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THE WORLD BANK
Washington, D.C.

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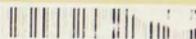
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Friedman UNCTAD Files - Geneva Meeting 04
Suppl. Financing

Aug. 26 - Sep 2, 1969

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THE WORLD BANK GROUP
Archives



1787643

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Inving Friedman UNCTAD Files: Geneva Meeting on Supplementary Finance, August 26 -
September 12, 1969 - Correspondence 02

Spare

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: June 20, 1969

FROM: N. A. Sarma

*N. A. Sarma*SUBJECT: Supplementary Finance: IOG Meeting in New York
June 23 - July 3

Please refer to the discussion Mr. Kamarck and I had with you this morning. I understand the following to be instructions for me in attending the above session:

In view of the delicate nature of the matters involved, especially in the context of the whole development aid effort, the discussions of commodity problem, third replenishment of IDA, we confine ourselves to the questions directly posed to us:

- (1) Whether the Bank Staff Scheme could be implemented by Bank/IDA, within their existing Articles of Agreement, if the E.D.'s so agreed and if finance were made available: We have a (draft) note on this from the Legal Department, taking the view that administration of such a scheme within the Bank Group is possible by setting up an affiliated agency, or directly by the Bank or IDA (preferably the latter). Further details would depend on the specific scheme that might emerge. A brief statement to this effect would be made at the meeting, but it is not proposed to circulate the note to the Group.
- (ii) Another question relates to the revision of cost estimates: We would inform the Group that we have looked at available data for more recent years also, i.e. up to 1967, and our present estimate of financial requirements is about \$300 million a year. We have a paper with us on this, but would not circulate it to the Group. Any explanation that is required will be given orally. If it should become necessary to give the Group a written presentation, I am to consult you.
- (iii) Relation between Supplementary Finance and Fund's Compensatory Finance Facility: During earlier discussions, we tried to clarify this point on a technical basis. If S.F. should come to be administered by Bank Group, the question would become part of the whole framework of continuing consultations and cooperation between the Fund and Bank Group. It should be possible to administer S.F. in close cooperation with the Fund.

On these and other questions, such as the relation with Commodity Stabilization, our response would be as Bank staff members, on a technical level, not committing the Bank; on the basis that the Board has agreed for the staff to continue to cooperate in the work of UNCTAD on S.F., not giving a negative impression.

June 20, 1969

In particular, we on our part would avoid any discussion of S.F. in the context of IDA replenishment. We will not put on record any kind of statement that S.F. could be tied up with IDA replenishment.

In this morning's discussion, I expressed the view that this session of IGG is likely to be the final one, though there may not be complete agreement on the Report. The Report goes to the Trade and Development Board at its ninth session (August 26 - September 12). It is for the Board to take a decision, at the political level, whether to have S.F., and on what basis. It is possible at that stage they may decide to agree in principle to a scheme, and entrust the whole matter to the Bank (not just for further study but for drawing up a scheme to be implemented).

I understand that I shall be representing the Bank staff at the IGG meeting, and you do not propose to attend, unless you hear from me otherwise.

cc: Mr. Kamarck

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

July 31 1969

Double room reservation requested at
Des Bergers^{vee} Hotel, Geneva from
August 26 thru Sept. 12 1969.

Travel Office cancelling - August 21, 1969

Bonn, July 19, 1969

Dear Irving:

It was much to my regret that I could not see you during my stay in Washington. I would have liked to have an exchange of views with you about how to proceed further in the SFM business after the Intergovernmental Group had finished its work. I suppose that at a certain time, either now, or somewhat later after a further narrowing down of the issues, the whole matter should be sent again to the Bank with a request to examine whether SFM of a certain nature could be instituted within the World Bank Group. It is too early to know whether the TDB which meets at the end of next month will address itself to that question. But this question will certainly play a role in the minds of the participants.

I heard from Mr. de Vries that you had to go to a hospital. I hope very much that it is nothing serious and wish you very sincerely a speedy and complete recovery. I trust that I shall see you at the Annual Meeting in good shape and full of energy as ever.

With my best wishes and kind regards

Yours very truly

Helmut Koinzer

Bonn, July 19, 1969

Dear Irving:

It was much to my regret that I could not see you during my stay in Washington. I would have liked to have an exchange of views with you about how to proceed further in the SFM business after the Intergovernmental Group had finished its work. I suppose that at a certain time, either now, or somewhat later after a further harrowing down of the issues, the whole matter should be sent again to the Bank with a request to examine whether SFM of a certain nature could be instituted within the World Bank Group. It is too early to know whether the TDB which meets at the end of next month will address itself to that question. But this question will certainly play a role in the minds of the participants.

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With my best wishes and kind regards

Yours very truly

Helmut Koinzer

DECLASSIFIED

MAR 7 9 2013

WBO ARCHIVES

CONFIDENTIAL

SecM69-390

July 25, 1969

FROM: The Secretary

JUL 25 1969

5 p.m.

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING

Attached for information is a report on the Fifth Session of the Intergovernmental Group on Supplementary Financing convened in New York from June 23 to July 3, 1969. This has been prepared by Mr. N. A. Sarma, of the Bank Staff, who attended the session.

A working text of the Report of the Intergovernmental Group is available in the Development Services Department. The Report is to be forwarded to the Trade and Development Board for its Ninth Session during August 26 - September 12, 1969.

Distribution:

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

Intergovernmental Group on Supplementary Financing

Fifth Session: New York: June 23-July 3, 1969

1. It may be recalled that UNCTAD II, having considered the (so-called) Final Report of the Intergovernmental Group (IGG) on Supplementary Financing (SF), instructed and expanded IGG to consider further certain aspects of SF, to work out measures for supplementary finance, and to report to the Trade and Development Board (TDB) not later than its ninth session, which is to convene during August 26-September 12 in Geneva. The TDB is to study and take early action on the findings of the IGG, taking account of proposals for action in the field of international commodity policy submitted to the Boards of Governors of the IBRD and IMF. The IGG itself proceeded with its work on the basis that this was its concluding session.
2. The first week of the session was devoted to discussion of various technical questions mainly relating to the Bank Staff proposal, and also to a consideration of some alternative proposals, following the (provisional) agenda that had been circulated. Refinancing the Fund Facility was only briefly referred to, not as an alternative, but as a possible function of supplementary finance. The simplified scheme that had been suggested by the German delegation was considered in some detail and there was support for such a 'discretionary' scheme from several Group B (donor) countries' representatives -- especially Canada and the U.S. The need for flexibility and discretion to the Agency was stressed.
3. Brazil, Chile, India, Pakistan and the U.A.R., among the developing countries, referred to the (earlier) joint statement of less developed countries on SF, which accepted the essentials of the Bank Staff proposal. In their view this subject had been adequately considered for over three years, and the time had come for decision; further studies were not needed. They underlined the basic objective of the Recommendation on SF -- i.e., speedy assistance to countries that faced export difficulties so as to help avoid disruption of development programs. For this, in their view, an export norm based on objective criteria was required. The finances for SF should be additional to basic development finance. As for policy understandings and consultations, they should be within the framework of existing procedures of international financial institutions, and should not involve duplication of effort. In their statements, the less developed countries' representatives more than once indicated their readiness to adopt a flexible attitude on particular issues so as to facilitate an agreed conclusion that could be forwarded to the TDB from the IGG.
4. Sweden referred to the possibility of mid-term revision of export projections, but could not envisage a compromise that would alter the basic character of the SF scheme envisaged under the UNCTAD Recommendation and

elaborated in the Bank Staff proposal. France and Australia reiterated their known position with respect to the principle of SF.

5. Canada agreed in principle to SF but not to specific features such as a predetermined export norm, and saw some merit in integrating SF into an expanded IDA. The U.S. felt that Canada's comments were useful and could be pursued further. If the decision was to implement a scheme of SF, it would be best to entrust it to the Bank/IDA, so that the administering agency would work out appropriate procedures. The U.K. reiterated its support of SF. The problem that SF was intended to deal with was a serious one, but this should not be permitted to affect IDA replenishment. The Bank Staff scheme was a well-worked out one, and the cost estimates furnished by Bank Staff were technically admirable, but it was for governments to negotiate and decide on financial requirements.

6. In the second week of the session, formal meetings of the IGG were not regularly held. On July 1 the various sections of the Report (other than the conclusions) were adopted. Considerable time was devoted to informal consultations on the content and form of the IGG's recommendation to the TDB. It was clear that the developing countries and Sweden (and also the U.K. to some extent) continued to prefer the Bank Staff proposal; some other major donor countries expressed themselves in favor of a more flexible scheme. Therefore, the less developed countries were prepared to go along, so as to facilitate implementation of SF. The general consensus was that implementation and administration should be entrusted to the Bank Group.

7. The final compromise, included in Chapter III of the Report, is as follows:

1. "In accord with recommendation A.IV.18 of UNCTAD I and decision 30 (II) of UNCTAD II, the Group has considered the proposals and ideas put forward to it including the scheme prepared by the World Bank Staff and alternative proposals. The developing countries and two market economy countries members of the Group believe that the Bank Staff scheme represents the most reasonable approach to supplementary financing but being conscious that at the present stage its general acceptance appears improbable, agreed to discuss the main elements of a discretionary scheme. Two members of the Group restated the reservations they had entered at the first Conference and on subsequent occasions concerning the principle of supplementary finance.

2. The following text represents the conclusions of discussions held within the Group and is forwarded to the Trade and Development Board to be taken account of in its further consideration of supplementary financial measures pursuant to decision 30 (II) of UNCTAD II.

i. Arrangements for supplementary finance can be designed to help meet the problem of disruption of development arising from adverse movements in the export proceeds of developing countries.

ii. Supplementary financial measures should be administered within the World Bank Group in consultation with the International Monetary Fund.

iii. In the operation of any supplementary financial measures discretion should be left to the Agency so as to ensure the best possible adaptation to the merits and needs of each case in meeting the objectives expressed in paragraph 2 of decision 30 (II). It can be expected that on the basis of the experience gained in the operation of supplementary financial measures appropriate objective criteria will be developed so as to provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls. The Agency would take into account the development plan, including its targets, and all information relevant to the objectives of supplementary financial measures.

iv. Any understandings involved in the operation of supplementary financial measures should be no different in character from those which now arise in the relationships between the Bank and member countries.

v. It is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing. The cost of a discretionary scheme cannot be estimated pending the preparation of a scheme.^{1/}

8. It would appear that during the informal consultations the developing countries and Sweden pressed for endorsement of a scheme based on the essential elements of the Bank Staff proposal. However, the U.S. and Germany, in particular, would not go beyond the above text. Paragraph 2(iii) gives considerable flexibility to the Administering Agency in devising criteria appropriate to the objectives of the Recommendation on SF. It is specifically stated that the Agency would take into account the development plan of a country, including its targets. It is also recognized that it would be of

^{1/} The cost of one version of a hypothetical discretionary scheme if operated in the period 1954-65 would, according to estimates by the UNCTAD Secretariat, have been in the order of \$200 to \$250 million per annum."

little value merely to divert available resources from basic development finance to SF.

9. Another point to be noted is that the above are conclusions of the Group forwarded to the TDB. It is for the TDB to decide on any future course of action, including whether to refer the whole matter to the Bank now or later.

Development Services Department
July 24, 1969

Spare

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: July 7, 1969

FROM: N. A. Sarma *N.A. Sarma*

SUBJECT: Fifth Session of Intergovernmental Group on Supplementary Financing
(New York, June 23-July 3, 1969)

Attached hereto is the report of the Group. The conclusions of the Group are in Chapter III. It may be recalled that UNCTAD II (New Delhi), having considered the (so-called) Final Report of IGG on SF instructed an expanded IGG to consider further certain aspects of SF, to work out measures for supplementary finance, and report to the Trade and Development Board not later than its ninth session. The ninth session of the Board will convene during August 26-September 12 in Geneva. The Board itself is to study and take early action on the findings of the IGG, taking account of proposals for action in the field of international commodity policy submitted to the Boards of Governors of the IBRD and IMF. The Group itself proceeded with its work on the basis that this was its concluding session.

The first week of the session was devoted to discussion of various technical questions mainly relating to the Bank Staff proposal, and also to a consideration of some alternative proposals, following the (provisional) agenda that had been circulated. Refinancing the Fund Facility was only briefly referred to, not as an alternative, but as a possible function of supplementary finance. The simplified scheme that had been suggested by the German delegation was considered in some detail and there was support for such a 'discretionary' scheme from several B Group (donor) countries' representatives--especially Canada and U.S.A. The need for flexibility and discretion to the Agency was stressed.

During the course of the proceedings, my brief remarks were in response to specific questions posed to us, in terms of my memo to you of June 20. Mr. Edgar Jones from the Fund responded with fairly lengthy (written) statements with respect to the nature and working of CFF, use of Fund resources and consultations procedures, and harmonization of growth and financial stability. These were the main questions addressed to the Fund.

Brazil, Chile, India, Pakistan, U.A.R., among the developing countries, referred to the (earlier) joint statement of less developed countries on SF, which accepted the essentials of the Bank Staff proposal. In their view this subject had been adequately considered for over three years, and the time had come for decision; further studies were not needed. They underlined the basic objective of the Recommendation on SF--i.e. speedy assistance to countries that faced export difficulties so as to help avoid disruption of development programs. For this, in their view, an export norm based on objective criteria was required. The finances for SF should be additional to basic development finance. As for policy understandings and consultations, they should be within the framework of existing procedures of international financial institutions, and should not involve duplication

July 7, 1969

of effort. In their statements, the less developed countries' representatives more than once indicated their readiness to adopt a flexible attitude on particular issues so as to facilitate an agreed conclusion that could be forwarded to the Trade Board from the Group.

Sweden referred to the possibility of mid-term revision of export projections, but could not envisage a compromise that would alter the basic character of SF scheme envisaged under the UNCTAD Recommendation and elaborated in the Bank Staff proposal. France reiterated briefly its known position with respect to the principle of SF; Australia did so in a lengthy statement.

Canada agreed in principle to SF but not to specific features like a predetermined export norm, and saw some merit in integrating SF into an expanded IDA. The U.S.A. felt that Canada's comments were useful and could be pursued further. If the decision was to implement a scheme of SF, it would be best to entrust it to the Bank/IDA, so that the administering agency would work out appropriate procedures. The U.K. reiterated its support to SF. The problem that SF was intended to deal with was a serious one, but this should not be permitted to affect IDA replenishment. The Bank Staff scheme was a well-worked out one, and the cost estimates furnished by Bank Staff were technically admirable, but it was for governments to negotiate and decide on financial requirements.

In the second week of the session, formal meetings of the IGG were not regularly held. On July 1 the various sections of the Report (other than the conclusions) were adopted. Considerable time was devoted to informal consultations on the content and form of the Group's recommendation to the Trade Board. It was clear that the developing countries and Sweden (and also the U.K. to some extent) continued to prefer the Bank Staff proposal; some other major donor countries expressed themselves in favor of a more flexible scheme. Therefore, the less developed countries were prepared to go along, so as to facilitate implementation of SF. The general consensus was that implementation and administration should be entrusted to the Bank Group.

The final compromise, included in Chapter III of the Report, is as follows:

1. "In accord with recommendation A.IV.18 of UNCTAD I and decision 30 (II) of UNCTAD II, the Group has considered the proposals and ideas put forward to it including the scheme prepared by the World Bank Staff and alternative proposals. The developing countries and two market economy countries members of the Group believe that the Bank Staff scheme represents the most reasonable approach to supplementary financing but being conscious that at the present stage its general acceptance appears improbable, agreed to discuss the main elements of a discretionary scheme. Two members of the Group restated the reservations they had entered at the first Conference and on subsequent occasions concerning the principle of supplementary finance.

2. "The following text represents the conclusions of discussions held within this Group and is forwarded to the Trade and Development Board to be taken account of in its further consideration of supplementary financial measures pursuant to decision 30 (II) of UNCTAD II.

i. Arrangements for supplementary finance can be designed to help meet the problem of disruption of development arising from adverse movements in the export proceeds of developing countries.

ii. Supplementary financial measures should be administered within the World Bank Group in consultation with the International Monetary Fund.

iii. In the operation of any supplementary financial measures discretion should be left to the Agency so as to ensure the best possible adaption to the merits and needs of each case in meeting the objectives expressed in paragraph 2 of decision 30 (II). It can be expected that on the basis of the experience gained in the operation of supplementary financial measures appropriate objective criteria will be developed so as to provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls. The Agency would take into account the development plan, including its targets, and all information relevant to the objectives of supplementary financial measures.

iv. Any understandings involved in the operation of supplementary financial measures should be no different in character from those which now arise in the relationships between the Bank and member countries.

v. It is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing. The cost of a discretionary scheme cannot be estimated pending the preparation of a scheme.^{1/}"

I understand that during the informal consultations the developing countries and Sweden pressed for endorsement of a scheme based on the essential elements of the Bank Staff proposal. However, the U.S.A. and Germany, in particular, would not go beyond the above text. It was with difficulty that they could be persuaded to agree to some of the ideas in 2(iii) which gives considerable flexibility to the Administering Agency in devising criteria appropriate to the objectives of the Recommendation on SF. It is specifically stated that the Agency would take into account the development plan of a country, including its targets. It is also recognized that it would be of little value merely to divert available resources from basic development finance to SF.

^{1/} The cost of one version of a hypothetical discretionary scheme if operated in the period 1954-65 would, according to estimates by the UNCTAD secretariat, have been in the order of \$200 to \$250 million per annum.

Mr. Irving S. Friedman

- 4 -

July 7, 1969

Another point to be noted is that the above are conclusions of the Group forwarded to TDB. It is for TDB to decide on any future course of action, including whether to refer the whole matter to the Bank now or later.

Mr. A. Stevenson

July 22, 1969

N. A. Sarma

Sarma

JUL 23 1969

10 -

Ninth Session of TDB (August 26-September 12):
Supplementary Finance

Please see copy of my memo to Mr. Friedman, dated July 7. The Intergovernmental Group on Supplementary Finance, at its final session during June 23-July 3, has made certain recommendations to the Trade and Development Board with respect to supplementary finance. In particular, the group concluded: "Supplementary Financial Measures should be administered within the World Bank Group in consultation with the IMF." It is for the TDB to decide on the future course of action, including whether to refer the whole matter to the Bank now or later.

It is to be expected that the TDB will take up the above Report of IGG on Supplementary Finance, for active and serious consideration, at its forthcoming session.

As you know, I would be attending the TDB session. On any specific questions that may arise, as hitherto, our response as Bank staff members would continue to be on a technical level, not committing the Bank. Administration of a supplementary finance scheme within the Bank Group is possible by setting up an affiliated agency, or directly by the Bank or IDA, depending on the specific scheme that finally emerges. Whether the Bank Group should take up this function is for the Executive Board of the Bank to decide, at the appropriate time. This would continue to be our position.

For your files: please.

Sarma
- 7/22

Miss McGregor

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 23, 1969

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance: Intergovernmental Group Meeting in New York
June 23 - July 3

You may be interested in seeing this. For handy reference I am attaching a copy of the Action Evaluation Paper referred to in the memorandum.

ISFcc: Mr. Knapp
Mr. Broches

President has seen

JUN 23 1969 (Returned)
5:30 pm.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: June 20, 1969

FROM: N. A. Sarma

*N. A. Sarma*SUBJECT: Supplementary Finance: IGG Meeting in New York
June 23 - July 3

Please refer to the discussion Mr. Kamarck and I had with you this morning. I understand the following to be instructions for me in attending the above session:

In view of the delicate nature of the matters involved, especially in the context of the whole development aid effort, the discussions of commodity problem, third replenishment of IDA, we confine ourselves to the questions directly posed to us:

- (i) Whether the Bank Staff Scheme could be implemented by Bank/IDA, within their existing Articles of Agreement, if the E.D.'s so agreed and if finance were made available: We have a (draft) note on this from the Legal Department, taking the view that administration of such a scheme within the Bank Group is possible by setting up an affiliated agency, or directly by the Bank or IDA (preferably the latter). Further details would depend on the specific scheme that might emerge. A brief statement to this effect would be made at the meeting, but it is not proposed to circulate the note to the Group.
- (ii) Another question relates to the revision of cost estimates: We would inform the Group that we have looked at available data for more recent years also, i.e. up to 1967, and our present estimate of financial requirements is about \$300 million a year. We have a paper with us on this, but would not circulate it to the Group. Any explanation that is required will be given orally. If it should become necessary to give the Group a written presentation, I am to consult you.
- (iii) Relation between Supplementary Finance and Fund's Compensatory Finance Facility: During earlier discussions, we tried to clarify this point on a technical basis. If S.F. should come to be administered by Bank Group as part of the Bank Group's regular activities, the question would become part of the whole framework of continuing consultations and cooperation between the Fund and Bank Group.

On these and other questions, such as the relation with Commodity Stabilization, our response would be as Bank staff members, on a technical level, not committing the Bank; on the basis that the Board has agreed for the staff to continue to cooperate in the work of UNCTAD on S.F. We would, however, avoid giving a negative impression towards supplementary finance and be guided in substance by the Action Evaluation Paper prepared for the Board Seminar.

Mr. Irving S. Friedman

- 2 -

June 20, 1969

In particular, we on our part would avoid any discussion of S.F. in the context of IDA replenishment. We will not put on record any kind of statement that S.F. could be tied up with IDA replenishment.

In this morning's discussion, I expressed the view that this session of IGG is likely to be the final one, though there may not be complete agreement on the Report. The Report goes to the Trade and Development Board at its ninth session (August 26 - September 12). It is for the Board to take a decision, at the political level, whether to have S.F., and on what basis. It is possible at that stage they may decide to agree in principle to a scheme with or without specified characteristics, and entrust the whole matter to the Bank (not just for further study but for drawing up a scheme to be implemented in due course.)

I understand that I shall be representing the Bank staff at the IGG meeting as originally planned, and you do not propose to attend, unless you hear from me otherwise.

cc: Mr. Kamarck

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

To: *Mr. Friedman*

Department

Received from the International Monetary
Fund for your internal confidential use
only.

DDF
Donald D. Fowler
Deputy Secretary

6/20

For Immediate Attention

Secretary - Dank

EBD/69/94

Room 211

#12

June 18, 1969

JUN 23 1969

To: Members of the Executive Board
From: The Secretary
Subject: UNCTAD--Intergovernmental Group
on Supplementary Financing

Attached is a copy of a letter received from UNCTAD inviting the Fund to be represented at meetings of the Intergovernmental Group on Supplementary Financing to be held in New York June 23 to July 3.

It is proposed that the Fund be represented at this session by Messrs. Edgar Jones, Director of the Geneva Office and Bahram Nowzad, Economist, Exchange and Trade Relations Department.

In the absence of objection by the close of business on June 20 the proposal will be deemed approved by the Executive Board and so recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

Palais des Nations
CH - 1211 Geneve 10
Switzerland

Ref. No. TDO 280/1 Fifth session

12 May 1969

Dear Mr. Schweitzer,

I am writing to you with reference to decision 54 (VIII) of the Trade and Development Board on the calendar of UNCTAD meetings for 1969 (TD/B/233, Annex I) whereby provision was made for the fifth session of the Intergovernmental Group on Supplementary Financing to be held from 23 June to 3 July 1969 at New York. Accordingly, the fifth session of the Group will open at United Nations Headquarters, New York, at 11 a.m. on Monday, 23 June 1969.

The annotated provisional agenda (TD/B/C.3/AC.3/26) has been distributed separately.

You will recall that the Committee on Invisibles and Financing related to Trade, in establishing the Intergovernmental Group, decided to invite "representatives of the staff of IBRD and the International Monetary Fund 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" (TD/B/73/Rev.1-TD/B/C.3/22/Rev.1, Annex I (a)), and that the United Nations Conference on Trade and Development at its second session decided "to continue in existence the Intergovernmental Group suitably expanded" (TD/97, Vol. I, Annex I, resolution 30 (II), paragraph 6).

A copy of the list of the members of the Intergovernmental Group as expanded by the Trade and Development Board at its seventh session is enclosed.

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431
USA

The participation of your Organization in the work of the Group has been greatly appreciated and I very much hope that you will find it possible to appoint a representative to attend its fifth session.

Yours sincerely,

/s/

Manuel Perez-Guerrero
Secretary-General of UNCTAD

Membership of the
Intergovernmental Group on Supplementary Financing^{1/}

Afghanistan
Argentina
Australia
Brazil
Canada
Ceylon
Chad
Chile
Federal Republic of Germany
France
Ghana
India
Italy
Japan
Nigeria
Pakistan
Poland
Sweden
Switzerland
Tunisia
United Arab Republic
United Kingdom of Great Britain
and Northern Ireland
United States of America
Uruguay
Venezuela
Yugoslavia

^{1/} A/7214, Part Two, paras. 96-99, and Annex I, Other Decisions (a).

Form No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP		Date June 9 1969	
OFFICE OF THE PRESIDENT			
Name		Room No.	
Mr. McNamara			
Mr. Knapp			
To Handle		Note and File	
Appropriate Disposition		Note and Return	
Approval		Prepare Reply	
Comment		Per Our Conversation	
Full Report		Recommendation	
Information		Signature	
Initial		Send On	
Remarks			
I believe you will find this of interest.			
158			
From Irving S. Friedman			

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: June 6, 1969

FROM: N. A. Sarma

*N. A. Sarma*JUN 6 1969
1.50 PMSUBJECT: DAC (informal) Meeting on Supplementary Financial Measures (Paris: June 4)

I attended the above meeting, which was convened to enable DAC members to exchange views preparatory to the next meeting of IGG on Supplementary Finance in New York from June 23 - July 3. Mr. Wishart also was there. Mr. Koinzer of Germany was Chairman.

In the course of discussion, in response to specific questions by the Chairman and by others, I stated the position with respect to the further material requested of us by the IGG. The DAC members expect us to provide papers on specific questions for the IGG meeting; especially on (revised) cost estimates, and whether the Bank/IDA can administer a scheme, if funds were made available and if E.D.'s so agreed, within the existing Articles of Agreement. They also hope there would be consultations between Fund staff and Bank staff on the relation between S.F. and C.F.F. and that this would be clarified at the IGG meeting. I stated that we have considered available data for more recent years also, and our present cost estimates indicated \$300 million a year as a reasonable figure.

My impression is that the overall attitude showed some resilience. There was an awareness of expectations of LDC's with respect to Supplementary Finance, and that funds for this purpose had to be additional. The U.S. recognized this was an important aspect of the development problem, but was not certain yet about the priority to be accorded to it. Australia did not say anything. France restated its known position, but briefly and less vigorously.

The U.K. specifically said that any scheme of S.F. that only diverted existing development funds to this purpose would be of little interest to developing countries. The idea had been expressed that IDA would be the administering agency. The U.K. raised the question of replenishment of IDA for its existing functions, and funds for this particular purpose of meeting export shortfalls. How would the S.F. contributions be shared among donors? The U.S.A. did not preclude IDA replenishment with this purpose also in mind, and noted that if IDA was to be the administering agency, the sharing of contributions could well be like for IDA. Several members spoke of Third IDA Replenishment and S.F. The U.K. noted that this would complicate negotiations more than if the two were staggered and separately dealt with. France doubted if all countries would agree to IDA replenishment with S.F. included in it. (I steered clear of this discussion.)

As summed up by the Chairman, there was a general feeling around the table that the next IGG session should be the final one. It would then be up to the Trade and Development Board and for governments to pursue the matter further. Therefore, Group 'B' (DAC) members should come prepared

June 6, 1969

to state their respective positions at an early stage of the IGG meeting, so as to facilitate the finalizing of the Report. If an agreed report did not emerge, as seemed likely in view of the rather wide range of views even among Group 'B' countries, then the Report of this meeting could be envisaged as supplement to the Report of the Group that was forwarded to UNCTAD II.

Mr. Koinzer noted that the so-called simplified alternative presented by them earlier did not gather any wide support. They were for a simple scheme, that was essentially discretionary and administered by an existing agency. The U.S. shared this view. It was observed by some members that on refinancing of Fund Facility, and other alternatives, there were no papers. It would not be possible to consider them at the IGG meeting unless details were presented. Then, as France put it, discussion would focus on Bank Staff Scheme, and this is what LDC's wanted.

cc: Mr. Wishart

ROUTING SLIP		Date June 10, 1969	
NAME		ROOM NO.	
Mr. Irving S. Friedman		A-1221	
	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On
REMARKS <u>DAC (informal) meeting on S.F.</u> You may like to see these papers, please. <div style="text-align: right;"> <i>N.A. Sarma</i> <div style="color: red;">JUN 11 1969</div> <div style="color: red;">10 am</div> </div>			
From N. A. Sarma			

OFFICE MEMORANDUM

TO: Mr. Richard H. Demuth

DATE: June 10, 1969

FROM: N. A. Sarma

SUBJECT: DAC (informal) Meeting on Supplementary Finance (June 4)

Please see letter to you from Mr. Wishart, of June 6, enclosing a note to Files. The additionality of funds for S.F. came out more clearly during discussion than is stated in the note. You may like to see a brief note I sent to Mr. Friedman on the meeting, attached hereto.

cc: Mr. Wishart

HEADQUARTERS:
WASHINGTON D.C. 20433

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD



INTERNATIONAL DEVELOPMENT ASSOCIATION

CABLE ADDRESS-INDEVAS



EUROPEAN OFFICE:
4, AVENUE D'IEÑA
PARIS (16^e) - FRANCE
TELEPHONE: KLEBER 25-10

June 6, 1969

Dear Sarma:

It was nice to see you in Paris.

I have prepared a short Note to Files on the meeting we attended on June 4, and I enclose a copy together with a copy of my letter to Mr. Demuth. Please let Mr. Demuth have any comments you may have on my Note, as well as sending me a copy.

Personally I thought the meeting went not too badly. I am sure that I shall see you again before you leave the Bank to return to India and shall look forward to doing so.

With kind regards,

Yours sincerely,

Encl.

G. C. Wishart

Mr. N. A. Sarma
Development Programs Studies
Economics Department
International Bank for
Reconstruction and Development
Washington, D.C.

June 6, 1969

Dear Dick:

DAC - Informal Preparatory Meeting
for Inter-Governmental Group on
Supplementary Financing.

Sarma and I attended the above meeting on June 4.

The general atmosphere was that delegates wanted to say as little as possible. The Chairman went through the IGG Agenda and on most of the items there were "No Comments". In conclusion, everyone agreed that the IGG should be wound up and that further consideration of a possible supplementary financing scheme should be left to the ninth session (and I am sure future sessions) of the Trade and Development Board.

I enclose three copies of a Note to Files as well as a further copy for Fred Consolo. Before you distribute these however, I should like to know that Sarma is not in disagreement with my record. I am sending him a copy of my Note together with a copy of this letter and am asking him to send any comments he may have direct to you with a copy to myself.

Yours sincerely,



Encls.

G. C. Wishart


Mr. Richard H. Demuth, Director
Development Services Department
International Bank for
Reconstruction and Development
Washington, D.C.

GCW:lp1

OFFICE MEMORANDUM

TO: Files

DATE: June 6, 1969

FROM: G. C. Wishart SUBJECT: DAC - Informal Preparatory Meeting for Inter-Governmental Group on Supplementary Financing

1. Mr. Sarma and I attended the above informal meeting which was held in Paris on June 4. The DAC member countries, which are members of the Inter-Governmental Group (IGG), were mainly represented by delegates from their permanent OECD/DAC missions. Exceptions were Mr. Koinzer from Bonn, Mr. Huijsman of ODM who had come from London, a Japanese representative from Tokyo, and Mr. Dunkel representing Switzerland. Mr. Dunkel's presence was particularly important as he is the Rapporteur for the IGG. Mr. Koinzer was elected chairman of the meeting.

2. The meeting was fairly business-like and constructive. It seemed generally accepted by all that there was no possibility, at the forthcoming IGG, of coming up with any agreed recommendation to implement a supplementary financing scheme. As the IGG is by definition a group of experts and a limited group, any decision on the possibility of embarking on a supplementary financing scheme would have to be left to the Ninth Session of the Trade and Development Board at which all governments would be represented and which would be the correct forum for a political decision. Most delegates who spoke emphasized that their authorities are prepared to keep an open mind on the need for such a scheme although they did not foresee any early decision to move ahead.

3. The Chairman went through the Agenda for the forthcoming IGG and asked regarding the status of further papers or explanations which had been called for. In regard to the further information required from the Bank, Mr. Sarma reported as follows:-

- (a) On the question whether the World Bank Group would be able to act as the administrator for a supplementary financing scheme, he pointed out that this would require a decision by the Executive Directors. An examination is being carried out as to whether the charters of the Bank and/or IDA would permit the Bank Group so to act and a report would be made at the next meeting of the IGG.

- (b) On cost estimates, Mr. Sarma mentioned that the original Bank staff scheme had been based on export projections up to about 1963. The Bank staff had now been able to examine export projections for various groups of less developed countries up to 1967. On that basis, the Bank staff estimate of the cost of the supplementary financing scheme could now be put at \$300 million a year. Mr. Sarma emphasized that this estimate came from data collected for other purposes than a supplementary financing scheme and must be considered bearing that limitation in mind. He also repeated that the Bank staff scheme, as amended, did not propose an "open-ended" commitment and that, if necessary, rationing would have to take place.

4. In the course of the general discussion, the following points were made:-

The United Kingdom delegate (Mr. Huijsman) said that his Government was on record as favouring a modified form of the Bank scheme. It was also open to conviction on any alternative scheme. The final attitude of the British Government would be determined based on the efficacy of the scheme suggested. He asked that consideration be given to the financial implications.

The United States' delegate (Minister van Dyke) said that the question of contributions to a scheme was premature. A decision had to be taken first on whether or not there ought to be a scheme. The United States authorities still felt that the Bank staff scheme was too complicated and would be interested in exploring other alternatives.

In this connection, the United States' delegate referred to the possibility of a predetermined portion of IDA Third Replenishment funds being earmarked for supplementary financing purposes.

The Japanese delegate asked whether it was intended to raise the question of the Third Replenishment of IDA at the next Bank Annual Meeting and whether, at that time, consideration might be given to linking the Third Replenishment with supplementary financing. The United States' delegate then made it clear he was not putting forward any such proposal and that no talks had taken place on this subject.

The French delegate (Mr. Beaurain) cautioned strongly against any mention of an IDA Third Replenishment, and its possible implications for supplementary financing, being made at the IGG. The matter of a Third Replenishment was not one to be discussed at a meeting at which the less-developed countries were present.

5. Consideration was given to the form of the report which might emerge from the IGG meeting. It was unanimously agreed that the work of the IGG should be terminated at the forthcoming meeting and that it was not to anyone's advantage to keep the Group in being by requesting a number of additional studies.

6. Mr. Dunkel, speaking personally, suggested that the report might take the form of a supplement to the IGG report prepared for the New Delhi UNCTAD Conference. Such supplementary report might list the conclusions arising from the examination of the additional points raised at New Delhi. The report would conclude by remitting the further consideration of a supplementary financing scheme to the Ninth Session of the Trade and Development Board. For the report, he thought that the IGG might indicate that some "additionality" of financial assistance is necessary to meet the needs of less developed countries which suffer periodical losses of export earnings.

7. The United Kingdom delegate hoped that the report would not take the form of a majority view (the Group of 77) and a minority view (Group B). The United States' delegate had some difficulty about Mr. Dunkel's statement that "additional financing is wanted". His authorities could only go so far as to say that they recognize export shortfalls as one of the problems of development. The Chairman summed up the sense of the meeting as being that all would like to see an agreed report from the IGG to the Trade and Development Board but that it was doubtful if all Group B countries could subscribe to the inclusion of the idea of "additionality".

cc: Mr. Demuth (3)
Mr. Consolo
Mr. Sarma

Mr. Karasz
Mr. Steuber.

Mr. Federico Consolo

May 13, 1969

Irving S. Friedman

UNCTAD - Trade and Development Board

Thank you for your memorandum of May 6.

I think I had better plan on attending both the Committee on Supplementary Financing in New York and the session on the Trade and Development Board in Geneva, at least for part of the time.

In any case Sarma will be attending full time.

cc: Mr. Sarma

OFFICE MEMORANDUM

TO: Mr. Friedman

DATE: May 6, 1969

FROM: Federico Consolo *FC*

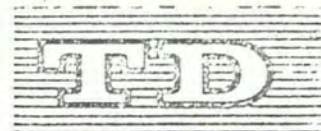
MAY 7 1969

SUBJECT: UNCTAD - Trade and Development Board

1. The next session of the Trade and Development Board will be in Geneva from August 26 through September 12. Attached is a copy of the Draft Provisional Agenda.
2. This session will, inter alia, consider the report of the Enlarged Committee on Supplementary Financing to be held in New York from June 23 through July 4, and which I suppose you will be attending.
3. I bring the Trade and Development Board session to your attention because I imagine you will want someone from your group to attend, unless you will come yourself.
4. I would appreciate your reaction to this: I shall be here till early June, then shall go to Geneva for various meetings (UNDP, ACC, ECOSOC and T and D Board). My office will always be in touch with me.

Encl.

cc: Mr. Demuth



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United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Eighth session
Geneva, 21 January 1969
Agenda item 15

DRAFT PROVISIONAL AGENDA FOR THE NINTH SESSION OF THE BOARD

Note by the UNCTAD secretariat

aug 26 / sept 17, 1969

1. In pursuance of rule 8 of the rules of procedure of the Board, a draft provisional agenda for the ninth session is submitted herewith.
2. Modifications, deletions and additions to the attached draft will be made, as necessary, by the Secretariat in the light of the decisions taken by the Board at its present session.

*Cordery - confirm 4116
Date & agenda*

DRAFT PROVISIONAL AGENDA FOR THE NINTH SESSION OF THE BOARD^{1/}

1. Adoption of the agenda
2. Adoption of the report on credentials
3. UNCTAD and the second United Nations Development Decade
4. Review of the implementation of the recommendations of the Conference
5. Report of the Special Committee on Preferences on its second and third sessions (Conference resolution 21 (II))
- * 6. Growth, development financing and aid:
 - (a) Supplementary financial measures: report of the Inter-Governmental Group on Supplementary Financing;
 - (b) Report of the Committee on Invisibles and Financing related to Trade on its third session
 - (c) Recommendations of the Committee on Invisibles and Financing related to Trade on the draft texts remitted to the Board by the second session of UNCTAD
7. Report of the Committee on Shipping on its third session
8. Commodity problems and policies:
 - (a) Report of the Committee on Commodities on its fourth session;
 - (b) Report of the Advisory Committee to the Board and to the Committee on Commodities on its third session;
 - (c) Report on negotiations or consultations on individual commodities
9. Transfer of technology, including know-how and patents: Board resolution 48 (VII)
10. Trade relations among countries having different economic and social systems
11. Impact of the regional economic groupings of the developed countries on international trade, including the trade of developing countries: draft resolution remitted to the Board by the second session of UNCTAD.
12. Trade promotion activities:
 - (a) UNCTAD/GATT International Trade Centre;
 - (b) United Nations export promotion efforts (Economic and Social Council resolution 1362 (XLV))

^{1/} For the ninth session and a possible resumed ninth session.

13. Progressive development of the law of international trade: second annual report of the United Nations Commission on International Trade Law
14. Co-ordination of the activities of UNCTAD with those of other bodies in the field of trade and development
15. Work programme of the UNCTAD secretariat and its staffing and budgetary requirements ^{2/}
16. Election to membership of committees
17. Review of the calendar of meetings ^{3/}
18. Provisional agenda for the tenth session of the Board ^{3/}
19. Financial implications of the actions of the Board ^{3/}
20. Other business ^{4/}
21. Adoption of the report of the Board to the General Assembly ^{5/}

^{2/} To be considered at the resumed ninth session to be held in February 1970.

^{3/} Decisions taken at the ninth session may be reviewed by the Board, if necessary, at the resumed ninth session to be held in February 1970.

^{4/} The Board at the resumed ninth session will also have this item before it.

^{5/} The report on the resumed ninth session might be included in the Board's report to the twenty-fifth session of the General Assembly and be adopted by the Board at its tenth session.

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SecM69-207

FROM: The Deputy Secretary

April 18, 1969

STABILIZATION OF PRICES OF PRIMARY PRODUCTS

SUPPLEMENTARY FINANCE

There is attached a copy of a paper entitled "Supplementary Finance", together with an attached draft decision of the Executive Directors. These will be discussed at an Executive Directors' Seminar on May 1, 1969, at 3:00 p.m. in the Board Room.

Distribution:

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

STABILIZATION OF PRICES OF PRIMARY PRODUCTS

ACTION EVALUATION PAPER NO. 9

SUPPLEMENTARY FINANCE

I. Introduction

1. The Bank Staff Study on Supplementary Financial Measures was forwarded to the U.N. Secretary-General in December 1965 as forming "the basis for a feasible solution to a problem of major importance", in response to a Recommendation of UNCTAD I which requested the Bank to study the feasibility of a scheme which "should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature and duration which cannot adequately be dealt with by short-term balance of payments support" and, if appropriate, to work out a scheme. This paper gives a resume of the discussions that have taken place so far in UNCTAD I and UNCTAD II, and in the Inter-governmental Group set up by UNCTAD on Supplementary Finance, describes the main elements of the scheme proposed by the Bank Staff, as well as the critical comments made, and points out the relationship of Supplementary Finance to Commodity Arrangements.

2. The next session of the Inter-governmental Group, to be held during June 23 - July 4, 1969, is expected to finalize its Report, which would then be considered by the Trade and Development Board of UNCTAD at its session during August 26 - September 12, 1969.

3. This paper suggests a possible course of action that the Bank might take on supplementary finance in connection with the commodity study pursuant to the Rio Resolution.

II. Recommendation of UNCTAD I

4. In his statement at UNCTAD I on April 6, 1964, the Head of the United Kingdom delegation, the Rt. Hon. Edward Heath, commended the stabilization of commodity prices and supplementary financial assistance as among the key points before the Conference. On supplementary financial assistance he had this to say: "We recognize that balance-of-payments problems may arise in developing countries which call for special measures of assistance. Sharp falls in the export earnings of less developed countries, such as have occurred from time to time in commodity trade, can be disruptive of development. The International Monetary Fund offers certain facilities to meet the short-term effect of such falls. ...However, there is a risk that development may be disrupted as a result of longer term adverse movements in export receipts. In the distribution of the aid which we in the developed countries make available, whether bilateral or multilateral, we should perhaps take more account of these risks."

5. Recommendation A.IV.18 of the Conference on Supplementary Financial Measures (Annex A), the result of the initiative taken by the U.K. and Swedish delegations, was adopted by 106 votes to none, with ten abstentions (USSR and other Socialist Countries). The Recommendation requested the World

Bank to study the feasibility of a scheme which "should aim to deal with 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, if appropriate, to work out such a scheme. An adverse movement was defined as a 'shortfall from reasonable expectations'. The purpose was "to provide longer-term assistance to developing countries which would help them to avoid disruption to their development programs". The recommendation was made recognizing that "adverse movements in the export proceeds of developing countries can be disruptive of development", and noting that "the IMF can make available balance of payments support to help meet the short-term effects of shortfalls in export proceeds". Australia while voting in favor of the proposal for studies as to the feasibility of supplementary finance, expressed reservations about the desirability of financial measures as a means to dealing with long-term shortfalls in export receipts. France, while voting in favor of the Recommendation, did not accept the principle of what they termed long-term compensation of fluctuations in export earnings; in its view, the real solution was in the organization of primary produce markets, permitting the maintenance of stable and remunerative prices.

6. The Recommendation represented a consensus to which both developed market economy countries and developing countries subscribed. There was another draft resolution sponsored by fourteen developing country delegations. Recommendation A.IV.18 incorporates both, as separate parts. It is in response to the first part of the Recommendation that the World Bank Staff proposed a Scheme for Supplementary Finance, to meet the problem of unexpected short-falls that are potentially disruptive of a developing country's development efforts. The basic approach of the World Bank Staff proposal is outlined in paragraphs 7-8 below. The Staff proposal was circulated to the Board in November 1965,^{1/} and was forwarded to the U.N. in December 1965 as forming "the basis for a feasible solution to a problem of major importance". Since then, discussion has been focused on this in UNCTAD bodies and outside.

7. The Bank Staff Study proceeds on the premise that it is desirable to provide countries, already short of foreign exchange because of their efforts to speed up the process of development, with a ready source of long-term assistance to enable them to maintain agreed development programs in the face of unforeseen adverse export movements that are beyond their control. It is important under the Bank Staff Scheme that the development programs and policies be internationally discussed and agreed. Thus, the Scheme seeks to assure prompt assistance - assistance that would be supplementary to and not a substitute for already existing forms of aid. While there is no implication that there should be binding commitments with respect to basic development assistance over a period, it is to be expected that the careful examination of development programs internationally would facilitate the flows of development capital.

8. In order to avail itself of this facility, a country would have to enter into an initial understanding with the administering agency as to

^{1/} R/65/174: November 15, 1965.

what might be regarded as reasonable expectations for exports during a period covered by the country's development program and as to certain key aspects of its development program and policies. (The need for and feasibility of export projections are considered later.) The designated international agency would be reviewing the performance of the country periodically, to judge whether the country's performance is satisfactory enough for it to be eligible for assistance from the Scheme. A shortfall from reasonable expectations of export earnings (as specified in an agreed export projection) occurring in a country which has been following the agreed policy understandings can be assumed to be beyond its control. This obviates a time-consuming study of the causes and consequences of such shortfall at the time it occurs. The Scheme would be a means of providing speedy assistance at the time of need, without being an automatic one, because it provides for judgments by the Agency. Thus, the Scheme does deal with the problem of uncertainty but makes a clear distinction between certainty and automaticity.

III. Report of the Inter-governmental Group to UNCTAD II

9. An Inter-governmental Group on Supplementary Financing ^{1/} was established by the Trade and Development Board in September 1966, to examine the Bank Staff Scheme and to submit a report (with such modifications to the Scheme as it might consider appropriate) as a means of achieving the objective set out in Part A of Recommendation A.IV.18 of the first Conference. Bank staff members participated in these deliberations as technical experts. At its third session held from October 30 to November 13, 1967, the Group adopted its Report which was forwarded direct to UNCTAD II. The general assessment of the Group given in this Report was as follows: "A few members have stated that, in view of unresolved questions of some importance (and without prejudging the question whether the objectives set out in Recommendation A.IV.18 should be achieved by a scheme with the characteristics of that of the IBRD staff or in other ways), they are not as yet prepared to take a position. One member expressed the view that the Scheme would not be either a timely or a genuine solution to the basic problem - the instability and inadequacy of the export proceeds of developing countries - which in its opinion could only be dealt with efficaciously by a system of organization of markets for primary products. All other members of the Group believe that, although a number of questions, some of them important, require further consideration, the objective set out in Part A of the Recommendation can be achieved by a scheme with the essential characteristics of the IBRD Staff Scheme." The developing countries' members of the Group prepared a joint statement of their views, strongly endorsing all the essential elements of the Bank Staff Scheme, which was also circulated as a document of UNCTAD II.

IV. Some Other Suggestions

10. Certain other proposals for avoiding the disruption of development programs made in the course of the Group's deliberations are noted in the

^{1/} The members of the Group were: Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Poland, Sweden, U.A.R., U.K., U.S.A., and Yugoslavia. There was provision for two Eastern Group countries; one remained vacant.

Report referred to above. Each of these proposals is followed by extensive comments representing the views of most members of the Group who thought that none of these suggestions would adequately meet the objectives of UNCTAD Recommendation A.IV.18 on supplementary financing.

(a) Under one alternative the scheme would be operated on an ad hoc basis without the need for export projections and any prior understanding on policy matters. Under this suggestion also, however, a country wishing to avail itself of the scheme is expected to undertake to consult fairly regularly with the Agency administering supplementary finance about its development and economic policies. As for determining whether a decline in exports constituted a shortfall from reasonable expectations, this would be done by the administering agency ex post on the basis of certain established guidelines. When a country suffers a serious shortfall in export proceeds, the causes of the shortfall are to be examined in a speedy manner, and the amount and conditions of financial assistance are to be decided, taking into account the need of the country (possible disruption of the development program), its general performance and all relevant circumstances, as well as the availability of resources for the Agency. There would be close cooperation between the Agency and the Fund, possibly through a Joint Committee. The Joint Committee would receive and consider applications for both Compensatory financing and Supplementary financing.

(b) Another suggested essentially the refinancing of IMF drawings. According to one suggestion, the Agency would examine, at the request of the countries, the economic situation and performance of countries that had drawn from the Fund under Compensatory Financing Facility or had made ordinary Fund drawings to offset shortfalls of the same general character, so as to ascertain whether the country in question was making a reasonably effective effort to promote its own economic development. The purpose of assistance under this suggestion would be in effect to extend the period of repurchase of Fund drawings if the Agency took the view that the obligation to repurchase threatened disruption of its development program. A variant of the suggestion was that the Agency would also be empowered to provide assistance should a country's entitlement to draw from the Fund prove smaller than the amount of the shortfall.

(c) The third is the proposal for organization of markets. One representative argued that a purely financial solution to problems arising from poor organization of trade relations between industrialized and developing countries would fail. In his view, an initiative with respect to Supplementary Finance would delay the work in the Fund and Bank in response to the Rio Resolution on Commodity Price Stabilization.

V. Resolution of UNCTAD II on the Subject

11. In March 1968, UNCTAD II adopted the Resolution on Supplementary Financial Measures by 70 votes to none, with 8 abstentions (Socialist Countries) (Annex B). As recorded in the Report of the Second Conference, all representatives of LDC's who participated in discussions in Committee III (the Committee of the Conference that considered questions relating to finance) on this subject emphasized the need for a Supplementary Finance

scheme, and many called for early establishment of a scheme on the lines of the Bank Staff Study. The representatives of some developed market economy countries also supported the majority assessment of the Inter-governmental Group. Representatives of a number of other developed market economy countries, however, had reservations about the Bank Staff proposal; one of them felt that implementation of supplementary finance might detract from efforts to establish commodity stabilization agreements. Several references were made to the Bank and Fund studies in progress pursuant to the Resolution by the Boards of Governors of these institutions on stabilization of primary commodity prices.

12. The Resolution on Supplementary Financial Measures adopted at UNCTAD II reaffirms the objective of the proposal for Supplementary Financial Measures set out in A.IV.18 of the First Conference; it states that any scheme devised to meet this need should "provide reasonable assurance of help to protect a country's development plan or program against the effects of export shortfalls ..." It was decided to continue the Inter-governmental Group, suitably expanded, and the Group is requested to attempt to resolve certain outstanding issues enumerated in the Resolution. These are: (a) definition and method of assessment of reasonable expectations; (b) the scope of policy understandings; (c) measures to be taken by beneficiary countries; (d) relationship between Supplementary Finance and the Fund's Compensatory Financing Facility. This paper covers each of these issues, among others. Denmark, speaking on behalf of the Nordic countries, recalled that they had come to the Conference with the hope that the principles elaborated in the Bank Staff Scheme and the Inter-governmental Group Report would be accepted; they would do everything possible in the future work of the Inter-governmental Group to make this a reality. The "deep disappointment" of the developing countries at lack of definitive progress with respect to Supplementary Finance at the Conference was expressed by Brazil and Ceylon speaking for the developing countries.

VI. Present Status of Discussions

13. The expanded Inter-governmental Group has 26 members.^{1/} The fourth session - first one of the expanded group - was held in Geneva from October 21 - 25, 1968, and was intended to be preparatory for the next session to be held during June 23 - July 4, 1969. According to the Resolution adopted by UNCTAD II, the next session is to conclude the work of the Group, and the final Report of the Group would be considered by the Trade and Development Board at its ninth session during August 26 - September 12, 1969. The Group has requested the UNCTAD Secretariat, the Bank Staff, and the Fund Staff to furnish additional material and advice.

^{1/} Afghanistan, Argentina, Australia, Brazil, Canada, Ceylon, Chad, Chile, Federal Republic of Germany, France, Ghana, India, Italy (Spain in 1969), Japan, Nigeria, Pakistan, Poland, Sweden, Switzerland, Tunisia, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Venezuela, Yugoslavia.

14. In the discussions in the Inter-governmental Group, and at UNCTAD II, critical comments were made by some of the main donor countries on certain aspects of the Scheme put forward by the Bank Staff. In brief, it was argued that the policy understandings were likely to involve duplication with the work of other agencies and might raise difficulties for recipient countries of a political kind; that export projections for as long as 4 to 6 years could not be made with reliability and could not form the basis for financial claims; that the cost estimates were not precise and seemed to envisage open-ended commitments for contributing countries; that there was no provision for adequate coordination with the Fund's Compensatory Financing Facility. There is also the important question of how Supplementary Finance fits into an overall or integrated approach with respect to the commodity problem, and the overlap, if any, between commodity price stabilization efforts and supplementary finance. These matters are dealt with in the following paragraphs.

VII. Policy Understanding

15. With respect to the scope of policy understandings, and the frequency of consultations, it was noted in the Bank Staff Study: "The precise nature and degree of detail of such an understanding would vary considerably as among countries. Continuing contact would be maintained, moreover, between the administering agency and the country throughout the plan period in order to provide the basis for an assessment of the extent to which the agreed criteria of performance were currently being fulfilled or needed adjustment in the light of changing circumstances". The "policy package" would have to be in broad macro-economic terms, including understandings in particular about export earnings, public and private investment and domestic savings; implementation would be left to continuous working relations between a country and the Agency, made necessary in any case by the needs of nearly all developing countries for external assistance, including assistance from international financial institutions. The policy understanding would not be confined to the export sector only, because the factors and policies affecting exports arise in all sectors of the economy. It was emphasized by the Bank staff in the various meetings on the proposal that, in general, the policy understanding represents what a country discusses with donor countries and international institutions about its development program when it seeks basic development finance and that understandings on these matters were becoming more common. Available data, experience and assessments arising from consortia and consultative group discussions, the work in the World Bank Group and in the Fund, were to be fully utilized. In evaluating the development programs of countries for purposes of supplementary finance, the Agency, if separate, could avail itself especially of the experience of the World Bank Group. Similarly, the Agency could avail itself of the advice of the Fund on matters falling within the field of the Fund's responsibilities.

16. A multilateral institution, like the World Bank Group, while concerned with the obtaining and allocation of its resources, has a wider perspective, i.e. the improved performance of a developing country in the mobilization and effective use of its resources, domestic and external. Given this broad framework of approach, however, there cannot be uniformity for all countries. One or another aspect may have to be considered in depth

depending on the situation of a particular country. It may be fiscal matters in one case; in another, the working of public enterprises. In a third, it may be the foreign exchange mechanism. In considering and evaluating performance, flexibility is essential, seeking the crucial or key elements for a given country, in a certain situation. No one will argue, for example, that monetary or fiscal policies can be fixed over time. In any case, not all eventualities can be visualized at this stage; procedures would have to evolve in the light of actual experience. Above all, policy understandings would be predicated on and involve mutual cooperation and contacts between a member country and the administering agency. A certain confidence in international agencies, created and run by governments, is needed by both developed and developing countries to enable them to function effectively, especially in assessing economic performance.

17. After extensive discussions within the framework of UNCTAD and otherwise, the developing countries have come to accept by and large the underlying purposes of policy understandings and the manner they would be arrived at and implemented, whatever their initial misgivings may have been. Thus, for the first time, the need for performance evaluation and commitments thereon on the basis of international consultations, so important in the field of development finance and urged so long by the donor countries, came to be discussed openly, and a certain approach was formulated to which the LDC's have indicated willingness in principle to subscribe. The conclusion of the Inter-governmental Group on policy understanding in its Report of November 1967, expresses general agreement "that a policy understanding should be part of the Scheme", and "it was generally agreed that consultations might be broadly along the lines of those conducted by international financial institutions".

VIII. Export Projections

18. A feature of the Scheme proposed by the Bank Staff is an understanding between the administering agency and the country on an export projection for a period over which the country has formulated a development program. The export projection indicates the amount of foreign exchange which the country may reasonably assume will be available from its exports in each year of this period. The projections are based on informed assumptions regarding world trade developments, and on the understanding that certain domestic policies would be followed. An export projection is a way of utilizing available information combined with the most plausible assumptions about the future circumstances in order to estimate future export earnings on which to base a development program. It is important to distinguish such projections from predictions of what will in fact occur in the future. Hence, it is not a valid criticism to point out that projections turn out to be 'wrong' in any particular case. In fact, if every projection were to prove 'right', i.e. if it were an accurate prediction, a scheme to handle unforeseen short-falls would not be needed. The essential point relates to the defense of a development program from deviations in earnings from anticipated exports on the basis of which the program had been formulated -- a viewpoint fully in accord with the original UNCTAD Resolution.

19. Such projections, together with other items affecting foreign exchange availability, would be required by developing countries, irrespective of supplementary finance, in order to judge the feasibility of their development programs. Export projections are built into development programs in two ways: the development program contains commitments to certain policy actions on which the projections are based, especially in export policies; the development program in turn is based on the export projection and is tested for financial feasibility on the basis of anticipated export earnings and other sources of development finance.

20. In suggesting a five-year projection period, to coincide with the normal length of a development plan, limitations of available techniques of projection over that long a period were recognized. However, today most developing countries are accustomed to making export projections to provide a basis on which investment programs can be built. The Bank Staff's considerable experience in this field suggests that such five-year projections are practical. The quality of projections can, of course, be improved by sharpening analytical tools and strengthening the basis for technical judgments, and this is being attempted in the World Bank in any case. However, whatever the improvement in projection techniques, this would not eliminate the problem of unexpected shortfalls because unpredictable changes in a country's export situation and in the world economy will continue to take place.

21. The question has been raised relating to the desirability of periodic revisions, say, every year or every two years. The viewpoint in the Bank Staff Study is that during the operation of a development plan, the underlying export projection should not be subject to revision except when changed conditions justify a major readjustment of the investment pattern and of the development strategy, because investment calculations must be based on export projections. Whether or not such a major readjustment is required would be determined in consultations between the Agency and the country concerned. Revisions in export projections would be made when the development program itself has to be reformulated due to circumstances other than an export shortfall such as a fundamental change in export prospects, major change in development aid, etc. During discussions, a consensus has been emerging that a rough mid-term review of the development program might be appropriate; this would also make it possible to review export projections as well as increase their reliability. This can be reconciled with the Bank Staff view in that such a review would help to defend development programs in an 'orderly' way; one can see then what can be done to raise more resources -- domestic and external -- and also evaluate the changes in export outlook more precisely, and act accordingly.

IX. Cost Estimates

22. Given an agreed projection of export proceeds on which the country's development program is based, the financial assistance which a country can expect from the Scheme in the event of an export shortfall may be determined by comparing the actual exports with the projected exports. The idea is put forward in the Scheme that such financial assistance should be related to the amount of shortfalls -- the amounts by which actual exports fall short of projected exports in particular years -- net of "overages", i.e.

the amounts by which actual exports exceed projected exports in other years within the same planning period.

23. In the Bank Staff Study, a simulation exercise was carried out, comparing merchandise export projections for individual countries made by the Bank Staff for various periods with the actual export earnings of the same countries in the corresponding years. 'Global' gross shortfalls were derived from this. Overages and drawings under the IMF's Compensatory Financing Facility were allowed for. Then, several other adjustments were made to arrive at an estimate that would indicate the financing requirements of the Agency. They were the number of developing countries likely to utilize the Scheme in the initial years, the likely improvement in the methodology and use of export projections as compared to the periods of the simulation exercise, the extent to which the developing countries would be expected to meet shortfalls on their own and, finally, the possible contribution to meet export shortfalls from sources of finance other than the IMF Compensatory Facility. Under the Supplementary Finance Scheme, a developing country is expected to meet the problem of an unexpected export shortfall to some extent with its own means, which include the use of some part of its foreign exchange reserves and internal adjustments involving a reduction in demand for foreign exchange. It is understood that these measures could be undertaken in a number of cases without disrupting the development effort in which the country was engaged. Although the extent to which each individual country could do so would vary from case to case, an attempt was made to assess the probable order of magnitude of the effort which might be considered reasonable when all developing countries are grouped together.

24. Given the nature of the problem, it was not possible to quantify these factors in any exact way. On the other hand, to estimate even the rough order of magnitude of the amount of resources needed to run the Agency during an initial period, it was necessary to attribute some orders of magnitude to the different factors mentioned above. On this basis, it was estimated that an annual average of \$300 - \$400 million for the initial five years would have to be covered by the Agency administering Supplementary Finance. It was emphasized in the Study that the quantification of financial requirements and of the various factors involved was rough; no precise calculations were possible because the Scheme was novel and historical data were only useful in helping to judge magnitudes but were by no means certain indicators. The intent was to arrive at an estimate of finance for the Scheme with which the Scheme might reasonably be expected to operate successfully in the initial period, for the purposes set out in the Recommendation.

25. In the course of discussions in the Inter-governmental Group, the cost estimates furnished in the Bank Staff Study were questioned on the grounds that the underlying data did not take into account experience in more recent years; that the difference between estimated export shortfalls and the cost estimate was large; and that the Scheme seemed to be an open-ended one, and claims might prove to be larger than the cost estimates provided for.

26. However, the conclusion of the Inter-governmental Group on costs reads: "It was widely agreed that the estimate of \$300-\$400 million per

year of the World Bank Staff provided the basis for arriving at a figure with which the Scheme might reasonably be expected to operate successfully in the initial period." During the discussions in the Group, it clearly emerged that a scheme of this kind could, however, not be open-ended. It had to envisage a fixed fund that was considered adequate and reasonable, and, therefore, the possibility of rationing had to be kept in mind. The Bank Staff agreed with this view.

27. The Bank Staff had now examined the cost estimates again, taking into account also available data for more recent years, i.e. up to 1967, as requested by the Inter-governmental Group. There is now a much longer period (11 years) for which data are available. Using the method described above in para. 23, the Bank Staff now estimate the financial requirements at \$250 mn.- \$300 mn. per annum for five years. As recommended by the Inter-governmental Group, a fixed fund could be set up (partly in cash contributions and the rest as a readily available line of credit as was indicated in the original study by the Bank Staff and referred to during discussions in the Inter-governmental Group), and the Agency entrusted with the Scheme be asked to manage it within that total for five years. All discussions on the subject have explicitly assumed that the funds for such a Scheme would be additional to other available development resources.

X. Administering Agency

28. The Resolution of UNCTAD I on Supplementary Finance envisaged administration of the Scheme under the IDA, with resources contributed by the major Part I member countries of the Association in the form of additional commitments, prescribed in advance. The 1965 Bank Staff Study did not address itself to the question of Administering Agency; throughout, the reference was only to the Agency. It was believed that it was desirable first to discuss the substance of the proposal made by the Staff. The Report of the Inter-governmental Group of November 1967 expressed the general agreement that the IBRD Group would be the most appropriate for the administration of the Scheme. In fact, the Inter-governmental Group at its fourth session (October 1968) asked the Bank: to what extent can the Bank Staff Scheme be implemented by the Bank and IDA within their existing Articles of Agreement, if the Executive Directors so agreed and if the necessary funds were made available.

XI. Supplementary Finance and Compensatory Financing Facility of the Fund

29. An important question that has come up frequently in the course of discussions relates to the relationship of the proposal for Supplementary Finance to the Compensatory Financing Facility of the Fund. The Compensatory Financing Facility helps to even out the availability of exchange earnings from exports for a member country and thus assists a country in meeting temporary, reversible, balance of payments deficits, on the understanding that the drawings would be repaid by the country within 3-5 years; the Fund recommends earlier repayment by a country when its export earnings exceed the trend value. The Supplementary Finance Scheme, on the other hand, has developmental objectives: it is intended to assist a developing country to maintain its development program which might otherwise be dis-

rupted by a shortfall of export earnings from reasonable expectations on which the development program was based. The proposal for Supplementary Finance has been made because countries cannot undertake development programs with a longer term perspective unless there is some assurance that their export earnings would correspond to reasonable expectations. In brief, it may be said that Compensatory Financing Facility has to do with instability or short-term fluctuations in export earnings, and Supplementary Finance with uncertainty of export earnings. Another difference is that in Compensatory Finance the emphasis is on the simple fact of a downward fluctuation; in Supplementary Finance it is on the causes of the change and its impact on the development process.

30. The different purposes of the two are reflected in the method of calculating export shortfalls. Under the Supplementary Finance Scheme, export prospects are considered in the context of a development program and take account not only of various objective factors, domestic and external, but also the impact of new policy measures. Attempt is made to estimate future export eventualities over a planning period of, say, five years, on which a developing country can rely in formulating and implementing its development program. The shortfall in export earnings is measured from a prior export projection for a future period. Under the Compensatory Financing Facility, the Fund meets requests for drawings by members whose export proceeds over the latest twelve-month period have fallen short of the estimated medium-term trend value of exports. The shortfall in export earnings is measured from a norm representing the medium-term trend value, estimated from a statistical formula as well as a qualitative judgment. The statistical formula attaches a weight of .50 to exports in the shortfall year and .25 to each of the two preceding years; the qualitative estimate involves a direct forecast of exports for two years ahead. Formerly, the statistical and qualitative estimates were given about equal weight in determining trend value of exports; currently a somewhat greater weight is given to qualitative estimates. But, "the average level of exports for the two years following the shortfall year will not be assumed to exceed by more than 10 percent the average level experienced in the preceding two years ..."^{1/} It is precisely because the trend or norm is a moving average for five years centered on the current shortfall year as the middle year that a rough balancing of shortfalls and surpluses of actual exports with respect to trend is expected over a relatively short period of time.

31. It was noted earlier that during the deliberations of the Intergovernmental Group, a view of Supplementary Finance was put forward in terms of possible refinancing of drawings under the Fund Compensatory Financing Facility: the different purposes of the two facilities would indicate that any refinancing of Compensatory Financing Facility could not be an alternative or substitute way of dealing with the problem for which Supplementary Finance has been proposed. Both at UNCTAD I and UNCTAD II, there were distinct recommendations on Compensatory Financing, and refinancing of Compensatory Finance drawings forms part of the content of these resolutions. The Recommendations on Supplementary Finance are separate, and are intended to deal with another problem.

^{1/} II Report by the IMF on Compensatory Financing and Export Fluctuations, p. 8.

32. If the resources of the Fund were available to meet export shortfalls as defined in the Supplementary Finance Scheme, it would help to avoid the disruption of an agreed development program; then, the amounts drawn in the Fund would likely be much larger and the ability of the country to repurchase in 3-5 years much less, as the country would not be expected to cut back, if necessary, its development effort to a level making possible the fulfillment of a medium-term repurchase obligation to the Fund. Thus, it is the mode of determining the shortfall and the length of time for which financing is available that are critical -- it is not a question of techniques, but one of purpose.

XII. Commodity Agreements: Elements of:

33. The Commodity Problem is described briefly thus in the joint study "The Problem of Stabilization of Prices of Primary Products", Part I, by the Staffs of the Fund and the Bank: "The developing countries are heavily dependent on primary products for most of their exports: currently, 88 percent of their export earnings are derived from primary product sales. Furthermore, these exports are concentrated on a narrow range of products: almost one-half of these countries depend on one commodity for more than 50 percent of their total exports and as many as three-quarters derive more than 60 percent of their total exports from three primary commodities. As a result, the export earnings of the developing countries, with their crucial influence on import capacity and development potential, are heavily dependent on the prices and trading opportunities prevailing in world commodity markets. With limited but important exceptions, these markets have shown two major unfavorable characteristics. First, their absorptive capacity has grown only slowly, so that increased sales have often been possible only at falling prices. Second, these markets have been subject to particularly wide price fluctuations, which have themselves sometimes contributed to adverse longer-term price trends. Demand for most primary products is growing relatively slowly as a result of both technological developments and changes in consumer spending patterns. Moreover, world trade in primary products, and particularly in agricultural products, has been held back by the protection given by industrial countries to their own primary producers."

34. The stabilization of prices of commodities through commodity arrangements and increased access to the markets of industrial countries represent the trade approach for influencing the foreign exchange receipts of developing countries. By reducing the amplitude of price fluctuations and by seeking to deal with the slow growth of demand for primary commodities, they help to improve the level and trend of export earnings. For years the need for commodity agreements has been recognized; their aims and essential features have been discussed extensively. However, it has been possible to conclude only a few agreements. Access to markets has proved no more rapid to improve.

XIII. Fund and Bank Group Action in Financing of Stocks (Proposals)

35. The extensive study of the commodity problem in pursuance of the Rio Resolution by the Bank Staff and consideration by the Board in a series of Seminars have led to the recognition that:

- (1) The sound economic development of member countries can, under certain conditions, be effectively assisted by suitable international commodity agreements providing, among other things, for the holding of commodity stocks in national or international hands;
- (2) that this would be among the guidelines for the World Bank Group in appraising economic performance and the needs of member countries for development financing; and
- (3) international buffer stocks may, under certain conditions, make a useful contribution to a reduction of the amplitude of short-term fluctuations in export earnings and thus help to promote the sound economic development of member countries.

While the Fund would (as proposed) use its Compensatory Financing Facility to provide short-term credit to member countries to facilitate their participation in international buffer stocks under suitable international commodity agreements, it would appear that member countries may also need to commit resources over a longer period for this purpose. The Bank Group, in considering its loans or credits to member countries, would (as proposed) take into account additional long-term capital requirements arising from countries' participation in such buffer stock schemes, while maintaining its customary lending standards, and as part of its normal lending operations.

36. It is also recognized that the holding of reserve stocks by members to prevent abnormal price increases of primary commodities may in some cases help improve the longer-term export earnings of developing countries; and, similarly, the holding of stocks of certain primary products by member countries over medium-to-long term periods, while production is being adjusted to demand, may support export earnings of developing countries from such products. According to the proposal under consideration, the Bank Group would take into account the additional need of countries for external borrowing resulting from participation in international commodity agreements serving these purposes, in considering applications of member countries for development loans or credits.

37. Thus, the complexity of the commodity problem, as well as the limitations and framework under which international financial institutions function, require that a positive and realistic approach be adopted. We may now, appropriately, proceed to consider the relevance of this to Supplementary Finance.

XIV. Commodity Agreements and Supplementary Finance

38. As for the relationship between Commodity Agreements and Supplementary Finance, progress in negotiating commodity agreements is likely to enable countries to have more accurate expectations of their export prices and hence, in part, of their earnings, on the basis of which to formulate their development programs. It has been observed in past periods that large export shortfalls occur when commodity prices fall. Buffer and other stock arrangements help to maintain better price stability. When a developing country depends on one or two commodity exports, and a degree of price

stability is secured, this reduces a main factor of uncertainty in export earnings. Thus, effective commodity arrangements make for better export projections and reduce the cost of Supplementary Finance. This effect would depend on the number of commodities subject to agreements and the operative features of such agreements, especially in regard to export volume. However, even where a commodity agreement is effective, with stock management and other features, it is only a price range -- not a fixed price -- that is sought to be maintained. And, the other elements of uncertainty also remain. More important, however, is that insofar as commodity agreements take considerable time to negotiate and conclude, this effect of creating greater certainty of export earnings would be postponed. Other important elements are that a large number of successful commodity agreements cannot be expected to be concluded in the foreseeable future, for reasons fully explained in the Commodity Seminars; thus, at most, they would not cover a large part of the earnings of many countries from all their exports, so that there would still remain the problem for which Supplementary Finance Scheme was designed.

39. the fact that there is some overlap between the area that may be covered by commodity agreements and the area covered by supplementary financial measures might be interpreted to imply that the adoption of supplementary financial measures might inhibit efforts to conclude commodity agreements. This is not justified for a number of reasons. One reason is that primary product exporting LDC's have an advantage in earning foreign exchange from their own exports, subject to commodity agreements, rather than by obtaining foreign exchange from Supplementary Finance Scheme as a loan, even if these loans were to be provided on concessional terms. Secondly, supplementary financial measures are only concerned with the extent to which actual export earnings are close to their expected values, and not with whether the expected earnings are stable or unstable. Finally, while commodity arrangements have a certain impact described above on Supplementary Finance, they have other, important, objectives: viz. to improve the trend of the export earnings of countries, especially by regulating international trade in particular commodities.

40. Thus, Compensatory Finance Facility and Supplementary Finance Scheme, the former to meet the volatility aspect of export earnings, and involving essentially short-term assistance, and the latter to meet the uncertainty aspect and involving essentially long-term assistance, would also be needed, however optimistic assumptions are made about the future of international commodity agreements. These financial arrangements and commodity agreements become complementary to one another and reinforce their effectiveness mutually, so that development programs of countries can go forward uninterrupted by export shortfalls resulting from causes beyond their control and to which they cannot adapt by taking domestic measures only without major setbacks to their development efforts. It is only for those very few countries that depended to a very large proportion (say, two-thirds or more) of their foreign exchange earnings on one or two commodities, if those commodities were covered by effective international commodity agreements, that the need for supplementary finance would become of minor importance.

XV. Conclusions and Recommendation

41. It is not suggested that the World Bank Group at this time give its views on all aspects of the proposals made with respect to Supplementary Finance. What might be done is for the World Bank Group to indicate its attitude on the relation between the commodity problem and Supplementary Finance; more particularly, after its review of the commodity problem, whether there still remains a need for supplementary finance. The various papers prepared for the Commodity Seminar and the discussions held would indicate that the problem of uncertainty to which the Supplementary Finance Scheme and suggested amendments thereof are addressed will still remain, however optimistic the assumptions which may be made about the future of international commodity arrangements. It is assumed that the Bank staff would continue to collaborate as it has in the past with the deliberations being held under the auspices of UNCTAD, including providing the requested information and analysis. In light of this there is appended hereto a proposed action which might be taken by the Bank as part of the Commodity Study now being done.

Chairman
Seminar on Stabilization
of Primary Products

April 18, 1969

A P P E N D I X

DRAFT OF DECISIONS BY EXECUTIVE DIRECTORS TO BE REPORTED TO GOVERNORS ON SUPPLEMENTARY FINANCIAL MEASURES

The Executive Directors have approved the following statement of policy regarding supplementary financial measures:

Having considered the question whether there continues to be a need for supplementary finance to meet unexpected shortfalls in export earnings as part of their review of the commodity stabilization problem, the Executive Directors conclude that different approaches to the problem are desirable and can be mutually reinforcing.

The Executive Directors note that the United Nations Trade and Development Board is considering a scheme proposed by the World Bank staff and certain other suggestions for dealing with the problem of providing supplementary finance to meet unexpected shortfalls in export earnings of developing countries.

The Executive Directors consider that the Bank should continue to collaborate with the United Nations Trade and Development Board in its deliberations to formulate measures for supplementary finance.

Annex A

UNCTAD I: Recommendation A.IV.18: Supplementary Financial Measures

A

The Conference,

Recognizing that adverse movements in the export proceeds of developing countries can be disruptive of development, and noting that the International Monetary Fund (IMF) can make available balance-of-payments support to help meet the short-term effects of shortfalls in export proceeds,

Recommends that the International Bank for Reconstruction and Development be invited to study the feasibility of a scheme with the objective set forth in section I below and based on the principles set forth in section II below, and, if appropriate, to work out such a scheme.

I. Objective

1. The new scheme should aim to deal with 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. Its purpose should be to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes.

II. Principles

2. The scheme should be provided with resources by contributions from participating countries, shared between them on an equitable basis.

3. Developing countries only should be eligible for assistance from the scheme; such assistance should be on concessional and flexible terms.

4. The scheme should normally be applicable after a developing country had had recourse to the International Monetary Fund, under its compensatory financing facility, and it had been possible to make a full assessment of the nature, duration and implication of any adverse movement in the export proceeds of the developing country concerned.

5. An adverse movement for the purposes of the scheme should be regarded as a shortfall from reasonable expectations (see Note 1 below) of the level of export proceeds (including, in appropriate cases, invisible exports).

6. A prima facie case for assistance from the scheme should be established by reference to shortfalls from reasonable expectations and to their nature and duration (see Note 2).

7. Once a prima facie case has been established there should be an examination, under the International Development Association, of all relevant economic circumstances (see Note 3) in order to assess how far assistance from the scheme would be required and justified in order to help avoid disruption of development programmes. Subject to these points, assistance could cover a substantial proportion of a shortfall from reasonable expectations.

8. Resources for the scheme, which would be administered under the International Development Association, should be in the form of additional commitments, prescribed in advance, for contributions to the Association; all the major Part I member countries of the Association should contribute.

NOTES

Note 1. To the extent that these could be prescribed in advance they could be taken account of by developing countries for planning purposes.

Note 2. The following are offered as illustrative circumstances which might constitute a prima facie case for assistance from the scheme to a developing country:

- (i) If, following an IMF drawing in one year under its special compensatory financing facility, exports fall significantly below reasonable expectations in the second or third year.
- (ii) If, when the IMF drawings were due to be repaid, exports had not recovered sufficiently for this to be possible without disruption of development.
- (iii) If there were a significant shortfall in exports which the IMF adjudged at the outset to be other than of a short-term nature and the IMF had decided that it would be inappropriate for it to provide temporary balance-of-payments support.

Note 3. Among other matters, these would include adverse effects from significant rises in import prices.

Annex B

UNCTAD II: Resolution 30: Supplementary Financial Measures

1. The Conference reaffirms the objective of the proposal for Supplementary Financial Measures set out in Annex A.IV.18 to the Final Act of the first session of the Conference. This states that "the new scheme should aim to deal with 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. Its purpose should be to provide longer terms assistance to developing countries which would help them to avoid disruption of their development programmes".

2. Any measures devised to meet this need should, on the basis of appropriate criteria, which should, to the extent possible, be objective, provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls, to the extent that they cannot be met by short-term balance-of-payments support.

3. The Conference expresses its appreciation of the report prepared by the staff of the International Bank for Reconstruction and Development; and of the reports of the Inter-governmental Group on Supplementary Financing. These reports have defined the issues involved and clarified many of them. The Conference agrees that further work is required to resolve some outstanding issues. The principal issues are:

- (a) The definition and method of assessment of reasonable expectations;
- (b) The scope, nature and acceptability of the understandings between the administering agency and individual participant countries on their development programmes and the policies to be adopted in order to carry them out;
- (c) The measures to be taken by countries applying for assistance;
- (d) The relationship between supplementary finance and the IMF Compensatory Financing Facility.

4. A matter requiring additional attention is how to determine in quantitative terms the disruption which has resulted from export shortfalls and consequently, what are the financial implications of proposals to meet the objectives of part A of recommendation A.IV.18.

5. Some of the issues set forth in paragraphs 3 and 4 above would arise not only from consideration of the IBRD staff Scheme but from consideration of other measures to meet the objectives of part A of recommendation A.IV.18, including those submitted to the Inter-governmental Group. Any additional proposals clearly responsive to the recommendation should receive due attention, with the aim of working out the most effective measures possible.

6. The Conference decides:

- (a) To continue in existence the Inter-governmental Group suitably expanded;
- (b) To request the Inter-governmental Group to consider and attempt to resolve the issues set forth in paragraphs 2 to 5 above;
- (c) In the light of the foregoing considerations to instruct the Inter-governmental Group to work out measures for supplementary finance;
- (d) To instruct the Inter-governmental Group to report thereon to the Trade Development Board as early as possible, and no later than its ninth session;
- (e) To direct the Trade and Development Board to study and take early action on the findings of the Inter-governmental Group, taking account of any proposals for action in the field of international commodity policy which may be submitted to the Board of Governors of the IBRD and the IMF on the basis of the studies which they have requested to be presented to them at their next annual meeting;
- (f) To instruct the Chairman of the Inter-governmental Group to report on its progress to the seventh session of the Trade and Development Board.