subject to rotation among the groups on a seven-year cycle in accordance with the annex to these rules of procedure". In accordance with this provision, in the second year of the cycle the Chairman shall be a member of Group A or C and the Rapporteur shall be a member of Group D.

Item 3: Adoption of the agenda

At its resumed first session the Committee considered and noted the present provisional agenda which was drawn up by the Secretary-General of UNCTAD in accordance with rule 3 of the Committee's rules of procedure.

Attention is drawn in this connexion to certain decisions of the Trade and Development Board taken at its fourth session which are of direct concern to the Committee of the Board and to certain resolutions of the General Assembly adopted at its recent twenty-first session.

The Board requested the Secretary-General of UNCTAD to bring to the attention of the Committees of the Board the report entitled "Review of international trade and development 1966" (TD/B/32 and addenda and corrigenda) as well as the summary records (TD/B/SR.92-101, 103, 104 and 115) of the discussions at the fourth session of the Board on agenda item 3 (Review of the implementation of the recommendations of the first Conference) and the report of the Board on that session. The Board's intention was to enable the Committees to review and assess the

1/ Documents listed in the annotations are those most directly related to the discussion of the items of the provisional agenda. A list of additional background documents is found in Annex B. Only documents which have been issued or are in final stages of preparation are included in the annotations and Annex B.
implementation of the recommendations of the first session of the Conference in accordance with their terms of reference and to consider the line of further action necessary to facilitate their task of assisting the Board in the preparation of the second Conference (see A/6315, Part Two, paragraph 46). General Assembly resolution 2209 (XXI) also deals with the implementation of the recommendations of the first session of UNCTAD and the Committee's attention is drawn in particular to operative paragraph 3 of that resolution.

With regard to the draft provisional agenda for the second session of the Conference, the Board agreed that it should be forwarded to the subsidiary bodies of the Board as a basis for the preparation of the second Conference, and for such comments, observations or recommendations as they might wish to submit to the fifth session of the Board (see A/6315, Part Two, paragraph 72). In this connexion, attention is also drawn to General Assembly resolution 2206 (XXI), operative paragraph 2 of which calls upon the Board and its subsidiary bodies to take into account the objectives outlined in the first three paragraphs of the preamble of that resolution in their preparations for the second session of the Conference, and to attempt to identify the issues on which preparatory work will have progressed sufficiently to enable specific programmes of action to be drawn up at the Conference by means of negotiation aimed at securing the greatest possible measure of agreement. For the convenience of the Committee, the draft provisional agenda for the second Conference is reproduced as Annex A to this document; where relevant, a concordance of the provisional agenda for the second session of the Committee with that for the second Conference is provided.

The Committee may wish to envisage postponing consideration of sub-items 4(b) and 4(g) because the existing documents on these matters (see annotations on item 4 below) may not yet be found adequate to provide a basis for extended discussion. In view of the many important matters on the Committee's provisional agenda and the short time available for the meeting, the Committee may also find it desirable to consider sub-items 4(c) and 4(d) together, as a single sub-item.
Item 4: Consideration of the adequacy of the rates of growth achieved by the developing countries

4(a): Mobilization of internal resources and the flow of external assistance

A survey prepared by the UNCTAD secretariat entitled "The mobilization of internal resources by the developing countries" (TD/B/C.3/28) reviews the efforts of developing countries to accelerate their growth by action in such fields as capital formation, promotion of domestic savings, agricultural development, education and the planning process. A summary by the Food and Agriculture Organization of the United Nations of The State of Food and Agriculture, 1965 (TD/B/C.3/L.34) considers in more detail the development of the agricultural sector in the past decade.

A further paper prepared by the UNCTAD secretariat entitled "Growth and external development finance" (TD/B/C.3/34) examines the growth rates achieved by the developing countries in the first half of the Development Decade and the net flows of financial resources to these countries, including multilateral, bilateral and private flows. The paper also discusses total net flows in terms of the development assistance target established by the General Assembly (in resolutions 1552 (XV) and 1711 (XVI)) and at the first session of UNCTAD (in recommendation A.IV.2).

The Committee's attention is drawn to Economic and Social Council resolution 1183 (XLI) on the flow of external resources to developing countries, in which the Secretary-General of the United Nations was requested, inter alia, "to undertake in consultation with the United Nations Conference on Trade and Development, the International Monetary Fund, the International Bank for Reconstruction and Development and such other organizations as he considers necessary, a study on: (1) Economic factors affecting the ability of developed countries to transfer maximum financial resources to the developing countries in accordance with the relevant recommendations contained in the Final Act of the United Nations Conference on Trade and Development, particularly its annex A.IV.2, taking into account the increase in the national income of the developed countries..." (see paragraph 5(b)(i) of this resolution which is given in document E/4264).
In the same resolution the Council expressed "the wish that the United Nations Conference on Trade and Development continue to give special attention, within the field of its competence, to the problems of financing economic development in developing countries".

This Council resolution was endorsed by the General Assembly in its resolution 2170 (XXI); the Assembly further decided to consider at its twenty-second session the reports to be prepared by the Secretary-General in response to the Council resolution.

By resolution 2186 (XXI) the General Assembly decided to bring into operation the United Nations Capital Development Fund whose purpose is to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates. Such assistance is to be directed towards the achievement of the accelerated and self-sustained growth of the economies of those countries and is to be oriented towards the diversification of their economies, with due regard to the need for industrial development as a basis for economic and social progress.

A paper prepared for UNCTAD by Professor F.C. Adams of the University of Pennsylvania entitled "Alternative projections of the foreign exchange 'gap': a reconciliation" (TD/B/0.3/30) reviews and compares the various estimates that have been made of capital requirements of developing countries. Further, a paper prepared by the UNCTAD secretariat entitled "External resource requirements of developing countries" (TD/B/0.3/40) deals with the issues involved in estimating such resource requirements, based on secretariat studies of a number of individual developing countries.

4(b): Problems_of_measuring_the_estimated_flow_of_resources_in_developing_countries

The General Assembly at its eighteenth session adopted resolution 1938 (XVIII) in which it requested the Secretary-General to review, with the assistance of experts, the conceptual and methodological problems posed in recent reports on the international flow of long-term capital and official donations. The Secretary-General, after reviewing the problem in document A/5732, convened an expert group which submitted an interim report entitled
"The measurement of the flow of resources from developed market economies to the developing countries" (E/4171) to the Economic and Social Council at its forty-first session. The Council, in its resolution 1184 (XLI), requested the Secretary-General to invite the expert group to submit a final report in time for the forty-third session of the Council. The Council's resolution was endorsed by the General Assembly in its resolution 2169 (XXI).

The group will be convened in New York on 27 February 1967.

4(c): The terms, co-ordination and effectiveness of aid

For the consideration of these items the Committee will have before it two papers prepared by the UNCTAD secretariat. The first is entitled "The terms, quality and effectiveness of financial flows and problems of debt servicing" (TD/B/C.3/35). This paper considers recent trends in the terms and conditions of development assistance, and in debt servicing. It also discusses possibilities for improving these terms and conditions.

Projections of debt and debt-service payments are presented by the UNCTAD secretariat in a paper entitled "The outlook for debt service" (TD/B/C.3/36).

A study entitled "The costs and benefits of aid: A quantitative approach" (TD/B/C.3/38) has been prepared for UNCTAD by Mr. John Pincus of the Rand Corporation. This paper examines the various forms of financial flows in terms of the real resource cost to donor countries and the real benefits to recipient countries.

Economic and Social Council resolution 1183 (XLI) mentioned under item 4(a) above also requests the Secretary-General to study, in consultation with UNCTAD, the progress made by individual developed countries in the implementation of the resolution concerning the minimum acceptable terms of aid.

4(e): Suppliers' credit

This item was included in the provisional agenda of the Committee in pursuance of recommendation A.IV.14 of the first session of UNCTAD and resolution 26 (III) adopted at the third session of the Trade and Development Board (A/6315, Part One, Annex A). As a basis for its discussion the Committee is expected to have before it (i) a study prepared by the
staff of the World Bank entitled "Suppliers' credits from industrialized to developing countries" which will be distributed as document TD/B/C.3/L.38, and (ii) a study prepared by the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs entitled Export Credits and Development Financing, United Nations publication, Sales No.: 67.II.D.1, originally issued as E/4274.

4(f): Stimulation of the flow of private capital

In response to recommendation A.IV.12 of the first session of UNCTAD, the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs has prepared a study entitled The Promotion of Private Foreign Investment in Developing Countries (E/4293), a summary of which has also been circulated. A note (TD/B/C.3/L.40), drawing the attention of the Committee to these documents, has been distributed.

Among the measures to stimulate the flow of private capital is a multilateral investment insurance scheme which is under study by the World Bank. A progress report on this subject was distributed as document TD/B/55, to which was appended a summary of a draft of a multilateral investment insurance scheme prepared by the Organization for Economic Co-operation and Development. A second progress report by the World Bank dated 27 July 1966 is contained in document TD/B/98. The representative of the World Bank will be ready to bring these progress reports up to date in an oral statement to the Committee.

4(g): Financing and regional development: Aspects of the expert group report entitled "Trade Expansion and Economic Co-operation among Developing Countries" (TD/B/68)

The expert group report (TD/B/68) deals briefly with this subject in paragraphs 38, 43, 48, 51, 58 and 87. A study prepared by the UNCTAD secretariat (TD/B/85) also refers to these issues in chapter III, paragraphs 66-68, 77, 91, 103-108 and 118-128, and chapter VII, paragraphs 5-8, 19-23 and 27-36. These two reports were before the Board at its fourth session and, after drawing attention to the need for their detailed study and discussion with a view to defining the action programmes that might be adopted by the time of the second session of the Conference, the Board
decided that a discussion of the subject should take place at its fifth session. In this connexion, it requested the Secretary-General of UNCTAD to transmit the reports to the regional economic commissions, the existing regional groupings of the developing countries, the international and regional financial institutions and appropriate intergovernmental organizations for their comments on the suggestions put forward therein (see A/6315, Part Two, Annex A, resolution 32(IV)).

A further study on this subject is being carried out by the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs and the UNCTAD secretariat, and this study is expected to be available for the second Conference.

**Item 5:** The Horowitz proposal: Consideration of the report of the group of experts

The Committee had before it at its first session a report on the Horowitz proposal by the staff of the World Bank (TD/B/C.3/1). At that session the Committee requested the Secretary-General of UNCTAD to appoint a group of experts to consider the economic and financial problems involved (see TD/B/42 - TD/B/C.3/15, Annex I(c), section C).


**Item 6:** Further consideration of the report of the Expert Group on International Monetary Issues (TD/B/32)

In accordance with resolution 2208 (XXI) of the General Assembly, the Secretary-General of UNCTAD will present a report to the Board through the Committee on the progress of activity relating to international monetary reform (TD/B/115 - TD/B/C.3/43). The Committee will also have before it two communiqués of ministerial meetings of the Group of Ten (TD/B/93 and TD/B/C.3/31).

In connexion with recommendation A.IV.17 of the first session of UNCTAD and the discussion of this matter by the Expert Group on International Monetary Issues (TD/B/32, paragraphs 56 and 57), the International Monetary Fund made a change in its compensatory financing facility. An account of the change is given in the second report of the International Monetary Fund on compensatory financing of export fluctuations (TD/B/C.3/L.35).
Item 7: Report of the Group of Experts on Payments Arrangements among Developing Countries

In pursuance of recommendation A.IV.19 of the first session of UNCTAD, the Secretary-General convened a Group of Experts to consider this subject. The Group met in New York from 20 June to 3 July 1966, and prepared a report entitled "Payments arrangements among the developing countries for trade expansion" (TD/B/80).

The Committee will also have before it a survey of past experience in this field included in "Payments arrangements among developing countries" (TD/B/C.3/32) prepared by the UNCTAD secretariat.

The Committee may wish to consider what comments it might appropriately forward to the Board in connexion with the latter's discussion at its fifth session on "Trade expansion and economic co-operation and integration among developing countries" (item 11 of the Board's provisional agenda).

Item 3: Supplementary financial measures

At its resumed first session the Committee considered the study of the staff of the World Bank on supplementary financial measures (TD/B/43).

The Committee decided, subject to the approval of the Board, to establish an Intergovernmental Group on Supplementary Financing (TD/B/7), Annex A). This decision was approved by the Board at its fourth session (A/615, Part Two, paragraph 147). The first session of this Group took place in Geneva from 10 to 14 October 1966. The second session is scheduled to take place in Geneva for two weeks, beginning 6 February 1967, and the Group will then report to the Committee.

Item 9: Progress reports on the programme of work on invisibles

The Expert Group on Reinsurance met in Geneva from 26 September to 6 October 1966 and formulated a number of recommendations. Its report ("Reinsurance policy and operations in developing countries") has been issued as document TD/B/C.3/29 - TD/C.3/AC.2/1.

In connexion with the Committee's interest in insurance legislation, supervision and market, which is reflected in various projects under the work programme in insurance, the Secretary-General of UNCTAD addressed a
questionnaire, in February 1967, to the governments of developing countries. This questionnaire is reproduced in an annex to the "Progress report on the programme of work on invisibles" (TD/B/C.3/42), and further reference is made in the body of the report to the purpose the questionnaire is intended to serve.

The report also gives an account of the progress made by the secretariat on the other projects (insurance and tourism) contained in the programme of work on invisibles. For the convenience of delegations, the programme of work on invisibles of the Committee, as adopted at its first session, is reproduced as an annex to the report. Another annex to the report contains a review that the Committee requested should be made (see TD/B/42 - TD/B/C.3/15, Annex 1(b)) of the activities relating to tourism carried out by other institutions within the United Nations system and by certain other inter-governmental and non-governmental organizations.

In order to assist the Committee in reviewing and assessing the implementation of the recommendations of the first Conference, with a view to preparing for the second Conference (see the annotations to agenda item 3 above), the sections dealing with invisibles of the report on implementation submitted to the fourth session of the Board (TD/B/82 and addenda) are reproduced in a document entitled "Review of developments in the field of invisibles" (TD/B/C.3/39). Whenever possible, up-dated statistics and other information have been incorporated.

**Item 10: Provisional agenda, date and place of the third session of the Committee**

Rule 8 of the Committee's rules of procedure provides for the drawing up by the Secretary-General of UNCTAD and submission at each regular session of a provisional agenda for the following regular session. In view of the fact that the second session of the Conference will take place before the third session of the Committee, the latter may wish to provide for a procedure whereby a suitable draft provisional agenda for the Committee's third session might be prepared in the light of the results of the second session of the Conference.

The date and place of the third session of the Committee might be left open for the Board or the Conference to decide.

**Item 11: Adoption of the report of the Committee to the Trade and Development Board**

**Item 12: Any other business**
(ii) role and financing of diversification programmes;
(iii) basic principles and guidelines for pricing policy
designed to maximize receipts from export of
primary commodities.

c) Programme for the liberalization and expansion of trade
in commodities of interest to developing countries.

III. Expansion and diversification of export of manufactures and
semi-manufactures of developing countries

(a) Review of recent developments and long-term trends in
trade in manufactures and semi-manufactures in the light of
recommendations and other provisions of the Final Act of the first
Conference.

(b) Preferential or free entry of exports of manufactures
and semi-manufactures of developing countries to the developed
countries.

(c) Programme for the liberalization and expansion of trade
in manufactures and semi-manufactures of interest to developing
countries.

(d) Measures for the promotion, expansion and diversification
of exports of manufactures and semi-manufactures from developing
countries; co-operation with UNIDO aimed at the establishment and
expansion of export-oriented industries in developing countries;
other forms of economic, industrial and technical co-operation.

(e) Arrangements leading to the reshaping of the existing
international division of labour

IV. Growth, development finance and aid (synchronization of
international and national policies)

(a) Review of recent developments and long-term trends in
the light of recommendations and other provisions of the Final Act
of the first Conference.
(b) Financial resources and requirements of developing countries.

(i) Measures for increasing the flow of international public and private capital to developing countries;

(ii) Measures for improving the terms and conditions of aid;

(iii) Measures for dealing with the problem of international indebtedness.

(c) Supplementary financial measures.

(d) Compensatory financing.¹/²

(e) Reform of the International Monetary System - measures for international reserve creation and their relation to development finance and trade of developing countries.⁷

V. Problems of developing countries in regard to invisibles including shipping

(a) Review of recent developments and long-term trends in the field of invisibles including shipping in the light of the recommendations and other provisions of the Final Act of the first Conference.

(b) Level and structure of freight rates, Conference practices and adequacy of shipping services - progress report on studies by the Secretariat.

(c) Shipping industry in developing countries including expansion of merchant marines of developing countries.

(d) Consultation machinery in shipping.

(e) Port improvements. Progress report on studies by the Secretariat.

¹/ Reservation entered by Group B concerning the need for a specific sub-item on this subject.

²/ Only sub-items (a) and (g) are relevant to the work of the Committee.
(f) International legislation on shipping.

(g) Transfer of technology, including know-how and patents.

VI. Trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries - including regional, sub-regional and inter-regional arrangements.

VII. Special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development.

VIII. General review of the work of UNCTAD

(a) Activities of the organs of the Conference.

(b) Technical assistance activities relating to trade including training of technical and special staff of developing countries.
ANNEX B

Background documentation

Agenda item

4. Consideration of the adequacy of rates of growth achieved by the developing countries

(1) World Economic Survey, 1965 prepared by the Centre for Development Planning Projections and Policies:
   (a) Part I - The Financing of Economic Development, United Nations publication, Sales No.: 66.II.C.1, originally issued as E/4187.
   (b) Part II - Current Economic Developments, United Nations publications, Sales No.: 66.II.C.2, originally issued as E/4221.


4 (a) Mobilization of internal resources and the flow of external assistance


4 (c) The terms, co-ordination and effectiveness of aid


4 (f) Stimulation of the flow of private capital

(5) "Multilateral Investment Guarantees", a statement prepared by the International Chamber of Commerce for ECO300 (E/0.2/640) and for UNCTAD (TD/B/C.3/NGO/3).


(6) "Communique of Ministers and Governors and Report of Deputies" by the Group of Ten (TD/B/C.3/L.41).

(7) "International Monetary Reform and Latin America - Report of the CIAP Group of Experts" issued by the Inter-American Economic and Social Council (CIES/392) distributed as document TD/B/C.3/L.36.
Agenda item

6 (contd)

(8) "International Monetary Reform" a resolution adopted by the International Confederation of Free Trade Unions (TD/B/C.3/NGO/6).

Supplementary financial measures

(9) Compensatory Financing of Export Fluctuations - second report by the International Monetary Fund (TD/B/C.3/L.35). The report is included as a discussion document under item 6 of the provisional agenda.

* * *

The following documents will be available for convenient reference by members of the Committee in the conference room:

1. The State of Food and Agriculture - two annual reports by the Food and Agriculture Organization of the United Nations for the years 1965 and 1966.


3. 1966 Annual Report by the International Monetary Fund.
Mr. Macone  

Irving S. Friedman  

Export Projections  

Have I spoken to you about trying to do our export projection study again for supplementary finance, but for a more recent period, and hopefully, for a larger sample of countries?

cc: Mr. Sarma
March 9 1967

Irving S. Friedman

I would appreciate a table showing the extent of unutilized capacity in less developed countries and, if feasible, how much increase in GNP or GNP per capita might take place if there were reasonably full utilization of resources.
Mr. Macone

Irving S. Friedman

Export Projections

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cc: Mr. Sarma
OFFICE MEMORANDUM

TO: Supplementary Finance Group
FROM: Irving S. Friedman
SUBJECT: Paper on the Adjustment of Export Shortfalls

DATE: March 9, 1967

I believe we ought to get together and discuss the possibility of a more sophisticated paper on the adjustment of export shortfalls which would reduce the financial calls on the Scheme. For example, if for various reasons, such as need to finance food imports, a development program is slowed down with a corresponding decrease in the need for imports to sustain the program, would this mean inconsistencies in the Supplementary Finance Scheme?

I believe it would be very useful if we were able to list the kinds of situations we could see now in which the need for calls on the Scheme could be reduced, leaving aside the question of adequate performance.

cc: Messrs. Kamarck
Frank
Macono
Sarma
Sundrum
Jalan
Supplementary Finance Group

Irving S. Friedman

Paper on the Adjustment of Export Shortfalls

March 9, 1967

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cc: Messrs. Kamarck
    Frank
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    Sarna
    Sundrum
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ISFriedman:rgw
Supplementary Finance Group

Irving S. Friedman

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cc: Messrs. Kamarck
Frank
Macone
Sarma
Sundrum
Jalan

ISFriedman:rgw
Supplementary Finance Study

(a) Subjects for which work of a more extensive nature would have to be undertaken:

1) policy package and performance
2) export projections
3) size of the Scheme (total needs adjusted for scale; elaboration of the possible role of other Agencies, including IMF, the AID and other items which explain the "$300 to $400 million" figure)
4) import prices
5) nature and working of the Agency (not to be presented to the committee in the initial stage)
6) financing of the Agency

(b) Subjects for which explanatory notes of the Scheme would be prepared:

7) overages
8) invisibles
9) role of Agency as residual lender
10) forms, terms and conditions of assistance
11) relations between SFS and IMFCS
12) relations with commodity agreements

(c) Note on the legal implications of the participation of member countries of IDA in the Agency, if the former were chosen the Agency (not to be presented to the Committee in the initial stage).
WORK-PLAN ON SUPPLEMENTARY FINANCE

1. Subjects on which work of a more extensive nature is being undertaken:
   (a) "Policy Package" and Performance
   (b) Methodology of export projections and related questions
   (c) The question of import prices
   (d) Size of new Scheme

2. Subjects on which explanatory notes are being prepared:
   (a) The meaning of "overages"
   (b) Role of Agency as a residual lender
   (c) Forms, terms and conditions of assistance
   (d) The concept of planning in relation to the Scheme
   (e) Relationship of Scheme with commodity agreements
Supplementary Finance Study

(a) Subjects for which work of a more extensive nature would have to be undertaken:

1) policy package and performance
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5) nature and working of the Agency (not to be presented to the committee in the initial stage)
6) financing of the Agency

(b) Subjects for which explanatory notes of the Scheme would be prepared:

7) overages
8) invisibles
9) role of Agency as residual lender
10) forms, terms and conditions of assistance
11) relations between SFS and IMFCs
12) relations with commodity agreements

(c) Note on the legal implications of the participation of member countries of IDA in the Agency, if the former were chosen the Agency (not to be presented to the Committee in the initial stage).
Supplementary Finance Study

(a) Subjects for which work of a more extensive nature would have to be undertaken:

1) policy package and performance
2) export projections
3) size of the Scheme (total needs adjusted for scale; elaboration of the possible role of other Agencies, including IMF, the AID and other items which explain the "$300 to $400 million" figure)
4) import prices
5) nature and working of the Agency (not to be presented to the committee in the initial stage)
6) financing of the Agency

(b) Subjects for which explanatory notes of the Scheme would be prepared:

7) overages
8) invisibles
9) role of Agency as residual lender
10) forms, terms and conditions of assistance
11) relations between SFS and IMFCS
12) relations with commodity agreements

(c) Note on the legal implications of the participation of member countries of IDA in the Agency, if the former were chosen the Agency (not to be presented to the Committee in the initial stage).
OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman
FROM: Paulo H. Pereira Lima and Bimal Jalan
SUBJECT: Supplementary Finance Study

DATE: May 24, 1966

In response to your memo of May 23, 1966, we list below the subjects on which we have to start working for the Supplementary Finance Study. The general idea would be to have a paper on each topic which could be transmitted to the intergovernmental group when it meets. The subjects are classified according to the basic nature of the work to be carried, which should take into account the questions raised in Geneva and listed in our memo of May 13:

a) Subjects for which work of a more extensive nature would have to be undertaken:

1) policy package and performance
2) export projections
3) size of the Scheme (total needs adjusted for scale; elaboration of the possible role of other Agencies, including IMF, the AID and other items which explain the "$300 to 400 million" figure)
4) import prices
5) nature and working of the Agency (not to be presented to the committee in the initial stage)

b) Subjects for which explanatory notes of the Scheme would be prepared:

6) overages
7) invisibles
8) role of Agency as residual lender
9) forms, terms and conditions of assistance

c) Note on the legal implications of the participation of member countries of IDA in the Agency, if the former were chosen for the Agency. (Not to be presented to the Committee in the initial stage.)
Two topics included in our memo of May 13 have not been included in the list above: the relationships of the Scheme with commodity agreements and the financing of the Agency.

Items 3 and 8 of the list raise the problem of relationships of the Scheme with the Fund. It might be considered whether the Fund should be approached directly on them at this stage.

We hope to discuss the question of the farming out of the work to others in our next meeting with you.

Also relate F S S or MPS
United Nations Conference on Trade and Development

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

PROVISIONAL AGENDA

1. Opening of the session
2. Election of officers
3. Adoption of the agenda
4. Consideration of the adequacy of the rates of growth achieved by the developing countries:
   (a) Mobilization of internal resources and the flow of external assistance
   (b) Problems of measuring the net flow of resources to developing countries
   (c) The terms, co-ordination and effectiveness of aid
   (d) Problems of debt servicing
   (e) Suppliers' credit
   (f) Stimulation of the flow of private capital
   (g) Financing and regional development: Aspects of the expert group report entitled "Trade expansion and economic co-operation among developing countries" (TD/3/68)
5. The Horowitz proposal: Consideration of the report of the group of experts
6. Further consideration of the report of the Expert Group on International Monetary Issues (TD/3/32)
7. Report of the Group of Experts on Payments Arrangements among Developing Countries

1967-2641
8. Supplementary financial measures
9. Progress reports on the programme of work on invisibles
   (a) Insurance and reinsurance
      (i) Report of the Expert Group on Reinsurance
      (ii) Other activities
   (b) Tourism
10. Provisional agenda, date and place of the third session of the Committee
11. Adoption of the report of the Committee to the Trade and Development Board
12. Any other business

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1/ It is expected that the Committee may wish, at the beginning of the session to establish a sessional sub-committee of the whole to consider this item. As it is not anticipated that the discussion on item 9 will take more than a week or ten days, the Committee could also consider referring selected items of financing to the sessional sub-committee, thereby reducing the time spent in plenary session. The Committee might review this possibility towards the end of the first week, in the light of the progress made both in the plenary and in the sessional sub-committee. It is hoped in connexion with the discussion of item 9 in the sub-committee that the delegations to the session will include experts in the field of insurance, reinsurance and tourism.
Item 1: Opening of the session

Item 2: Election of officers

Rule 18 of the rules of procedure of the Committee (TD/B/63/Rev.1-TD/B/63/Rev.16/Rev.1) states that "each year at the commencement of the first regular session, the Committee shall elect a Chairman, five Vice-Chairmen and a Rapporteur from among its members. These officers shall constitute the Bureau of the Committee. In electing the officers, due account shall be taken of the need to ensure an equitable geographic distribution."

Rule 19.2 provides that "the officers of the Chairman and Rapporteur of the Committee shall be subject to rotation among the groups on a seven-year cycle in accordance with the annex to these rules of procedure."

In accordance with this provision, in the second year of the cycle the Chairman shall be a member of Group A or C and the Rapporteur shall be a member of Group D.

Item 3: Adoption of the agenda

At its resumed first session the Committee considered and noted the present provisional agenda which was drawn up by the Secretary-General of UNCTAD in accordance with rule 8 of the Committee's rules of procedure.

Attention is drawn in this connection to certain decisions of the Trade and Development Board taken at its fourth session which are of direct concern to the Committee of the Board and to certain resolutions of the General Assembly adopted at its recent twenty-first session.

The Board requested the Secretary-General of UNCTAD to bring to the attention of the Committees of the Board the report entitled "Review of international trade and development 1966" (TD/B/32 and addenda and corrigenda) as well as the summary records (TD/B/SR.92-101, 103, 104 and 115) of the discussions at the fourth session of the Board on agenda item 3 (Review of the implementation of the recommendations of the first Conference) and the report of the Board on that session. The Board's intention was to enable the Committees to review and assess the

Documents listed in the annotations are those most directly related to the discussion of the items of the provisional agenda. A list of additional background documents is found in Annex B. Only documents which have been issued or are in final stages of preparation are included in the annotations and Annex B.
implementation of the recommendations of the first session of the Conference in accordance with their terms of reference and to consider the line of further action necessary to facilitate their task of assisting the Board in the preparation of the second Conference (see A/6315, Part Two, paragraph 46). General Assembly resolution 2209 (XXI) also deals with the implementation of the recommendations of the first session of UNCTAD and the Committee's attention is drawn in particular to operative paragraph 3 of that resolution.

With regard to the draft provisional agenda for the second session of the Conference, the Board agreed that it should be forwarded to the subsidiary bodies of the Board as a basis for the preparation of the second Conference, and for such comments, observations or recommendations as they might wish to submit to the fifth session of the Board (see A/6315, Part Two, paragraph 72). In this connexion, attention is also drawn to General Assembly resolution 2206 (XXI), operative paragraph 2 of which calls upon the Board and its subsidiary bodies to take into account the objectives outlined in the first three paragraphs of the preamble of that resolution in their preparations for the second session of the Conference, and to attempt to identify the issues on which preparatory work will have progressed sufficiently to enable specific programmes of action to be drawn up at the Conference by means of negotiation aimed at securing the greatest possible measure of agreement. For the convenience of the Committee, the draft provisional agenda for the second Conference is reproduced as Annex A to this document; where relevant, a concordance of the provisional agenda for the second session of the Committee with that for the second Conference is provided.

The Committee may wish to envisage postponing consideration of sub-items 4(b) and 4(g) because the existing documents on these matters (see annotations on item 4 below) may not yet be found adequate to provide a basis for extended discussion. In view of the many important matters on the Committee's provisional agenda and the short time available for the meeting, the Committee may also find it desirable to consider sub-items 4(c) and 4(d) together, as a single sub-item.
Item 4: Consideration of the adequacy of the rates of growth achieved by the developing countries

4(a): Mobilization of internal resources and the flow of external assistance

A survey prepared by the UNCTAD secretariat entitled "The mobilization of internal resources by the developing countries" (TD/B/C.3/28) reviews the efforts of developing countries to accelerate their growth by action in such fields as capital formation, promotion of domestic savings, agricultural development, education and the planning process. A summary by the Food and Agriculture Organization of the United Nations of The State of Food and Agriculture, 1965 (TD/B/C.3/L.34) considers in more detail the development of the agricultural sector in the past decade.

A further paper prepared by the UNCTAD secretariat entitled "Growth and external development finance" (TD/B/C.3/34) examines the growth rates achieved by the developing countries in the first half of the Development Decade and the net flows of financial resources to these countries, including multilateral, bilateral and private flows. The paper also discusses total net flows in terms of the development assistance target established by the General Assembly (in resolutions 1552 (XV) and 1711 (XVI)) and at the first session of UNCTAD (in recommendation A.IV.2).

The Committee's attention is drawn to Economic and Social Council resolution 1183 (XLI) on the flow of external resources to developing countries, in which the Secretary-General of the United Nations was requested, inter alia, "to undertake in consultation with the United Nations Conference on Trade and Development, the International Monetary Fund, the International Bank for Reconstruction and Development and such other organizations as he considers necessary, a study on: (i) Economic factors affecting the ability of developed countries to transfer maximum financial resources to the developing countries in accordance with the relevant recommendations contained in the Final Act of the United Nations Conference on Trade and Development, particularly its annex A.IV.2, taking into account the increase in the national income of the developed countries..." (see paragraph 5(b)(i) of this resolution which is given in document E/4264).
In the same resolution, the Council expressed "the wish that the United Nations Conference on Trade and Development continue to give special attention, within the field of its competence, to the problems of financing economic development in developing countries".

This Council resolution was endorsed by the General Assembly in its resolution 2170 (XXI); the Assembly further decided to consider at its twenty-second session the reports to be prepared by the Secretary-General in response to the Council resolution.

By resolution 2186 (XXI), the General Assembly decided to bring into operation the United Nations Capital Development Fund whose purpose is to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates. Such assistance is to be directed towards the achievement of the accelerated and self-sustained growth of the economies of those countries and is to be oriented towards the diversification of their economies, with due regard to the need for industrial development as a basis for economic and social progress.

A paper prepared for UNCTAD by Professor F.G. Adans of the University of Pennsylvania entitled "Alternative projections of the foreign exchange 'gap': a reconciliation" (TD/B/0.3/30) reviews and compares the various estimates that have been made of capital requirements of developing countries. Further, a paper prepared by the UNCTAD secretariat entitled "External resource requirements of developing countries" (TD/B/0.3/40) deals with the issues involved in estimating such resource requirements; based on secretariat studies of a number of individual developing countries.

4(b): Problems of measuring the net flow of resources to developing countries

The General Assembly at its eighteenth session adopted resolution 1938 (XVIII) in which it requested the Secretary-General to review, with the assistance of experts, the conceptual and methodological problems posed in recent reports on the international flow of long-term capital and official donations. The Secretary-General, after reviewing the problem in document A/5732, convened an expert group which submitted an interim report entitled
"The measurement of the flow of resources from developed market economies to the developing countries" (E/4171) to the Economic and Social Council at its forty-first session. The Council, in its resolution 1184 (XLI), requested the Secretary-General to invite the expert group to submit a final report in time for the forty-third session of the Council. The Council's resolution was endorsed by the General Assembly in its resolution 2169 (XXI).

The group will be convened in New York on 27 February 1967.

4(c): The terms, co-ordination and effectiveness of aid

4(d): Problems of debt servicing

For the consideration of these items the Committee will have before it two papers prepared by the UNCTAD secretariat. The first is entitled "The terms, quality and effectiveness of financial flows and problems of debt servicing" (TD/B/C.3/35). This paper considers recent trends in the terms and conditions of development assistance, and in debt servicing. It also discusses possibilities for improving these terms and conditions. Projections of debt and debt-service payments are presented by the UNCTAD secretariat in a paper entitled "The outlook for debt service" (TD/B/C.3/36).

A study entitled "The costs and benefits of aid: A quantitative approach" (TD/B/C.3/38) has been prepared for UNCTAD by Mr. John Pincus of the Rand Corporation. This paper examines the various forms of financial flows in terms of the real resource cost to donor countries and the real benefits to recipient countries.

Economic and Social Council resolution 1183 (XLI) mentioned under item 4(a) above also requests the Secretary-General to study, in consultation with UNCTAD, the progress made by individual developed countries in the implementation of the resolution concerning the minimum acceptable terms of aid.

4(e): Suppliers' credit

This item was included in the provisional agenda of the Committee in pursuance of recommendation A. IV. 14 of the first session of UNCTAD and resolution 26 (III) adopted at the third session of the Trade and Development Board (A/6315, Part One, Annex A). As a basis for its discussion the Committee is expected to have before it (i) a study prepared by the
staff of the World Bank entitled "Suppliers' credits from industrialized to developing countries" which will be distributed as document TD/B/C.3/L.38, and (ii) a study prepared by the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs entitled Export Credits and Development Financing, United Nations publication, Sales No.: 67.II.D.1, originally issued as E/4274.

4(f): Stimulation of the Flow of Private Capital

In response to recommendation A.IV.12 of the first session of UNCTAD, the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs has prepared a study entitled The Promotion of Private Foreign Investment in Developing Countries (E/4293), a summary of which has also been circulated. A note (TD/B/C.3/L.40), drawing the attention of the Committee to these documents, has been distributed.

Among the measures to stimulate the flow of private capital is a multilateral investment insurance scheme which is under study by the World Bank. A progress report on this subject was distributed as document TD/B/55, to which was appended a summary of a draft of a multilateral investment insurance scheme prepared by the Organization for Economic Co-operation and Development. A second progress report by the World Bank dated 27 July 1966 is contained in document TD/B/98. The representative of the World Bank will be ready to bring these progress reports up to date in an oral statement to the Committee.

4(g): Financing and Regional Development: Aspects of the Expert Group Report entitled "Trade Expansion and Economic Co-operation among Developing Countries" (TD/B/68)

The expert group report (TD/B/68) deals briefly with this subject in paragraphs 38, 43, 48, 51, 58 and 87. A study prepared by the UNCTAD secretariat (TD/B/85) also refers to these issues in chapter III, paragraphs 66-68, 77, 91, 103-108 and 113-123, and chapter VII, paragraphs 5-8, 19-23 and 27-36. These two reports were before the Board at its fourth session and, after drawing attention to the need for their detailed study and discussion with a view to defining the action programmes that might be adopted by the time of the second session of the Conference, the Board
decided that a discussion of the subject should take place at its fifth session. In this connexion, it requested the Secretary-General of UNCTAD to transmit the reports to the regional economic commissions, the existing regional groupings of the developing countries, the international and regional financial institutions and appropriate intergovernmental organizations for their comments on the suggestions put forward therein (see A/6315, Part Two, Annex A, resolution 32(IV)).

A further study on this subject is being carried out by the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs and the UNCTAD secretariat, and this study is expected to be available for the second Conference.

**Item 5:** The Horowitz proposal: Consideration of the report of the group of experts

The Committee had before it at its first session a report on the Horowitz proposal by the staff of the World Bank (TD/B/C.3/1). At that session the Committee requested the Secretary-General of UNCTAD to appoint a group of experts to consider the economic and financial problems involved (see TD/B/42 - TD/B/C.3/15, Annex I(c), section G).


**Item 6:** Further consideration of the report of the Expert Group on International Monetary Issues (TD/B/32)

In accordance with resolution 2208 (XXI) of the General Assembly, the Secretary-General of UNCTAD will present a report to the Board through the Committee on the progress of activity relating to international monetary reform (TD/B/115 - TD/B/C.3/43). The Committee will also have before it two communiqués of ministerial meetings of the Group of Ten (TD/B/93 and TD/B/C.3/31).

In connexion with recommendation A.IV.17 of the first session of UNCTAD and the discussion of this matter by the Expert Group on International Monetary Issues (TD/B/32, paragraphs 56 and 57), the International Monetary Fund made a change in its compensatory financing facility. An account of the change is given in the second report of the International Monetary Fund on compensatory financing of export fluctuations (TD/B/C.3/L.35).
Item 7: Report of the Group of Experts on Payments Arrangements among Developing Countries

In pursuance of recommendation A. IV.19 of the first session of UNCTAD, the Secretary-General convened a Group of Experts to consider this subject. The Group met in New York from 20 June to 3 July 1966, and prepared a report entitled "Payments arrangements among the developing countries for trade expansion" (TD/B/30).

The Committee will also have before it a survey of past experience in this field included in "Payments arrangements among developing countries" (TD/B/C.3/32) prepared by the UNCTAD secretariat.

The Committee may wish to consider what comments it might appropriately forward to the Board in connexion with the latter's discussion at its fifth session on "Trade expansion and economic co-operation and integration among developing countries" (item 11 of the Board's provisional agenda).

Item 8: Supplementary financial measures

At its resumed first session the Committee considered the study of the staff of the World Bank on supplementary financial measures (TD/B/43).

The Committee decided, subject to the approval of the Board, to establish an Intergovernmental Group on Supplementary Financing (TD/B/73, Annex A). This decision was approved by the Board at its fourth session (A/6315, Part Two, paragraph 147). The first session of this Group took place in Geneva from 10 to 14 October 1966. The second session is scheduled to take place in Geneva for two weeks, beginning 6 February 1967, and the Group will then report to the Committee.

Item 9: Progress reports on the programme of work on invisibles

The Expert Group on Reinsurance met in Geneva from 26 September to 6 October 1966 and formulated a number of recommendations. Its report ("Reinsurance policy and operations in developing countries") has been issued as document TD/B/C.3/29 - TD/B/C.3/4C.2/1.

In connexion with the Committee's interest in insurance legislation, supervision and market, which is reflected in various projects under the work programme in insurance, the Secretary-General of UNCTAD addressed a
questionnaire, in February 1967, to the governments of developing countries. This questionnaire is reproduced in an annex to the "Progress report on the programme of work on invisibles" (TD/B/C.3/42), and further reference is made in the body of the report to the purpose the questionnaire is intended to serve.

The report also gives an account of the progress made by the secretariat on the other projects (insurance and tourism) contained in the programme of work on invisibles. For the convenience of delegations, the programme of work on invisibles of the Committee, as adopted at its first session, is reproduced as an annex to the report. Another annex to the report contains a review that the Committee requested should be made (see TD/B/42 - TD/3/C.3/15, Annex 1(b)) of the activities relating to tourism carried out by other institutions within the United Nations system and by certain other inter-governmental and non-governmental organizations.

In order to assist the Committee in reviewing and assessing the implementation of the recommendations of the first Conference, with a view to preparing for the second Conference (see the annotations to agenda item 3 above), the sections dealing with invisibles of the report on implementation submitted to the fourth session of the Board (TD/B/32 and addenda) are reproduced in a document entitled "Review of developments in the field of invisibles" (TD/B/C.3/39). Whenever possible, up-dated statistics and other information have been incorporated.

Item 10: Provisional agenda, date and place of the third session of the Committee

Rule 8 of the Committee's rules of procedure provides for the drawing up by the Secretary-General of UNCTAD and submission at each regular session of a provisional agenda for the following regular session. In view of the fact that the second session of the Conference will take place before the third session of the Committee, the latter may wish to provide for a procedure whereby a suitable draft provisional agenda for the Committee's third session might be prepared in the light of the results of the second session of the Conference.

The date and place of the third session of the Committee might be left open for the Board or the Conference to decide.

Item 11: Adoption of the report of the Committee to the Trade and Development Board

Item 12: Any other business
(ii) role and financing of diversification programmes;
(iii) basic principles and guidelines for pricing policy designed to maximize receipts from export of primary commodities.

(c) Programmes for the liberalization and expansion of trade in commodities of interest to developing countries.

III. Expansion and diversification of export of manufactures and semi-manufactures of developing countries

(a) Review of recent developments and long-term trends in trade in manufactures and semi-manufactures in the light of recommendations and other provisions of the Final Act of the first Conference.

(b) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries.

(c) Programmes for the liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries.

(d) Measures for the promotion, expansion and diversification of exports of manufactures and semi-manufactures from developing countries; co-operation with UNIDO aimed at the establishment and expansion of export-oriented industries in developing countries; other forms of economic, industrial and technical co-operation.

(e) Arrangements leading to the reshaping of the existing international division of labour.

IV. Growth, development finance and aid (synchronization of international and national policies)

(a) Review of recent developments and long-term trends in the light of recommendations and other provisions of the Final Act of the first Conference.
(b) Financial resources and requirements of developing countries.
   (i) Measures for increasing the flow of international public and private capital to developing countries;
   (ii) Measures for improving the terms and conditions of aid;
   (iii) Measures for dealing with the problem of international indebtedness.
(c) Supplementary financial measures.
(d) Compensatory financing.
(e) Reform of the International Monetary System - measures for international reserve creation and their relation to development finance and trade of developing countries.

V. Problems of developing countries in regard to invisibles including shipping
   (a) Review of recent developments and long-term trends in the field of invisibles including shipping in the light of the recommendations and other provisions of the Final Act of the first Conference.
   (b) Level and structure of freight rates, Conference practices and adequacy of shipping services - progress report on studies by the Secretariat.
   (c) Shipping industry in developing countries including expansion of merchant marines of developing countries.
   (d) Consultation machinery in shipping.
   (e) Port improvements. Progress report on studies by the Secretariat.

1/ Reservation entered by Group 3 concerning the need for a specific sub-item on this subject.

2/ Only sub-items (a) and (g) are relevant to the work of the Committee.
(f) [International legislation on shipping.]

(g) Transfer of technology, including know-how and patents.

VI. Trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries - including regional, sub-regional and inter-regional arrangements.

VII. Special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development.

VIII. General review of the work of UNCTAD

(a) Activities of the organs of the Conference.

(b) Technical assistance activities relating to trade including training of technical and special staff of developing countries.
ANNEX B
Background documentation

Agenda item 4
Consideration of the adequacy of rates of growth achieved by the developing countries

(1) World Economic Survey, 1965 prepared by the Centre for Development Planning Projections and Policies:
   (a) Part I - The Financing of Economic Development, United Nations publication, Sales No.: 66.II.C.1, originally issued as E/4187.
   (b) Part II - Current Economic Developments, United Nations publications, Sales No.: 66.II.C.2, originally issued as E/4221.


4 (a) Mobilization of internal resources and the flow of external assistance

4 (c) The terms, co-ordination and effectiveness of aid

4 (f) Stimulation of the flow of private capital

(5) "Multilateral Investment Guarantees", a statement prepared by the International Chamber of Commerce for ECOSOC (E/C.2/642) and for UNCTAD (TD/B/C.3/NG0/3).

6 Further consideration of the Report of the Expert Group on International Monetary Issues

(6) "Commissiqué of Ministers and Governors and Report of Deputies" by the Group of Ten (TD/B/C.3/L.41).

(7) "International Monetary Reform and Latin America - Report of the CIAP Group of Experts" issued by the Inter-American Economic and Social Council (CIES/392) distributed as document TD/B/C.3/L.36.
Supplementary financial measures

8. Compensatory Financing of Export Fluctuations - second report by the International Monetary Fund (TD/B/C.3/L.35). The report is included as a discussion document under item 6 of the provisional agenda.

* * *

The following documents will be available for convenient reference by members of the Committee in the conference room:

1. The State of Food and Agriculture - two annual reports by the Food and Agriculture Organization of the United Nations for the years 1965 and 1966.


3. 1966 Annual Report by the International Monetary Fund.
Mr. Woods

Federico Consolo

UNCTAD - 2nd Session

December 2, 1966

1. Some time ago you had enquired on the possible overlapping of the 2nd UNCTAD Session with the Bank/Fund meetings in Rio.

2. This matter is now being discussed in the Second Committee of the General Assembly. It is very probable that the 2nd Session of UNCTAD will now be held, always in New Delhi, from the beginning of February to the end of March 1968. The General Assembly will make a final decision in the course of the present session ending on December 20/21.

cc: Mr. Desmuth
Mr. Friedman

FC/bmb
Please circulate Nos. 8/66

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ROOM 658 1223
November 7, 1966

1. Attached is a letter from Dr. Prebisch which is self-explanatory and requires no action on our part.

Encls.

cc: Mr. Demuth  
    Mr. Friedman  
    Mr. Kamarck  
    Mr. Karasz - Paris  
    Mr. Kalmanoff  
    Europe Department  
    Africa  
    Asia  
    Western Hemisphere Department  
    Information Department
Dear Mr. Woods,

I have pleasure in enclosing, for your information, copy of a note verbale sent to all States members of UNCTAD regarding the draft provisional agenda for the second session of the United Nations Conference on Trade and Development.

Yours sincerely,

Raúl Prebisch
Secretary-General

Mr. G.D. Woods
President
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
USA
and has the honour to inform His Excellency's Government that at its fourth session (Geneva, 30 August - 24 September 1966), the Trade and Development Board approved the draft provisional agenda for the second session of the United Nations Conference on Trade and Development. The text of the draft provisional agenda is reproduced in the annex.

The Board also decided that the draft provisional agenda should be forwarded to all States members of UNCTAD, to the subsidiary bodies of the Board, to the regional economic commissions of the United Nations, and to the United Nations Economic and Social Office in Beirut, as a basis for the preparation of the second Conference, and for such comments, observations or recommendations as they might wish to submit to the fifth session of the Board (4 - 30 May 1967), on the substance of the items in the draft provisional agenda. The Secretary-General of UNCTAD would be grateful if His Excellency's Government, should it wish to submit such comments, observations or recommendations, could do so if possible by not later than 1 March 1967.

26 October 1966
I. TRENDS AND PROBLEMS IN WORLD TRADE AND DEVELOPMENT

(a) Review of recent developments and long-term trends, implementation of the recommendations and other provisions of the Final Act of the first conference – consideration of further action.

(b) Steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development (see Annexes A.I.1; A.I.2 and A.I.3 of the Final Act of UNCTAD, 1964).

(c) Trade relations among countries having different economic and social systems including problems of East-West trade, paying attention particularly to the trade interests of developing countries and taking into account the work in this field of other United Nations organs, including the regional economic commissions.

(d) Impact of the regional economic groupings of the developed countries on international trade including the trade of the developing countries.

II. COMMODITY PROBLEMS AND POLICIES

(a) Review of recent developments and long-term trends in commodity trade including activities of commodity groups and other commodity bodies in the light of recommendations and other provisions of the Final Act of the first conference.

(b) Main elements of commodity policy including international commodity arrangements and other techniques of commodity market stabilization.

1/ It was emphasized by a number of countries that these matters would need to be examined in relation to the situation in particular commodities.
(i) operation and financing of buffer stocks;
(ii) role and financing of diversification programmes;
(iii) basic principles and guidelines for pricing policy designed to maximize receipts from export of primary commodities.

(c) Programme for the liberalization and expansion of trade in commodities of interest to developing countries.

III. EXPANSION AND DIVERSIFICATION OF EXPORT OF MANUFACTURES AND SEMI-MANUFACTURES OF DEVELOPING COUNTRIES

(a) Review of recent developments and long-term trends in trade in manufactures and semi-manufactures in the light of recommendations and other provisions of the Final Act of the first conference.

(b) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries.

(c) Programme for the liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries.

(d) Measures for the promotion, expansion and diversification of exports of manufactures and semi-manufactures from developing countries; co-operation with UNIDO aimed at the establishment and expansion of export oriented industries in developing countries; other forms of economic, industrial and technical co-operation.

(e) Arrangements leading to the reshaping of the existing international division of labour.

IV. GROWTH, DEVELOPMENT FINANCE AND AID (SYNCHRONIZATION OF INTERNATIONAL AND NATIONAL POLICIES)

(a) Review of recent developments and long-term trends in the light of recommendations and other provisions of the Final Act of the first conference.

(b) Financial resources and requirements of developing countries.
   (i) measures for increasing the flow of international public and private capital to developing countries
   (ii) measures for improving the terms and conditions of aid
   (iii) measures for dealing with the problem of international indebtedness
Conference on Trade and Development - Conférence sur le Commerce et le Développement

(c) Supplementary financial measures.
(d) Compensatory financing.
(e) Reform of the International Monetary System - measures for international reserve creation and their relation to development finance and trade of developing countries.

V. PROBLEMS OF DEVELOPING COUNTRIES IN REGARD TO INVISIBLES INCLUDING SHIPPING
(a) Review of recent developments and long-term trends in the field of invisibles including shipping in the light of the recommendations and other provisions of the Final Act of the First Conference.
(b) Level and structure of freight rates, Conference Practices and adequacy of shipping services - progress report on studies by the Secretariat.
(c) Shipping Industry in developing countries including expansion of merchant marines of developing countries.
(d) Consultation Machinery in Shipping.
(e) Port Improvements. Progress report on studies by the Secretariat.
(f) International legislation on Shipping.
(g) Transfer of technology, including know-how and patents.

VI. TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES, MEASURES TO BE TAKEN BY DEVELOPING AND DEVELOPED COUNTRIES - INCLUDING REGIONAL, SUBREGIONAL AND INTER REGIONAL ARRANGEMENTS

VII. SPECIAL MEASURES TO BE TAKEN IN FAVOUR OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES AIMED AT EXPANDING THEIR TRADE AND IMPROVING THEIR ECONOMIC AND SOCIAL DEVELOPMENT

VIII. GENERAL REVIEW OF THE WORK OF UNCTAD
(a) Activities of the organs of the Conference.
(b) Technical assistance activities relating to trade including training of technical and special staff of developing countries.

2/ Reservation entered by Group B concerning the need for a specific sub-item on this subject.
This subject was included in the minutes of a meeting of July 5, 1966 held by the UN Administrative Committee on Coordination, Sub-Committee on Commodity Problems, which has been sent to me by Mr. Consolo.

Dr. Prebisch announced at the meeting that the Government of India had been the only government to invite the UNCTAD to hold its Second Session at its capital. However, climatic conditions in New Delhi would not be conducive to holding the conference before September 1967. This would conflict with the annual meetings of the Bank and Fund, and if the UNCTAD Session were to be held later, it might conflict with the biennial conference of the FAO scheduled for November-December 1967. Various alternatives for the timing and location of the Session are being considered. The question is to be decided by the UNCTAD Trade and Development Board, which will meet in Geneva during the period August 31 to September 23, 1966.

Dr. Prebisch made available to the meeting the draft agenda for the Second Session of UNCTAD, which has been distributed to member governments for comment. A revised version of this agenda will also be considered at the forthcoming session of the UNCTAD Trade and Development Board.

The tentative version made available by Dr. Prebisch is attached.

Encl.

cc: Messrs. Friedman/ Kamarck/ Leon/ Macone
LIST OF POSSIBLE SUBJECTS FOR INCLUSION IN THE AGENDA

I. Trends and problems in world trade and development
   (a) Review of recent developments
   (b) Implementation of Recommendation of the first Conference
   (c) Trade relations among countries having different economic and social systems

II. Commodity problems and policies
   (a) Review of recent developments and long-term trends
   (b) Main elements of commodity policy (including techniques of commodity market control, buffer stocks and diversification and their financing)

III. Promotion of a part of manufactures
   (a) The reduction or elimination of tariff and non-tariff barriers to manufactures and semi-manufactures of a part interest to the developing countries
   (b) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries

IV. Trade expansion and economic integration among developing countries
   (a) Commercial policies
   (b) Financial measures
   (c) Payments arrangements

V. Development, finance and aid
   (a) Financial requirements of developing countries, scale and conditions of aid, including problems of debt servicing
   (b) Supplementary financial measures

VI. International and internal policies, and growth

VII. General review of the work of UNCTAD
   (a) Activities of the organs of the Conference
   (b) Technical assistance activities
ACC SUB-COMMITTEE ON COMMODITIES
Meeting 8 July 1966

The Committee met to discuss (1) the review of activities of U.N. organizations; (2) preparations for the meeting of the Advisory Committee of Commodities. Mr. Perce Judd, Director of the Commodities Division of UNCTAD, was in the chair.

Mr. Judd asked each participant in turn for a short account of developments in relation to commodities within their organizations. The representative for the GATT said that the Director General of the GATT had already given a fairly full account in the previous meeting of commodity developments within the Kennedy Round. He added that in regard to tropical products the negotiating group had been active and offers were already on the table.

The Chairman outlined developments within the UNCTAD in regard to sugar. No agreement had been reached. Last May, 22 governments met with the idea of arriving at interim arrangements. A further meeting of the working party of the consultative committee on sugar was held in June and it was realized that it would not be possible to have any form of interim agreement. The emphasis was now on a possible long-term agreement but there were many difficulties.

As for cocoa, the working party had met four times since 1963 and had made considerable progress, especially in regard to agreeing on means of obtaining a regular income. There were still many points unresolved, particularly in regard to price and the mechanism of a buffer stock. The position now was more complex rather than simpler for the reason that participants had attempted to cope with a variety of potential issues in the draft agreement. No agreement was reached at the last cocoa conference in June but the Secretary General of the UNCTAD had received a mandate to carry out bilateral discussions with governments with a view to ironing out the difficulties and convening another conference before the end of 1966.

Mr. Judd said that the Permanent Sub-Committee on Commodities of the UNCTAD was currently in session with a view to agreeing a report on the current situation in commodities and to discussing basic concepts with their application to various selected commodities.
such as cocoa, rubber and oils and fats.

A proposed meeting of synthetics had been postponed because other meetings had taken up the time such as the Cotton Advisory Committee. In due course they would discuss the problem of synthetics in relation to rubber, cotton textiles and the question of copper and aluminum substitution. A meeting on copper had been scheduled for December next but there was very little enthusiasm for it. In regard to the commodity survey two more chapters had to be added and they were working in close liaison with FAO. There had been some requests for revival of the commodity bulletin and this was under consideration. The question of trade promotion was on the agenda of the UNCTAD. As for a general agreement on commodities Dr. Prebisch felt that an over-all commodity policy should be worked out first.

Turning to the Advisory Committee, Mr. Judd said that it was not yet time to advise the TDR, the Commodity Committee and the Secretary General of the UNCTAD. A preliminary outline for the formation of an international commodity policy had been circulated. This would be extended to about 20 pages altogether. The intention was to keep it relatively short for the use of the Advisory Committee and to single out problems. The representative for FAO (Dr. Oppel) felt that the Advisory Committee should establish itself by making contributions at its very first meeting. If it failed to do this then further meetings of the Committee would become routine. He felt that the paper issued by UNCTAD did not provide an appropriate combination for the review of policy, program of study and principles. It seemed to be a mixture of different elements, some of which were somewhat unrealistic such as the objective of phasing out of protectionism. Mr. Judd said that the Advisory Committee would meet in September for four days immediately after the TDR meeting and before the next session of the Committee on Commodities.

The representative for the IMF (Edgar Jones) gave a short outline of the position in regard to IMF's facility for commodity
financing of shortfalls in exports. He mentioned that an intensive study had been made by the Fund staff of the facility and recommendations had been made to the Executive Board of the Fund which were in line with the UNCTAD recommendation A.IV.17 except that the statistical basis for calculating shortfalls would remain in principle the same. The staff paper was now under consideration by the Board but he could not predict the outcome of its deliberations.