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THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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Friedman, UNCTAD Files - Geneva Meeting on
Suppl. Finance

Apr. 13-20, 1966

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1787148

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Irving Friedman UNCTAD Files: Geneva Meeting on Supplementary Finance, April 13-20,
1966 - Correspondence 01

4 pm 7
Of course: They only did so
in the hope of big amounts
of aid. They think this is
not worth while for export-
shortfalls. Remarks:

1. They might think differently
if they were sure of inclusion
of invisibles - receipts.
and some reflection of import
prices.

2. But their mistake is that they
relate their reaction to export
process only and not to total
aid. They put things always
far more disadvantageously than they
actually think.

B.

Rasoul.

Turkey

The country for
which there is
already a major
OECD Consortium

and which has requested
a thorough and detailed
study of and ^{recommendation} ~~recommendation~~
on its development program

Second meeting - (1)

Lead

① process slow - not perfect -
income gap closing - need for more multilateral
aid - mostly due to advanced a/c for support
with aid being more than - time is short.

② wants counter-achievement of d.d.c.a.c

I.B. meets request for more - not ~~too~~

③ Cautious to work for all countries

anyway - not solve all problem - no
competitor balance methods - greater study -
(9 5 or 100 m. - modern get

when I.D.A. 1 Dec. Fund must also be

increased -

(9 no absolute economic sovereignty -

all countries limited -

(9 Will grant more directly for

many - at more many for

(1) From pure development -

while defying ~~1950~~ w. sup^{to}

get more detailed agent - much

has to be left to administering agency -

hearts reported entirely on a
peach base.

(8) Full report from already in?
report - also ~~the~~ first - Wang -

United Kingdom

(9) Congress table place -

(10) agree with some of report

page 2000
(11) concept of description and efforts

perceptual chart falls -

(12) details regarding full study -

have reference a calendar where
had a signed UNITED resolution

(13) present decision shall be

had primary concern and primary a
report signed -

(14) don't need to display where of
analysts or with trade agents -

(15) need to study detail -

would have to a modified consultant -

(h) need more a term

(i) electrical energy is
negotiated where any till to
all - can't have a limited

Contract

(j) are rated to be on
gentle where a low 78300 to 8 in
per year

(k) performance - not limited to
developing countries - multilateral
agreement is best way to ensure
performance - Have Body of both
developed developing countries -

(l) One of major elements

is our - from more multilateral
and at contract of particular
DA ; with legitimacy discussions - not
affiliated particular - not desire to join in
them or them together

my part based on evidence
and this preparation of W of Gray

India:

(1) deep appreciation of the Back diff
(2) adherence to the full report

vacuum -

After debate - fully accepted for

where - major part in SPS -

? / What the report - also new - report
from

(1) want to suggest principle. Later
will suggest for more independence
and more careful consideration -

and / different sources

(2) where necessary consider
between any donor - presenting

? Compt -

(1) in Reserves - \$300,000
seems to be adequate amount

France;

✓ Excellent Report -

4 Feul gnd - Feul Man fr

Allyste of products -

(3) Fresh Kangaroo should be
skinned - fur with undercoat
carefully kept

(3) Herk. Nanjund
relieved - Jan with Undergraduate
Council by H. P. A.

Control Office

(O there optima of Silver -
app - for hyperthyroidism

app - for hyperthyroidism

(5) Her resurrection & pearl garden

11. (6) Statement of general nature -

remedy to short public prices—

2) *Arthrobrachys punctifallax* (pau)

intensely against the - note
the - fear

very hot a gullet - fear
the insect attached -

steps with baric attached on

problem

problem
I've given a great effort
to prevent

to my model in quarter of front -

fears pushing down
markets - also capital for
financial support - won't get
double contribution -

capacities with good
volume for market together -
? these future - no limits to
agents - only potential -
Want mountain a whole lot
org. journals & SSS.

(8) Specific demands.

(5) uncertainty in environment
higher even could mean
? less to constant reference
? (1) extremely responsible
debts matters - "Eckhard's problem"
danger -
? (2) Wally said about Agency -
? yet at the same time acts 'activity'
rule

(1) African Science Trust
Israel:

(a) a serious population to deal with the problem

(b) financial wants support

(c) can do this or else

(d) better forecasts members

repeated shortfalls

speaks to force decline and

damaging effect [Develop

funding does this job.]??

? What is the point?

(e) scheme does not stand alone
it's truly supplementary to the

develop. funding

? (1) performance

(1) What performance for 56 a. & 1000?

(1) What pulling capacity average?

(g) terms: - agreed lenient
 use of many words but let
 terms first

(h) to be fully supplied -
 also attached - typing correctly
 where

(i) report pass - please can't
 end one also

IMF

(read statement)

Brazil

regarding -

4 not sure of agreement

3) 2 have many ^{supplied} ^{smallly}

(a) mechanical ^{smallly}

(b) first made with out danger

proceeding further

1) conclude with the by is
 necessary & double - where
 then of your interest -

- 7/ folder of form - OK for study - need for deposit
- 7/ current resource needed
- 7/ my be understood -
- 7/ price declines large -
- 7/ post needs further consideration
- 7/ Term of Capital - reference to mention FIDA -
- 7/ Retain right to symposium earlier [quote SPS]
- 7/ [Need for identification study]
- 7/ c) 'adjustment' - avoid demerit -
- 7/ (para 101-115)
- 7/ 7) thus provide care -
- 7/ also other legal control
- 7/ 8) across - question: the very info that further need not be put in evidence.
- 7/ 9) legal control

9/ put in attached

Netherlands

- 1) attached proposal is for (framed)
- 2) tenured cadets of assistance -
be referred to cadets of center -
appears there -
- 3) Performance Reports -
feasibility is greatly reduced - policy
package differences only to carry.
after B.R.D. of U.S. spend 2nd -
no problem in partial application -
4) before can we can handle of
raising funds
- 5) Keep the money to the point
- 6) Not in conflict with other sources
of money or commodity still get

Jealous is the main factor -
 why give it special attention

(a) as yet not more formal

(b) when could fill gaps
 which we felt needing filling

(c) Study to much stress on
revised character (other
 sources retained as not
 available)

R. & H. kept at long last -
 revised character mentioned
 "additional resources with
 plenty available"

(e) on poly party - as
 flexible as identity as possible
 of use 1 M F - 1 B D

Measurements study week

? D - Great funds for automation -
 don't have detailed mechanism -
 need right ideas

-6-

Unaired question of vital importance -
as a cause of food

Agg -

(a) not formal work table
(b) chari of Agg - unusual
cheats - all under

Eudorcas purpurea

Polyta pteridum

German

(1) "Palvalla suggestiva"

(4) Hypo tipit way of crawling

diffusion -

(2) proposal to new & secondary
did much further study - before

fundamental

(4) welcomed but better paper

and previous offenders -

(5) attached will be offered for acceptance

of the principle

(6) need to review -

(a) ~~central~~ ^{central} ~~protection~~ ^{protection} -

7/ ~~should~~ ^{should} provide for revision of
statutes - fear measure
non-adjusted -

? (b) ~~leader of~~ ^{leader of} ~~most~~ ^{most} ~~central~~ ^{central} -

(c) ~~family~~ ^{family} ~~magnitude~~ ^{magnitude} -
confessions ~~magnitudes~~ ^{magnitudes} ~~ought~~ ^{ought}
approximate

(d) ~~could~~ ^{could} ~~limit~~ ^{limit} ~~commitment~~ ^{commitment}.

Not ready to give full endorsement

/// Karlovich with papal att
Legal for ~~deal~~ ^{deal} ~~was~~ ^{was} ~~done~~ ^{done} &
1950 got a full train

China: also Chinese repre-
sents of ~~fluctuation~~ ^{fluctuation} on
permanent ~~regiments~~ ^{regiments} - Joint
contract to get ~~technical~~ ^{technical} ~~assistance~~ ^{assistance}
Support ~~Project~~ ^{Project} - was it
to ~~become~~ ^{become} ~~reality~~ ^{reality}

~~also decrease~~

~~plant faster!~~

IV Different types of crops
and shaffs -

Full Island -

(1) SRS would be entirely
complementary -

(2) Composites covered not
with total reports - not but
with individual industries -

(3) On inspection of report camp -
note of SRS different from country
agreements - need to complement work of
by being help to develop market

? | (4) in develop program -
from where it comes from
in general of industries -

① Meeting started at 11:12 -
resumed session

Agenda: LDC's for the

① refer 51M Fragating

② want to do substantive work

continuation with doing this session -

③ mention 8pm of quad - let
by week end of 1st session

④ send replacement - Nov.

Believe

(a) subject of great importance - represent
first session of 44 COT WTD it's
debate which will be a lot of points

(b) refer & hurry at 44 COT - which is
prepared by 2 members and report
plurality

(c) we have created prepared

(d) we have now entering new phase -
first create action - based on a concrete
proposal

(a) prepared itself

(b) focus of the committee of prepared

(c) relate to basic strategy of development

of Eastmontappment which to
 get - Is an appropriate relation
 other appropriate with other relations to
 accident - cytotoxicity ^{with} trade agent
 - not all can be conducted Japan
 - agents spend for floral feeling power
exp. or can - always have merging
photomicro

of Science presented of but have
merit of rearing part of the data
defect to apply system poly-
aspect of the photomicro - journal
contribute to rearing one of most renew
public from £ 800

c) Incidents

(a) project - fully accepted - on
scientific and planning - concept
of "average" - need analysis -
very reputable experience of CB 1500 or
from an occurrence renew for development

(b) type 7 S.F. - similar to those of basic financing - what of savings capacity of larger towns & low rates of interest - among the questions -

(c) suspected shortfalls - how fully prices - what of declining land - could offset basic development - what happens if rents start to fall - plan begins to operate -

|| what happens if have more than necessary - will it get S.F. -

(d) magnitude of resources - provision of urban well - will be able to find any -

(e) basic system is practical - with reply added - respect to using same notes -

need to have PS having
anti-cyclical policy -

of assets resources used for
investment - not anything - have
to repaid some extent if
grant cannot be used by us -
could reduce need for SF - must
contribute in investment -

(I went with suppl from a
banking - know idea of
planning - distribution of domestic
and external financing - recognize the
need for total magnitude of demand
resources - defined beforehand -
told need quantity - SF added to
bank financing - accepted principle
that for all villages go to capital
bank resources - bank financing is gathering
benefits from -

Will people find members be
 required? as sufficient to
 enable them to raise the money?
 Draw lines between Technical
 report & political requirements
 Expected pattern of develop. frame -
 Concern whole concept of financing
 develop. plans - go. contribution of
 credit & investment?

III Only experience can tell us.
 Issue of democratic between what
 is required for development of plans
 and those which will credit has to
 satisfy themselves reports

Algebra of Penta del 'Este -
 are underlying of general reports -
 should delay from -
 designed between technical and political
 assistance

6-
for report SPS-
purple & defining area for
puzzles sent by Walby Gang -

Cham - futuristic pencil
sketches pencil consistent -

"young endowment"
purple -

Is this a closed meeting?

add sentence a para
on -

(g) some more reference to
more detailed answers given in
conferences -

✓ (h) direct refutation of concept of
permanent "control" -

(g) more on ^{World Bank} reference

with more on projections
(see h. below)

(A) perhaps sanely rejects

~~(I would like to ask the Turk. -~~

~~this statement is most~~
~~disagreeable).~~

✓ (e) mention our repeated
reference to IMF + ~~the~~ ^{the} ~~ABCD~~ ^{ABCD} ~~collaboration~~
in SFS

(f) make clear our position for
~~flexibility~~ flexibility.

✓
(g) don't need detailed ~~plan~~ ^{program} to ~~analyze~~ ^{analyze}
if not ~~feasible~~ ^{feasible} for or
not appropriate because of
character of economy -

✓
(h) should be clear that
export projections are feasible
and being made -

10.

Sunday October 7

O.S. Perkins,

Princeton

Mass,

Dear Sir

Dear Sir

Enclosed is a

u. t. 085

① We have taken into
accounts contents of
market arrangements

② Consider all
reports - (actually having
EDC by ^{with}
than ~~can be~~ with
described reports also
have to exp. that full
problem).

③ Don't want to have the
content of a crystal
paper - want to have
it as a summary concept - X to
redefining a conceptual basis - P3
④ Reference
what is meant -

goes to other
order

~~Thore on Herdysentad~~
descriptions

③ ~~Does further~~ ^{tone on}
~~held~~ ^{held} ~~of~~ ^{of} ~~policy~~ ^{policy} ~~to~~ ^{to}
~~access to markets~~ ^{capital policy, part.}

③ Make clear all agree on
problem itself

④ Just to what we say on
invariable as part of free
project

⑤ What about roles of stock-exchange

#257

Tu - morning (1)
Tuesday - very constructive job.
 (1) have broken ground - need
 further study - serious
 danger of incoherence & double
 interpretation.
 (2) the meeting - inputs

Jan:

- (1) all agreed that there is a real, with
 (2) most people agree that there
 is a serious situation
- (3) but greater & deeper political
 issues - but not agreed to go further
 in representative
- (4) further study - exhibits
 serious part need further examination -
 mention IMF - HPS - John -
- (5) guide lines -
 (1) practical - very much experience
 (2) try with unit to see what -

March:

- (1) say find say projectors
 not found
 (2) report but here in general

Friday - May (2)

US. Department, interested in
complex proposal -

(4) could the further step be made till
framing - seemed as part of this
interest

(5) quite rectified interest in multil.
antenna - photo glasses on multil.
frame

(6) Have number of questions -
want answer before ready to decide -
proceed along lines of S-G & Chomsky

(5) main purpose of meeting is to
strengthen of others of part. keep them.

Ghana: where crystals -
project - subject to multiphase
support before - even if
polyphase "one"

Tengayadula -
when is it stop - yes - not
a process

Fridy morning (3)

suppats continuity agents

Wants more ^{on} causal
phases

? By contrast silent on
style is all contrast -

Advent of child development

Issues need study before being
fandized

Other finding most appropriate

? Differentiated of person

Let gentle science try -
and found gap -

Acceptance in principle

11/11

Fritz (many) &

Frederick

11 (a) Continuation of successful regional
(b) Still question a hard and
market

(c) Scheme does depend on perfect
proportion.

(d) Need better statistics -

211 (e) Need revision of proportion

(f) Women about raising
funds in world markets -

(g) some women also have
overseas pullers -

111 (h) Agiles in pullers -

are divergence of opinion

Caution scheme pointing -
desires to agree with regional

free trade policy as

"mutual collaboration"

Friday (evening) 5-

Coanda:

- (1) Thus concluded SFS -
" perhaps most useful appeal
to public before Committee
- (2) prepare part introductory survey
surveying series conditions
- (3) where presented & separated
- (4) needs flexibility (Gus - 2)
- (5) need to resolve unsatisfactory
pullers
- (6) suggest suggestion for inter-gold
work party to determine whether before
could put into effect
- (7) Need understanding on
report presentation to give some
represent method -
(4) where I have series
report presents.
- (8) Institute before 1st Feb 5 FS
drawings
(4) understanding how to modify
plans without appeal of Agency

Fudy (many) (6)

(1) Tharcordy St with the
fornz actus - meeting Shaffer

(2) Hot steps - need guidelines

(3) Westchester + field of
ground could be better as
a whole

(8) serious sympathetic
contribution -

(9) Nigui:-

(1) stronger penile action

(2) pain - by sex

(3) need further clarification

(11) (1) Will by 1000 US go
full support

(5) Whole hearted welcome
renew - but all right

as for -

(4) work out the complex other
cases

Fifty (many) (?)

(7) workable frame -

(8) ~~presently~~ subsequent -
deserted the -

(9) ~~Bradenham~~ Canals:

(10) this factor - workable
lyat fuller

(11) penit of ambulation and
not kindly protected -

(12) has hott the about access
to the source - desert of
plotted map found

(13) poor frame - accept full
collected - with in regions -

(14) ranges - the not high

? (15) general sales of state - just
except

(16) let by last own
freely

(17) quantity described - and actually

July 1941 (8)

also quarter 7 Agency

(4) 3/22 - incl UK Delight -
familiarized financial control

(5) a trans - do not agree -
believe SP's never adjusted to

Final layout

(6) not in report prices

(7) on performance - I want difference -
performance requirements -

(m) as report (?)

for

School can handle while

the Council to Committee for

Support

From inter - government ^{report} committee

See by PL 8/30/66
UNCTAD

July 25, 1966

Dear Sir:

On behalf of the President I am writing to acknowledge your letter of July 15, 1966, and to thank you for sending us copies of the recent note to the Governments of all States members of UNCTAD concerning possible subjects for inclusion in the agenda of the second session of UNCTAD.

Sincerely yours,

Michael L. Hoffman
Associate Director
Development Services Department

Mr. Raúl Prebisch
Secretary-General
United Nations Conference
on Trade and Development
Palais des Nations
1211 Geneva 10, Switzerland

cc: Mr. Wishart
Mr. Friedman with 1 copy of incoming correspondence ✓

1 copy of incoming correspondence to Mr. Consolo

MLH:bmb

UNITED NATIONS

CONFERENCE ON TRADE AND
DEVELOPMENT



NATIONS UNIES

CONFÉRENCE SUR LE COMMERCE
ET LE DÉVELOPPEMENT

Télégrammes : UNATIONS, GENÈVE

Télex : 22.212 ou 22.344

Téléphone : 34 60 11 33 40 00 33 20 00 33 10 00

Palais des Nations

1211 GENÈVE 10

REF. N° : TDO 230

15 July 1966

Dear Mr. Woods,

..... Please find enclosed, for your information, copy of a note verbale recently sent to the Governments of all States members of UNCTAD concerning possible subjects for inclusion in the agenda of the second session of UNCTAD.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Raúl Prebisch'.

Raúl Prebisch
Secretary-General

Mr. G.D. Woods
President
International Development Association
1818 H Street, N.W.
Washington, D.C. 20025
U.S.A.

1000 707 51 6W 3: 15

COMMUNICATIONS
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15 July 1966

Télégrammes : UNATIONS, GENEVE
Téléc : 22.212 ou 22.344
Téléphone : 34 60 11 33 40 00 33 20 00 33 10 00

REF. No. : TDO 230

Dear Mr. Woods,

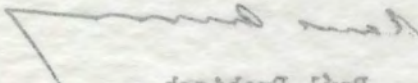
..... Please find enclosed, for your information, copy of a note

verbale recently sent to the Governments of all States members

of UNCTAD concerning possible subjects for inclusion in the

agenda of the second session of UNCTAD.

Yours sincerely,


Rolf Prebisch
Secretary-General

U.S.A.
Washington, D.C. 20025
1818 H Street, N.W.
International Development Association
President
Mr. G.D. Woods

1966 JUL 21 PM 3:12

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REF. N° : TDO 230

and has the honour to refer to Chapter X of the report of the Trade and Development Board on its third session (TD/B/66) and to invite the attention of the Governments of States members of UNCTAD in particular to paragraphs 94 and 95 of the report, which set out the procedures to be followed in connexion with the preparation of the agenda of the second session of UNCTAD.

In accordance with the procedures recommended, the Secretary-
..... General of the Conference has prepared, and encloses herewith, a tentative list of subjects for possible inclusion in the agenda of the second session. In preparing this list, account has been taken of the discussions on the subject and the suggestions made during the third session of the Trade and Development Board, and also of the various subjects under consideration by its committees. An attempt has been made to limit the items under each general heading to subjects of major importance. Furthermore, the general item on the review of the work of UNCTAD would afford an opportunity to UNCTAD at its second session to deal with other questions, to the extent that should be found necessary.

The Secretary-General of the Conference intends to present a draft of the provisional agenda of the 1967 Conference to the Trade and Development Board at its fourth session. It would be

appreciated if the views and suggestions of His Excellency's Government on the list of subjects could reach him not later than 15 July 1966. The Secretary-General of the Conference is confident that such suggestions will have due regard to the main trends of the discussion on the 1967 Conference as summed up by the President of the Trade and Development Board in paragraph 93 of the Board's report on its third session.

13 June 1966

A handwritten signature, possibly of a Secretary-General, written in dark ink.



REF. N°: TDO 230

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 Recommendations 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 export of manufactures
 - (a) The reduction or elimination of tariff and non-tariff barriers to manufactures and semi-manufactures of export 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

OFFICE MEMORANDUM

TO: Mr. Woods

DATE: April 22, 1966

FROM: Irving S. Friedman

SUBJECT: UNCTAD Meeting on Supplementary Finance

I thought you might be interested in a brief memorandum on the UNCTAD meeting on Supplementary Finance, particularly in case the subject was raised during your visit to Europe.

A more detailed report is being prepared for distribution to the staff and possibly to Executive Directors. I have not tried to be systematic in the following, or too worried about exact language, but rather have concentrated on giving the highlights and evaluation of the consequences of the meeting.

The Committee on Invisibles and Financing met from Wednesday, April 13 to April 20, to consider the Bank staff proposal on Supplementary Financial Measures. Out of a total membership of 45 countries, 38 were present. Of these, the 15 developed countries, or as the UNCTAD calls them "Group B" countries, were Australia, Belgium, Canada, Finland, Germany, France, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. From less developed countries, or in UNCTAD parlance "Group of 31 countries", there were 18 present: Argentina, Brazil, China, Ecuador, El Salvador, Ghana, India, Israel, Lebanon, Mexico, Morocco, Peru, Korea, Trinidad and Tobago, Tunisia, Uganda, UAR and Yugoslavia. From the socialist countries of Eastern Europe came the following five: Czechoslovakia, Poland, Rumania, Ukrainian SSR and the USSR. The absent members were: Cameroons, Mali, Viet-Nam, Sudan, Congo (B), Tanzania and Kuwait. Some pointed to the absence of the Cameroons, Mali and the Congo as being significant, i.e., support for the so-called French position, but other French speaking African countries attended. I do not know what significance can be attached to their absence.

The Chairman of the group was Mr. J. Everts of the Netherlands -- who is also the Chairman of a Working Party of the DAC. The Rapporteur was Mr. Juan Carlos Arlia of Argentina. The work of the Committee proceeded in plenary sessions, separate meetings of the different "groups" and a continuing process of informal talks among the delegates and ourselves. Mr. Prebisch made the opening address which was very friendly to the Bank Staff Scheme. It contributed much to set the tone of the discussions which subsequently took place.

Contrary to expectations, the Committee quickly got down to work. During the next two days of the plenary sessions, general statements were made by a number of delegations. On Friday afternoon, the Chairman invited me to make some remarks (enclosed) to the Committee in which I covered the main points which had been raised not only in the plenary sessions but also in the meetings I had had with the "Group B" (developed countries) and "Group of 31" (developing countries) separately, at their invitation. These group meetings were question and answer sessions covering many aspects of our Report and Scheme.

The development of an unexpected area of agreement between those groups by the end of the first two days of general discussions cut short the plenary sessions after Friday. Most of the time of the delegates was then spent in informal discussions on the draft of a Resolution, which was finally adopted (enclosed). Because of this, the formal Report of the meetings and the statements made during the meetings only partially reflect the views of the governments and what happened.

The United States had come to the meetings with the basic objective of finding out what the attitude of the developing countries towards the Scheme would be. Many of the lending countries seemed to expect that the developing countries would not be fundamentally interested in the Scheme because of the emphasis on performance. Germany, for example, told us that their instructions to the conference had been prepared under this impression, while the English were ready to beat a retreat from their first position at the meeting, which was and remained one of unqualified support for our proposal. The developing countries, on their part, were generally favorable to the Bank proposal, although they wanted to know more about some essential assumptions behind the Scheme and about the detailed working of the proposed mechanism. The generally favorable attitude of the developing countries seemed to come as a surprise to the developed countries.

As a result of the meetings, the delegates of the major lender countries -- notwithstanding the number of specific questions which the developing countries raised about the Scheme -- came to the unanimous view that the latter are greatly interested in the Bank Scheme, as a practical means of dealing with a chronic problem, and would regard its coming into being as a major contribution by the lender countries to the developing countries.

The great majority of the developing countries did not support the French position, which championed the "organization of markets" idea and spoke of "technical paternalism" and discouragement of commodity agreements resulting from the Scheme. Instead, the LDC's accepted our view that commodity agreements would be complementary and mutually helpful to the Scheme.

The major developed countries will now consider seriously what they are prepared to do next about the Bank's staff proposal. Two circumstances tend towards positive action: the need to have some concrete proposal appealing to the developing countries around which the work of the next UNCTAD in 1967 could take place, and a general disposition to do something useful on a multilateral basis. (President Johnson's views were much quoted by the Americans.)

The pace with which the lender countries will progress towards the final creation of the Scheme will probably be greatly influenced by the attitude of the United States. At present, the United States, and probably Germany, are not ready to follow the quick schedule preferred by Sweden and the United Kingdom. As for the French some well informed delegates expressed the view that France will change its position, once it is clear that the supplementary finance Scheme is coming into being.

It may be said that the developed countries -- even during the initial phase of discussions in the Committee -- gave a reception to the Scheme more favorable than was expected by others. Indeed, to exaggerate somewhat, everyone seemed to be surprised at everyone else's support for the Scheme, but nearly all gave their support/

A measure of the attraction of the proposal to all parties concerned is reflected in the interest in the staff Scheme demonstrated by Poland, Rumania and Czechoslovakia, departing in emphasis from the more hostile line adopted by the USSR.

During the course of the meetings, the developing countries appear to have found satisfactory answers on the basic points concerning the Scheme which were worrying them. They were pleased to be reassured that: (a) supplementary finance was going to be considered in the over-all context of development finance; (b) that it was meant to be truly supplementary, and (c) that a way would be found to fulfill the requirements of performance without prejudicing their "sovereignty". In the next stage of the work, they will like to see how this can be done in practice and embodied in explicit rules.

They, as well as the developed countries, also wish to pursue a number of technical points.

There was indication among some developing countries, however, of concern with the split which was felt to exist among developed countries. Which approach -- the French or the others' -- represented the wave of the future? Would these differences mean paralysis of action in the development finance field, both supplementary and basic?

From the practical point of view, the work of the Committee resulted in the adoption of a Resolution deciding to establish, subject to the approval of the Board of UNCTAD, a small intergovernmental working party (13 to 15 members), to further study and elaborate the Bank Staff proposal, with rather wide terms of reference. This group may also consider the ways in which the Scheme would be financed. The members of the recommended working party are: 7 from the developing countries -- Argentina, Brazil, Ceylon, India, Yugoslavia, Ghana, and the UAR; 6 from the developed countries -- United States, United Kingdom, Sweden, Japan, France and Germany. (Ceylon came as a surprise because it is not a member of the Committee on Finance, but only an observer.) Two seats have been left open for members of the socialist bloc in case they wish to participate. The resolution was adopted by 33 votes to none with 5 abstentions from the socialist bloc countries. The Bank and the Fund staff were invited to help the work of the group. I indicated that our staff would continue to collaborate.

The agreement on the resolution may be attributed to a general consensus on the following points:

- (a) virtually unanimous agreement that not only the problem of unexpected export shortfalls which disrupt development programs was important, but that a practical solution to it was possible and feasible;
- (b) general feeling that the Bank Staff proposal has the essential ingredients of a practical and feasible scheme, although a number of important questions of detail, administration and finance need further enquiry and some need answering before an international agreement is made possible;
- (c) there was general agreement that the figure of \$300 to \$400 millions per annum was not high, but may have been too low in view of some, such as Switzerland and Germany;
- (d) there was agreement that the supplementary finance must be truly supplementary to IDA and other forms of development finance and not a substitute. For the United States and United Kingdom this would mean staying in the neighborhood of \$300 to \$400 million per annum. Germany, Switzerland, and possibly Sweden, might be willing to go higher, after further study.

The question as to who would administer the Scheme did give some concern to the delegates. Many from the developed and developing countries expressed privately the view that if the agency was to be effective it must be the World Bank Group. They very much hoped that the World Bank Group would be willing to take up the job. With respect to the problem of administering "performance", Mr. Prebisch has been suggesting (in his opening address and elsewhere) that this examination should be conducted by an independent group of experts outside the Agency. The Americans and others expressed unhappiness with this suggestion and were responsible for inclusion in the Terms of Reference of the working group of a reference to the paragraph in the UNCTAD Resolution of 1964 which mentioned the IDA as the Agency. I explained repeatedly why we said nothing in the Report on the Agency.

There was widespread belief expressed that the work of the Committee on supplementary finance had opened a new hopeful phase in the activities of UNCTAD, which meant a transition from a debating society to an effective decision-making group. Many shared the view initially expressed by Mr. Prebisch that the discussion of the supplementary finance Scheme was the best opportunity given to UNCTAD to make this vital transformation.

From the point of view of the Bank, the reception for the Staff Scheme was most friendly and the efforts of the Staff deeply appreciated. Delegates went out of their way in private conversations with each other as well as with us, to express their appreciation. The World Bank was widely regarded as now becoming the bridge between developed and developing countries. Remarks were made that the views of the Bank were carefully prepared and objectively arrived at, with development as a primary concern, and that the World Bank Group has the needed prestige to command a hearing for its views and substantially influence the governments. Delegates of all countries were eager to explore technical and policy questions of the supplementary finance Scheme as deeply as time permitted and to get their own evaluation of both the sincerity and validity of Bank presentation. (One side effect was that Pereira Lira, Jalan and myself never got to bed before 2 a.m. and had discussion breakfasts every day at 8 a.m.!)

Personally, it was a gratifying and encouraging experience. The work we are doing is clearly very much needed, respected and appreciated by our members. These government representatives had the experience to know what a difficult job it is. The problem is to live up to their high opinion of the Bank staff. They expect us to be deeply knowledgeable and objective, economically and technically sophisticated by the highest standards, with imaginative but practical solutions. They feel that our work commands support because we can be cooperative and keep above petty personal politics. Every one ended very friendly to us and eager to have closer relations with the World Bank Group, including not only member creditor and recipient countries, but also Switzerland and Poland. Perhaps most important of all both creditor and recipient country, showing full awareness of the implications of what they said, emphasized in public and private utterances, the acceptance of our view that what was urgently needed was a new approach to development finance based on a concept of joint enterprises with mutual responsibilities, including performance, more finance, longer-term commitments and much greater reliance on the multilateral approach.

Mr. Woods

April 22, 1966

Irving S. Friedman

Statement to the Board on the UNCTAD Meeting on Supplementary Finance.

I believe that it would be useful for me to make a brief statement to the Board on the UNCTAD meeting on Supplementary Finance next Tuesday or Thursday if you agree.

In any case we are preparing a more detailed report for circulation to the staff, which could also conceivably be circulated to the Executive Directors.

OUTGOING WIRE

TO: WOODS
INTBAFRAD
WASHINGTONDC

DATE: APRIL 19, 1966

CLASS OF
SERVICE:

COUNTRY: USA

TEXT:
Cable No.:

FINANCE COMMITTEE HOPEFULLY FINISHED THIS EVENING FORMAL AND
INFORMAL CONSIDERATION OF BANK STAFF SCHEME stop WIDESPREAD
SUPPORT EXPRESSED comma ALTHOUGH NUMBER OF QUESTIONS ON
OPERATIONS OF SCHEME RAISED stop FRENCH CRITICAL BUT MILD stop
GERMANS AND AMERICANS FRIENDLY BUT EAGER TO AVOID GOING TOO FAR
AND TOO FAST AT THIS TIME stop RESOLUTION TABLED THIS EVENING
WHICH IS EXPECTED TO GET COMMITTEE AGREEMENT TOMORROW WEDNESDAY stop
RESOLUTION PROPOSES ESTABLISHMENT SMALL INTERGOVERNMENTAL GROUP OF
EXPERTS TO ELABORATE BANK SCHEME FURTHER WITH AGREED TERMS
OF REFERENCE REFLECTING ^{THIS} POINTS RAISED IN DISCUSSION AND TO REPORT
BEFORE NEXT SESSION OF/ FINANCE COMMITTEE IN NOVEMBER 1966 stop
UK INTRODUCED RESOLUTION stop YUGOSLAVIA comma UAR comma BRAZIL comma
SWEDEN ~~SECONDED~~ ^{SECONDED} RESOLUTION AND FRANCE AND UGANDA INDICATED
SUPPORT stop CHAIRMAN URGES ME TO STAY THROUGH WEDNESDAY stop
PLAN RETURN TO WASHINGTON ON THURSDAY stop REGARDS

FRIEDMAN

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME

DEPT.

SIGNATURE _____
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

CLEARANCES AND COPY DISTRIBUTION:

For Use by Archives Division

ORIGINAL (File Copy)

(IMPORTANT: See guide for preparing form)

Checked for Dispatch: _____

Geneva, 16th April, 1966.

DRAFT RESOLUTION

The Committee on Invisibles and Financing Related to Trade:

HAVING REGARD to Part A of Recommendation A.IV.18 of the First Conference of UNCTAD;


RECOGNISES the importance of continuing to work towards agreement on individual commodities in international trade and on any other practical measures to achieve the stabilisation of commodity markets and expresses the hope that the incidence of the mechanism envisaged in Part A of Recommendation A.IV.18 on other work on commodities, including the process of organisation of markets, will be studied in the Committee on Commodities and in other competent organs of the UNCTAD;

RECOGNISES that the existing international financial machinery does not include a mechanism designed to deal with the disruptive effects on development programmes of problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance-of-payments support and with the consequent danger that the economic growth of these countries will be disrupted and retarded by causes beyond their control and that, accordingly, measures to achieve the objective stated in Part A of Recommendation A.IV.18 of the First Conference should be introduced;

AGREES that the scheme of supplementary financial measures set out in the study prepared by the staff of the International Bank for Reconstruction and Development in accordance with that Recommendation should be further studied and elaborated in the light of the discussions of this Committee, as a means of dealing with this question, and therefore

RECOMMENDS to the Board that for this purpose a small group of representatives of governments, with the requisite expertise, consisting of members, should be set up as soon as possible to report on this matter to the second session of the Committee and that the terms of reference of this group should be as set out in the annex to this resolution;

RECOMMENDS further to the Board that representatives of the IBRD and the IMF should be invited to assist in the work of the inter-governmental group and to prepare such factual material as may be required to enable the group to accomplish its task.



ANNEXTerms of Reference for Intergovernmental Group

1. In order to define the best means for resolving the problems posed by unforeseen shortfalls in export receipts which because of their nature cannot be adequately dealt with by short-term balance-of-payments support, the Group should examine the study presented to the Secretary-General by the staff of the IBRD, in the light of the discussion of it in the Committee. The Group should submit a report on the study (with such modifications to the Scheme as it may consider appropriate) as a means of achieving the objective set out in Part A of Recommendation A.IV.18 of the First Conference. Having regard to the timetable for the next Conference, the Group should if possible submit the report in good time for consideration by the Committee at its second session, in November 1966.
2. The Group should pay attention to the following points:
 - (i) Questions affecting the scope of the Scheme, including the treatment of overages and the regard to be paid to import prices.
 - (ii) The form, terms and conditions for the provision of aid to countries participating in the Scheme.
 - (iii) Measures for establishing the relationship between the resources available and the demands on them; in this connection, the Group should examine the consequences of the hypothesis that resources on the scale suggested in the study would be available.
 - (iv) Questions relating to the criteria to be applied in the formulation of the initial projections and in the assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the Scheme, and the considerations which the Agency should take into account in dealing with such a claim.
 - (v) The appropriate period of time for which the relevant projections of exports should be established and the concomitant obligations assumed by the Agency and the developing country.
 - (vi) The relationship between supplementary financial measures and other types of economic assistance, both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms and conditions on which they are provided.
 - (vii) The efficacy of the Scheme proposed compared with that of other possible methods which might be employed for the same purpose.
 - (viii) The status, membership and functions of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of Part A of Recommendation A.IV.18.
3. The Group may also find it appropriate to put forward suggestions, for further consideration by governments, of ways in which the Scheme might be financed.

(?)
LOA



Distr.
LIMITED

TD/B/C.3/L.32
19 April 1966

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Resumed first session
Geneva, 13-20 April 1966

SUPPLEMENTARY FINANCIAL MEASURES

Brazil, India, Sweden, United Arab Republic, United Kingdom
of Great Britain and Northern Ireland, Yugoslavia: joint
draft resolution

*Peru
Uruguay
Ecuador
Spain
supported
the (will
by 1966*

The Committee on Invisibles and Financing Related to Trade:

TAKING NOTE of Recommendation A.IV.18 of the first UNCTAD and having regard to the discussions of the Committee during its resumed first session,

EXPRESSING its considerable appreciation for the study prepared by the staff of the IBRD, in response to the invitation of the first UNCTAD under Part A of that Recommendation,

NOTING that the existing international financial machinery does not include a mechanism designed to deal with problems arising from adverse movements in export proceeds which prove to be of such a nature or duration that they cannot adequately be dealt with by short-term balance of payments support, and to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes and that, accordingly, appropriate measures should be introduced,

Without prejudice to current and future work towards agreement on individual commodities in international trade and other practical measures to achieve a stabilization of commodity markets, including the process of organization of markets, expresses the hope that the relationship of any measures taken under the recommendation in question with this other work will be studied in the Committee on Commodities and in other competent organs of the UNCTAD;

NOTING the considerable measure of support in the Committee for the concept of supplementary financial measures elaborated in the IBRD staff study;

AGREES that the scheme of supplementary financial measures set out in the study prepared by the staff of the International Bank for Reconstruction and Development in accordance with that Recommendation should be further studied and elaborated in the light of the discussions of this Committee, as a means of dealing with this question, and therefore

DECIDES for this purpose, subject to the approval of the Board, to establish under Rule 63 of the Rules of Procedure of the Committee a small group of representatives of governments, with the requisite expertise, consisting of 15 to 15 members, to study and report on this matter to the second session of the Committee, with the terms of reference set out in the annex to this resolution; ^X

INVITES representatives of the staff of the IBRD and the IMF as well as representatives of such other bodies as the Group may consider appropriate to assist in the work of the intergovernmental group and in particular to prepare such factual material as may be required to enable the group to accomplish its task.

* Insert sentence: namely, Argent, Brazil, Portugal, Spain, France, Italy, India, Japan, Mexico, USSR, UK, USA, Canada, Ireland, USA, and Yugoslavia. If more two members group I want to put, these names will be added to the list.

ANNEX

TERMS OF REFERENCE FOR INTERGOVERNMENTAL GROUP

1. The Group should examine the study presented to the Secretary-General by the staff of the IBRD, in the light of the discussion of it in the Committee. The Group should submit a report on the study (with such modifications to the Scheme as it may consider appropriate) as a means of achieving the objective set out in Part A of Recommendation A.IV.18 of the First Conference. Having regard to the timetable for the next Conference, the Group should endeavour to submit the report in good time for consideration by the Committee at its second session, in November 1966.
2. The Group should pay special attention to the following points:
 - (i) Questions affecting the scope of the Scheme, including the treatment of overages and the regard to be paid to import prices.
 - (ii) The form, terms and conditions for the provision of financial assistance to countries participating in the Scheme.
 - (iii) Measures for establishing a relationship between the resources available and the resources required; in this connexion the Group should examine the implications for the Scheme of the hypothesis that resources on the scale suggested in the IBRD staff study (taking account of any modifications which the Group may suggest) would be available.
 - (iv) The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any Scheme.
 - (v) Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the Scheme, and the considerations which the Agency should take into account in dealing with such a claim.

- (vi) The appropriate period of time for which the relevant projections of exports should be established and the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.
 - (vii) The relationship between supplementary financial measures and other types of economic assistance, both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.
 - (viii) The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the fifth and sixth paragraphs of the resolution to which these terms of reference are annexed.
 - (ix) The status, membership and functions of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of Part A of Recommendation A.IV.18.
3. The Group may also put forward suggestions, for further consideration by governments, of ways in which the Scheme might be financed.

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Resumed first session
Geneva, 13 - 20 April 1966.

19 April 1966.

DRAFT RESOLUTION

The Committee on Invisibles and Financing Related to Trade:

TAKING NOTE of Recommendation A.IV.18 of the first UNCTAD and having regard to the discussions of the Committee during its resumed first session,

EXPRESSING its considerable appreciation for the study prepared by the staff of the IBRD, in response to the invitation of the first UNCTAD under Part I of that Recommendation,

NOTING that the existing international financial machinery does not include a mechanism designed to deal with problems arising from adverse movements in export proceeds which prove to be of such a nature or duration that they cannot adequately be dealt with by short-term balance developing countries which would help them to avoid disruption of their of payments support, and to provide longer term assistance to development programmes and that, accordingly, appropriate measures should be introduced,

without prejudice to current and future work towards agreement on individual commodities in international trade and other practical measures to achieve a stabilisation of commodity markets, including the process of organisation of markets, expresses the hope that the relationship of any measures taken under the recommendation in question with this other work will be studied in the Committee on Commodities and in other competent organs of the UNCTAD;

NOTING the considerable measure of support ~~from developing and developed countries~~ for the concept of supplementary financial measures elaborated in the IBRD staff study;

AGREES that the scheme of supplementary financial measures set out in the study prepared by the staff of the International Bank for Reconstruction and Development in accordance with that Recommendation should be further studied and elaborated in the light of the discussions of this Committee, as a means of dealing with this question, and therefore

Corrigendum for "from developing and developed countries" read "in the Committee".

DECIDES for this purpose, subject to the approval of the Board, to establish under Rule 63 of the Rules of Procedure of the Committee a small group of representatives of governments, with the requisite expertise, consisting of members, to study and report on this matter to the second session of the Committee, with the terms of reference set out in the annex to this resolution;

INVITES representatives of the staff of the IBRD and the IMF as well as representatives of such other bodies as the Group may consider appropriate to assist in the work of the intergovernmental group and in particular to prepare such factual material as may be required to enable the group to accomplish its task.

CONSEIL DU COMMERCE ET DU DEVELOPPEMENT
Commission des invisibles et du financement
lié au commerce
Reprise de la première session
Genève, 13 avril 1966

PROGRAMME JOURNALIER

Vendredi 15 avril 1966

10 heures	<u>Trente et unième séance plénière</u>	Salle XII
	Examen du rapport de la Banque internationale pour la reconstruction et le développement sur son étude d'un système de financement complémentaire [8]	
	Documents : TD/B/43 et Rev.1 (français et espagnol seulement) TD/B/C.3/19 TD/B/59 TD/B/C.3/20	
15 heures	<u>Trente-deuxième séance plénière</u> Point 8 (suite)	Salle XII

* * *

Réunions de groupes

Pour prendre des dispositions en vue de réunions de groupes, les
délégations sont priées de se mettre en rapport avec M. Mo Myit,
Bureau A.583, poste téléphonique 4383.

TD/B/C.3/PROG.17
TD.66-856

h.d

cc: 813
summary



United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/57/Corr.3
TD/B/C.3/18/Corr.3
13 April 1966

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Third Session
Agenda item 6

REPORT OF THE COMMITTEE ON INVISIBLES AND FINANCING
RELATED TO TRADE ON ITS SPECIAL SESSION

ANNEX 1

MEMORANDUM ON INTERNATIONAL LIQUIDITY

Corrigendum

The last sentence of Annex 1 paragraph 5 should read as follows: "For example, at the end of September 1965, they held as reserves about \$10.8 billion as compared to \$58.1 billion held by the developed countries."



United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/NGO/4
TD/B/C.3/NGO/3
13 April 1966

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fourth session
Geneva, 30 August to 23 September 1966
Item 3 of the provisional agenda

REVIEW OF THE IMPLEMENTATION OF THE RECOMMENDATIONS OF THE CONFERENCE

Multilateral Investment Guarantees

Note by the Secretary-General of UNCTAD

The Secretary-General calls attention to document E/C.2/640^{1/} of the Economic and Social Council, dated 14 March 1966, which reproduces a statement on "Multilateral Investment Guarantees" issued by the International Chamber of Commerce. This statement is relevant to the report on the status of the International Bank's studies on multilateral investment guarantees, dated 20 September 1965, submitted by the International Bank for Reconstruction and Development to the Secretary-General of the United Nations in connexion with Recommendation A.IV.12, paragraph 7, of the Final Act of the Conference, as well as to the report prepared by the Organization for Economic Co-operation and Development on the establishment of a Multilateral Investment Guarantee Corporation, dated 18 June 1965. The progress report of the Bank and a summary of the OECD report have been reproduced in document TD/B/55 - TD/B/C.3/17, dated 3 February 1966. As the statement of the International Chamber of Commerce has already been circulated as a United Nations document to the Economic and Social Council, it is available in that form, rather than in the form of copies provided by the non-governmental organization concerned, to Members of the Trade and Development Board and of its Committee on Invisibles and Financing related to Trade.

^{1/} Issued in English, French and Spanish.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

DECLASSIFIED PERSONAL

MAR 28 2013

WBG ARCHIVES

Mr. Friedman:

I gave some "hints", on a strictly personal and confidential basis, to the Israeli authorities with regards to their appearance in the Geneva meeting. I hope that a strong support for the proposal will be forthcoming.

The representative for the meeting will be Dr. Fanny Ginor. She was an economic advisor to the Israel Delegation to the U.N. and is knowledgeable about those matters.

D. Kochav

OUTGOING WIRE

TO: WOODS
INTBAFRAD
WASHINGTONDC

DATE: APRIL 13, 1966

CLASS OF
SERVICE:

COUNTRY:

TEXT:
Cable No.:

CONFERENCE MET THIS MORNING stop MAIN EVENT WAS STATEMENT
BY PREBISCH AS SECRETARY GENERAL ENDORSING BANK STAFF PROPOSAL
AND CALLING FOR PRIMARY ENDORSEMENT OF IT BY COMMITTEE AT
THIS SESSION AND OUTLINING OF QUESTIONS NEEDING FURTHER
EXPLORATION AFTER PRESENT MEETING BY INTERGOVERNMENTAL GROUP
OF EXPERTS stop PREBISCH INDICATED CERTAIN POINTS HE FELT
NEEDED FURTHER EXPLORATION

FRIEDMAN

Note: This cable was sent (through Mr. Prebisch's office)
after shown to Mr. Prebisch to assure accuracy

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME

DEPT.

SIGNATURE _____

TRANSMITTAL COPY

15 April 1966

NOTES FOR CHAIRMAN

1. To declare open the 31st meeting of the Committee.
2. To express the hope that by the end of the day the first phase of the Committee's consideration of item 8 (the "general-specific" discussion) will be in the main terminated, and that we shall have the opportunity to hear Mr. Friedman's first comments on this discussion.

From the speeches which we have so far heard, I have the impression that delegations have kept them, broadly speaking, within the framework set out in the paper prepared by the Secretariat (TD/B/C.3/19). However, it goes without saying that should points be made which touch upon problems not covered by this framework, these will be reflected in our report.

The list of speakers for the 31st meeting is as follows:

Turkey ✓
United States ✓
United Arab Republic
Ghana ✓
Nigeria (Observer)
Finland
Japan ✓
Canada ✓
Mexico ✓

..... Speakers for this afternoon are:

Italy ✓
Australia
Romania

Argentina

The representative of the Bank is prepared to speak at a suitable juncture in the course of the afternoon.

INTERNATIONAL TRADE CENTRE

GATT TRADE INFORMATION AND TRADE PROMOTION ADVISORY SERVICES

GENERAL AGREEMENT ON TARIFFS AND TRADE

Villa Le Bocage
Palais des Nations
1211 GENEVA 10

CABLE ADDRESS: GATT, GENÈVE
TELEPHONE: 33 10 00 33 20 00 33 40 00

14 April 1966

Dear Mr. Friedman,

Thank you for your acceptance in principle
to attend the luncheon on Tuesday April 19.
The details are as follows:

- (1) We want to discuss two main topics
 - (a) The creation of "planners" at the levels of town, region and country. It seems that educational systems are not throwing up enough of them.
 - (b) The writing of a new general economic theory that will include Capitalist and Marxist economics. Professor Tinbergen is interested in this project. It would help to remove the sharpness of the ideological conflict.
- (2) Attending will be Mr. Gormaghtigh, European Director of the Carnegie Foundation; Made Bivart of the ILO, responsible for liaison with the Twin Centre; and myself (I am features editor of the GATT International

(3) I will collect you at Door 6 of
the Palais des Nations (where there is
a newspaper stand) at 1 p.m.

(4) If there should be a hitch could
you telephone me: internal Palais
number 4462

Yours sincerely

Austin Hatt-Arnold

PS If any of these ideas can be
'sold' to Carnegie they might finance
a seminar at which the ideas and needs
could be debated by top-level experts.

Geneva, April 13, 1966

Mr. Everts' (Chairman) remarks at the morning session
of the Committee on Invisibles - April 13, 1966

1. The main task of this meeting would be an exchange of views on the Bank's report and reaching conclusions that might emerge from such discussions.

2. Referred to his previous personal views expressed in the Board meeting of last February - suggestion that discussion should be only of a professional character, the conclusions to be drawn to the attention of the Board. Then perhaps a more detailed study by government experts.

3. Out of this would emerge a constructive report which would be discussed by the Second UNCTAD in 1967.

4. Following Prebisch's speech, Everts supported the idea advanced by Prebisch that Committee should give its primary endorsement of the Bank scheme with the knowledge that the group of experts would deal with the specific aspects of the scheme.

Geneva, April 13, 1966

Mr. Prebisch's speech at the morning session
April 13, 1966

1. The Bank Report is very important because it allows UNCTAD to begin a new phase of activities whereby the dialogue between the developed and LDCs could take place on the basis of a concrete proposal.

2. He agreed firmly that it was an appropriate solution to the problem of export fluctuations and that it was compatible with other measures designed to attenuate the magnitude of these fluctuations such as Commodity Agreements. Two reasons why Commodity Agreements, by themselves, did not provide a sufficient solution: (a) not all commodities can be made the subject of stabilization programs; (b) there would always exist a margin of fluctuations since they indicate a range in prices rather than a fixed price.

3. Projection of exports is an accepted idea and it is a part of all development programs. Particular methods of projection are open for discussion.

4. The question of proper use of "overages" should be examined by the Expert Group. He suggested that all overages should be used for capital imports "which would be recovered later on" (it was not clear what he meant by this).

5. On terms of financing, he asked the question: "If something happens to reduce the savings of the country as a result of the shortfall, would it still receive financing on normal terms or would the terms of supplementary financing be adjusted to the worsened situation?" (Question specifically directed to Mr. Friedman)

6. He asked whether the Scheme should not cover the unexpected increase in import prices. (Question addressed to Mr. Friedman)

7. There were some problems about determining the magnitude of financing required for the Scheme. He suggested that only experience would allow the real needs to be determined more precisely.

8. He agreed with the idea that part of the shortfall might be met by reduction in imports in some cases. Foreign resources should be used to finance investment, and not the maintenance of consumption standards.

9. He welcomed the idea that the Scheme was based on the acceptance of the need for overall evaluation of the development plan, rather than just specific projects.

10. The Scheme implied a previous definition of the total foreign assistance needed. This was relevant if supplementary financing was really going to be additional to the basic flows of aid.

11. If an international financial institution accepts the idea of examining the total foreign financing need, it would have to examine the whole plan. The question is how far it would go in the examination of policies. For example, should the Agency accept only a commitment by the country that it would generate the needed amount of domestic savings or should they discuss the specific policies, e.g. monetary, fiscal, etc. needed to achieve the indicated level of savings? Should the Agency discuss investment priorities, for example, social investment vs. productive investment? Only the country itself can decide this. A way should be found to demarcate the areas which can be subject to international examination from areas which should be within the exclusive competence of the country itself. The doubts of the developing countries on these questions should be allayed when we create an organization such as this.

12. The Committee should support in principle the idea of supplementary finance as embodied in the Bank report, and leave the consideration of specific questions to an inter-governmental committee.

Geneva, April 13, 1966

1. Mr. Prebisch made an opening statement at the conference which is being circulated to the Committee in Spanish as soon as feasible and presumably translated into English and in French as soon as possible.

2. Mr. Prebisch indicated his general endorsement of the proposal (see cable sent to Mr. Woods).

3. He emphasized that UNCTAD was now entering a new phase because it was considering how to find a concrete solution to a major problem of developing based on a concrete proposal.

4. He emphasized that the solution proposed was comparable with other solutions (example: International Trade Agreement) and would be needed even if such other solutions were adopted.

5. He was pleased that the scheme recognized the difficulty of applying uniform policies.

6. He supported the use of export protections. He said it was now coming in development program and ought to be more so.

7. On overages he favored the use of excess reserves for development. He seemed to challenge the idea of the use of all overages to repay scheme.

8. He felt that the terms of supplementary financing might have to be modified if the countries' situation ~~was~~ deteriorated. He seemed to imply softer terms at times than those used in regular development finance.

9. He raised the question of what happens if stagnation trade develops during the plan period and is so recognized. Would such an expected stagnation receive assistance?

10. What happens if import prices rise? Would it get supplementary financing?

11. On magnitude resources he believes the proposal is practical.

12. He supported some use of import restrictions on the grounds that the assistance from supplementary financing should be used usually for investment.

13. He supported the impact of the supplementary finance scheme on what he called basic development financing. He felt it would need a recognition of the total magnitude of external resources required for development program. Supplementary financing was thus clearly something additional to basic financing.

14. The question was raised as to how far international organizations would go in considering domestic policies. This question, however, related more to the general question of basic development finance rather than to supplementary finance alone. He queried how to underlie between technical requirements and political requirements. He seemed to feel that technical aspects were the legitimate concern of international organizations and that this would not interfere with a country's control over the political aspects. He referred to Latin American experience and said that he felt that only experience could indicate how the line should be drawn between what was legitimate concern of the international credit agencies and what was not (this point was not too clear).

15. Finally he ended with a support of the proposal in principle and said that the Committee should adopt the resolution in favor of the proposal in principle and then also indicate the areas for further investment discussion by the working group.

16. The Chairman thanked Mr. Prebisch for his strong support of the proposal.

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2. The Indian delegate indicated that he would advocate the general endorsement of the proposal and support the idea of intergovernmental working group to consider remaining questions.

3. Mr. Kennedy of the U.K. delegation thought it best for me to attend the caucus meeting alone.

4. I emphasized with the Indian delegate that I would be happy to attend the caucus of the LDCs but only if they wished me to. I would not be embarrassed by not being asked. He said that he would make sure that others, in their caucus, understood this.

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Resumed first session
Geneva, 13 April 1966

DAILY PROGRAMME

Wednesday, 13 April 1966

11 a.m. Twenty-eighth plenary meeting Salle XII

1. Opening of the resumed first session by the Chairman of the Committee
2. Statement by the Secretary General of UNCTAD
3. Organization of work - TD/B/C.3/13/Add.1
4. Consideration of the report of the International Bank for Reconstruction and Development on its study of a scheme for supplementary financing [8]

Relevant documents: TD/B/43
TD/B/C.3/19
TD/B/59

* * *

Announcements by Delegations

10 - 11 a.m. Group B - Salle XI

Meetings of Groups

For the arrangement of meetings of Groups delegations should contact
Mr. Mo Myit, Room A.583, telephone extension 4383.

TD/B/C.3/PROG.15

TD.66-816

CHAIRMAN OF THE COMMITTEE: Mr. J. Everts	A.531	4331
Secretary: Mrs. M.L. Mercier	A.569	4369
Rapporteur: Mr. J. C. Arlia	Argentine Mission	34.18.00

Secretariat

DIRECTOR IN CHARGE (FINANCING): Mr. S. Dell	A.845	3731
Secretary: Miss D. Brooke-Rose	A.847	3733
SECRETARY OF THE COMMITTEE: Mr. E.M. Chossudovsky	266	2270
Secretary: Miss A. Goulder	247	2270
ASSISTANT SECRETARY OF THE COMMITTEE: Mr. Mo Myit	A.583	4383
Secretary: Miss V. Standring	A.580	4380
SPECIAL ASSISTANT TO THE SECRETARY OF THE COMMITTEE: Mr. E. Adoboli	A.563	4363
Secretary: Miss V. Standring	A.580	4380
EDITOR AND SUBSTANTIVE STAFF FOR PREPARATION OF THE REPORT: Mr. A.L. Lehmann	C.540-1	3331
Secretary: Miss D. Southern	C.542-1	3330
SUBSTANTIVE STAFF: Mr. G. Erb	A.835	4036
Mr. L. Jayawardena	A.841	3729
Mr. T. Kanaan	A.837	4039
CO-ORDINATION OF CONFERENCE SERVICES; REGISTRATION AND CREDENTIALS: Miss M. Richardson	A.285	4236



Distr.
GENERAL

TD/B/C.3/13/Add.1
23 March 1966

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Resumed first session
Geneva, 13-20 April 1966

AGENDA

Note by the Secretary-General of UNCTAD

1. The agenda for the first session of the Committee, as adopted by the Committee during the first part of the session, is contained in document TD/B/C.3/13.
2. It will be recalled that the Committee at the close of the first part of its first session decided to consider the problem of item 8 of its agenda (Consideration of the report of the International Bank for Reconstruction and Development on its study of a scheme for supplementary financing) at a resumed first session in 1966, to be called for this purpose (TD/B/42, para. 53). No further items have been proposed for inclusion in the agenda.
3. In connexion with the consideration of this item of the agenda, the Secretary-General of UNCTAD has prepared a note (TD/B/C.3/19) in which a number of headings and questions are submitted as a possible framework for discussion.
4. The attention of the Committee is also called to paragraph 55 of the report of the Board on its third session (TD/B/66) and, more particularly, to resolution 29 (III) adopted by the Board on the subject of a "compensatory credit system of the International Monetary Fund" (see TD/B/66, Annex A).
5. Reference is further made to paragraph 20 of the Committee's report (TD/B/57) on its special session (27 January to 4 February 1966) which contains, inter alia, the following statement:

"With this experience in mind the Committee decided to continue the discussion at a later date on this item /international monetary issues/ and for this purpose will maintain it on the agenda for further consideration at such time as the Committee considers appropriate, in the light of the situation then obtaining. Members of the Committee may wish to consult informally among themselves on the occasion of the resumed session proposed for the spring of 1966, for the purpose of deciding when the discussion might be resumed".

A N N E X

TERMS OF REFERENCE FOR INTERGOVERNMENTAL GROUP

1. The Group should examine the study presented to the Secretary-General by the staff of the IBRD, in the light of the discussion of it in the Committee. The Group should submit a report on the study (with such modifications to the Scheme as it may consider appropriate) as a means of achieving the objective set out in Part A of Recommendation A.IV.18 of the First Conference. Having regard to the timetable for the next Conference, the Group should endeavour to submit the report in good time for consideration by the Committee at its second session, in November 1966.
2. The Group should pay special attention to the following points:
 - (i) Questions affecting the scope of the Scheme, including the treatment of overages and the regard to be paid to import prices.
 - (ii) The form, terms and conditions for the provision of financial assistance to countries participating in the Scheme.
 - (iii) Measures for establishing a relationship between the resources available and the resources required; in this connection the Group should examine the implications for the Scheme of the hypothesis that resources on the scale suggested in the IBRD staff study (taking account of any modifications which the Group may suggest) would be available.
 - (iv) The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any Scheme.
 - (v) Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the on which the development plans of individual countries policies/are based, the circumstances which may give rise to a claim on the Scheme, and the considerations which the Agency should take into account in dealing with such a claim.

- (vi) The appropriate period of time for which the relevant projections of exports should be established and the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.
 - (vii) The relationship between supplementary financial measures and other types of economic assistance, both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.
 - (viii) The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the 5th and 6th paragraphs of the resolution to which these terms of reference are annexed.
 - (ix) The status, membership and functions of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of Part A of Recommendation A.IV.18.
3. The Group may also put forward suggestions, for further consideration by governments, of ways in which the Scheme might be financed.

STATEMENT BY
IRVING S. FRIEDMAN -
THE ECONOMIC ADVISER TO THE PRESIDENT ,
WORLD BANK

TO THE:
COMMITTEE ON INVISIBLES AND FINANCING RELATED
TO TRADE OF THE TRADE AND DEVELOPMENT BOARD.

April , 1966

Geneva (Switzerland)

Undersigned

* * *

Mr. Chairman and members of the Committee:

I am glad to have this opportunity to make an introductory statement on the Bank Staff's Study on Supplementary Financial Measures which is to be the subject of your discussion in this meeting.

In the next few days you will be considering some of the most important aspects of the Scheme which we have proposed in our Study. These aspects have been spelled out in the Agenda which the Secretariat has prepared. However, it may be useful to reiterate some of the broader considerations which we tried to keep in mind when evolving the more specific parts of the Scheme.

At all times we aimed in our Study to deal with the problem of development. Were adverse movements in the export proceeds of developing countries an important threat to development? Was the concept of shortfalls from reasonable expectations capable of practical application? Was it possible to devise a workable Scheme to deal with the undesirable consequences of unexpected shortfalls? Could such a Scheme avoid misuse and misdirection by giving assurance that any assistance would be used to help avoid disruption of development programs and still give confidence to participants that assistance would be available when needed and in adequate amounts on terms suited to development finance? How to devise a Scheme appropriate to the needs of the problem and capable of achieving international acceptance (for we assumed that more than theoretical perfection what was wanted was a practical proposal based on economic facts, analysis and experience)? These are the kind of questions we tried to answer in our Study.

I tried to convey some idea of our basic philosophy when I had the honor of addressing the Trade and Development Board in New York in February and would like at this time only to emphasize certain aspects. First, I must stress that in proposing this Scheme we are not trying to protect the developing countries from the necessity of taking long term measures to cope with problems created by concentration on a few primary export products. The problem of instability and sluggish growth of export receipts of developing countries can be solved only through sustained development and diversification of exports. I need not elaborate this point. We are all familiar with the export difficulties of developing countries. This meeting is a testimony to our common understanding and concern.

This process of diversification and domestic transformation is, however, a long one. The purpose of the Scheme, as we see it, is to facilitate this long term task by eliminating ~~or significantly reducing~~ the adverse consequences in the poorer countries of the chronic uncertainty to which their development process is frequently vulnerable to, i.e. unexpected shortfalls in their export receipts. Export earnings are, by far, the largest source of foreign exchange for most developing countries and the pace and pattern of development activity, both in the public and the private sector, is necessarily tied to expectations with regard to these export earnings. An unexpected shortfall that cannot be offset in time can have far reaching consequences, upsetting the pattern of public and private investment and limiting the effective use of all remaining resources, both external and domestic. In such circumstances the government may be forced to adopt restrictive measures which choke off the breath of development resulting not only in retarding the rate of growth but also in introducing uneconomic distortions and inefficiencies in the economy which may burden growth for many years.

Our suggestion, in broadest terms, is to institute a financial machinery which would insure the provision of needed additional foreign exchange in sufficient time to substitute for the foreign exchange not earned because of the unexpected export decline. Such additional assistance has only one purpose - the maintenance of good development programs and policies. This is primarily why the heart of the Scheme that we propose is that the country and the international agency administering the Scheme would reach an understanding upon a development program and a related set of development policies to be pursued by the country participating in the Scheme - the "policy package" as we have called it in our Study. The policy package we have in mind is not one imposed on a developing country by the Agency, but one arrived at in the course of close cooperation and exchange of views between the Agency and the country. The essence of policy understandings would be quantified to the extent feasible in a financing plan for the development program of the country and ^{the} the associated projection of its balance of payments, including various categories of external financing. These plan and projection periods are usually about five years.

The unexpected shortfall for which financing is to be provided under the Scheme has two basic characteristics: a) it should be potentially disruptive to the development program of the country and b) it should be beyond

its control. Operational meaning to these requirements is given through these policy understandings. Instead of having these reached after unexpected shortfalls, the Scheme suggests that they be reached before the adverse movements takes place so that the needed assistance can be timely as well as adequate. Since it is the development program that has to be protected, the policy package idea is naturally concerned with specifying what this development program is and what policies are needed to implement it. This permits the adoption of the rule that as long as the country is acting within the agreed frame of reference all unexpected shortfalls can be considered beyond the country's control. The policy understanding is not meant to be frozen from the moment of its adoption and the Scheme presupposed that the Agency will keep in touch with the country for a joint examination of the implementation of accepted policy decisions in the face of changing circumstances.

Our view of the nature of such policy understandings is based on our varied experience of what is practical and feasible. It cannot be defined in general or detailed terms applicable uniformly to the great variety of countries falling in the category of developing countries. The developmental situation and growth potential of countries is marked by such heterogeneity that any attempt to write a universal prescription would be futile. The suitable approach is a realistic evaluation of the country's developmental needs, potential and objectives and a pragmatic assessment of the effectiveness of proposed measures for reaching these objectives. In any case, it is a fundamental assumption of the Scheme that the promotion of economic development on the basis of foreign assistance is a joint enterprise involving the extenders and recipients of such assistance, and that an understanding on the development program and related policies reached objectively and professionally through international consultation and collaboration will command support in a way that a program put together and enunciated unilaterally by a developing country cannot be expected to do. Our experience indicates that this approach is feasible, particularly if the Agency can draw upon the existing international financial institutions for help.

Thus, supplementary finance is a species of development finance, both from the viewpoint of the developed donor countries as well as the developing recipient countries. Through the suggested Agency, donor countries would provide enough substitute foreign exchange on long term basis to enable an agreed development program to be carried on without disruption. The recipient countries, on their part, would implement in their economic policies the agreed development program despite the likely difficulties in persevering in such policies. They would use the supplemental resources provided by the Scheme in the same way as other inflows of developmental capital, namely, to maintain a satisfactory level of public and private investment. Moreover, the techniques proposed in the Scheme are being used in development finance work. For example, the familiar export projection would be used to determine the needed amount of assistance in the event of an unexpected shortfall ^{and} to serve as the basis for determining the amount of development finance needed to support an internationally agreed program. Similarly, the terms of the assistance as suggested in the Scheme and the technique for disbursing assistance are those employed in development finance. The method for determining the magnitude and timing of assistance is in some ways new, but this also borrows from our experience to meet the special purposes of the Scheme.

Since the Scheme would provide international assurance of performance on the part of developing countries it should allay fears that funds provided for supplementary finance would be dissipated in poor performance. To that extent, the Scheme should contribute to an improvement of the international atmosphere in which the problems of development are approached. These are some of the considerations which led the Study to state - I quote - "from the point of view of the international community, an important step forward would have been taken in rationalizing and systematizing the aid-giving process by providing an additional important reason for having a framework of comprehensive analysis and continuing review of a country's development effort and making it possible for other sources and types of aid to be fitted into the overall program".

I do not wish to keep you any longer from your deliberations. May I conclude by expressing our appreciation for having been given this opportunity to bring our experience to bear upon a major problem for development. This problem requires a solution. As economists and economic policy practitioners we urge the responsible policy makers not to delay in taking the needed decisions to deal with this problem. Until some solution is generally accepted, the progress in development, which is so arduous and costly to both recipient and donor countries, is in constant jeopardy.

We are glad to have been of some help to you in coping with your highly important and urgent responsibilities.

* * *

Personal Remarks by Irving S. Friedman on comments made in Committee discussion of Supplementary Financial Measures.

Mr. Chairman,

I am honored to have been invited to participate in these meetings and I appreciate this opportunity which the ^{Chairman offered} President has given me to ~~make give my comments and reactions questions and remarks made~~ ~~address the Committee on some of the issues arising out of this Study~~ ~~by members of the Committee and the Secretary General~~ ~~that we were asked to undertake by the UNCTAD Conference in 1964.~~

I might say at the outset that we in the Bank would feel amply rewarded in our efforts if this Study contributes to a fruitful dialogue between developed and developing countries based on a concrete proposal as the distinguished Secretary General of UNCTAD was generous enough to suggest in his most illuminating opening address. [From the very beginning we tried to approach the problem that you had given to us realistically and objectively - our desire was to come up with a practical and feasible solution to a problem which had been one of major concern at UNCTAD. We wanted to devise a Scheme which was both economically sound and capable of achieving international acceptance. We assumed that more than theoretical perfection, what you wanted was a practical proposition based on economic facts, analysis and experience. It is, of course, gratifying and a source of considerable pleasure to us to hear ^{the Secretary General and} so many delegates ^{express the view} from many countries ~~sharing our judgment~~ that the concrete proposal we have put forward provides a sensible practical approach to the ^{which all of us are agreed is a major one.} ~~major problem~~ under consideration. On behalf of the Bank staff, ^{Chairman and other} I take this opportunity to thank the ^{members} of the Committee for the very kind words of appreciation about our efforts, and the warm reception that they have ~~deemed fit to give~~ to our Study.

I believe that the comments made should assist very much in preparing an improved as well as a detailed and complete Scheme, including financing and administration.

The questions raised reflect the seriousness and care with which the Scheme was studied.

- 2 -

Mr. Chairman, I would like to turn to the questions that were raised by the members of the Committee. This meeting is providing an excellent opportunity for clarifying some of the aspects of the Study and the members of the Committee have focussed on the major aspects. [¶] Part of the difficulty that some of the delegations have felt about some points of language in the Study is ~~certainly~~ *probably* due to the fact that we presented the Study in the form of a working economic document which tries to put forward economic analysis and an economic scheme, some of which ~~in the nature of the subject~~ are new, without the pretence of producing a legal text which could serve as the basis for formal international agreement. Some of our nomenclature has been questioned; I agree that the use of particular words should receive careful attention when preparing a formal text setting forth rights and obligations in an international agreement. [¶] Perhaps another difficulty in ~~reading the Study~~ *studying Scheme* arose because we deliberately decided not to enter into detailed consideration of aspects which we believed could more appropriately be dealt with once initial international acceptance was reached on the basic *aspects* of the proposal. [¶] In responding to the questions raised, it may be useful, Mr. ^{Chairman} ~~President~~, if I were to distinguish between those questions which relate to the basic nature of the proposal itself and those that are of a more technical nature in the sense that differences on these does not affect the fundamental character of the Scheme.

[¶] I shall take the more general basic questions first which I find easier and briefer to answer by making some general remarks rather than in ^a one by one question and answer form. Please excuse the length of my remarks and the inevitable repetition of material in our Study.

It was mentioned that supplementary finance must indeed be supplementary to the basic flows of long term development finance. (Incidentally, at this point, I would like to express our gratitude

to Dr. Prebisch for giving us the word "basic" which is certainly better than the word "normal" development finance that we had used in the Study.) We could not agree more, ^A as we said in the introductory chapter of our Study, "the Scheme set forth in the Study is predicated on the assumption that it would be supplementary to and not a substitute for already existing forms of aid". Supplementary finance, as we see it, can be meaningful only in the broader context of development finance. The flow of development finance under existing procedures is a major determinant of the volume of investment in the public and private sectors which a country can reasonably undertake, it helps a country achieve its growth objectives if the country perseveres in its development efforts. The purpose of supplementary finance, as set forth in the Scheme, is to help assure that the achievement of these objectives will not be frustrated because foreign exchange earnings from exports ^{and invisible earnings, where appropriate,} do not materialize in the amounts envisaged at the time the investment and aid decisions were made.

Our suggestion, in broadest terms, Mr. ^{Chairman} ~~President~~, is to institute a financial machinery which would insure the provision of the needed additional foreign exchange in sufficient time to substitute for the foreign exchange not earned because of the unexpected ~~export decline~~. ^{decline in export receipts} Such additional assistance has only one purpose, the maintenance of good development programs and policies. This is primarily why the heart of the Scheme that we propose is that the country and the international agency administering the Scheme would reach an understanding upon a development program and a related set of development policies to be pursued by the country participating in the Scheme - the "policy package" as we have ^{called} ~~called~~ it in our Study. The policy

decline in export receipts which we defined for this purpose to include - I quote "merchandise and, where appropriate, invisible items" (page 9 of Study, English version).

I had the opportunity to explain what we meant by this idea of policy understandings to the ~~the~~ meeting of "31", but I think the point is important enough to bear repetition in this Committee.

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package we ^{have} had in mind would be arrived at in the course of close cooperation and exchange of views between the Agency and the country. It is not meant to be frozen at the time of its adoption, ^Nor can it be defined in general or detailed terms applicable uniformly to a great variety of countries falling into the categories of developing countries. As we said on page 9 of our Study, "the formulation of an agreed policy package should be based on a realistic evaluation of the member's needs and possibilities and a pragmatic assessment of the effectiveness of the proposed measures for achieving the objectives of the development program. The agreements could be essentially of the same scope and character as are fundamentally necessary for extending broad support in development finance to a country". I think this provides the answer to ^{the question whether} ~~some concern that~~ we might be thinking of a distinct set of policy understandings for the special purposes of supplementary financing scheme alone. We are not. The criteria which we believe should determine the flows of basic development finance would be the ones that determine the flow of supplementary finance. As we all know, development finance embraces all development activity, and this is why the policy understanding cannot be limited to export policies alone, but has to cover the whole gamut of development policy. What is important here is the commitment of the government of a country to good performance, and as we said - and I quote - "good performance, rather widely conceived, would then be the basis for the necessary judgment". (page 39). ^{**}

I was glad to note that there seems to exist general agreement that the promotion of economic development on the basis of foreign assistance is a "joint enterprise", involving the extenders and recipients of such assistance. It is our belief - and this is a

** We do not, of course, anticipate any permanent "control" by the Agency of countries' policies, as some delegations seem to fear. The policy understanding that is reached is arrived at through constant consultations, interchange of knowledge and views. The Agency would be an international one with an international responsibility accountable to the community of nations. It would be set up to do a job and would have no axe to grind except a common interest in development.

"*Lest I be misunderstood to imply that all developing countries are expected to have highly comprehensive plans for the whole economy before they can join the Scheme, let me definitively state that we recognize and appreciate that in many countries there might not be an adequate statistical base to permit such plans. In some cases the political and social character of the country might make developmental programming inappropriate. In these cases a partial public investment program may be agreed upon combined with estimates of the most likely developments in the private sector to permit the formulation of the policy understanding. The approach of the Scheme is pragmatic and does not purport to have rigid standards to be universally applied in a uniform manner.

fundamental assumption for the viability of the ^{Scheme} proposal - that our proposed understanding on the development program and related policies can be reached objectively and professionally through international consultation and collaboration. It may well prove that through this mechanism ~~This will command support for the~~ will command support development effort of ^a the country in a way that a program put together by the recipient countries themselves cannot be expected to do. **

Dr. Prebisch has usefully suggested that it may be possible to find a boundary between those policies of a technical nature where this collaboration could take place and the political sphere in which only the wishes of the country itself can be the best judge of the decision to be taken.

As a number of delegates have noted, this type of collaboration is not new. ^{of the country} It is already taking place in the relationships of the countries to the existing international bodies. ^{groups} In the meeting of the ~~causes~~ that I had the privilege to attend, I tried to indicate some of the ways in which our own activities in the World Bank group are similar to what is being proposed in the Scheme ~~is contributing to this process.~~ Thus, as we say in the Study "the agreement on development programs and related policies proposed in the Scheme would amount to an extension and strengthening of the existing procedures with member countries rather than the institution of an entirely new process. It would involve, as do these existing procedures, close collaboration with the work done by the IBRD, the IMF and other international agencies". As some delegations ^{have} ~~had~~ noted, these procedures of international understanding and collaboration are not peculiar to developing countries alone, but apply to developed countries participating in various international support mechanisms as well.

***All that we have proposed here derives from our experience in dealing with our member countries

This brings me to the operational significance that this idea of policy understanding enjoys in the Scheme. The unexpected shortfall for which financing is to be provided under the Scheme has two basic characteristics: i) it should be potentially disruptive to the development program of the country and ii) it should be beyond its control. Operational meaning to these requirements is given through these policy understandings. Instead of having these reached after unexpected shortfalls, the Scheme suggests that they be reached before the adverse movements take place so that the needed assistance can be timely as well as adequate. This permits the adoption of the rule that as long as the country is acting within the mutually understood frame of reference all unexpected shortfalls can be considered beyond the country's control.

~~Perhaps it is this insistence that the assistance from the Scheme be timely and adequate in order to prevent the disruption of a country's development program that led to the suggestion that~~ *has been made*
the effect of the Scheme might be to deter a country from taking fundamental measures to get at the roots of the problems created by concentration on a few primary products. *course* This, ~~however~~, is not the intent, nor do we believe would be the effects of the Scheme. As we said in the Study, "the familiar problems of the instability and sluggish growth of the export receipts of developing countries can in the long run only be solved through sustained development and diversification of the production and exports of primary product exporting countries". *Mr.* Mr. Chairman, I need not elaborate this point in this meeting. As we all know, this process of diversification and domestic transformation is a long one. The purpose of the Scheme, as we see it, is to facilitate this long-term fundamental task by eliminating or significantly reducing the adverse

(to deal with unexpected
export shortfalls)

consequences in the poorer countries of the chronic uncertainty to which their development process is frequently vulnerable to, i.e. unexpected shortfalls in their export receipts.

To provide a mechanism for financial insurance, is not to deny the place of other arrangements which might reduce the amplitude of fluctuations in primary products or contribute to ~~the~~^{the} long term goal of diversification. We agree with a number of delegations and the representative of the International Tin Council who expressed the views that there is no conflict involved here. These are approaches *are complementary and* which can be simultaneously undertaken to the greater effectiveness of each other. In fact, our own attitude to these arrangements is unequivocally positive - for example, as some of you know, in collaboration with the International Coffee Organization and the FAO we are ourselves actively involved in a major enquiry into the coffee problem and how careful development might attack the roots of the problem.

A last general point. It has been suggested that the Scheme in its determination of export shortfalls should also take into account unexpected changes in import prices. In working out the Scheme we gave the matter considerable thought. We concluded, *and* I quote, "ideally, export shortfalls probably should be calculated in real terms, that is after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds". In practice, however, it is often difficult to take this factor into account, because for most developing countries, import indices are not easy to come by. It is quite conceivable that the Agency through experience could

develop the statistical base which would permit a thorough inquiry into the nature and the extent of the problem. The Agency might eventually decide, if experience indicated the need and technical difficulties had been overcome, to calculate shortfalls in real rather than nominal terms, which could take care of this problem. ~~But~~ I must emphasize that export shortfalls, including where appropriate earnings from invisibles, is the only uncertainty however broadly defined, to which our proposal is addressed. ~~There~~ are, of course, a number of other uncertainties associated with the process of development but we believe that the solution of this - ~~by~~ the most important uncertainty - would significantly contribute to the growth of developing nations and ^{might well} facilitate finding a solution to the other uncertainties, if the international community desires to do so.

With your permission, Mr. Chairman, I would like now to turn to some of the more technical points which were raised during the meeting.

First, there is the question of "overages". Some have suggested that we have treated them too kindly, while others have suggested that we have not treated them kindly enough. It ~~was~~ ^{has been} suggested that, under present circumstances, countries should be allowed to use overages to finance the import of capital goods. I believe this suggestion results from the fear that the flows of development finance may continue to be inadequate; the use of the overages would thus provide needed foreign exchange. On the other hand, ^{reason we had} the ~~consideration which~~ ^{for} ~~persuaded us~~ ^{ing} to allow for the deduction of overages from shortfalls during the same projection period was that development financing would be available for good development programs, ^{In addition, under the scheme} ~~and that~~ the international community would not be asked to do what a developing country could do for itself in the supplementary financing scheme without injuring

avoid slowing up

its development effort. It is the need to ~~slow~~ the development program because of unexpected decline in foreign exchange availabilities that we are trying to avoid during the projection period. ~~Keeping the overages which occur in the initial years of the plan might represent a certain delay in acceleration of the rate of growth in the country. It is, however, a price that should be paid for the insurance that development would not be disrupted soon after during the same planning or projection period by the emergence of shortfalls, which the country could have taken care of on its own - if it had not spent or otherwise used its initial overages.~~

Questions were also raised about the advisability of the rule that overages should not be carried over from one projection period to the next one. This we did because we felt that it would provide a measure of incentive for developing countries to try harder to take measures to step up exportation. Overages which result in excessive reserves would either reduce the level of long-term finance needed from abroad or make possible some ~~acceleration~~ in growth in future projection periods.

A question was raised as to why not revise export projections every year in order to reduce the deviations from expected trends. *Given* ~~the~~ ~~usefulness~~ of a long-term development plan or policies, ~~the~~ ~~considered essential~~ a yearly revision in export projections underlying the investment and procurement decisions would be self-defeating. Investment calculations must be based on export projections and the length of the latter by its very nature must be tied to the ~~former~~ *namely investment calculations*. We have therefore suggested that during the operation of the development plan the underlying export projection should not be subject to revision, except of course when certain intensive structural ~~changes~~ *major* warrant a ~~complete~~ restructuring of the investment pattern

many

**I may here briefly touch upon the subject of the feasibility of making export projections. ~~Quite a few~~ countries are already used to making projections to provide a basis on which investment programs can be built.

Our own experience in this field has been considerable and shows that usable export projections can be made to establish reasonable expectations for the purposes of the Scheme.

Their quality could of course be improved, and we are constantly trying to improve our analytical tools as ~~most~~ statistical data are made available and our knowledge of countries deepens.

and development strategy.

I now come to the question about the terms of financing. Our view on this subject is a natural by-product of our view that supplementary finance should be treated on the same basis as development finance. Just as over the years we have been arguing for terms of ~~development~~ *development* basic finance to be tailored to the overall financial and economic

position of the country as reflected by its debt servicing capacity and other economic factors, in considering the terms of financing for this specific purpose, we felt that same considerations should apply. ~~The UNCTAD Resolution~~ The UNCTAD Resolution has asked us that terms should be

"concessional and flexible". We suggest flexible terms but at the same time the Study explicitly states that "although the terms vary from case to case, the Scheme should be prepared to extend funds on

concessional terms in many countries". In this way it would be possible to take into account the necessity of avoiding the possibility that supplementary finance might ~~aggravate~~ *a* the indebtedness problem of ~~the~~ country, and at the same time meet the need for

economizing on the use of funds of a concessional nature. ~~We could not see why supplementary finance terms should be any different from the terms on basic development finance that it is supposed to complement.~~

In our view it is primarily the capacity of a country to service debt that ought to determine the terms on which it receives all development finance - basic and supplementary.

The characteristics of the Scheme as a residual lender was the *subject* of ~~the~~ consideration by a number of delegates. This is indeed a point which - given the general acceptance of the Scheme - would require detailed examination. ~~We should by now have reached a stage where~~

~~of a marginal character~~ *There* is in most cases some scope for the country to take some measures of a marginal character which contribute

as far as our own projection work,

(Economic measures)

to solve the problem of the shortfall without resulting in a disruption of the development program. We were glad to hear from Dr. Prebisch that he supports this position. There might be the uses of its own reserves - if they were at a level which could be considered above the normal needs - or the recourse to other sources of financing. There might be situations in which, due to the indebtedness position of the country, it might be even considered inappropriate for the country to borrow on short term. The Study reiterates that there would be a close collaboration between the Agency and the other international financial agencies, so that the utilization of their facilities would be integrated in the working of the mechanism of supplementary financing which - being a species of development finance - has necessarily a long-term character, as we have had occasion to point out. This approach - where the access to other sources of finance has been envisaged beforehand - is one of the elements which allow the provision of the needed finance by the Scheme with certainty and speed.

The repeated references to the possibility of a time-consuming sequence in the utilization of other sources of finance which might be ^aavailable for the financing of the unexpected shortfall have convinced me that some parts of the Report do not convey the idea which is clearly expressed in page 8 of the Study. In the first paragraph of page 8 the Study states "the Agency would have the essential objective of the Scheme, i.e., to provide needed finance with certainty and speed on appropriate terms in order to avoid disruption of development programs, so long as members act in accordance with agreed development policies". On the same page in the section dealing with the "effective understanding with the Agency" it is specifically noted in (iii) that the use of ^aavailable reserves and other sources of external credit would be part of this understanding. Since this understanding would be formulated at the beginning of the projection period the problem of ^aascertaining what other possible sources of external credit would be available would not be left to the time of the export shortfall. The Report repeatedly emphasizes that the Scheme provides for certainty, adequacy and timeliness in providing the needed assistance to meet the shortfalls.

Then there is the question of the estimated amount of \$300-400 million annually which is indicated in the Study as ~~would~~ ^{sufficient} to start the operations of the ~~Agency~~ ^{Scheme}. ~~As you~~ ^{As you} know, we said in the Study - and I quote - "the amounts suggested might of course prove inadequate or turn out to be excessive". The approximation that we suggested was, ~~however~~ ^{never}, the result of a carefully ~~considered judgment~~ ^{analysis and was a} of the amount that would be sufficient for the Agency to start its operations during the first five years. A number of representatives indicated their agreement with this judgment; some doubts were however, expressed by a few. It is conceivable that the countries providing funds might prefer to adopt a different attitude towards the determination of the initial magnitude of the Scheme. However, a more precise ~~specification~~ ^{judgment of} of the possible financial demands on the Scheme can only be done after the operative details of the Scheme have been spelled out. The amount we suggested was derived from our conception of the character and scope of the Scheme.

~~Perhaps~~ ^Perhaps it should be emphasized that the contribution of a supplementary financial scheme to the growth of the developing countries cannot be measured only in terms of the absolute amount of funds which might possibly be loaned out to a country under the Scheme. It is the confidence that good development programs and policies can go forward without fear of the effects of a major upset from unexpected declines in export earnings and the results of the close collaboration between extenders and recipients of development finance that are the most important benefits of the Scheme.

May I approach the end of my remarks with a reference to the nature of the Agency which would administer the Scheme. The Study ~~did not~~ ^{deliberately} address itself to this question because it felt that the choice of the Agency could be best made after the exact

countries had decided what

(tasks they wished the Agency to perform.)

~~specification of the tasks which the countries would like to have in charge.~~ *Thus,* In this way no significance should be attached in one way or another to the fact that the International Development Association - which was mentioned in the UNCTAD Resolution - was not indicated in the Bank staff Study as the administering agency for the Scheme. We certainly agreed, ~~however,~~ *of course,* with the point that the Agency is important in the operations of the Scheme.

May ~~we~~ *I* finish by saying that ~~my colleagues and I~~ *my colleagues and I* have been glad to have been of some help to you in coping with your highly important and urgent responsibility and that we remain at the disposal of the Committee for further clarification ~~in the new phase of its work.~~

Perhaps I may be allowed to make ~~a~~ *personal* remark not pertinent to any question raised. I was most glad to ~~hear~~ *hear* a number of statements stressing the need to increase the flow of basic development finance and to extend this assistance on more concessional terms.

from donor and recipient countries.

(from donor and recipient countries.)

creation

Comments on Issues about Supplementary Finance Study
Raised in Mr. Macone's Report of DAC Meeting

Many of the points raised at the DAC meeting are closely related to the points suggested in the agenda for the UNCTAD meeting. Therefore we shall only comment on these points by indicating the places where they are covered by our comments on the UNCTAD agenda.

The French position on the need to improve the organization of markets, rather than deal with the consequences of instability, is covered by our comment on Question 2 (a) of UNCTAD agenda, where we point out that the two approaches are not mutually exclusive and may be carried on simultaneously.

The question about the credibility of the figure of \$300 to \$400 million per year is answered in our comments on Question 5 (a) of the UNCTAD agenda.

In addition to these general points, some comments are made on some specific questions raised at the DAC meeting:

- a) Could the Scheme take action to deal with a shortfall if, in prior consultations with the Fund, the country in question was unable to obtain the latter's approval of its policies?

This question is partly answered by our comments on Question 4 (e) of UNCTAD agenda. The main point is that conflicts between the conditions of the Agency and the Fund are unlikely, but in any case, it is the understanding between a country and the Agency that would be operative.

- b) Was it really likely that overages incurred before a shortfall could be recovered at some later date from a less developed country, i.e. how could they be prevented from being diverted to other uses in the intervening period?

The Study does not propose that overages incurred before a shortfall should be recovered from a member country. It proposes that prior overages will be deducted from subsequent shortfalls to determine the extent to which the member country is eligible to get assistance from the Scheme; it is hoped that this provision will be an incentive to prevent the overages being diverted to other uses.

- c) Could a country which was not living up to all of its commitments to the Scheme realistically be expelled from it entirely, considering that such a step would impugn its eligibility to receive any aid at all?

*Not expelled - no formal
procedures for expulsion or
ineligibility*

*problem is how to
develop assistance -*

*French
report -
dup part 9
"financing"
Sweden -*

(?)

It is expected that the commitments to the Scheme will be of the same general character as the conditions for all types of development aid. Therefore a country not meeting the test of performance, may lose its eligibility for aid on that ground, and not because it is likely to be expelled from the Scheme.

- d) Would less-developed countries be willing to accept the degree of surveillance implied in the Scheme in exchange for the limited additional aid they might possibly receive?

It is expected that the sort of cooperation between the Agency and the member countries would be the basis of more fruitful aid negotiations, and it is therefore hoped that the less-developed countries would accept such conditions. In any case, it is expected that such conditions are the same as are at present being accepted in the case of many countries, especially those with Consultative Groups, etc.

- e) Were less-developed countries realistically in a position to honor the conditions that would be laid down by the Scheme?

It is expected that the conditions laid down by the Scheme would be realistic and would take account of the particular circumstances of individual member countries.

- f) Is the Scheme workable in the absence of a separate agreement to insure meeting the resource and foreign exchange gaps?

The basis of the Scheme would be a realistic development program in the member country, based on clearly foreseeable resources, including all sources of foreign aid. This means that for the country to be able to discuss with the Agency its development program, the partners which are extending aid will have to give the recipient country an indication of how far they are willing to go in their support of its development program.

- g) Since drawings from the Scheme would be heaviest in times of commodity declines, this would create problems for primary-exporting donor countries (e.g. Australia).

It is expected that contributions to the Scheme would be made ahead of needs.

- h) Could the Scheme realistically operate at the project level or would it not really have to settle for giving general financial assistance?

The Study proposes that 'it could be left to the discretion of the Agency to work out an agreement with the member country as to how the finances would be applied to ensure that the development program could go forward'. (p. 59). As the Study itself states, in many cases "it would be very difficult, if not impossible, to implement the Scheme through the project approach or any other approach which would entail significant delays."

Answers to the Questions Submitted by UNCTAD

See Annex IV (Table 10)
Q.1(a) Is it agreed that developing countries frequently face "problems arising from adverse movement in export proceeds which prove to be of a nature or duration which cannot be dealt with by short-term balance of payments support."

Answer The purpose of the Scheme for supplementary finance as suggested in the Bank Study is to protect the development programs of developing countries from disruption resulting from unexpected shortfalls in a country's export receipts. The adequacy of existing mechanisms for providing short-term balance of payments support to achieve the purpose of the Scheme in the event of a shortfall would depend on the duration of the shortfall. If the shortfall is self-cancelling in time, that is, a year of shortfall is followed by a year of overages within the same projection period sufficient to cover the previous shortfall, the short-term assistance extended during the period of shortfall could be re-paid during the year of overages without disrupting the development plan.

The analysis presented in Annex IV (see Table 10) of the Bank Study shows that neither the duration nor the depth of the past shortfalls was such as could be adequately dealt with by short-term assistance. Simulating the experience during 1959-63 no doubt suggests that, for all the sample countries combined, gross overages would have been larger than gross shortfalls; but as we point out in the Study only a small part of these overages, namely around \$60 million per annum for the 18 countries, could have been used to finance shortfalls under the rules of the Scheme, as suggested by the Bank. Nearly 80% of the gross overages took place in five countries which either did not experience any shortfalls or suffered only modest losses. Under the suggested rules, overages of one developing country could not be used to

offset shortfalls of another. Consequently, a large proportion of gross overages experienced by the sample countries was simply cancelled in the terminal year of the projection. This result led us to the conclusion that there was in fact need for long-term development assistance to make up for the shortfall. Short-term assistance under the circumstances would not have served the purpose since most of the countries experiencing shortfalls did not experience adequate overages to be able to make quick repayment. Since the purpose of the UNCTAD proposal is to prevent the disruption of development plan, it is suggested that assistance to cover the unexpected export deficit be extended in the form of long-term development finance as far as possible rather than short-term balance of payments support.

As of now, the only source of short-term emergency finance designed specifically to meet the problem caused by unexpected shortfalls in the IMF compensatory financing facility. In order not to duplicate the functions of this facility, the Scheme suggested by the Bank comes into operation only after all reasonable use has been made of the Fund facility. If the Fund facility had existed since 1957 or 1959 (actually it was established in 1963), and if allowance is made for the quantitative limit on cumulative claims, defined by the size of the compensatory facility, the 'Simulation Exercise' in the Study suggests that "the present IMF compensatory facility cannot be expected to play a major role in financing shortfalls of the type envisaged under the Scheme" (p.63). For the sample of 18 countries in the Exercise, drawings on the compensatory facility would have averaged around 9% per annum of the gross aggregate shortfall. (In keeping with the Fund practice, this is based on the assumption that members repay the IMF, in equal amounts, in the fourth and fifth year after each drawing).

Thus our conclusion has been that the developing countries do indeed face problems arising from adverse movement in export proceeds which are of a nature or duration which cannot be adequately dealt with by short-term balance of payments support, if 'adequately' is to be defined in the sense best conducive to long-term development. There are indeed a number of developing countries whose overall financial position is quite comfortable and which may have easy access to the IMF. Export shortfalls in these cases may be financed in large part from the IMF. If this were done, this would reduce the burden on the resources of the Agency itself. But for a number of countries, IMF facility may be too limited. As the IMF report on "Compensatory Financing of Export Fluctuations" points out, "It would be shortsighted to think that a country would be fully justified in borrowing a relatively large amount on short term to compensate for an export shortfall while totally disregarding the amount that it had already borrowed on short term for other purposes . . . If there are any sensible limitations on total short-term borrowing, these limitations should be taken into account not only by the borrowing country itself but also in the policies of the international agency extending the credit."

Q.1(b) Are there circumstances, beyond the control of developing countries, other than "adverse movement in export proceeds" in which developing countries might face disturbances to their balance of payments, and hence disruption of their development programs, of a nature or duration which cannot be dealt with by short-term balance of payments support?

Answer Yes, such as adverse movements in import prices, catastrophies and disruption of long-term aid programs [See Answer to Q. 3(c)]

what is meant by "org. markets" - functioning for household coffee, tea, cocoa, etc. (1) / Low level of stability

(c) rice and cotton produced in both DCs + LDCs

(d) substitutes: copper - rubber

(e) sugar - produce of some markets

Q.2(a) Should the solution take the form of an internationally administered programme for the provision of supplementary finance?

Answer The question addresses itself to two problems:

- a) Whether to correct the basic causes of the instability of export receipts through intergovernmental agreements to intervene in the markets for primary products or to seek remedy for its consequences, via financial schemes;
- b) If the second course of action is accepted, should it take the form of an internationally administered program?

The Bank Study's answer to the first problem is that the two approaches are not mutually exclusive. The existence of effective commodity agreements - which stabilize prices and thus diminish the likelihood of unexpected export shortfalls - may help the suggested Scheme to achieve its goals, both administratively and financially. It will become easier to establish the reasonable price expectations that influence the projected export earnings. With a lesser degree of price variations, the claims against the Scheme would be reduced.

Although for purposes of assuring a given level of foreign exchange earnings the Scheme could be superior to the existence of commodity agreements, these also have objectives beyond the purview of the Scheme - such as dampening price fluctuations and insurance of steady supplies of commodities - which will help primary products exporting countries to retain markets threatened by substitution or economizing measures. Moreover, they can facilitate the harmonization of production policies, thus contributing to a steadier equilibrium in world markets.

Having established that there is room for the operation of both policy instruments, the second problem is how to provide for the supplementary financing.

Fixed price - just price with variable levy - give producers a stable income

supply
demand
commodity
market
agreement
stability
fluctuation

can you have
export shortfalls
despite
commodity
agreements?

about new
attempts
and
higher
prices

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a steadier equilibrium in world markets.

Having established that there is room for the operation of both

policy instruments, the second problem to provide for the supply-

agreed on 15.15.55

member countries to be decided by - the right

accepted - should be

Community agreed

This is to a large extent determined by the basic characteristics of the unexpected export shortfall which is to be taken care of:

- a) possibility of disruption of a development program;
- b) being beyond the country's control.

The flow of supplementary financing is not to take place in isolation but fits into a wider context, within which the development program of the country was considered feasible, given, among other things, the reasonably expected exports and the foreign aid decisions.

The function of the Scheme is to see that growth objectives which were initially considered attainable will remain so, in the event that exports - usually the most important single source of foreign exchange - fail to provide the expected amount.

Given the initial acceptance of the growth objectives - which were agreed upon and backed by the necessary foreign aid decisions - the objective of the Scheme is to insure that - after the country has made the adjustments which could be called for under the circumstances - the flow of long-term finance will be adjusted to take up the shortfall in the export proceeds. In this way, it will be possible to eliminate or substantially reduce the delay in achieving growth objectives which were considered acceptable and feasible.

On the other hand, to receive this insurance as to the projected export proceeds, it is obvious that the shortfall must have been beyond the country's control. The only way to make this rule operative is to define them as those adverse movements which are not related to the pursuit of certain policies, as previously agreed upon.

Such a Scheme - in which the compensation of export shortfall, is tied to the achievement of growth objectives and the shortfall beyond the

*pulling
automatically
administration*

country's control - cannot be automatic. It has to be administered by an Agency, which will work in close collaboration with the country.

It can, however, be operated in such a way as to enjoy the advantages of an automatic system, such as certainty and timeliness of the needed help when the occasion calls for it.

*also with approach
facilities
mutual
acceptance
pp 30-3
28-30*

Q.3(a) That shortfalls in export earnings must be measured against objective estimates: if so, do projections of the type provided for in the Bank Study constitute an acceptable method? What would be the relationship between Bank and Fund calculations of shortfalls, and what is the rationale of the differences in methodology?

on

Answer The Scheme suggested by the Bank is based ~~in~~ on the premise that the reasonableness of an export projection, shortfalls from which are to be internationally financed, should be subject to agreement between Agency and the country. Reasonableness of an export projection can only be established if these estimates are objectively derived in the sense that they reflect a careful appraisal of the economic trends in the world market for commodities. *requires the* This allows ~~for~~ free exchange of information and opinions between the Agency and the country concerned. As we say in the Study, "Discussions and agreements on such projections should become part of the regular work of the Agency in member countries. Such an exchange would provide an opportunity for the reconciliation of conflicting judgments regarding the future; the Agency's economists in cooperation with those of other international agencies and their opposite numbers in member governments would thus pool their knowledge to formulate suitable export expectations. The result is likely to be even better projections than are now possible." (p.37) The agreed projections are not the Agency projections as distinguished from the country *** projections, but projections arrived at through Agency-Country cooperation.

*best available
based on economic and statistical records
judgments experienced people with first-hand
experience - required by technical and policy-makers in
practice as a useful method*

XXX don't use IMF
when IMF is not
adequate or no

XXX and reserves at the credit facilities
- 7 - and build into scheme details
among various degrees of income transfer
GLBC (strongly encourage back more
power)

The Bank method of projecting exports and its reliability are

discussed on pages 30-37. The IMF method of calculating shortfalls after
the event has occurred and the rationale of the differences in methodology
are discussed on pages 28-30 of the Study.

Should the following criteria be applied?

Q.3(b) That shortfalls must be of a nature of duration which could
not adequately be dealt with by available short-term balance of payments
support.

Q.3(e) That supplementary finance is residual finance, granted only
after reasonable use has been made of other available sources of finance,
including any previous earnings, during the projection period, in excess
of the agreed export projection. If so, how is "reasonable use of other
available sources" to be interpreted? In particular, should such use
extend only to the compensatory financing facility of the International
Monetary Fund, or to the ordinary gold and credit tranches as well?
In what circumstances would a country be required to draw down its
reserves before receiving assistance. Would "other sources of assistance"
to be utilized prior to operations under the scheme include credits
bearing market rates of interest?

Q.6(b) Would the proposed Scheme provide assistance if, as cited in
Note 2 (ii) of resolution A.IV.18, "When the IMF drawings were due to be
repaid, exports had not recovered sufficiently for this to be possible
without disruption of development"? What would be the situation if a
country, in agreement with the agency, resorted to other sources of
borrowing to meet a shortfall in export earnings? If exports did not
recover sufficiently to permit repayment of these loans without disruption
of the country's development programme, would the proposed scheme provide
assistance for that country?

Answer First of all it is useful to clarify that the criterion 3(b) is
not meant in the sense that the Scheme would offset "persistent" unexpected
shortfalls, "temporary" ones being financed elsewhere, e.g., by the IMF.

Operational implementation of the criterion of persistence requires
an ex-ante judgment regarding the duration of export shortfalls and it is
not at all sure that such judgments can be substantiated. There is no known
analytical technique which permits the quick separation of deviations in
exports caused by transitory factors from deviations which signal emerging
changes in the trend.

more
Not
persistent
assess
how
uncovered
only most
sufficiently
does SPS - ?
set up
before IMF
if not
we would
high income
12-5 years
IMF

XXXX
Ext. financing program
includes request to IMF
if not able to pay because shortfall get SPS
may in next period of refinancing of scheme not
inherent but could really be added

The way the Scheme is to operate, however, insures that temporary fluctuations around the "expected" annual value of exports for the planning period will be self-cancelling; that is, overages which occur during the period will automatically cancel the registered shortfalls.

upside?

The meaning of the criterion is that there might be countries whose external debt situation was such that, given an export shortfall, it would not be possible to have them finance it through additional short or medium-term debt.

The objective of the Scheme as such is to provide long-term financing for an export shortfall, after allowing for the part of it that can be absorbed without disrupting the development program.

Given the need to economize the Scheme's resources, the country is, however, expected to use other available sources of finance even though they may be of a short or medium-term nature, including all IMF financing possibilities. The idea of having the Agency act as a residual lender insures that maximum use will be made of those other sources of finance. This way of acting is understandable because there is no definite way of knowing, beforehand, the nature of the shortfall.

Having agreed with the country that it would, to a certain extent, use short or medium-term financing to offset the shortfall, the Agency has to face the question of what happens at the time of payment of these debts, if exports have not recovered and show an overage above the reasonable expectation.

is?

If such a situation would arise and other possibilities of refinancing did not exist, the problem arises whether the Scheme will take care of the refinancing on a long-term basis. The Study does not take a definite position on this matter but points out that the need for resources would be greater and that, in any case, the problem would not arise in the early years of the working of the Scheme.

(P.38)

Q.3(c) That shortfalls must result from causes beyond the control of the affected country. Should such causes be confined to those affecting export earnings, or should they be extended to those affecting other external receipts or import expenditure?

not really -

Q.6(a) If it is agreed that the administering agency should be given extensive discretion in deciding whether or not to provide supplementary assistance in particular cases, should such discretion be enlarged to include problems affecting import expenditure, as well as export earnings - including, for example, problems of rising import prices, or of unforeseen import requirements resulting from a series of crop failures?

(P10) on general report of the D. Finance

Answer The position of the Bank Study on 'cause of shortfalls' is described on p. 38. X

The Scheme suggested in the Study was designed to prevent disruption of a development program because of one specific uncertainty, i.e. export shortfalls.

Not true - (have we some calculation?)

Apart from export shortfalls, an equally important element in the balance of payments which might disrupt the development program of a country is an unexpected increase in the prices of its imported goods. Ideally, as we say on p. 64 of the Study, "export shortfalls probably should be calculated in real terms, i.e. after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds." The UNCTAD resolution had in fact suggested that in appraising the disruptive impact of unfavorable export movements, note should be taken of "adverse effects from significant rises in import prices". This could be done by concentrating attention on unforeseen deviations in the international purchasing power of exports - the income terms of trade - rather than export earnings per se. >

The results of the Simulation Exercise, however, do not take account of changes in import prices for the reason that it was not possible to measure changes in import prices within a reasonable margin of error.

W

W

For several countries in the sample, index numbers of import prices were simply not available; for others the quality of the existing index numbers raised serious questions regarding their usefulness. The problem was particularly acute with respect to measuring changes in prices of capital goods, a category which bulks large in the total import bill. Actually, for the purpose of estimating the likely magnitude of operations under the Scheme, we could assume that consideration of import prices would make little difference since the weighted index number of import unit values for all developing countries combined, did not show any marked changes during this period. Imports of the developing countries generally consist of a more diversified list of goods, and are mostly of a character, in any case, whose prices are more stable than the prices of their exports.

Another factor which may disturb the balance of payments estimates is a domestic catastrophe, such as massive crop failure or an earthquake. This may also at times be of a nature and duration which call for grants or long-term assistance, but these are best dealt with at the time of emergency as is the case now.

Yet another uncertainty which might lead to a disruption of the program relates to the expected flows of long-term aid. The Scheme does not cover this uncertainty. Rather the hope is that the successful operation of the Scheme and its operational co-ordination with other long-term aid agencies, such as the IBRD and other bilateral agencies (as for instance in the case of consultative groups or consortia) would reduce considerably this other uncertainty pertaining to long-term aid. To quote from Mr. Friedman's statement before the Trade & Development Board, "I believe that the scheme would provide both an incentive and a focus for international cooperation on a new and more fruitful basis. - - -. Since the development programs of participating members and the policies for their execution would be the

but helped
if results
in report
short-fall
and following
policy

7

the subject of agreement with the agency, the scheme would provide a framework within which the international community could more readily judge the requirements for external assistance of all types." (p. 10).

Q.3(d) That all feasible domestic adjustments are made short of adjustments that would disrupt development programs. What type of adjustments is envisaged here? For example, should such adjustments include "not encouraging continued investment and output in export sectors when world demand is falling, re-examining and adjusting some public expenditures to ensure the postponement of the relatively less urgent or less important, or altering the tax structure to the changed conditions"^{1/} In the event of a reduction in planned investment in the export sector, necessitated by an important structural change in world demand or supply, should correspondingly larger investments be made in diversifying the rest of the economy, and in what way should the financial facilities provided by the scheme assist in this task of diversification?

Answer The Scheme is predicated on the premise that the problems of instability and sluggish growth of the export receipts of developing countries can in the long run be solved through sustained development and diversification of the production and exports of primary product exporting countries. The purpose of the Scheme is to facilitate this continuous growth process by protecting a development program from disruption due to unexpected factors, rather than to relieve the country concerned of all burden of adjustment. Even in the event of an unexpected shortfall, there are various adjustments that a country can make without disruption of the development program. (See p. 49-52). The Scheme does not absolve the country from taking all reasonable action that it can on its own before taking recourse to the resources of the Scheme. To the extent feasible, the understanding on the action that the country can take without jeopardizing its development process in the period of a shortfall would be a part of the prior ^{understanding} agreement between the country and the Agency (See p. 8).

^{1/} Bank Study, p. 51.

The answer to the last part of the question is on p. 52 of the Study. The Scheme itself cannot finance the entire cost of diversification - this important and time-consuming task must be a part of the whole planning process and its cost a necessary ingredient in judging the total external assistance requirements of a country. The level of assistance available from the Scheme would be measured by the extent of unexpected shortfall rather than the cost of diversification. If a general recasting of the development strategy were thought desirable in response to the emergence of an unexpected factor, the Agency would help in identifying effective measures for diversification of output and exports and provide the amount of assistance to which the country is eligible under the rules of the Scheme.

*also
relating
with them
should be
helpful*

Q.3(f) That when a shortfall occurs which cannot be offset by other means, assistance must be timely and certain.

*wrong
reason*

Answer If the primary purpose of the Scheme is prevention of disruption of the development, the assistance from the Scheme should be forthcoming before the effects of the unexpected shortfall are felt in this economy. The assistance therefore has to be timely, in the sense that it should be available at a time and in a manner so that it is most effective. It ~~must be certain because~~ the commitment to provide assistance on the part the Agency is the counterpart of a country's commitment to pursue agreed policies. and agreed plan priorities. A country would have an incentive to enter into the latter understanding with the Agency only if it is certain that the Agency would keep its side of the agreement.

Q.4(a) Is it agreed that the provision of development assistance, whether in the ordinary way or in the form of supplementary finance, may be made conditional upon satisfactory performance by recipient countries in the carrying out of development programmes? Should a new relationship be established "between individual developing countries and the international community through which the incentives and prospects for effective internal development performance would be greatly strengthened?"

secondary argument

Answer Especially in recent years, individual donor countries providing development assistance have been increasingly concerned that there should be some performance conditions on such assistance. Whether it is agreeable or not depends, of course, on the nature of such conditions. In the case of the Scheme for Supplementary Finance, the conditions that are proposed will be only concerned with the efficient implementation of ~~certain~~ agreed development programmes, and to ensure that the shortfalls of export earnings shall not be due to the policies of the developing countries themselves. It is expected that these conditions will be the result of an *understanding* agreement between the Agency and the member, which reflect a meaningful consensus about goals to be achieved in a development process. At the same time, "the developing country's willingness to discuss policies and to receive suggestions from abroad would increase considerably if such an exchange of views were likely to result in arrangements regarding long-term foreign aid as well as supplementary finance." (p.55)

primary argument is understanding is on what countries want to do for development of their countries of which Agency

The Scheme is based on a relationship between individual developing countries and the international community through which the incentives and prospects for effective internal development performance would be greatly strengthened. "Something like the proposed discussions and development plan reviews already take place under the existing consortia and consultative groups; it is also similar to the IMF's consultations under stand-by arrangements and Articles VIII and XIV. (p. 53) Thus, "these activities would be of essentially the same character as those now becoming increasingly widespread as part of the process of providing development finance, but with more emphasis on good performance and on assuring that growth would not be retarded because of developments beyond the control of the recipient country." (p.4) This is a part of their (developing countries)

concept of mutual responsibility and partnership in development

regular relationships with a number of worldwide and regional international agencies. However, it is realized that the ^Scheme would impose upon them a heavier burden of accountability for performance than many have been accustomed to in the past. It is believed that the ^Scheme would provide both an incentive and a focus for international cooperation on a new and more fruitful scale. (Mr. Friedman's statement before the TD Board, p.10).

Handwritten: Had copies given

Q.4(b) Is it agreed that the primary objective of supplementary finance is to avoid disruption of development programs?

Answer Yes, but it is also hoped that the procedures suggested in the Study would play a part in improving 'the international atmosphere in which the problems of development are approached.' (Mr. Friedman's Statement, p.11) and in particular to help solve some of the problems of long-term development aid, on the basis of which to draw up development programs.

Q.4(c) Performance requirements

Assuming that the need to meet certain performance requirements is accepted, should such requirements be limited to the results to be achieved by development programming or should they be extended to the particular policies whereby such results are achieved?

Answer The purpose and mechanism of operation of the Scheme demand that, besides an effective understanding on a quantitative basis which would define the development program and its financing plan, including a balance of payments projection comprising the export projection, agreement should be reached between the Agency and the country on a set of policy measures which would be presumed to lead to the achievement of the desired growth objective. This policy package should not be too detailed, but should include the major criteria and policies. Moreover, it would not be frozen at the time of the consultation. Economic policies require revisions in response to changing circumstances, and no agreement on specific policies can remain valid for

different time intervals
related to policy
the duration of a five year plan. This would be achieved through consultations, at appropriate intervals, between the country and the Agency.

The purpose of the Scheme is to provide financing only for unexpected export shortfalls which are beyond the country's control. The only way to give operational meaning to this requirement is to relate it to the agreed policy package. As long as the country would be adhering to it, the unexpected shortfalls would be considered to be beyond the country's control, and the country could count upon the Agency to finance it.

Q.4(d) Should the performance requirements be the same in providing supplementary finance as in providing ordinary development assistance?

Answer Yes, because supplementary finance is development finance, intended to assist developing countries to carry out realistic development programs.

Q.4(e) To what extent would the performance requirements under bilateral aid programs, as well as under stabilization programs of the IMF be identical with performance requirements under the proposed supplementary financing scheme? How is coordination to be achieved? What is to be done in case of conflict?

Answer "The policy package acceptable to the Agency or to other suppliers of foreign capital cannot be defined in general or detailed terms applicable uniformly to the great variety of countries falling into the category of developing countries" (p.55). Hence, there can be no fixed performance requirements for the Scheme, but the basic idea is to promote the efficient implementation of suitable development programs. These requirements will be the same as for other aid agencies, insofar as the other agencies are also concerned with the same objective. The coordination would be based on 'full collaboration with existing international agencies, such as the IBRD and IMF' (p.10). It is unlikely therefore that there will be cases of conflict, but

must be resolved -
pulling out
created
by
finance

presumably
make full
representing
country
morality

also
putting
together
of paper

in such a case, it is the understanding between a country and the Agency that would be operative in providing supplementary finance under this Scheme.

Minimum reasonable figure

Q.5(a) According to the Bank Study, "\$1.5 billion to \$2.0 billion would be required for an initial experimental period of five years." It is further stated that this estimate is a small part (about 20 percent) of the figure of the gross shortfalls that emerged from the statistical analysis of past shortfalls between export projections and actual realizations." Are the arguments for the \$300 million to \$400 million per year figure reasonable?

Answer The quantitative evidence, considered in Annex IV, suggests that a global supplementary financing scheme might have to have external resources sufficient to cover annual aggregate shortfalls from medium-run expectations amounting to around \$1.6 billion per year. It was also estimated that the use of the IMF compensatory finance facility and the use of overages earned by countries would reduce the requirements to about \$1.2 billion per year. There are, in addition, a number of other considerations which would reduce the financial requirements for the Scheme. These considerations are:

- better projections*
- (i) The close consultations between the Agency and the members, envisaged in the Scheme, would bring realized exports closer to projections, and thus reduce the magnitude and frequency of unexpected shortfalls.
- not overland*
- (ii) The emphasis on policy performance would also reduce the frequency, magnitude and persistency of shortfalls since, in the past, shortfalls have at times been the result of inadequate domestic policies.
- (iii) It is uncertain how many developing countries would be able to qualify under the Scheme, in the *initial* early years.
- (iv) In meeting an export shortfall, account would be taken of other available foreign exchange resources.
- (v) Consideration would be given to feasible internal adjustments that would not disrupt the development programs.

These considerations suggest that the financial requirements for the Scheme, in its early years, would be considerably less than the figure arrived at in annex IV. The effect of these considerations cannot, unfortunately, be quantified in any precise way, but we have tried to use our best judgment in taking account of these factors, in order to get a suitable figure with which the Scheme could start operating. In any case, the figure of \$300 to \$400 million per year on the average was based on the idea of gradually adjusting the resources of the Scheme to the need for supplementary finance.

Q.5(b) Is it agreed that the administering agency should tailor the terms and conditions of supplementary assistance to the overall financial and economic position of the country concerned and that the "terms should be similar to those being used for the extension of development finance for normal purposes by the various international lending agencies"?

Answer The objective of the Scheme is to supply long-term finance to offset the unexpected export shortfalls. The specific terms of loans, however, - rate of interest as well as maturity - should depend upon the financial and economic position of the country, particular attention being given to its debt servicing capacity. Although the terms would vary from case to case, the Scheme should be prepared to extend funds on concessional terms in many countries. The objective would be to let the member know in advance as far as feasible what terms to expect.

Q.6(c) Should all adverse movements in export earnings (or import expenditure) that can be foreseen be excluded from the scope of the Scheme?

Answer The Scheme is not designed to compensate for projected deterioration in export prices or expected stagnation in export earnings. As the UNCTAD resolution says, "To the extent that these (adverse export movements) could be prescribed in advance they could be taken account of by developing countries for planning purposes." Whether the outlook is for a boom or a recession, the export expectation is a datum for the purposes of the Scheme. The problems

provision for
replenish
4 points for
allocation
but allocation
must be
avoided if
Holders of
loan are to be
achieved.
Explain
why longer or
shorter could
be unnecessary

of accelerating exports and of expanding the flow of long-term foreign aid necessary for securing satisfactory rates of income growth in developing countries fall outside the scope of this UNCTAD resolution, although they were the subject of others.^{1/}

The Scheme thus does not provide assistance to countries experiencing a foreseeable decline or stagnation in their export earnings. In such circumstances the country presumably might attempt to persuade aid-givers to provide additional assistance in order to allow it to mount a larger development effort and thus hasten the process of needed diversification, if it believed such expanded effort was within the limits of its absorptive capacity.

*Speed bridge payment
related plans of night facilities
than higher level of assistance*

^{1/} UNCTAD Final Act Annex A II.1, Part II A recommends that developed countries lower tariff and non-tariff barriers on imports from developing countries. Annex A IV 1-2 lays down the guidelines for foreign aid and recommends that developed countries endeavor to provide a minimum net amount of financial assistance to the developing countries approaching as nearly as possible to 1% of their national income.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Thursday

Dear Irving -

I hear that you
are arriving in Geneva on
April 10.

I shall be arriving
from Milan late on the afternoon
of the 11th - [Rexia remains in
Milan till the 14th]. Shall we
have dinner together on the 11th --
say around 8/8.30 pm? If so,
I suggest the Amphitryon - Our hotel
Cille room - where I find the food
very, very good. When I get
into the hotel on the 11th I will
check with your room and then
get your reply. We are leaving
Washington on Monday, 4th -

Care you

Fried

PREBISCH
UNCTAD
GENEVA

APRIL 5, 1966

LT

SWITZERLAND

REFERENCE CONSOLO'S LETTER MARCH 15 STOP I WILL ALSO
BE ACCOMPANIED BY PAULO PEREIRA LIRA REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

March 15, 1966

Dear Dr. Prebisch:

On behalf of Mr. Woods, I acknowledge receipt of your letter EC 231/3(2-8) of March 8 and thank you for having invited the Bank to attend the resumed first session of the Committee on Invisibles and Financing related to Trade which will be held in Geneva from 13 to 20 April.

I am pleased to inform you that the Bank will be represented by Mr. Irving S. Friedman, The Economic Advisor to the President, who will be accompanied by Mr. Bimal N. Jalan of the Bank's Economics Department. I would appreciate it if you would have any documentation related to the meeting (apart from the Bank's report - TD/B/43) sent directly to Mr. Friedman in Washington.

Sincerely yours,

Federico Consolo
Special Representative
for
United Nations Organizations

Dr. Raúl Prebisch
Secretary-General
United Nations Conference on
Trade and Development
Palais des Nations
Geneva, Switzerland

cc: Mr. Friedman/Mr. Jalan
Mr. Wishart
CENTRAL FILES with incoming letter

FC:mar

C
O
P
Y

UNITED NATIONS
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Ref. No. EC 231/3(2-8)

8 March 1966

Dear Mr. Woods,

In accordance with the rules of procedure of the Committee on Invisibles and Financing related to Trade, I have the honour to inform you that the resumed first session of the Committee will be held at the Palais des Nations, Geneva, from 13 to 20 April 1966. The first meeting will commence at 11 a.m.

The Committee will have before it the report of the International Bank for Reconstruction and Development on supplementary financial measures (TD/B/43).

Should your Organization desire to attend the session, it would be appreciated if you would communicate to me at the Palais des Nations, Geneva, at your early convenience, the names of the representatives whom you have designated for this purpose.

Yours sincerely,

(Raúl Prebisch)

Mr. G. D. Woods

President

etc.

Travel Office will
cable earlier arrival
of April 10.

3/31/66

28 Mars 1966

Messieurs,

Tout en vous confirmant notre arrivée le 4 avril tôt le matin, je vous prie de bien vouloir réserver une bonne suite (chambre à coucher, salle de bain, salon) du 12 au 20 avril pour Monsieur et Madame I. Friedman.

Monsieur Friedman est le Conseiller Economique du Président de la Banque, il vient à Genève pour des réunions très importantes. Je tiens particulièrement qu'il soit complètement satisfait de son séjour, lui ayant chaudement recommandé votre hôtel.

Je vous prie de bien vouloir confirmer aussitôt que possible la réservation pour Monsieur et Madame Friedman à l'adresse suivante:

Mr. Irving Friedman
The Economic Advisor to the President
International Bank for Reconstruction and
Development
1818 H Street, N.W.
Washington, D.C.

Veuillez agréer, Messieurs, mes salutations les meilleures.

Federico Console
Special Representative
for
United Nations Organizations

Direction
Hôtel des Bergues
Genève, Suisse

FC:mar

Copy to Mr. Friedman ✓

Mr. Console's secy
notified of arrival
April 10 instead of

12.

3/30/66

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: April 4, 1966

FROM: Bimal Jalani, Pereira-Lira and Sundrum *PSL*SUBJECT: Comments on the Supplementary Finance Study

We have discussed the questions about the Supplementary Finance Study raised in the Agenda for the UNCTAD meeting and in Mr. Maccone's report of the DAC meeting and are enclosing our comments. We have also put down some remarks on certain general issues in our introductory note to our comments on the UNCTAD agenda.

Professor Isaiah Frank has seen these papers and discussed them with us. We have incorporated his comments as well.

Mr. George D. Woods

March 16, 1966

Andrew M. Kamarek

Figures Cited by Mr. Willard Thorp

At lunch yesterday, Mr. Thorp mentioned that while it was true the figures showed that flow of official capital (net of amortization repayments) from the DAC countries had been on a plateau the last four years, the amounts received by the developing countries had increased. This was due to the fact that part of the DAC funds passed through the multilateral agencies which acted as a reservoir. I thought you might be interested in the figures which I have pulled together from Thorp's report in this regard. These figures do bear out what Mr. Thorp said compare line (3) and line (6).

While I have not had the figures on payments to multilateral organizations checked out in detail, they appear legitimate as far as the Bank/IDA are concerned. The big variations are in the common market Economic Development Fund and UN agencies other than Bank/IDA.

Attachment

cc: Mr. Friedman ✓
Mr. Kochav
Mr. Kalmanoff

AMK/vhw

Total Official Flow, Net, of Long-Term
Financial Resources from DAC Members

(in \$ millions)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
PAID BY DAC MEMBERS				
(1) Bilaterally to Countries	5,264	5,388	5,680	5,554
(2) To Multilateral Organizations	<u>812</u>	<u>664</u>	<u>384</u>	<u>367</u>
(3) <u>Total</u>	<u>6,076</u>	<u>6,052</u>	<u>6,064</u>	<u>5,921</u>
RECEIVED BY DEVELOPING COUNTRIES				
(4) Bilaterally	5,264	5,388	5,680	5,554
(5) From Multilateral Organizations <u>a/</u>	<u>(313)</u>	<u>(450)</u>	<u>(629)</u>	<u>(703)</u>
(6) <u>Total</u>	<u>5,577</u>	<u>5,838</u>	<u>6,309</u>	<u>6,257</u>

a/ Calculated from the other data.

Source: Report by Willard Thorp, Development Assistance Efforts and Policies, 1965 Review. Tables 3 (page 127) and 7 (page 135).



Distr.
GENERAL

TD/B/C.3/19
10 March 1966

United Nations Conference on Trade and Development

ORIGINAL: ENGLISH

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Resumed first session
Geneva, 13 to 20 April 1966
Agenda item 8

CONSIDERATION OF THE REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ON ITS STUDY OF A SCHEME FOR SUPPLEMENTARY FINANCING

Note by the Secretary-General of UNCTAD

In connexion with the Committee's examination of the Bank's Study entitled Supplementary Financial Measures (TD/B/43) the following headings and questions are submitted as a possible framework for discussion.

1. The nature of the problem

- See Annex 10 (Particulars of Study)*
- (a) Is it agreed that developing countries frequently face "problems arising from adverse movement in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support"? ^{1/}
- yes*
- (b) Are there circumstances, beyond the control of developing countries, other than "adverse movement in export proceeds" in which developing countries might face disturbance to their balance of payments, and hence disruption of their development programmes, of a nature or duration which cannot be dealt with by short-term balance of payments support?

2. Character of the solution

- 2 questions - (1) under 7 QSP*
- (a) Should the solution take the form of an internationally administered programme for the provision of supplementary finance?

2) under 7 Final Act, annex A.IV.18, para. 1.

3. Criteria for the provision of supplementary finance^{2/}

Should the following criteria be applied?

- pp 30-37
pp 28-30
"duration is not long" -
"material is -"
p-38 on
"Causes"
"Specific
adjustments"
(pp 49-52)
"imp. 7-8"
p 52
pp 66-68
p 4
- (a) That shortfalls in export earnings must be measured against objective estimates: if so, do projections of the type provided for in the Bank Study constitute an acceptable method? What would be the relationship between Bank and Fund calculations of shortfalls, and what is the rationale of the differences in methodology? p. 32
- (b) That shortfalls must be of a nature or duration which could not adequately be dealt with by available short-term balance of payments support.
- (c) That shortfalls must result from causes beyond the control of the affected country. Should such causes be confined to those affecting export earnings, or should they be extended to those affecting other external receipts or import expenditure? (rarely) not practical
- (d) That all feasible domestic adjustments are made short of adjustments that would disrupt development programmes. What type of adjustments is envisaged here? For example, should such adjustments include "not encouraging continued investment and output in export sectors when world demand is falling, re-examining and adjusting some public expenditures to ensure the postponement of the relatively less urgent or less important, or altering the tax structure to the changed conditions"?^{3/} In the event of a reduction in planned investment in the export sector, necessitated by an important structural change in world demand or supply, should correspondingly larger investments be made in diversifying the rest of the economy, and in what way should the financial facilities provided by the scheme assist in this task of diversification?
- (e) That supplementary finance is residual finance, granted only after reasonable use has been made of other available sources of finance, including any previous earnings, during the projection period, in excess of the agreed export projection. If so, how is "reasonable use of other available sources" to be interpreted? In particular, should such use

2/ See statement by the Economic Adviser to the President of the International Bank for Reconstruction and Development (TD/B/59, p. 6).

3/ Bank Study, p. 51.

extend only to the compensatory financing facility of the International Monetary Fund, or to the ordinary gold and credit tranches as well? In what circumstances would a country be required to draw down its reserves before receiving assistance?^{4/} Would "other sources of assistance" to be utilized prior to operations under the scheme include credits bearing market rates of interest?

- (f) That when a shortfall occurs which cannot be offset by other means, assistance must be timely and certain. p 53 70

4. Performance requirements pp 3, 54

- (a) Is it agreed that the provision of development assistance, whether in the ordinary way or in the form of supplementary finance, may be made conditional upon satisfactory performance by recipient countries in the carrying out of development programmes? Should a new relationship be established "between individual developing countries and the international community through which the incentives and prospects for effective internal development performance would be greatly strengthened"?^{5/}
- (b) Is it agreed that the primary objective of supplementary finance is to avoid disruption of development programmes?
- (c) Assuming that the need to meet certain performance requirements is accepted, should such requirements be limited to the results to be achieved by development programmes or should they be extended to the particular policies whereby such results are achieved?
- (d) Should the performance requirements be the same in providing supplementary finance as in providing ordinary development assistance? p. 9 p 35
- (e) To what extent would the performance requirements under bilateral aid programmes, as well as under stabilization programmes of the IMF, be identical with performance requirements under the proposed supplementary financing scheme? How is co-ordination to be achieved? What is to be done in case of conflict? 81~

4/ Ibid., p. 13.

5/ Ibid., p. 5.

5. Volume, terms and conditions of supplementary assistance

- pp 66-72
- (a) According to the Bank Study, "\$1.5 billion to \$2.0 billion would be required for an initial experimental period of five years". It is further stated that this estimate "is a small part (about 20 per cent) of the figure of the gross shortfalls that emerged from the statistical analyses of past shortfalls between export projections and actual realizations". Are the arguments for the \$300 million to \$400 million per year figure reasonable?
- p. 60
- (b) Is it agreed that the administering agency should tailor the terms and conditions of supplementary assistance to the overall financial and economic position of the country concerned, and that "the terms should be similar to those being used for the extension of development finance for normal purposes by the various international lending agencies"? ^{6/}

6. Scope of the scheme

- more certain to whole approach to DP
- (a) If it is agreed that the administering agency should be given extensive discretion in deciding whether or not to provide supplementary assistance in particular cases, should such discretion be enlarged to include problems affecting import expenditure, as well as export earnings - including, for example, problems of rising import prices, or of unforeseen import requirements resulting from a series of crop failures?
- (b) Would the proposed scheme provide assistance if, as cited in Note 2 (ii) of resolution A.IV.18, "when the IMF drawings were due to be repaid, exports had not recovered sufficiently for this to be possible without disruption of development"? What would be the situation if a country, in agreement with the agency, resorted to other sources of borrowing to meet a shortfall in export earnings? If exports did not recover sufficiently to permit repayment of these loans without disruption of the country's development programme, would the proposed scheme provide assistance for that country?
- p. 22
- (c) Should all adverse movements in export earnings (or import expenditure) that can be foreseen be excluded from the scope of the scheme?

On this \$20 billion figure UNCTAD now has a new estimate of \$13 - \$16 billion per annum needed (the lower one if the developed countries continue to grow at a 5% per annum for the remainder of this decade while the LDCs don't reach 5% until 1970).

The \$13 billion is \$3.5 to \$4 billion above the present figure of \$9 billion to \$9.5 billion of net flow of financial resources from the developed countries to the LDCs. The larger figure includes the Soviet Bloc and Communist China.

Our figure of \$3 to \$4 billion more per year measures not only additional needs but also effective use.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

P. 33

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

\$13 - \$16

On this \$20 billion figure, UNCTAD now has a new estimate of \$13 billion per annum needed if the developed countries continue to grow at a 5% per annum for the remainder of this decade. ⁴ This \$13 billion is \$3.5 to \$4 billion above the present figure of \$9 billion to \$9.5 billion of net flow of financial resources from the developed countries to the LDCs. The larger figure includes the Soviet Bloc and Communist China. ⁴ Our figure of \$3 to \$4 billion more per year measures not only additional needs but also effective use.

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reach 5% until 1970)
the lower one

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: March 1, 1966

FROM: Paulo H. Pereira Lira *PHL*SUBJECT: Reaction of Mr. Eduardo Figueiroa of Chile to the Bank's Study on
Supplementary Financial Measures

During this stay in New York for the meetings of the Expert Group on Trade among Developing countries, I met Mr. Eduardo Figueiroa who was participating as an Inter-American Development Bank representative. Mr. Figueiroa works in Santiago for Mr. Felipe Herrera as a part time consultant dealing with integration problems and was also a member of the Chilean Delegation to the last session of the UNCTAD Board.

2. We discussed in a completely informal way the Bank's report on Supplementary Financial Measures. You may be interested in his reactions to the scheme, which was generally a positive one. He made four specific points.

3. Firstly, the very broad policy understanding with the Agency would be too high a price to secure a rather small benefit (the financing of the export shortfall). I pointed out that the Bank's proposal was not meant to exist by itself but as a part of a wider framework which would include some definition of the total flow of aid which the country could expect (see last paragraph on page 54 of Study). Mr. Figueiroa felt the Bank should let this position be known more clearly, maybe in connection with the next discussion of the matter by UNCTAD.

4. Secondly, Mr. Figueiroa mentioned that the references to IDA in Part A of the UNCTAD resolution implied that the funds would be provided in concessional terms; part B of the resolution even talks about grants. In the Bank's study, however, it is said that "the terms should be similar to those being used for the extension of development finance for normal purposes by the various international lending agencies" (p. 12 of Study). Mr. Figueiroa's reaction is evidently based on the summary part of the report, which has just been quoted. The treatment of the question in the body of the work meets the point ("Although the terms would vary from case to case, the scheme should be prepared to extend funds on concessional terms in many countries" - p.60 of the Study). Once again, it seems to me a question of clarification and emphasis of the Bank's position with due regard of the feelings of the capital supplying countries.

5. Thirdly, Mr. Figueiroa dealt with the need to have an idea of how the Bank's scheme would articulate with the Fund's system of compensatory financing. He feels this question will be raised when UNCTAD meets to examine the proposal. This was the reason he gave for the recommendation he tried to get approved by the Board, urging the Fund to accelerate its study on the matter. (The proposal was approved by the Board without reference to the Bank's study, as he had originally suggested).

6. Fourthly, Mr. Figueiroa said very explicitly that the World BANK Group was the agency that should be in charge of the scheme.

Personal File
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

New York - Feb. 28

Dear Irving -

Attached is a Telegraphic
note on our conversation with Prelisch
on Friday last. Of this record there
is just a copy for you and one for me.
I think that most of your points are
covered. It was so nice to be a
little while quicker with you -
it is only too rarely that this
happens - I therefore hope that
we may find the "dialogue" which
in Geneva if Raul succeeds in
following your suggestions.

Sincerely yours

Fred

February 28, 1966

Meeting on February 25 - Prebisch, Friedman & Consolo

UNCTAD Committee on Invisibles and Financing

Bank Supplementary Financing Report

Friedman

- 1) Bank wants to help Prebisch to ensure the successful meeting of Committee

- 2) UNCTAD must register success

- 3) How does Prebisch see this meeting?

Prebisch

- 4) Preliminary general discussion followed

- 5) by perhaps working party

Friedman

- 6) No

- 7) Meeting must not be ~~forerunner~~ ^{forum} for political and general discussion

- 8) Meeting must be technical

- 9) to be technical and worthwhile, representation should be at the highest technical level of Governments

- 10) to ensure such representation, timing and duration now envisaged are not practical because

a) through Easter week

b) too long

- 11) meeting should not last more than three whole days, if representation as suggested in 9) above, a very useful first technical discussion can be achieved and recommendations could then go to political level at 4th meeting of T & D Board in September, 1966

- 12) Meeting could most usefully be held April 12/13 to 14/15

- 13) Meeting should not present draft resolutions, there should be no voting, there should be no "confrontation".

Prebisch

- 14) appreciates suggestions and goes along with them

- 15) will try to work out program as outlined by Friedman and change date and duration.

Rev. 3/2/66

Friedman

- 16) Prebisch having entree at highest levels of Governments, should discuss these points at Cabinet level of Member Governments and stress importance of

a) approach

b) type of discussion

Prebisch

- 17) *of attendance*
agrees

- 18) will contact Friedman on return from Europe in mid-March.

[Signature]
F. Consolo.

OFFICE MEMORANDUM

TO: Mr. Friedman

DATE: February 16, 1966

FROM: Federico Consolo SUBJECT: UNCTAD - Committee on Invisibles and Financing

The resumed first session of this Committee will now be held in Geneva from April 4 to 13. This meeting will consider the Bank's report on Supplementary Financing.

c.c. Mr. Demuth
Mr. Kamarck
Mr. Perinbam

Sept 6

Introductory Note to Comments on UNCTAD Agenda

The set of UNCTAD questions submitted for the next meeting of the Committee on Invisibles as well as other reactions to the Bank's Study in various quarters suggest that there are three points of the proposal on which there seems to be general misunderstanding. Although a careful reading of the Study would supply by itself the answer to two of those points, their discussion might be helped if the Bank - at the outset - would make its position known.

The points are the following:

- a) the relationships among the understanding between the Agency and the country, the flow of supplementary finance and the flow of long term aid;
- b) the terms of the flow of supplementary finance; and
- c) the position of the Agency as a residual lender, and specifically its position in relation to short and medium term balance of payments financing as supplied by the IMF.

2. Before dealing specifically with the three points, it is useful to recall one fundamental assumption which has guided the elaboration of the Bank Study and the basic limitation of the scope of the proposal itself.

3. The fundamental assumption is that promotion of economic development on the basis of foreign aid has to be conceived as a joint enterprise involving the extenders and the recipients of such assistance. In the working out of this enterprise, it will be possible to achieve a meaningful consensus about goals which, on the basis of a pragmatic and professional approach, will allow agreement to be reached on the scope and character of the development efforts of the recipient country.

Ref. 4

4. The scope of the Scheme is limited in that it aims at reducing, if not eliminating, the consequences of one - but a major one - of the sources of uncertainty that are inevitable in the process of economic growth - the unforeseen adverse movement of export receipts. As to the other uncertainties which persist, all that the Scheme offers is a forum where the interested partners will best be able to evaluate and decide upon alternative courses of action.

POINT 1

5. For the Scheme to operate, an agreement will have to be reached between the Agency and the country on the feasibility of a development program, which includes an evaluation of its financing plan. From the point of view of the supply of foreign exchange and resources needed to carry out the Plan, attention will necessarily have to focus on the export projections and on the flow of long-term aid which is being counted upon.

6. The Agency will not be able to endorse the feasibility of the development effort if it is not convinced that there are good indications that the expected supply of long-term foreign aid will be forthcoming.

7. This means that, in the sheer logic of the Scheme, for the country to be able to discuss with the Agency its development program, the partners which are extending aid will have to give the recipient country an indication of how far they are willing to go in their support of its development program.

8. The unexpected shortfall for which long-term financing is to be provided by the Scheme has two basic characteristics:

- a) it is to be potentially disruptive to the development program of the country; and
- b) it is beyond its control.

9. Operational meaning to these requirements can only be given through an understanding between the Agency and the country. Instead of having it after the events, the Scheme suggests that it be reached before the adverse movement takes place. That understanding includes an agreement on a "policy package", which will incorporate the major criteria and policies adopted by the country to guide its development process. The existence of this "policy package" allows the adoption of the rule that, as long as the country is acting within its frame of reference, all unexpected shortfalls will be considered beyond the country's control.

10. The "policy package" is not meant to be frozen at the moment of its adoption and the Scheme presupposes that the Agency will keep in touch with the country for a joint examination of the implementation of the accepted policy decisions in the face of the changing circumstances.

11. It is definitely true that by agreeing on a "policy package", and implementing it, the only formal assurance the country gets is that it will receive a long term loan to substitute for export earnings which do not materialize, thus avoiding a disruption of its development efforts. Other uncertainties associated with the growth process still remain; particularly the one concerning the degree to which the long term aid intentions of the developed countries, - which were one essential ingredient in establishing the feasible development program - will actually be carried out.

12. From the point of view of the developing country, the decision to participate in the Scheme will basically result from the evaluation of whether the commitment on its part, involved in agreeing with a policy package, will be compensated by the commitment on the part of the Agency to offset an unexpected export shortfall and by the mere clarification

I don't expect this must be part of broader approach

of the foreign aid intentions of the capital supplying countries, which does not involve the same degree of commitment.

13. A few words can be added on this evaluation. The policy package which the less developed country will find convenient to agree upon with the international Agency incorporates those major criteria which the country itself considers suitable to serve its growth process. As has been said before, the whole Scheme is predicated on the idea that, in most cases, such meeting of minds is a practical proposition, and which is already taking place in many instances.

14. The existence of the policy package itself and the regular contact between the country and the Agency should increase the certainty that the aid intentions, expressed by the developed countries, will actually be implemented.

15. Those are the considerations which led the Study to state that, from the point of view of the international community, the Scheme would represent an important step forward in rationalizing and systematizing the aid-giving process, by providing an additional important reason for having a framework of comprehensive analysis and continuing review of a country's development effort and making it possible for other sources and types of aid - besides supplementary finance - to be fitted into an overall program.

POINT 2

16. Some confusion about the terms of supplementary finance seems to have been prompted by the final sentence in the summary part on the Bank Study dealing with forms and terms of assistance where it is stated "the terms should be similar to those being used for the extension of development finance for normal purposes by the various international lending agencies" (p.12).

17. The UNCTAD resolution indicates that supplementary finance assistance should be available on "concessional and flexible terms". Its references to IDA as the administering agency for the Scheme emphasize the "concessional" nature which was meant to be attributed to the funds.

18. The position of the Study on this matter can best be understood by referring to the body itself of the report where it is said that the objective of the Scheme is to supply long-term finance to offset the unexpected export shortfalls. The specific terms of loans, however, - rate of interest as well as maturity - should depend upon the financial and economic position of the country, particular attention being given to its debt servicing capacity. Although the terms would vary from case to case, the Scheme should be prepared to extend funds on concessional terms in many countries. The objective would be to let the member know in advance as far as feasible what terms to expect.

POINT 3

19. The objective of the Scheme as such is to provide long-term financing for the unexpected export shortfall, after allowing for the part of it that can be absorbed without disrupting the development program. This part would include not only that which would be associated with the adjustments which are considered desirable from the point of view of development - such as mentioned in p. 51 of the Study - but also that which the country could absorb directly through the use of its foreign exchange reserves, if these were available beyond the level of its "normal" requirements.

20. Given the need to economize the Scheme's resources, the country is, however, expected to use other available sources of finance even though they may be of a short or medium-term nature, including all IMF financing possibilities. The idea of having the Agency act as a residual lender insures that maximum use will be made of those other sources of finance. This way

of acting is understandable because there is no definite way of knowing, beforehand, the nature of the shortfall.

21. Having agreed with the country that it would, to a certain extent, use short or medium-term financing to offset the shortfall, the Agency has to face the question of what happens at the time of payment of these debts, if exports have not recovered and show an overage above the reasonable expectation.

22. If such a situation would arise and other possibilities of refinancing did not exist, it seems to us that the logic of the Scheme implies that the Agency would have to take care of the refinancing on a long term basis.

23. The Study, however, does not take a position on this point. When dealing with the question of refinancing (p.14), it only says:

- a) that if the Scheme were to perform this function, its need for resources would be substantially affected; and
- b) in any case, the refinancing would come only years after the Scheme had begun operations.

24. The Study recognizes, however, that participating emmbers might wish to know in advance whether such refinancing operations would be possible, if needed. It seems to us that it would be helpful to go to Geneva with this point cleared up, following the logic of the Scheme.

25. The situation is made somewhat difficult because in the simulation exercise which led to the estimation of the funds needed to start the operation of the Scheme, the IMF compensatory financing was one of the elements which contributed - along with the overages - to bring the annual gross requirements of \$1,600 million to \$1,200 million.

where?
could also be the answer
Can't until terms of IMF Scheme known - but agree (don't get tied to time schedule of IMF)

26. It can be estimated that without considering the effect of the IMF facility, the gross requirement would have been reduced only to \$1,350 million. The difference is not that large. Moreover, following the argument of the Study, it could be argued that what was being estimated was a minimum reasonable amount to start operations, which would not bear the burden of the eventually needed refinancing.

27. It should be noted that our comment on the UNCTAD question on this point was prepared in accordance with the position taken in the Study.