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Friedman UNCTAD Files - Algiers Group of 77 Meeting, Oct. 24, 1967  
(Algiers Charter)

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Iving Friedman UNCTAD Files, Algiers Group of 77 Meeting, October 24, 1967 -  
Correspondence

MEMORANDUM

December 5, 1967

TO: Messrs. Knapp, Aldewereld, Demuth, Friedman, Alter, Cope, Benjenk,  
Consolo, Goodman, Hoffman, Kamarck, McIvor and Sarma

FROM: G. D. Woods

SUBJECT: Visit of Representatives of Group of 77

You will recall that recently in Algiers there was a meeting of the Group of 77 to coordinate the positions of the developing countries in the issues which are to be discussed at UNCTAD II. This meeting agreed upon a statement of views embodied in the so-called Algiers Charter.

Arrangements were made for small teams of representatives of the Group of 77 to visit the U.N. and various developed countries to present and explain the Charter. One such team is visiting the U.S. Government, the World Bank and IMF on December 7 and 8. The group will be headed by Ambassador Cunha of Brazil and will include:

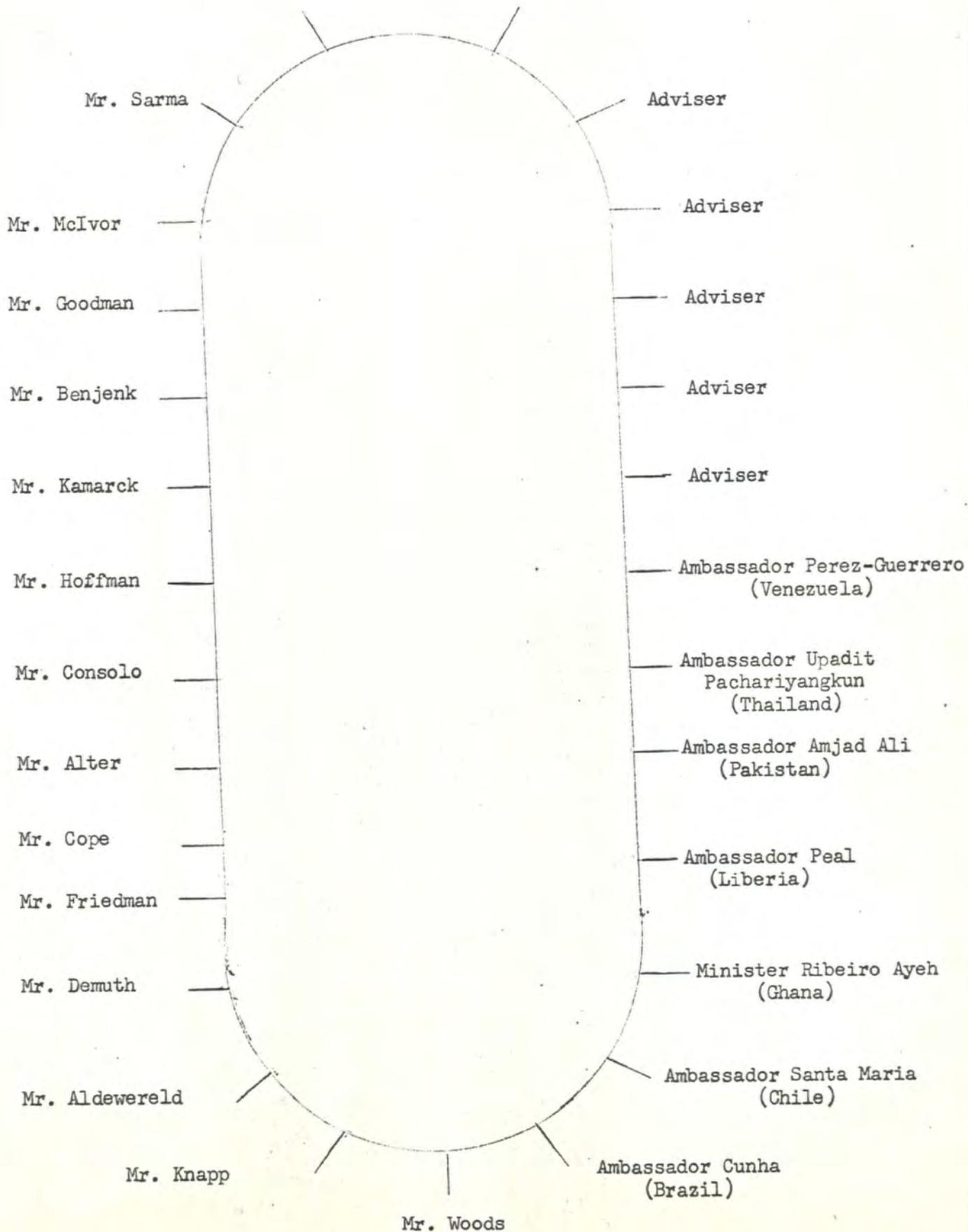
Ambassador Santa Maria, Chile  
Ambassador Perez-Guerrero, Venezuela  
Ambassador Amjad Ali, Pakistan  
Ambassador Upatit, Thailand  
Minister F.M. Ribeiro Ayeh, Ghana  
Ambassador S.E. Peal, Liberia

I have agreed to receive this team on Thursday, December 7, at 3:30 in the Board Room for a discussion of about an hour and would like you to attend.

Copies of the Algiers Charter can be obtained by calling Mr. Demuth's office--ext. 2171.

cc: Mr. Mendels  
Mr. Steckhan

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



UNITED NATIONS  
GENERAL  
ASSEMBLY



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Agenda item 38

STATEMENT MADE BY MR. JANEZ STANOVNIK, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL OF YUGOSLAVIA (RAPPORTEUR-GENERAL OF THE MINISTERIAL MEETING OF THE GROUP OF SEVENTY-SEVEN), AT THE 1154TH MEETING, ON 24 NOVEMBER 1967

The Charter of Algiers is a programme of action which the developing countries, assembled at the Ministerial Meeting in Algiers, submit to the international community.

The Charter of Algiers is not a declaration intended to register viewpoints. Its aim, therefore, is not a mere confrontation, but the charting of a common course of action for economic development in the world.

The Ministerial Meeting has, in turn, entrusted our Mission with the task to inform and persuade this distinguished gathering today. This should pave the way to negotiations on the principles for practical solutions which will take place during the forthcoming Conference in New Delhi.

Global strategy for development

The Charter of Algiers conceives of its task as comprising three consecutive stages: (a) reviewing economic trends and developments in the implementation of policies, it analyses the present situation; (b) taking into account technical ripeness and political readiness, it proposes a series of realistic and practical measures; (c) aware of the fact that immediate action could be only a phase in the long-term development policies, it calls for vision and study of further fields of action.

The key to understand the general approach of the Charter of Algiers is to be found in the preambular provision which reads:

"The gravity of the problem calls for the urgent adoption of global strategy for development requiring convergent measures on the part of both developed and developing countries."

The Charter of Algiers was drafted on the basis of the preparatory work done by regional groups and expressed in the Declaration of Algiers, in the Bangkok Declaration and in the Tequendama Charter. The practical recommendations contained in the Charter of Algiers should be understood against the background of several premises of a new global development strategy:

1. The recognition that "poverty anywhere represents a danger for prosperity everywhere" is basic. Co-operation for development is not, therefore, charity but an instrument of enlightened self-interest and general progress. There are no "donors" and "recipients" in this co-operation, but equal partners aware of mutual interdependence. This sets the common goal based on common interest.

2. The first premise logically leads to the next one. The developing countries reaffirm their conviction that "primary responsibility for their development rests with them" and express their determination to "contribute to one another's development". This should not be an excuse for transferring the entire responsibility on them. Those members of the international community who are in a more favourable situation should give the first initiative, thereby encouraging domestic efforts of less privileged members of the international community. Hence the recognition that "fuller mobilization and more effective utilization of domestic resources of developing countries is possible only with concomitant and effective international action".

3. The complexity and interdependence of the problem of economic development is, however, of such a magnitude that isolated measures and non-co-ordinated action cannot yield the expected results. In the case of non-co-ordinated action, it may easily happen that a given measure might partly or fully offset the positive effects of another.

A synchronized international policy is, therefore, needed. Measures should be directed towards a clearly defined goal, following a certain order of priorities. They must consequently be convergent. In view of the great differences among developing countries and particularly in view of the special situation of the least developed countries, all measures should tend to ensure, as close as possible, equitable distribution of opportunities and benefits. Consequently, they should be complementary.

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4. The problem of "trade and aid" should also be viewed in this light. Trade is not a substitute for aid, nor is aid a mere supplement to trade. They are both essential and basic instruments of one and the same consistent international strategy for development. Only such an effort - whether it be in trade or in financial transactions - which mobilizes domestic sources and encourages creative efforts of the population, will have lasting results. Trade and aid are only means and not a goal. The goal is a new world economic integration to be achieved by general economic development. The trends of terms of trade in circumstances of modern technology and autonomous economic policy do not, however, automatically result in greater integration of economies at different levels of economic development. Financial transfers must inevitably play an important role of structural adjustment, leading towards a new international division of labour and thus to a new world economic integration.

5. The Charter does not spell out in quantitative terms the sectoral targets of its implicit strategic scheme. This does not mean that it has overlooked them. In stating that "a substantial share of any increase in domestic demand for primary commodities in the developed countries should be reserved for the output of the developing countries", the Charter leaves the possibility of quantitative determination of these sectoral targets to the Conference itself, when expert projections will be available. While the concrete quantification is left to further negotiations, the conceptual background is quite explicit: to reserve at least a share in incremental consumption, thus enlarging the access to markets without requiring internal structural adjustments and even raising the standard of living by importing from more economic world producers.

In respect of industrial export from developing countries, the Charter does not specify quantitative sectoral targets either. There was a wide support at the Ministerial Meeting for the specific target of doubling the export of manufactures by 1970. Owing to the fact that trade in manufactures accounts only for 17.4 per cent of the entire export of developing countries, while in the case of industrial countries it amounts to 70.5 per cent and in the case of socialist countries to 61.6 per cent, it is not unrealistic to expect a considerably accelerated rate of growth of this category of export, particularly since many industries in developing countries are operating at very low capacity utilization for lack of demand. The Meeting, however, felt it preferable to leave the specific quantification of this target to the coming negotiations as well.

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The global sectoral targets in the financial field have already been set during UNCTAD I. What is involved here is simply the reaching of the target of 1 per cent of national income. In this respect, however, owing to various controversies that have emerged, the Meeting thought that it was necessary to clarify some conceptual problems of measurement.

The sectoral targets are thus rather broadly defined so that the question of consistency does not arise. When the full projection of trade-gap analysis will be available at the New Delhi Conference, more concrete negotiations on quantitative targets and their mutual consistency could be fruitfully conducted.

6. The fixing of goals and targets serves only as a useful framework to facilitate the rationalization of a comprehensive approach. The desired quantitative targets can only be attained through new approaches to international development policies, through new schemes and measures based on new harmonized principles of co-operation. The Charter of Algiers goes further than the declaration on the need for a new international division of labour by proposing a series of modest and practical measures which can gradually lead to the agreed goals. Accepting graduality as the basic approach, the Charter firmly advocates long-term strategy; this means that partial measures do not merely represent "limited concessions" but real and planned stages of a long-term policy.

7. An elaborated strategy of development calls further for a certain order of priorities. The Charter implicitly accepts agreement on "points of crystallization" on which negotiations should be conducted at the forthcoming Conference. This, however, should not be understood as implying a restriction of the agenda of UNCTAD II.

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I have deemed it necessary to give some introductory explanation of the general approach forming the background to the programme of action contained in the Charter of Algiers. It would be practically impossible and even unnecessary to give an exhaustive presentation of this programme, since most of it is self-explanatory. It is my duty to present the programme of action as "information". I hope that I shall be forgiven if and when I yield to the temptation to attempt "persuasion".

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#### Commodity problems and policies

Commodity problems naturally figure as central and high-priority issues in the programme of action outlined by the Charter of Algiers.

Almost 85 per cent of the aggregate export from developing countries is made up of primary commodities. The share of primary commodities in the over-all world export is declining (it dropped from 54 per cent in 1953-54 to 41.6 per cent in 1965-66). The share of primary commodities exported from developing countries also registered a downward trend (from 44.8 per cent in 1953-54 it decreased to 40.4 per cent in 1965-66). The prices of primary commodities recorded a decline of 1 per cent since 1958, while the prices of manufactures increased by 9 per cent. Even within this general unfavourable movement of prices we meet with a glaring paradox. While prices of primary commodities exported from industrial countries registered in the same period an increase of 9 per cent - the same as industrial prices - prices of primary commodities exported from developing countries marked a decrease of 8 per cent (Monthly Bulletin of Statistics, June 1967). This paradox is a consequence of economic, technological and political factors at work. When referring to economic trends I have in mind, first of all, the fact that income-elasticity of demand in the developed countries for a wide range of these primary commodities is relatively small; the technological trends are best illustrated by the example of synthetic substitution - the share of natural rubber consumption declined from 62 per cent in 1954 to 38 per cent in 1966; and the factors of economic policy are exemplified in the protectionist agricultural policy of developed countries - it was demonstrated that the developed countries spent one dollar on one or the other method of agricultural subsidy for each dollar of import of agricultural products from developing countries.

The Charter of Algiers outlines practical measures for gradual solution of the problem of primary commodities by an integration of the access to markets approach and the market organization approach. These two approaches are not incompatible, but can be complementary within an integral approach as suggested by the Charter of Algiers.

The Charter accepts, as the basic instrument for dealing with the problem of primary commodities, commodity arrangements negotiated on a commodity-by-commodity basis. However, a lasting and progressive solution to these problems cannot be

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sought by mere restriction of production but on a dynamic basis of expansion of world demand. The mechanism of buffer stocks seems to offer a flexible instrument of commodity arrangements particularly if coupled with production diversification programmes, and with a pricing policy having in mind not only stabilization but also the needs of economic development of producing countries.

The policy of commodity arrangements under conditions of existence and even expansion of implicit and explicit barriers imposed on the export of primary commodities from developing countries would constitute a contradictio in adiecto. In order to prevent the left hand from taking away what the right hand has given, it is indispensable for "developed countries to adopt measures to discourage uneconomic production of commodities which compete with those originating from developing countries".

Some additional explanation may be required for the provision that "pending the elimination of internal duties and revenue charges, a system of partial refund should be introduced to lead progressively on an annual basis to full refund". It is difficult to give precise assessment of the value of funds accumulated in industrial countries through variable levies, fiscal duties and other revenue charges. There can be no doubt that substantial amounts are involved. The levying of such duties results in an increase of retail prices and consequently in a reduction of demand, contraction of imports and diminution of export prices and total export proceeds of developing countries. However, this is only one side of the coin. The increased price of such commodities causes an increase of wages and the production costs and influence final prices of manufactures. Hence this curious mechanism of internal fiscal charges works at the same time as a factor depressing the prices of primary products and as a factor inflating the prices of finished manufactured products. The refund of these duties and charges is accordingly the least that could be done to revert to the present working of this mechanism.

I would not be fully discharging my task of information and persuasion on these problems were I not to draw your attention to the genuinely human aspects of this problem. I recall the words of a delegate at the Meeting in Algiers stating that ten years ago the peasant in his country had to produce ten bags of a primary commodity for a machine, while today he must provide in exchange for the same machine twenty bags. We often discuss price statistics and the terms of trade,

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forgetting the human tragedy behind those figures. When cocoa prices come down to 15 cents a pound or the price of sugar to 1.5 cents - a level at which even the most economic producers in the world cannot cover operating expenses - we should see behind such market oscillations peasant-producers whose very existence depends on these trends.

#### Export of manufactures and semi-manufactures

Contrary to the world export of primary commodities which registered during the past decade an average annual rate of increase of 4.8 per cent only, export of manufactures rose twice as fast (reaching 9.2 per cent). Developing countries increased their export of manufactures during this decade at an average annual rate of 7.7 per cent, while in the first half of the nineteen-sixties they scored even an annual rate of increase of 10.6 per cent. Even this rapid expansion of export of manufactures originating from developing countries did not result in the improvement of their relative position. Although the share of developing countries in the general world export of manufactures amounted to 6.6 per cent in 1955, their share in 1965 was only 5.8 per cent. Developing countries are like Alice in Wonderland who discovered that everything around her was moving at such a rapid pace that she had to run full speed in order to stay at least in place. If we want to ensure a new international division of labour, developing countries cannot simply mark pace but have to expand in the most dynamic compartment of the world trade.

The proposal of a general, non-discriminatory and non-reciprocal preferential scheme is perhaps giving rise to some semantic problems. What is in question is not a preference that would offer privileges to some and thus implicitly discriminate against other participants in international trade. Already today more than two fifths of trade in manufactures between the industrialized countries themselves is taking place in duty-free or preferential conditions. Consequently custom barriers, and even the famous most-favoured-nation clause, are applied only to the remaining three fifths among which are the developing countries. After the conclusion of the Kennedy Round negotiations, duty charges on manufactures, primarily exported by industrialized countries, are being considerably reduced while reduction on commodities exported by developing countries are less substantial.

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The result is that the average duty on manufactures imported from industrialized countries has been reduced to 7-8 per cent ad valorem, whereas the reduction in the case of imports from developing countries will barely reach 12 per cent. The demand for a freer access to markets for developing countries does not, therefore, constitute a demand for special facilities which, semantically, could be understood judging by the term "preferences". This, in fact, amounts to a quest for equality of treatment and consequently for elimination of the implicit discrimination of import from developing countries.

The Charter of Algiers accepts, however, the idea of introducing certain restrictive elements into such a scheme. The Charter speaks of "escape-clause action" whereby it is implicitly accepted that, in some instances, industrialized countries will be able by international agreement - either through the escape clause or by way of tariff quotas determined on the basis of specific criteria - to restrict the quantity of goods to be imported duty-free or at preferential rates.

In Algiers, the developing countries have reached full agreement both in regard to the suspension of existing preferences and in regard to the sharing of benefits by the least developed countries. With respect to the former, the Charter firmly declares that "the new system of general preferences should ensure at least equivalent advantages to the developing countries enjoying preferences in certain developed countries", while, concerning the latter, it demands that a general system of preferences be "conceived in such a way as to make it possible for the least-advanced among developing countries to share in its benefits".

Speaking of measures aimed at further trade liberalization, I would like to deal particularly with the problem of market disruption which is still used as a pretext for invoking quantitative restrictions on imports from developing countries. I shall illustrate the point with the example of cotton textiles. From 1961 to 1965, the total value of import of cotton yarn and fabrics including clothing to industrialized countries increased by approximately \$500 million. Import from industrialized countries increased by \$205 million while imports from developing countries went up by \$163 million. The market disruption formula was, however, not invoked against import from other industrialized countries, while the complaints on the grounds of market disruption lead daily to restrictions on imports from developing countries.

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The Charter pays special attention to the geographical diversification of export of manufactures originating in developing countries and in this context, in particular, to the intensification of trade with socialist countries. For many years, trade with these countries has shown exceptional dynamics, although its volume is still proportionately small, which is understandable in view of lack of tradition. The fact, however, that during 1966 export by developing countries to socialist countries registered only a 3 per cent rate of increase as compared with 23 per cent in the preceding year, was a cause for concern at the Algiers meeting. It would be, nevertheless, wrong to conclude that this drop in the trade of socialist countries with the developing countries is a consequence of an increase of trade with industrialized countries, whose export to socialist countries has marked in 1966 a rate of increase of 16 per cent. Expansion of trade between industrialized and socialist countries, on the contrary, should be looked upon as a source of more dynamic economic development both in the East and in the West, which will, in turn, result in greater dynamics of import demand from developing countries in the near future. The recommendations of the Charter regarding the diversification of this trade, the price level, the abolition of customs duties, the prevention of re-export and gradual multilateralization in payments, etc., should be understood as a constructive effort intended to enhance this general process. Within the framework of the permanent consultative machinery in UNCTAD, which is proposed by the Charter, it is possible not only to clarify the issues but also to solve them.

#### Development financing

Willar L. Thorp, Chairman of the Development Assistance Committee of the OECD, states in his report for this year: "Economic development cannot be imported. But assistance can be imported." Regrettably, import of goods in the past period progressed at an unprecedentedly higher rate than transfer of financial resources to developing countries. The secretariat of UNCTAD in this respect came to the following conclusion:

"The gross income of all developed countries was almost 400 billion dollars higher in 1966 than in 1961, while the total increase in the volume of assistance amounted to about 400 million dollars" (TD/7, p. 8).

This increment accordingly was not 1 per cent but 1 pro mill of the increased national income.

Such a situation led the developing countries to demand energetically that "each developed country should comply with the target of a minimum [of] 1 per cent of its gross national product for net financial flows, in terms of actual disbursements", and that "any gaps remaining in the 1 per cent transfer each year should be made good by additional government transfers". In spite of the fact that the general increase in the volume of international financial assistance is unsatisfactory, it should be, however, noted that some industrialized countries like Denmark, the Netherlands and Canada have considerably increased their flow of official financial resources to the developing countries last year and have made considerable efforts to meet the accepted target.

It is perhaps necessary to briefly comment on that part of the Charter requesting that "the International Bank for Reconstruction and Development (IBRD) should be made a Development Bank for developing countries exclusively". In practice this request has been already met to a large extent. Out of the aggregate commitments of IBRD, IDA and IFC in the financial year 1966-67 amounting to \$1,230.29 million, a sum of \$120.8 million, that is, less than 10 per cent, falls on developed countries. This request could therefore be understood as evidence of acceptance by the developing countries of the International Bank as the central institution for development financing. Connected with such a stand is the support for the scheme of supplementary financing on which the Bank has prepared a study which enlarges the functions of international development financing. This scheme is accepted by the Charter with the reservation that "in no case should the scheme involve internal policy commitments which prejudice the sovereignty of the member country...".

The question of terms and conditions of development financing was a matter of special concern at the Meeting and is also reflected in the Charter. In this respect, the Charter requests that "beyond the date to be internationally agreed, all development lending should be on terms currently applied by IDA". The problem of terms and conditions is becoming ever more acute in view of the present state of indebtedness of developing countries. Only public and publicly guaranteed indebtedness of developing countries exceeds today \$40 billion, while annual interest payments and amortization are above \$4 billion.

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The secretariat of UNCTAD comes, on the basis of the projection of these trends, to the alarming conclusion that "on the basis of [the] same assumptions, net lending for developing countries as a whole would become negative by the year 1970, and thus begin to offset the flow of grants" (TD/7, p. 13). In this sense the Charter of Algiers also recommends "consolidation of external debts into long-term obligations on low rates of interest" as well as "speedy arrangements for refinancing and rescheduling" in cases of greatest urgency.

Now that agreement has been reached on a scheme for the creation of a new form of international monetary reserves, renewed consideration should be given to the implications of this decision for the flow of aid to the developing countries. The Charter, therefore, renews the request of developing countries that "a link between development finance and additional liquidity should be forged...". The linking of development financing with new reserves creation is of major importance for the achievement of the actual goal of new liquidity creation - the expansion of world economy. Although there exist substantial advantages in the organic linking of reserves increase and aid flow, the requirements of the situation could equally well be met if a convention were adopted whereby activation of the contingency plan and successive acts of international liquidity creation would be accompanied by voluntary contributions to IDA by the major industrial countries.

#### Shipping

Developing countries have, on this occasion, also reaffirmed the competence of UNCTAD in shipping matters. Such an approach is a result of the fact that trade of developing countries with developed countries is primarily carried out by sea, and that UNCTAD in fact emerges as the first universal international body dealing with economic aspects of world shipping as a whole, in its relation to the development of developing countries.

The question of the level and structure of freight rates, conference practices and adequacy of shipping services are of particular importance to developing countries. Their insistence on a more thorough study of freight rates aims at promoting co-operation in shipping through a more objective appraisal of the effects of the existing organization and prices of shipping services on international trade and payments. Developing countries feel that freight rates are not only constantly

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increasing but are also discriminatory and restrictive towards them. They also claim the right to take part on an equal footing with shipowners of developed countries in any freight conference affecting their maritime traffic.

Developing countries, in view of the fact that the present shipping legislation was formulated in different historical, political and technological conditions, hold the view that this implies the necessity of its reconsideration, especially with respect to freight rates, conference practices, adequacy of shipping services, techniques of port operations, etc.

#### Trade among developing countries

Trade among developing countries amounts to no more than one fifth of the total export of developing countries (21.1 per cent in 1965). It is however characteristic that export of manufactures is much more highly represented in trade relations with other developing countries than with the rest of the world: while manufactures represent 15.7 per cent of the total export of developing countries to developed countries and 14.9 per cent of export to socialist countries, the corresponding share in mutual trade among the developing countries amounts to 24.5 per cent (1964).

Economic co-operation among developing countries cannot be achieved only through trade liberalization. A more widespread and comprehensive co-operation especially in the field of industrial co-operation and investment planning is needed. For this reason, the Charter of Algiers states that "action with regard to trade barriers will therefore not be enough, but must be combined with suitable measures in other fields in particular investment matters and payments". Taking this as a departing point, the Charter recommends to developing countries a series of measures aimed at promoting mutual co-operation both on regional and intercontinental planes. The efforts along these lines not only cannot substitute trade with industrialized parts of the world but any progress along the horizontal line depends upon the access to vertical lines. Trade among developing countries can stimulate economies of scale as well as external economies which may be achieved through industrial specialization and mass production. However, horizontal trade among developing countries cannot substitute for vertical import from developed countries which alone can secure the vitally needed investment goods

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which can be obtained only by trade relations with the North. Recognizing these needs, the Charter of Algiers gives an essential place in its programme of action to the following request:

"Since the joint efforts of the developing countries cannot be fully successful without financial and technical aid from the developed countries, the latter should at the same time make a formal declaration of support for the developing countries' efforts at co-operation and integration, specifying the nature and the volume of financial assistance they are prepared to render to those efforts."

The possibilities of trade expansion on this horizontal line are best illustrated by the fact that in 1962 not less than 63.7 per cent of wheat and wheat flour, 72.1 per cent of fats and oils, 48.5 per cent of raw cotton, 51 per cent of sugar and 45.5 per cent of roundwood was imported into the developing countries from developed countries (TD/B/C.1/27, p. 17). The proposal to establish a special standing committee within UNCTAD machinery which would study in a systematic way the problem of trade expansion among the developing countries is therefore well justified. The Charter attaches further great importance to the training of experts and to other forms of technical assistance to be provided by the International Information and Trade Promotion Centre to be jointly established by UNCTAD and GATT.

#### Special measures in favour of the least developed countries

The Algiers Charter most resolutely stresses the specific position and needs of the least developed countries. It recognizes that "it does not seem to be desirable or convenient to attempt abstract general definition of such countries". I think that one could say for the least developed countries what is often said for a giraffe: it is difficult to define it, but when you see one, you can immediately tell that it is it. For example, if we take a look through the World Bank Atlas of Per Capita Product and Population, we see that today there are no less than 105 countries whose per capita gross national product amounts to \$650 or less and that there are thirty-six countries on the bottom of the scale with per capita gross national product of \$100 or less. It is clear that, as it has often been argued, the per capita GNP cannot serve as the only yardstick. In the case of the majority of the least developed countries, the chief reason for their economic standing is their small size. We can also observe that the World Bank in the aforementioned

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publication lists thirty-one countries with a population under 2 million; however, the correlation between the size of the population and the per capita GNP is far from being high. In the case of many of the least developed countries, the per capita value of export is very low, consequently, they have hardly any possibility to improve their position through general trade schemes. We can observe further that the average per capita flow of financial resources in developing countries amounted in the last year to \$4.2, then again we find under this average a large number of countries (twenty), the majority of which falls within the category of least developed. In brief, if it is perhaps difficult to give scientific categorization, there is no possible doubt as to the specific position of a great number of developing countries.

Since this problem has not been so far sufficiently discussed within the permanent machinery of UNCTAD, it is only natural that the Algiers Meeting was not in position to define special measures to be recommended to the Conference for adoption. The Charter of Algiers is very explicit as to the need to elaborate "an appropriate mix of the convergent measures required for the least developed countries" within each clearly defined fundamental area of trade, finance and technical assistance policies. The Meeting decided to establish a special working group entrusted with the preparation and the elaboration of special measures.

#### Concluding remarks

Before concluding my comments on the Charter of Algiers, I would like to remind this assembly of the words of the Secretary-General of the United Nations in his Introduction to this year's annual report on the work of the Organization:

"We are near the point of no return. Unless all countries are prepared to do more, much more than they have been doing, the world will not solve the food problem. The lives of hundreds of millions of rural youth will be wasted. The swelling migration to the cities will make living in urban centres in developing countries almost intolerable. Violence will become the rule rather than the exception." (A/6701/Add.1, p.35).

The developing countries of the Group of 77 are fully aware of the extreme seriousness of the warning of the Secretary-General. The awareness of common threat is bringing them closer in monolithic unity - irrespective of ideology, religion, race and political conviction - unity which in Algiers was

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not only preserved, but further strengthened and substantiated. The objective of this unity is not to oppose others but to co-operate with them. Developing countries of the Group of 77 fully appreciate the fact that they can solve the problem of their own economic and social development only within the framework of general world progress. Are all members of the world community aware of this?

The Charter of Algiers constitutes a genuine effort to solve the fundamental problem of our civilization through peaceful change. We have been delegated to this august Assembly to convey this message of the Charter. The readiness to co-operate has prevailed throughout the Meeting in Algiers, and no reader of the Charter can fail to grasp it.

We must approach the final preparations for the Conference in New Delhi with the greatest sense of responsibility. The position of the developing countries is now stated clearly in the Charter of Algiers. It is a realistic, modest and balanced programme. We hope that it will help to create the appropriate political will which shall make for the success of the Conference.

The time is running out. New Delhi is as great an opportunity as it is a great responsibility. We should be aware that hundreds of millions of underprivileged people around the world will have their eyes and minds turned in the months to come towards that city of hope. The consequences of disillusionment would be unpredictable.

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Mr. Woods

December 7 1967

Irving S. Friedman

You may be interested in the attached report on the meeting of the UN General Assembly of November 15 when the Group of 77 presented the "Algiers Charter" to the meeting.

*(With J. of G. editorial Dec 7, '67 on  
Group of 77)*

## OFFICE MEMORANDUM

TO: Messrs. Irving S. Friedman and Andrew Kamarck      DATE: December 6, 1967

FROM: N. A. Sarma and Patrick de Fontenay

SUBJECT: Discussion of the Report of UNCTAD's Trade and Development Board  
by the II Committee of the UN General Assembly

1. The II Committee of the UN General Assembly met on November 15 and 24-29 to review the report of the Trade and Development Board of UNCTAD. The "Algiers Charter", the report of the Ministerial Meeting of the Group of Seventy-seven (developing countries), which took place in Algiers in October 1967 was officially presented at the meeting. A number of delegations took this opportunity to express some preliminary views on UNCTAD II to be held in New Delhi in February/March, 1968. The Secretary-General of UNCTAD also introduced a project for a joint GATT/UNCTAD Trade Center "to meet the urgent and growing demands of the developing countries in the export promotion field". Some seventy speakers took the floor.
2. The Secretary-General of UNCTAD, Dr. Prebisch, opened the debate with a lengthy statement in which he repeated his call for "a global strategy for development" combining development discipline on the part of the LDC's with easier access for these countries to the markets of the developed countries, to the fruits of technology and the sources of international capital. With respect to trade, he suggested that negotiations could be held "on the basis of the idea that exports from the peripheral countries should progressively account for a growing share of the increase in consumption (of primary products) in the developed countries". He also felt that the idea of preferences for manufactures and semi-manufactures had made much progress and that an agreement would be reached in New Delhi on this point. With respect to financing, Dr. Prebisch believed that the "major powers" must be persuaded of the need for action on a massive scale; if such action was not possible now, they should be prepared for it when more favorable circumstances intervene. Agreement on supplementary financing (S.F.) at UNCTAD II seemed now possible at least on fundamental principles. There was no conflict between S.F. and commodity agreements because there cannot be agreements for all commodities and because commodity agreements cannot avoid, in some cases, serious export losses.
3. The Algiers Charter was presented to the Committee by Mr. Bouteflika, Foreign Minister of Algeria, who was Chairman of the Algiers Ministerial Meeting, and Mr. Stanovnik of Yugoslavia, rapporteur-general of the Algiers meeting. They, as well as other speakers on the Charter, stressed the main points of the Algiers "program for action". These points were:
  - (a) Commodity problems, price stabilization and better access to the developed countries' markets are to be sought mainly through commodity agreements;

(b) Expansion of exports of manufactures and semi-manufactures from LDC's through preferential treatment and export promotion;

(c) Financial assistance: each developed country should meet the 1% of GNP target, with terms similar to those of IDA credits. The creation of an interest equilization fund, the consolidation of the external debt of LDC's and a link between reserve creation and development finance were also mentioned. The Algiers Charter calls on the IBRD to function as a development bank exclusively for LDC's.

4. Several delegates from industrialized countries noted the moderate manner in which the Algiers Charter was presented and observed that the Charter was under careful consideration by their respective governments.

5. Delegates from developing countries voiced their concern about what was becoming the "Disappointment Decade". Little had come out of UNCTAD I, not a single new commodity agreement had been implemented, the share of LDC's in world trade was falling, debt burden was growing and the level of official assistance was stagnant. They felt that agreement on the provisional agenda of UNCTAD II and the opening/ negotiations for of an agreement on cocoa were encouraging.

6. A number of countries mentioned with approval Mr. Woods' proposal in his Stockholm speech for the appointment of a group of experts for a general review of the problems of development.

7. Several countries called for a prompt agreement on IDA replenishment and supported the S.F. Scheme.

8. Speakers for the developed countries urged the LDC's to avoid a confrontation in New Delhi and to participate in a dialogue in New Delhi.

Finland who spoke for the five Nordic countries indicated her willingness to cooperate fully for the success of UNCTAD. She felt that in the Intergovernmental Group a general view had emerged in favor of S.F., although a few points needed further discussion. Prospects for an agreement on cocoa were good and she was in favor of the commodity by commodity approach.

The Netherlands and Italy both showed a cooperative attitude and expressed hopes for the success of the negotiations on cocoa. They felt that the Algiers Charter was an important document. Italy cautioned that a general preference system for manufactured exports of LDC's would benefit the richest countries among them and thought that efforts would be better utilized in the fields of diversification of production and supplementary financing.

Canada said that easier access for LDC's to the markets of the developing countries was even more important than aid. It was illogical to encourage industrialization in the LDC's and then restrict their exports.

France expressed support for new approaches to the problems of development, mainly preferential systems and commodity agreements.

Belgium thought that the most important points of negotiation would be commodity problems, supplementary finance and trade promotion.

The U.K. simply supported the GATT/UNCTAD Trade Center.

The U.S. welcomed the action by the Algerian Conference in sending goodwill missions to assist in a better understanding of the Charter. The U.S. representative expressed "high hopes" for the Cocoa Conference. He favored tariff reduction on a most favored nation basis but also, because of the needs of LDC's, a system of temporary, generalized, non-reciprocal preferences such as was discussed in the OECD. While dealing with development finance, he referred to the problems of supplementary finance.

Japan lectured the LDC's on development. She said that foreign exchange shortage was not the main constraint on growth in a number of cases. At the same time she asked for coordination and burden-sharing among the developed countries.

9. The socialist countries spoke one after the other pointing to their expanding trade with LDC's and in favor of eliminating restrictions on the East-West trade and on the admission of East Germany to UNCTAD.

cc: Messrs. Demuth  
Stevenson  
Kalmanoff  
Hulley  
Consolo

Mr Friedman

May I send this  
to Mr Schweitzer;

DJF  
Fowler  
—

No objection—

but wouldn't this go  
automatically to the

Schweitzer - If not, why not?  
ISF

DECLASSIFIED

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FROM: The Secretary

November 30, 1967

STUDY ON SUPPLEMENTARY FINANCING

Attached for information is a report on the Final Session of the UNCTAD Intergovernmental Group on Supplementary Financing, held from October 30 to November 13, 1967 in Geneva. The report has been prepared by the Bank delegation to the UNCTAD meeting headed by The Economic Adviser to the President.

Distribution:

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

The Final Session of the Intergovernmental Group on Supplementary Financing,  
Geneva, October 30-November 13, 1967

1. The Intergovernmental Group, appointed by the Committee on Financing and Invisibles of the UNCTAD to "study and elaborate" the Bank staff scheme on supplementary financing, met in its third and final session in Geneva from the 30th October to 13th November, 1967. All the fourteen members of the Group (viz. Argentina, Brazil, Ceylon, Germany, France, Ghana, India, Japan, Poland, Sweden, U.A.R., U.K., U.S.A. and Yugoslavia) as also a number of observers (33 in number) were present. Mr. Mermolja of Yugoslavia was the Chairman of the Group and Mr. Jo Saxe of the United States its Vice-Chairman - cum-Rapporteur. The Bank staff was represented by Mr. Irving S. Friedman, Mr. N.A. Sarma and Mr. Bimal Jalan. The Fund was represented by Mr. Edgar Jones and Mr. Isobe of the Fund's Geneva office.
2. This final session was given mainly to drafting and approving the report of the Group on the Bank staff scheme. The report is being forwarded directly to the UNCTAD II in New Delhi.
3. The developing countries and some developed countries expressed support for the Scheme. A few developed countries have not as yet taken a position on the Scheme. One country indicated opposition. In view of the generally favorable attitude taken by most members of the Group, it is expected that the UNCTAD II will take concrete action on this proposal.
4. The less developed countries have also distributed to the Group a joint statement of their position on supplementary finance: this is referred to at page 1 of the Report and is to be circulated to UNCTAD II participants as a conference document. The text of this statement is enclosed. This statement strongly endorses all the essential characteristics of the Bank staff scheme. The statement also notes that "the working out of a supplementary financing scheme should not interfere with IDA replenishment since financial obligations under the scheme could not arise for some considerable time ahead."
5. The Report of the Group is in five chapters. Chapter I is "Introduction"; the first part of this deals with the terms of reference of the Group, and the second part with the General Assessment of the Scheme. Chapter II, which constitutes the bulk of the Report, deals with the Bank staff scheme and sets out the results of the Group's discussions on various aspects of the scheme. The discussion is organized under three sub-heads: section (a) briefly indicates the Bank staff views on each of these aspects; section (b) notes in some detail the comments expressed within the Group about features of the Scheme; and section (c) presents the conclusions which most of the members of the Group reached on each of these points. Three principal

points are: cost of the Scheme, prior policy understandings and export projections as essential elements of the Scheme. On Costs, the conclusion of the Group reads, "It was widely agreed that the estimate of \$300-\$400 million per year of the World Bank staff provided the basis for arriving at a figure with which Scheme might reasonably be expected to operate successfully in the initial period." The conclusion on Policy Understanding expresses general agreement "that a policy understanding should be part of the Scheme." The scope, the nature and the implementation of the policy understanding require further discussion; however, "most members also agreed that it should include export projections and a statement of the country's basic economic policies," and "it was generally agreed that consultations might be broadly along the lines of those conducted by international financial institutions." On export projections, most members of the Group agreed that "this would be an essential element of the Scheme, however amended."

6. Chapter III is a short one dealing with the question of the administering agency. It states that "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 international agencies the World Bank Group would be the most appropriate. It further agreed that the Scheme should be administered in close cooperation with the IMF. The specific arrangements which would be necessary would require further consideration." However, it may be noted that since the Report is addressed to the UNCTAD II for consideration by governments there, no action by the World Bank Group is requested.

7. Chapter IV is called "other proposals for avoiding the disruption of development programmes" and is divided into three sub-heads. (A) deals with a suggested alternative to the Bank Staff Scheme. Under this suggestion the scheme would be operated on an ad hoc basis without the need for export projections and any prior understanding on policy matters; section (B) suggests a scheme for refinancing of the IMF drawings; and section (C) deals with the proposal for organization of markets. Each of these proposals is followed by extensive comments representing the views of most members of the Group, and also a paragraph on each to the effect that "the suggested alternative found little support in the Committee." Most members thought that none of these suggestions would adequately meet the objectives of the UNCTAD Recommendation A.IV.18 on supplementary financing. Chapter V deals with organizational matters, e.g. adoption of the agenda, attendance, etc.

8. The Report is now being printed for distribution, and will be circulated to the Executive Directors as soon as it is made available.

Joint Statement of Developing Countries  
Members of the Intergovernmental Group  
on Supplementary Financing

1. The efforts of developing countries to accelerate the pace of their economic development are severely hampered by uncertainty regarding their export earnings. In view of the crucial importance of foreign exchange in economic development, uncertainty regarding foreign exchange receipts renders orderly planning extremely difficult. Export earnings usually being the most important source of foreign exchange, unexpected export shortfalls can seriously disrupt otherwise sound development programmes. The developing countries, therefore, wish to reaffirm their strong support of recommendation A.IV.18 and wish to state that in their view a scheme along the lines of that recommendation is both desirable and feasible.

2. The developing countries note that in its report the staff of the World Bank came to the conclusion:

- (a) that the problem of adverse movements in the export proceeds of developing countries is a genuine one, because of the disruptive effect on development;
- (b) that the existing international financial machinery does not include a mechanism designed to meet this problem;
- (c) that a feasible scheme of supplementary financing could be worked out.

The developing countries strongly support this view, and note also that this view has received the support of several developing countries.

3. The scheme should embody the following elements:

- (a) an export norm from which shortfalls may be measured;
- (b) a policy understanding;
- (c) provision for the use of other available resources;
- (d) clearly limited financial commitments by donor countries to a fixed and adequate amount, such amount to be additional to that which donor countries are now providing by way of development assistance;
- (e) compatibility with the compensatory financing facility of the International Monetary Fund.

4. It is indispensable for assistance under the scheme to be based on objective criteria. There is a general agreement in the Intergovernmental Group on the need for an export norm of some kind. The staff of the World Bank has proposed that the export norm be determined by export projections, and the developing countries support this approach as the appropriate method for interpreting "reasonable expectations". It may be noted that the drawing up of any development plan necessarily involves taking a view of export prospects, and under prevailing international practice the need for basic development finance is determined at least in part on the basis of prospective export receipts and foreign exchange expenditure. What the scheme implies is that in so far as export receipts fall short of the level foreseen in the development plan, as accepted by the international community, efforts should be made to make good the shortfall, so as to permit the accepted plan to be implemented.

5. The developing countries accept the view that it is necessary to ensure that supplementary finance is used for the purposes for which it is intended, namely to safeguard development plans against disruption due to export shortfalls that are beyond their control. To this end, they agree that countries should, at the beginning of each planning period, have a policy understanding with the Agency indicating the main lines of the economic policy that they intend to pursue. In addition, at the time of any shortfall, there should be a determination, by consultation between the Agency and the country concerned, of whether the drop in export income is due to circumstances beyond the control of the country concerned.

6. It has been suggested in the Bank Staff Study that consultation between the Agency and member countries should take place on a continuous basis so as to ensure a prompt determination in the event of a shortfall. The need for such continuous consultation requires further examination. In any event, consultation under the scheme, whether continuous, or whether limited along the lines of paragraph 5, would have to be consistent with the requirements of national sovereignty as defined by that country.

7. The staff of the World Bank recommend the prior use of other foreign exchange resources, including reserves and the compensatory financing facility of the Fund, if available. The developing countries accept this proposal. At the same time they wish to point out that countries suffering export shortfalls should not be compelled to resort to credit facilities which are subject to onerous terms and conditions, or to run down their gold and foreign exchange reserves below prudent levels.

8. The working out of a supplementary financing scheme should not interfere with IDA replenishment since financial obligations under the scheme could not arise for some considerable time ahead.

9. The developing countries fully endorse the view that the scheme must not be established in such a way as to give rise to an open-ended commitment on the part of donor countries. They are satisfied that workable scheme could be set up on the basis of a fixed commitment of \$300-\$400 million per annum for an initial five-year period as recommended by the staff of the World Bank. The developing countries accept the need for rationing as a method of last resort for reconciling claims upon the Agency with fixed resources. They are convinced that it is feasible to establish an equitable system of rationing on objective criteria.

10. The developing countries see the need for further liberalization of the International Monetary Fund's compensatory financing facility, but they believe that the objectives of the supplementary financing scheme cannot be secured through such liberalization. Nor can they accept refinancing of the Fund facility as the sole or main objective of the scheme.

11. On the other hand, the developing countries accept the view that the operations of the Agency should be compatible with those of the International Monetary Fund. This should be secured by consultation between the two institutions bearing in mind the views of the Fund on matters falling within its competence, such as the extent to which there should be recourse to the gold and foreign exchange reserves of member countries in meeting export shortfalls.

*Mr. Friedman - for your information, please.*

Schedule for Visit to International Bank for Reconstruction & Development and International Monetary Fund by Representatives of Group of 77 on Thursday, December 7

*RBS 12/6*

1. 3:20 p.m. The representatives of the Group of 77 will be met in the lobby of the 1818 H Street building by Mr. Mendels, Secretary of the World Bank, and Mr. Steckhan and will be taken to the office of the President of the World Bank.
2. 3:25 p.m. Meeting with Mr. Woods in Room 1220.
3. 3:30 p.m. Presentation of Algiers Charter by Representatives of Group of 77 in Room 1100 to following Bank officials:
  - Mr. George D. Woods, President
  - Mr. J. Burke Knapp, Vice President
  - Mr. S. Aldewereld, Vice President
  - Mr. Richard H. Demuth, Director, Development Services Department
  - Mr. Irving S. Friedman, The Economic Adviser to the President
  - Mr. Gerald Alter, Director, Western Hemisphere Department
  - Mr. S.R. Cope, Director, Europe Department
  - Mr. Munir P. Benjenk, Deputy Director, Middle East and North Africa Department
  - Mr. Federico Consolo, Special Representative for United Nations Organizations, Development Services Department
  - Mr. Raymond J. Goodman, Deputy Director, Asia Department
  - Mr. Michael L. Hoffman, Associate Director, Development Services Department
  - Mr. Andrew M. Kamarck, Director, Economics Department
  - Mr. S. Noel McIvor, Deputy Director, Africa Department
  - Mr. N.A. Sarma, Economist
4. Approximately 4:40 p.m. The representatives will be escorted by Messrs. Mendels and Steckhan to the grand hall of the International Monetary Fund. There they will be met by Mr. Hebbard, Secretary of the Fund, and Mr. Hall and escorted to the office of the Managing Director of the Fund.
5. Approximately 4:45 p.m. Meeting with Mr. Schweitzer in Room 1200-F.
6. Approximately 4:50 p.m. Presentation of Algiers Charter by Group in Room 1201 to following IMF officials:
  - Mr. P.-P. Schweitzer, Managing Director
  - Mr. Frank A. Southard, Deputy Managing Director
  - Mr. Joseph Gold, General Counsel
  - Mr. J.J. Polak, Economic Counselor, Director, Research & Statistics Department
  - Mr. Jorge Del Canto, Director, Western Hemisphere Department
  - Mr. D.S. Savkar, Director, Asian Department
  - Mr. Ernest Sturc, Director, Exchange and Trade Relations Department
  - Mr. W. Lawrence Hebbard, Secretary
  - Mr. John W. Gunter, Acting Director, Middle Eastern Department
  - Mr. Jacques Waitzenegger, Acting Director, African Department
  - Mr. Gordon Williams, Special Representative to United Nations
  - Mr. F.L. Hall, Personal Assistant to the Managing Director
7. 6:00 p.m. Reception in honor of representatives of Group of 77 given by Messrs. Schweitzer and Woods in Gallery of second floor of new IMF building.

ROUTING SLIP		Date <b>DEC 1 - 1967</b>
OFFICE OF THE PRESIDENT		
Name		Room No.
Mr. Woods		1220
<i>Have I a date with</i>		
To Handle		Note and File
Appropriate Disposition		Note and Return
Approval		Prepare Reply
Comment		Per Our Conversation
Full Report		Recommendation
Information		Signature
Initial		Send On
Remarks		
For your information.		
<i>Amjed 2/10</i> <i>[Signature]</i> <i>12/1</i>		
From	<b>Irving S. Friedberg</b>	

1507

15F

*Woods* OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: November 30, 1967

FROM: N.A. Sarma *N. A. Sarma*SUBJECT: Algiers Charter Mission

While attending U.N. Committee II meetings in the last few days, I met Mr. Amjad Ali. He mentioned that he and his colleagues from other countries were likely to be in Washington on December 7 and 8, for explaining the features of the Algiers Charter, and hoped very much they would be able to meet Mr. Woods.

A main topic they would like to discuss, according to him, is Supplementary Finance.

*12/7 - 5 PM - A. Ali (above) (OK)*

Mr. Irving S. Friedman

November 30, 1967

N.A. Sarma

Algiers Charter Mission

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A main topic they would like to discuss, according to him, is Supplementary Finance.

## 86 POOR NATIONS SET EXPORT PLEA

Johnson, Monetary Officials  
to Hear Envoys This Week

By THOMAS J. HAMILTON  
Special to The New York Times

GENEVA, Dec. 3—Representatives of the 86 developing countries will hand over to President Johnson this week the demands they drew up in Algiers last October for preferential treatment of their exports, both primary commodities and manufactured and semimanufactured goods.

A goodwill mission headed by Vasco Leitao da Cunha, Brazilian Ambassador to the United States, has scheduled talks in Washington Thursday and Friday with Mr. Johnson, officials of the Government and the heads of the International Bank for Reconstruction and Development and the International Monetary Fund.

The mission, composed of two representatives each of the Latin-American, Asian and African countries, will then go to Ottawa in an attempt to win Canadian support for the "Charter of Algiers."

### Session Planned

The developing countries have given this name to their program for the second United Nations Conference on Trade and Development, which will start a seven-week session in Delhi, India, next February.

The Washington mission is one of seven authorized at the Algiers conference to try to convince 25 highly industrialized countries that, apart from the duty of the rich to help the poor, it is in their own interests to increase their imports from the developing countries.

The developing countries say that they now account for only about 10 per cent of international trade. They argue that they can increase their purchases from the advanced countries only if they are enabled to sell more.

Four missions already have submitted this argument to Western European governments, the European Economic Community, the European Free Trade Association and the United Nations. A General Assembly resolution urging the developed countries to carry out the "Charter of Algiers" is now in preparation.

This week another mission will go to the Soviet Union. Later it will visit other Eastern European Communist countries. Another mission will visit Australia, New Zealand and Japan,

the only developed country in Asia.

South Africa, the only African country which has this classification, is also the only industrialized country not on the itinerary. South Africa just managed to escape expulsion at the first United Nations Conference on Trade and Development, held in Geneva in 1964, and her racial policies are certain to come under bitter attack at the Delhi meeting.

Apart from the importance of the United States market, Geneva representatives of the developing countries attach special importance to the Washington visit because of President Johnson's conversion to their demand that the developing countries grant them generalized tariff reductions, without reciprocal concessions, on their manufactured and semimanufactured goods.

### Concessions Noted

They feel that this change in policy, announced by Mr. Johnson last April at the Punta del Este conference in Uruguay, made possible the endorsement of such concessions in Paris last week at the ministerial meeting of the 21 advanced countries constituting the Organization for Economic Cooperation and Development.

However, this endorsement was only in principle and merely provided for temporary tariff reductions. Raul Prebisch, director general of the United Nations Conference on Trade and Development, limited himself today to the comment that it was "a marked advance" over the atmosphere at the 1964 conference, when the United States opposed generalized tariff reductions on such a basis.

According to reliable sources, Dr. Prebisch does not expect the advanced countries to start negotiations on the actual tariff reductions until after the Delhi conference.

### Commitment Sought

At the conference, however, the developing countries will try to obtain a precise commitment and agreement with the developed countries on the negotiating machinery for achievement of their cherished goal: that the rich countries impose lower tariffs on their manufactures and semimanufactured goods (including such processed agricultural commodities as coffee and cocoa) than they do against imports from each other.

Although the Kennedy Round negotiations reduced the general level of tariffs about 30 per cent, the developing countries feel that they will derive little benefit.

It is acknowledged that the preferences already extended by the six Common Market countries to 18 former French, Belgian and Italian colonies in Africa, together with those granted by Britain to members of the Commonwealth, are a serious obstacle to the generalized reductions sought by other developing countries. Moreover, the 18 African countries have reciprocated with tariff reductions on imports from members of the Common Market.

## OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: November 29, 1967

FROM: Irving S. Friedman

SUBJECT: Visit of the Representatives of the Group of 77

PDS

You will recall that recently at Algiers there was an UNCTAD meeting of the Group of 77 to discuss the so-called Algiers Charter. This Charter was presented last Friday morning to the Second Committee of the U.N. General Assembly by the Foreign Minister of Algiers (who was chairman of the Algiers Ministerial Meeting), and discussed by this Committee.

The Charter itself calls for visits to various countries to explain the Charter by representatives of the less developed countries. It has now been agreed that a group of representatives of these countries, namely, Brazil, Chile, Ghana, Liberia, Thailand and Pakistan, will join in a delegation to the U.S. Government, the World Bank and IMF on December 7 and 8, to present their views on the Algiers Charter. The group will be headed by the Brazilian Ambassador, and will include Amjad Ali of Pakistan; the others will be Ministers or Ambassadors.

You may recall that one of the things that was done at Algiers was the endorsement of a scheme of supplementary finance.

The Brazilian Embassy telephoned me to ask whether you might see the delegation on December 7 or 8? They are trying to fit in a schedule of appointments, including President Johnson, and Secretaries of State, Treasury and Commerce, and are at this time unable to indicate a precise time to visit the Bank. I have promised the Brazilian Embassy to answer their inquiry as to your availability as soon as possible.

I would like to suggest the possibility of our giving them lunch or other entertainment on one of these days. The Fund is considering a joint (Bank-Fund) reception on Thursday, December 7. You may wish to chat with Pierre-Paul about this.

cc: Mr. Demuth

GPM

ISF  
3:30

## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: December 5, 1967

FROM: N. A. Sarma *N. A. Sarma*SUBJECT: Supplementary Finance: Discussions with delegation from Group of 77

As desired in your memo of December 4, attached hereto is draft note for Mr. Woods.

DRAFT

A delegation from the Group of 77, headed by the Brazilian Ambassador to the U.S.A. will be here during December 7-8 to present and explain the main features of the Algiers Charter to the U.S. Government, the Bank and the Fund. While attending the U.N. Committee II meetings recently, ~~I~~ gathered from Mr. Amjad Ali ~~of Pakistan~~, a member of this delegation, that Supplementary Finance Proposals would be one of the main subjects they would raise with Mr. Woods.

Recent developments in the discussion of this subject are as follows. The UNCTAD Intergovernmental Group on Supplementary Finance has now finalized its report, which will go directly to UNCTAD II in New Delhi. This report brings out the fact that there is a wide measure of international support to a Supplementary Finance Scheme, based on the Bank staff proposals. Regarding the position of individual donor countries, the Scheme is supported by U.K. and Sweden (the original sponsors of the 1964 resolution) and other countries such as Switzerland and the other Nordic countries. France has taken a negative position. The U.S.A., Germany and Japan have raised some questions and are not as yet prepared to take a position. LDC members of the Group support the Bank staff scheme fully, and have issued a joint statement strongly endorsing each essential element of the Bank staff scheme. This statement is to be circulated to UNCTAD II as a Conference document. This position of the LDC's has been stated in the Algiers Charter and reiterated in the U.N. Committee II last week. Also, at the 1967 Annual Meetings of the Bank and the Fund, the African Governors in their memorandum to the President of the Bank gave their support in principle to the idea

contained in the Bank staff scheme and urged the President "to seek, through his good offices, broad international support for the recommendations contained therein."

It may be recalled that the Resolution on Supplementary Finance was sponsored at the first UNCTAD by Sweden and U.K., and was supported by virtually all other donor countries including U.S.A., as well as by LDC's. The Bank staff scheme as a means of implementing this resolution has been very widely supported. It is now clear - to donors as well as recipient countries - that a scheme of supplementary finance, broadly and essentially on the lines of the Bank staff proposal is very much alive and will come up for active discussion, and ~~most~~ <sup>seems to</sup> likely ~~will~~ be endorsed in principle, at UNCTAD II.

A crucial question relates to finance and additional commitments by donor countries for this purpose. It is now agreed generally that the scheme should have a fixed amount of resources at its disposal, at a level at which the scheme might be reasonably expected to operate successfully. For various reasons, however, including especially the replenishment of IDA so urgently needed, <sup>providing funds for</sup> some of the donor countries cannot consider supplementary finance for some time. Thus, the question of timing becomes crucial. <sup>the supporters of the scheme</sup> For our part, we have emphasized that no need for money will arise for this scheme until 1970 or even later. At the forthcoming UNCTAD, <sup>also</sup> therefore, the question of finance can be <sup>if so desired</sup> set aside, for later consideration. The developing countries themselves are fully aware of the need for such appropriate timing, to avoid any possible conflict between IDA replenishment and supplementary financing. In their joint memorandum at the Intergovernmental Group the LDC's state, "The working out of a supplementary financing scheme should

Incidentally, it has also been clear in our discussion that the proposed scheme came from the Bank staff and not the Bank as such.

(- which we have consistently stressed -)

are not trying to interfere

are basically friendly and ~~not~~ <sup>andly</sup> ~~at our~~ <sup>judgments</sup>

not interfere with IDA replenishment since financial obligations under the Scheme could not arise for some considerable time ahead."

When the report of the Intergovernmental Group on Supplementary Financing comes up before the next UNCTAD, it is to be expected that high level informal discussions and negotiations will result in an understanding, and a resolution may then be sponsored at the Conference embodying general agreement of governments in principle for a supplementary financing scheme.

In his statement before U. N. Committee II on November 15, 1967, Mr. Prebisch said: <sup>referring to the</sup> ~~The initiative taken at the First Conference concerning supplementary financing was of very great value and I am pleased to report to the Committee that at successive meetings of the Intergovernmental Group on Supplementary Financing, which has discussed this matter with the valuable cooperation of the World Bank, the basic idea was confirmed and, as in the case of preferences,~~ "I think that at the Second Conference it will be possible to reach agreement at least on fundamental principles."

On the question of financing, it is likely that such an agreement will do no more than request donor countries to initiate discussions among themselves at the appropriate time, to determine the amount of contributions for a fixed sum for an initial period. Meanwhile, we on our part can <sup>continue to</sup> emphasize <sup>as long as necessary</sup> that IDA replenishment on a substantial scale is immediately needed, and <sup>we expect</sup> ~~that financial~~ commitments regarding supplementary financing can only be contemplated by donor countries at a later date. <sup>we believe that</sup> The developing countries will be quite receptive to this.

~~They know that we are not trying to shelve the Scheme, but on the contrary, make it a reality~~

understanding of our position and

~~when at the appropriate time.~~

## OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: December 5 1967

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance: Discussions with Delegation from Group of 77

A delegation from the Group of 77, headed by the Brazilian Ambassador to the United States will be here during December 7 - 8 to present and explain the main features of the Algiers Charter to the U.S. Government, the Bank and the Fund. While attending the UN Committee II meetings recently, we gathered from Mr. Amjad Ali, a member of this delegation, that Supplementary Finance Proposals would be one of the main subjects they would raise with Mr. Woods.

Recent developments in the discussion of this subject are as follows. The UNCTAD Intergovernmental Group on Supplementary Finance has now finalized its report, which will go directly to UNCTAD II in New Delhi. This report brings out the fact that there is a wide measure of international support to a Supplementary Finance Scheme, based on the Bank staff proposals. Regarding the position of individual donor countries, the Scheme is supported by the United Kingdom and Sweden (the original sponsors of the 1964 resolution) and other countries such as Switzerland and the other Nordic countries. France has taken a negative position. The United States, Germany and Japan have raised some questions and are not as yet prepared to take a position. LDC members of the Group support the Bank staff scheme fully, and have issued a joint statement strongly endorsing each essential element of the Bank staff scheme. This statement is to be circulated to UNCTAD II as a Conference document. This position of the LDC's has been stated in the Algiers Charter and reiterated in the UN Committee II last week. Also, at the 1967 Annual Meetings of the Bank and the Fund, the African Governors in their memorandum to the President of the Bank gave their support in principle to the idea contained in the Bank staff scheme and urged the President "to seek, through his good offices, broad international support for the recommendations contained therein."

It may be recalled that the Resolution on Supplementary Finance was sponsored at the first UNCTAD by Sweden and the United Kingdom, and was supported by virtually all other donor countries including the United States, as well as by LDC's. The Bank staff scheme as a means of implementing this resolution has been very widely supported. It is now clear -- to donors as well as recipient countries -- that a scheme of supplementary finance, broadly and essentially on the lines of the Bank staff proposal is very much alive and will come up for active discussions, and seems likely to be endorsed in principle, at UNCTAD II. Incidentally, it has also been clear in our discussions that the proposed scheme came from the Bank staff and not the Bank as such.

A crucial question relates to finance and additional commitments by donor countries for this purpose. It is now agreed generally that the scheme should have a fixed amount of resources at its disposal, at a level at which

the scheme might be reasonably expected to operate successfully. For various reasons, however, including especially the replenishment of IDA so urgently needed -- which we have constantly stressed -- some of the donor countries cannot consider providing funds for supplementary finance for some time. Thus, the question of timing becomes crucial. The supporters of the scheme have emphasized that no need for money will arise for this scheme until 1970 or even later. At the forthcoming UNCTAD, therefore, the question of finance can be set aside, for later consideration, if so desired. The developing countries themselves are fully aware of the need for such appropriate timing, to avoid any possible conflict between IDA replenishment and supplementary financing. In their joint memorandum at the Intergovernmental Group the LDC's state, "The working out of a supplementary financing scheme should not interfere with IDA replenishment since financial obligations under the scheme could not arise for some considerable time ahead."

When the report of the Intergovernmental Group on Supplementary Financing comes up before the next UNCTAD, it is to be expected that high level informal discussions and negotiations will result in an understanding, and a resolution may then be sponsored at the Conference embodying general agreement of governments in principle for a supplementary financing scheme. In his statement before UN Committee II on November 15, 1967, Mr. Prebisch said, referring to the supplementary financing scheme, "I think that at the second Conference it will be possible to reach agreement at least on fundamental principles."

On the question of financing, it is likely that such an agreement will do no more than request donor countries to initiate discussions among themselves at the appropriate time, to determine the amount of contributions for a fixed sum for an initial period. Meanwhile, we on our part can continue to emphasize as long as necessary that IDA replenishment on a substantial scale is immediately needed, and we expect that financial commitments regarding supplementary financing can only be contemplated by donor countries at a later date. We believe that the developing countries will be quite understanding of our position and receptive to this view. They know that we are basically friendly and are not trying to create difficulties. The behavior of the LDC's in this matter has been restrained and responsible.

cc: Messrs. Knapp, Alderfeld, Demuth, Alter, Cope, Benjenk, Consolo, Goodman, Hoffman, Kamarek, McIvor and Sarma.