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Pearson Commission Recommendations - Correspondence - Volume 8

## OFFICE MEMORANDUM

TO: Mr. McNamara

FROM: Richard H. Demuth

SUBJECT: Pearson Commission Recommendation No.2 on  
Supplementary Financing

DATE: July 24, 1970

I am returning to you the draft memorandum (dated July 16) on the supplementary finance recommendation, which you have already seen, together with a revised version dated July 23, which takes account of Denis Rickett's canvass of the views of the Part I countries. I want to call your attention particularly to the changed language in the bracketed sentence on page 2, and to the next to last sentence in the conclusion which I propose should be added, primarily to make Messrs. Reid and Hanneman (and also Denis Rickett and Irving Friedman) feel better about the paper.

As you will see from Denis' memorandum to me, also attached, the U.K. has not yet responded to his enquiry. Mr. Lynch has called London and should have his instructions in a few days. Since the U.K. was one of the sponsors of the supplementary finance proposal at UNCTAD I, I think that we should hold our memorandum to the Directors until we have heard from the U.K.

Burke agrees with the revised memorandum. Irving, on the other hand, does not agree with the approach taken; in particular, he would not refer to additionality of funds. (Irving's memorandum to me is also attached.)

7/25 To Mr. Demuth

① Does my change  
in the next to the

7/11/5/40

last sentence  
could you consider② If not, let's refer to  
the Board when Zgach  
refers only 7/31, which  
comes first.

RHW

July 23, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 2 Concerning Supplementary Finance

Recommendation

"Discussions should be expedited leading to a program of supplementary finance to deal with problems caused by unexpected and sustained short-falls in the export earnings of developing countries."1/

Comment

The Executive Directors will recall that, in 1964, "UNCTAD I" asked the Bank to study the feasibility of a scheme for supplementary financial measures, and that a Bank staff study was transmitted to the Secretary-General of the United Nations in December 1965. The scheme set forth in the study was explicitly predicated on the assumption that it would be supplementary to and not a substitute for existing forms of aid.

The study was considered by UNCTAD's continuing organ, the Trade and Development Board (TDB), and also by an Inter-Governmental Group on Supplementary Financing. Thereafter, in September 1969, the TDB invited the Bank to consider working out new arrangements for supplementary finance and, if appropriate, to consider introducing them. The TDB resolution asks the Bank to consider such arrangements on the basis of the conclusions of the Inter-Governmental Group and of the views expressed in the TDB. It directs the Bank's attention particularly to the conclusion of the Inter-Governmental Group that "It is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purposes of supplementary financing."2/

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1/ Report, page 97.

2/ The TDB resolution and the conclusions of the Inter-Governmental Group, together with information on the voting record in the TDB, were distributed to the Executive Directors under Documents SecM69-442, dated September 17, 1969, and SecM69-442/1, dated September 22, 1969.

As the Executive Directors know, agreement has just been reached on the amount of new resources which the Part I countries intend, subject to legislative action, to contribute to the Third Replenishment of IDA. I have inquired whether these countries are prepared to consider contributing additional funds to IDA for the purposes of a scheme of supplementary finance.

§ The responses to these inquiries indicate that there would, at best, be very limited support among <sup>governments of</sup> the Part I countries for making any such additional contribution to IDA for the purposes of supplementary finance, at least during the period of the Third Replenishment, although a few of those <sup>governments</sup> ~~coun-~~tries would not wish to rule out the possibility of using a part of the replenishment funds (and perhaps some Bank resources as well) for supplementary financing purposes. §

In view of the responses of the Part I countries and the fact that addi- tionality has consistently been an integral element of the supplementary finance concept, I have concluded that consideration of a scheme for supple- mentary financial measures should, for the time being, be put aside. However, if it should appear that, for a given country at a given time, [~~the most effective development contribution which the Bank Group could make would be to provide funds to prevent~~] an unexpected shortfall in export earnings, <sup>has</sup> ~~from~~ <sup>ed</sup> disrupting the country's investment program, I do not think we should regard ourselves as precluded from considering that case on its merits. Unless the Executive Directors are of a different view, I intend to report these conclusions to the next meeting of the TDB, in August.

*7/18 to Mr. Demuth*

ROUTING SLIP		Date July 16, 1970
NAME		ROOM NO.
Mr. McNamara		
<i>Please clear with News. Staff &amp; Friedman. If they concern &amp; Denis inquiries support the text, released on 7/24. Otherwise, return to me.</i>		
To Handle		Note and File <i>Exp</i>
Appropriate Disposition		Note and Return
Approval		Prepare Reply
Comment		Per Our Conversation
Full Report		Recommendation
Information		Signature
Initial		Send On
REMARKS		
<p>I am sending the attached to you at your request. It has not been cleared with Irving Friedman or anyone else, and the sentence in square brackets on p. 2, concerning the reactions of the Part I countries, is subject to the inquiries which Denis Rickett has just begun to make.</p>		
		

From

Richard H. Demuth

DRAFT

July 16, 1970

7/11/5/39

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 2 Concerning  
Supplementary Finance

Recommendation

"Discussions should be expedited leading to a program of supplementary finance to deal with problems caused by unexpected and sustained short-falls in the export earnings of developing countries".1/

Comment

The Executive Directors will recall that, in 1964, UNCTAD I asked the Bank to study the feasibility of a scheme for supplementary financial measures, and that a Bank staff study was transmitted to the Secretary-General of the United Nations in December 1965. The scheme set forth in the study was explicitly predicated on the assumption that it would be supplementary to and not a substitute for existing forms of aid.

The study was considered by UNCTAD's continuing organ, the Trade and Development Board (TDB), and also by an Inter-Governmental Group on Supplementary Financing. In its report to the TDB, the Inter-Governmental Group said that "It is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purposes of supplementary financing". Thereafter, in September 1969, the TDB invited the Bank to consider working out arrangements for supplementary finance on a discretionary basis, and, if appropriate, to consider introducing them. The TDB resolution asked the Bank to consider such arrangements on the basis of the

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1/ Report, page 97.

conclusions of the Inter-Governmental Group, and drew the Bank's attention particularly to the conclusion quoted above.<sup>1/</sup>

As the Executive Directors know, agreement has just been reached on the amount of new resources which the Part I countries intend, subject to legislative action, to contribute to the Third Replenishment of IDA. I have inquired whether these countries are prepared to consider contributing additional funds to IDA for the purposes of a scheme of supplementary finance. /The responses to these inquiries indicate that there is little or no support among the Part I countries for making any such additional contribution to IDA for the purposes of supplementary finance, at least during the period of the Third Replenishment./

In view of this response of the Part I countries and the fact that additionality has consistently been an integral element of the supplementary finance concept, I have ~~reluctantly~~ concluded that consideration of a scheme for supplementary financial measures should, for the time being, be put aside. I intend to report to this effect to the next meeting of the TDB, in August.

Robert S. McNamara

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<sup>1/</sup> The TDB resolution and the conclusions of the Inter-Governmental Group, together with information on the voting record in the TDB, were distributed to the Executive Directors under Documents SecM69-442, dated September 17, 1969 and SecM69-442/1, dated September 22, 1969.