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Fonds: Records of the Office of the President

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Washington, D.C.

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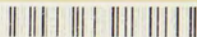
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Friedman UNCTAD Files - Geneva Meeting on
Suppl. Finance

Aug. 26 - Sep. 12, 69

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Irving Friedman UNCTAD Files: Geneva Meeting on Supplementary Finance: August 26 -
September 12, 1969 - Correspondence 01

OFFICE MEMORANDUM

OCT 28 1969
10-00 a.m.

TO: Mr. Irving S. Friedman

FROM: Ugo Sacchetti *U.S.*

SUBJECT: Policy Paper on Supplementary Finance

DATE: October 27, 1969

1. I refer to your memorandum of October 24, 1969 on the subject.
2. I understand that I will not receive from you any further guidance as to the policy attitudes of the Bank on the various aspects of a discretionary "scheme", besides the statement (your paragraph 2(a)) that it should be within the terms of reference given by the Trade and Development Board. I therefore will use my own criteria as to which are the most appropriate policy attitudes of the Bank on those matters.
3. I note that paragraph 6 of your memorandum states that the staff members and consultants therein mentioned are "available for consultations". I have mentioned to you that I need two staff members to work with me, and not for consultations and I thought we had agreed that you would request Mr. Macone to do so. The other staff member who would be of assistance to me would be somebody who has had long experience with the discussions and technical aspects of supplementary finance. I note that in your memorandum to Mr. McNamara of September 26, 1969 you mention that Mr. Bimal Jalan was involved in the original work for a number of years.
4. I am afraid I would not be able to prepare the paper within the short period of time given to me without this minimum assistance. In addition, you may wish to specify whom you have in mind for the preparation of the technical papers which should be written on the questions listed in paragraph 4 of your memorandum. I wish to confirm that I have been advised by my physician, that as a result of the heavy pressure of uninterrupted work during the whole summer, (and in practice since the beginning of this year), I should not undertake any further heavy assignment without taking at least a week of rest. We have verbally agreed that I shall be absent during the week November 3 - November 7. It is therefore necessary that I give work assignments no later than Friday October 31, next.
5. On the basis of your decision as to the staff members who will assist me in the preparation of the paper I would appreciate it if you would change, to the extent necessary, the statement in your memorandum of October 16, 1969 to Mr. McNamara which reads "In this new assignment Sacchetti would, of course, have the help of Mr. Jo saxe, formerly a member of the U.S. delegation to Supplementary Finance discussions, and Professor Isaiah Frank, who has been associated for a long time with the Bank work on this subject, as well as a few other experts from the Bank staff."

OFFICE MEMORANDUM

TO: Mr. Ugo Sacchetti

DATE: October 27, 1969

FROM: Irving S. Friedman

SUBJECT: Policy Paper on Supplementary Finance

1. I would appreciate your preparing a draft policy paper on supplementary finance. It should be suitable for submission to the Board after review by the Senior Staff. This paper should be operational in character in the sense that it could form the basis of the Bank's response to the TDB action on supplementary finance. The draft must be ready on December 1, 1969.

2. The main operational issues which would need to be covered in a paper are:

(a) What kind of arrangements or policy on supplementary finance could be evolved within the terms of reference given by the Trade and Development Board? (This would not be a detailed exposition of a "scheme" but rather a broad statement of policy covering main procedures and considerations to be taken into account in determining the amount of assistance to countries under the policy.)

(b) Which countries could reasonably expect to be beneficiaries of such a policy?

(c) How much financial resources would be necessary if the policy were to be implemented and how would the burden of financing be shared?

(d) How would such a policy relate to the other financial and non-financial operations of IDA and the World Bank?

(e) How would such arrangements relate to the operations of the IMF, particularly its compensatory financing facility?

3. In preparing this paper you should keep in mind that we have been asked by the Trade and Development Board to work out a scheme which would leave a large measure of discretion to the administering agency, i.e. the Bank Group, and which would be based on resources additional to those available for IDA's normal operations. These are crucial points in the agreement reached by the TDB. Your conclusions on many points should indicate generally on what basis decisions would be made rather than detailed criteria or procedures. I appreciate that on some points you may wish, or be obliged, to offer alternative proposals or estimates.

4. A number of technical questions will also arise, such as how to measure export shortfalls, relations between unexpected export shortfalls and the development process, can countries adjust otherwise to such

Mr. Ugo Sacchetti

- 2 -

October 27, 1969

unexpected shortfalls, on what terms should such funds be obtained by the countries concerned. In preparing the draft policy paper, you may make certain reasonable assumptions, as bases for answering these technical questions. Mr. Henderson and Mr. Macone will be available for help; other assistance will be provided if needed.

5. In taking a position on the issues that arise in devising arrangements for supplementary finance, the paper should take full account of the views and concerns of the major governments, as expressed in previous discussions.

6. In preparing the paper, Mr. Sundrum, Mr. Jalan, Mr. Gulhati, as well as Mr. Frank, will be available for consultations. Mr. Saxe will be available during the latter part of November. On any legal matters that arise, you may avail yourself of the help of Mr. Ellsworth Clark, as has been agreed with Mr. Broches. You may also consult with the Area Departments, if necessary.

cc: Mr. Kamarck
Mr. Macone
Mr. Henderson

Mr. Ugo Sacchetti

October 27, 1969

Irving S. Friedman

Policy Paper on Supplementary Finance

1. I would appreciate your preparing a draft policy paper on supplementary finance. It should be suitable for submission to the Board after review by the Senior Staff. This paper should be operational in character in the sense that it could form the basis of the Bank's response to the TDB action on supplementary finance. The draft must be ready on December 1, 1969.
2. The main operational issues which would need to be covered in a paper are:
 - (a) What kind of arrangements or policy on supplementary finance could be evolved within the terms of reference given by the Trade and Development Board? (This would not be a detailed exposition of a "scheme" but rather a broad statement of policy covering main procedures and considerations to be taken into account in determining the amount of assistance to countries under the policy.)
 - (b) Which countries could reasonably expect to be beneficiaries of such a policy?
 - (c) How much financial resources would be necessary if the policy were to be implemented and how would the burden of financing be shared?
 - (d) How would such a policy relate to the other financial and non-financial operations of IDA and the World Bank?
 - (e) How would such arrangements relate to the operations of the IMF, particularly its compensatory financing facility?
3. In preparing this paper you should keep in mind that we have been asked by the Trade and Development Board to work out a scheme which would leave a large measure of discretion to the administering agency, i.e. the Bank Group, and which would be based on resources additional to those available for IDA's normal operations. These are crucial points in the agreement reached by the TDB. Your conclusions on many points should indicate generally on what basis decisions would be made rather than detailed criteria or procedures. I appreciate that on some points you may wish, or be obliged, to offer alternative proposals or estimates.
4. A number of technical questions will also arise, such as how to measure export shortfalls, relations between unexpected export shortfalls and the development process, can countries adjust otherwise to such

unexpected shortfalls, on what terms should such funds be obtained by the countries concerned. In preparing the draft policy paper, you may make certain reasonable assumptions, as bases for answering these technical questions. Mr. Henderson and Mr. Macone will be available for help; other assistance will be provided if needed.

5. In taking a position on the issues that arise in devising arrangements for supplementary finance, the paper should take full account of the views and concerns of the major governments, as expressed in previous discussions.

6. In preparing the paper, Mr. Sundrum, Mr. Jalan, Mr. Gulhati, as well as Mr. Frank, will be available for consultations. Mr. Saxe will be available during the latter part of November. On any legal matters that arise, you may avail yourself of the help of Mr. Ellsworth Clark, as has been agreed with Mr. Broches. You may also consult with the Area Departments, if necessary.

Mr. Ugo Sacchetti

October 24, 1969

Jo W. Saxe

IGG on SFM - Note for U.S.

OCT 27 1969

11 a.m.

My records are complete only through the Third Session. You should get the Report on the Fifth Session (the Fourth was of no account) by the IGG as well as by the IBRD and IMF observers. The suggestion about them applies to all sessions) as well as the Summary Records of Discussion of this Report at the Ninth Session of the Trade and Development Board. You should also get, for the earlier sessions:

UNCTAD

TD/B/C.3/41	6 Feb 1967	First Session
TD/B/C.3/44	8 Mar 1967	Second Session
(These are documents of the Committee which considered these texts.)		
TD 33	16 Nov 1967	Third Session
(This went to UNCTAD II)		

Note that there were fairly important documents and Conference Room papers circulated to the Fifth (final) Session. Get all of these.

You should also read the summary records of the proceedings of the Committee on Finance of UNCTAD II under Item 12 of its agenda. You already have the full text of the U.S. statement on SFN.

✓ cc: Mr. Irving S. Friedman

DRAFT

October 24 1969

To: Mr. Ugo Sacchetti
From: Irving S. Friedman
Subject: Policy Paper on Supplementary Finance

1. I would appreciate your preparing a draft policy paper on supplementary finance. It should be suitable for submission to the Board after review by the Senior Staff. This paper should be operational in character in the sense that it should form the basis of a Board decision on Bank policy with respect to supplementary finance. The draft must be ready on December 1, 1969.

2. The main operational issues which would need to be covered in a paper are:

(a) What kind of arrangements or policy on Supplementary Finance could be evolved within the terms of reference given by the Trade and Development Board. (This would not be a detailed exposition of a "scheme" but rather a broad statement of the main aspects of any policy including how schemes for such assistance could be made, justified, assisted, and on what terms they would be met.)

(b) ^{Would} ~~When~~ such a scheme be of substantial assistance in preventing or alleviating the disruption of development programs.

(c) What countries could reasonably expect to be beneficiaries of such a scheme.

(d) How much financial resources would be necessary whether in the form of IDA credits or Bank loans to support such a scheme.

(e) How would such a scheme relate to the other operations of IDA and the World Bank including financing of basic development projects, provision of technical assistance and preparation of economic reports.

(f) How would the operation of such a policy affect the ^{availability} ~~validity~~ of funds for the traditional operations of IDA and the Bank, e.g., how to assure "additionality" to IDA.

(g) How would such arrangements fit into the operations of the IMF, particularly the compensatory financing facility.

3. In preparing this paper you should keep in mind that we have been asked by the Trade and Development Board to work out a scheme which would leave a large measure of discretion to the administering agency, i.e., the Bank. This is a crucial point in the agreement reached by the TDB. Consequently, your conclusions on many points should indicate generally on what basis decisions would be made rather than detailed criteria or procedures. I appreciate that on some points you may wish, or be obliged, to offer alternatives or ranges.

4. In preparing the paper, a number of technical questions would also arise, such as how to measure export shortfalls, extent of disruption of development programs, relations between unexpected export shortfalls and the development process, can countries adjust otherwise to such unexpected shortfalls, on what terms should such funds be obtained by the countries concerned. You may make certain reasonable assumptions as bases for solving the technical questions. In the meantime technical papers should be prepared on these questions.

5. In taking a position on the issues that arise in devising arrangements for supplementary finance, the paper should take full account of the views and concerns of the major governments, as expressed in previous discussions.

6. In preparing the paper, Mr. Sundrum, Mr. Jalan, Mr. Macone and Mr. Henderson, as well as Professor Frank, will be available for consultations. Mr. Saxe will be available during the latter part of November. On any legal matters that arise, you may avail yourself of the help of Mr. Ellsworth Clark, as has been agreed with Mr. Broches. You may also consult with the Area Departments, if necessary.

DRAFT

October 24 1969

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Would
(b) ~~What~~ such a scheme be of substantial assistance in preventing or alleviating the disruption of development programs.

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(e) How would such a scheme relate to the other operations of IDA and the World Bank including financing of basic development projects, provision of technical assistance and preparation of economic reports.

(f) How would the operation of such a policy affect the ^{availability} ~~validity~~ of funds for the traditional operations of IDA and the Bank, e.g., how to assure "additionality" to IDA.

(g) How would such arrangements fit into the operations of the IMF, particularly the compensatory financing facility.

3. In preparing this paper you should keep in mind that we have been asked by the Trade and Development Board to work out a scheme which would leave a large measure of discretion to the administering agency, i.e., the Bank. This is a crucial point in the agreement reached by the TDB. Consequently, your conclusions on many points should indicate generally on what basis decisions would be made rather than detailed criteria or procedures. I appreciate that on some points you may wish, or be obliged, to offer alternatives or ranges.

4. In preparing the paper, a number of technical questions would also arise, such as how to measure export shortfalls, extent of disruption of development programs, relations between unexpected export shortfalls and the development process, can countries adjust otherwise to such unexpected shortfalls, on what terms should such funds be obtained by the countries concerned. You may make certain reasonable assumptions as bases for solving the technical questions. In the meantime technical papers should be prepared on these questions.

5. In taking a position on the issues that arise in devising arrangements for supplementary finance, the paper should take full account of the views and concerns of the major governments, as expressed in previous discussions.

6. In preparing the paper, Mr. Sundrum, Mr. Jalan, Mr. Maccone and Mr. Henderson, as well as Professor Frank, will be available for consultations. Mr. Saxe will be available during the latter part of November. On any legal matters that arise, you may avail yourself of the help of Mr. Ellsworth Clark, as has been agreed with Mr. Broches. You may also consult with the Area Departments, if necessary.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

This is the complete story as far as
Mr. Sacchetti is concerned, he is not
preparing a further memo.

DRAFT

U. Sacchetti/fm
October 22, 1969

To: Mr. Ugo Sacchetti
From: Irving S. Friedman
Subj: Policy Paper on Supplementary Finance

1. I would appreciate your preparing a draft policy paper on supplementary finance. It should be suitable for submission to the Board after review by the Senior Staff. This paper should be operational in character in the sense that it should form the basis of a Board decision on Bank policy with respect to supplementary finance. ^{the draft} It must be ready on December 1, 1969.

2. The main aspects of the paper should be as follows:

- (a) Which ^{member} ~~part of the membership~~ of the Bank ^{could reasonably be expected} ~~would~~ fall ^{be} within the terms of reference of the proposed arrangements and their purpose.
- (b) To what extent can a disruption of development program be prevented or alleviated by supplementary financial assistance from the World Bank Group?
- (c) What would be an approximate estimate of the financial resources which would be needed?
- (d) How might supplementary financial measures be financed?
- (e) How should the fixed amount of funds which may become available be rationed if valid claims exceed resources?
- (f) How best can the proposed arrangements fit into the Bank and IDA dealings with member countries.
- (g) What would be the relationships with IMF drawings, particularly the Compensatory Financing facility.

Thomas

- 2 -

relations between unexpected exports
short-falls and the development

process,
Can countries
have countries
can adjust
to such
unexpected
short-
falls

3. In preparing this paper, you should keep in mind that we have been asked by the Trade and Development Board to work out a scheme which would leave a large measure of discretion to the administering agency, i.e. the Bank. This is a crucial point in the agreement reached by the TDB. Consequently, your conclusions on many points should indicate generally on what basis decisions would be made rather than detailed criteria or procedures. I appreciate that on some points you may wish, or be obliged, to offer alternatives or ranges.

4. In preparing the paper, a number of technical questions would also arise, such as ^{how to} measurement of export shortfalls and extent of disruption of development programs. You may make certain reasonable assumptions as bases for solving the technical questions ~~until the~~

5. In taking a position on the issues that arise in devising arrangements for supplementary finance, the paper should take full account of the views and concerns of the major governments, as expressed in previous discussions. ~~I have in mind that we may wish to consult with the officials of the interested governments at a later stage.~~

Mr. Jahn, Mr. Macore asked questions

6. In preparing the paper, Mr. Sundrum, Mr. Elz, as well as Professor Frank, will be available for consultations. Mr. Saxe will be available during the latter part of November. On any legal matters that arise, you may avail yourself of the help of Mr. Ellsworth Clark, as has been agreed with Mr. Broches. You may also consult with the Area Departments, if necessary.

In the meantime technical papers should be prepared on these questions

on what terms should such funds be obtained by the countries concerned

OFFICE MEMORANDUM

OCT 23 1969
2:30 p.m.

TO: Mr. Irving S. Friedman DATE: October 23, 1969

FROM: Jo W. Saxe **JWSax**

SUBJECT: Draft Memorandum entitled, "Policy Paper on Supplementary Finance".

1. The language I propose that you add as sub-paragraph 2(h) is "How claims would be made, justified, assessed and on what terms they would be met".
2. With this addition, I think that the Memorandum might serve a useful purpose.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

FROM: Ugo Sacchetti *U.S.*

SUBJECT: Policy Paper on Supplementary Finance

DATE: October 22, 1969

OCT 22 1969

3.45 p.m.

The attached draft on the subject contains a revised paragraph 2 while leaving the other paragraphs unchanged. The revision reflects the consensus of the views of Professor Frank, Mr. Saxe and myself at the meeting held in your office yesterday. In order to carry out the assignment within the short deadline of December 1, I would like to be assisted by an economist who has been familiar with the subject in past years. I have in mind Mr. Jalan. If you agree, I would appreciate asking him to work with me until the end of November. I have found out that Mr. Elz will not be in Washington for another three weeks and I would appreciate it if you could arrange for assistance from another economist in the Trade Policies and Export Projections division who is quite familiar with the projections made in the past.

Attachment

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.

WJG
Donald D. Fowler
Deputy Secretary
10723

SM/69/154

Secretary - Bank

October 21, 1969

Room 211

#12

OCT 24 1969

10

To: Members of the Executive Board

From: The Acting Secretary

Subject: Repurchases Under Paragraph (7) of the Compensatory Financing
Decision, as Amended

Attached for the information of the Executive Directors is the staff's semiannual report on the application of the recommendation as to repurchases out of export excesses under paragraph (7) of the decision on compensatory financing.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Repurchases under Paragraph (7) of the
Compensatory Financing Decision, As Amended

Prepared by the Research Department

(In consultation with the Exchange and Trade Relations Department,
the Legal Department and the Treasurer's Department)

Approved by J. J. Polak

October 20, 1969

The Decision on Compensatory Financing of Export Fluctuations
(Executive Board Decision No. 2192-(66/81) adopted September 20, 1966)
contains the following provisions under paragraph (7):

A member requesting a drawing under paragraph (5) will be expected to represent that it will make a repurchase corresponding to the drawing in accordance with the principles of E.B. Decision No. 102-(52/11) of February 13, 1952, as renewed by E.B. Decision No. 270-(53/95) of December 23, 1953. With a view to an application of these principles appropriate to drawings under paragraph (5), the Fund recommends that, as soon as possible after the end of each of the four years following a drawing under paragraph (5), the member repurchase an amount of the Fund's holdings of the member's currency approximately equal to one half of the amount by which the member's exports exceed the medium-term trend of its exports. Calculations of export excesses for this purpose will be made with respect to successive 12-month periods following the period of the shortfall with respect to which the drawing was made and on the basis of statistical information only.

Although the Recommendation for repurchases out of export excesses of purchases under the above paragraph (7) does not give rise to any legal obligation, it was proposed in SM/68/8 to inform the Board through semiannual reports on the cases in which the Recommendation has become applicable, and on members' response to the Recommendation. Reports were made in September 1968 (SM/68/148) and April 1969 (SM/69/42). The present report deals with cases in respect of which a first or subsequent 12-month period has elapsed in the period under review since a purchase or reclassification under the Amended Decision, and for which export data became available for calculation of the export excess or shortfall for such 12-month periods. This report also deals with the reply of the United Arab Republic to a recommendation covered in the previous report (SM/69/42).

Purchases under the Amended Decision are listed in Table 1 below. In the period under review no repurchases were made with respect to purchases under the Amended Decision. Purchases under the Amended Decision outstanding at October 17, 1969 amounted to \$218.8 million, as compared with \$212.5 million at March 31, 1969.

Table 1. Use of Fund Resources Under the Amended Decision
on Compensatory Financing of Export Fluctuations

(In millions of U.S. dollars)

Member	Date of Purchase	Amount of Purchase	Amount of Repurchase
Dominican Republic	December 1966	6.60	-
Ghana	December 1966	17.25	0.75 ^{2/}
Ceylon	March 1967	19.50	-
	April 1968	19.30	-
Colombia	March 1967	18.90	-
	April 1968	1.90 ^{1/}	-
New Zealand	May 1967	29.20	29.20
Haiti	August 1967	1.30	-
	December 1967	1.00	-
Syrian Arab Republic	September 1967	9.50	-
Burma	November 1967	7.50	-
Iceland	November 1967	3.75	-
	November 1968	3.75 ^{1/}	-
Iraq	November 1967	17.50 ^{1/}	17.50
India	December 1967	90.00	30.50 ^{2/}
Guatemala	February 1968	6.25 ^{1/}	-
Uruguay	February 1968	9.50	-
United Arab Republic	March 1968	23.00	-
Afghanistan	June 1968	4.80	-
Ecuador	October 1969	6.25 ^{1/}	-
Total		296.75	77.95

^{1/} Reclassification.

^{2/} Repurchases under paragraph (7) of the Amended Decision.

Calculation of the export excess or shortfall position for the cases dealt with in this report is shown in Table 2. The table includes calculations which were not possible when the previous report was made on April 1, 1969 owing to the absence of sufficient export data at that time. Export excesses were recorded for Afghanistan, Guatemala, Colombia, and Haiti, and the Recommendation contained in paragraph (7) was applicable in these cases.

With respect to the export excesses calculated for the above-mentioned countries, the procedure described in SM/68/8 was followed and the decision taken by the member in each case is summarized below:

Table 2. Calculation of Export Shortfalls and Excesses Under Paragraph (7)
of the Amended Decision on Compensatory Financing of Export Fluctuations

Country	Date of Purchase	Period of Shortfall (Year Ending)	Amount of Purchase (US\$ million)	Repurchase Date Applicable to Paragraph (7) Recommendation	Period of Calculation of Excess or Shortfall (Year Ending)	Amount of Excess (+) or Shortfall (-) ^{1/} (US\$ million)	Amount Recommended to be Repurchased (US\$ million)	Repurchases under Paragraph (7)
Ceylon	Mar. 21, 1967	Nov. 30, 1966	19.5	Mar. 21, 1969	Nov. 30, 1968	- 2.1	-	-
	Apr. 17, 1968	Dec. 31, 1967	19.3	Apr. 17, 1969	Dec. 31, 1968	- 1.2	-	-
Colombia	Mar. 22, 1967	Jan. 31, 1967	18.9	Mar. 22, 1969	Jan. 31, 1969	... ^{2/}
	Apr. 19, 1968	Dec. 31, 1967	1.9	Apr. 19, 1969	Dec. 31, 1968	+25.5	1.9	...
Haiti	Aug. 11, 1967	Feb. 28, 1967	1.3	Aug. 11, 1969	Feb. 28, 1969	+ 0.4	0.2	...
Syria	Sep. 18, 1967	June 30, 1967	9.5	Sep. 18, 1969	June 30, 1969	... ^{2/}
Guatemala	Feb. 5, 1968	Oct. 31, 1967	6.25	Feb. 5, 1969	Oct. 31, 1968	+ 3.2	1.6	...
Uruguay	Feb. 7, 1968	Oct. 31, 1967	9.5	Feb. 7, 1969	Oct. 31, 1968	- 9.2	-	-
U.A.R.	Mar. 18, 1968	Nov. 30, 1967	23.0	Mar. 18, 1969	Nov. 30, 1968	+13.9	6.95	-
Afghanistan	June 5, 1968	Nov. 20, 1967	4.8	June 5, 1969	Nov. 20, 1968	+ 2.0	1.0	-

^{1/} As determined by use of the general formula. The trend value is determined with weights of .50 for exports in the shortfall year and of .25 for each of the two preceding years.

^{2/} Export data not yet available.

(a) In the case of the United Arab Republic, the recommended repurchase was for an amount of US\$6.95 million. The Governor of the Central Bank of Egypt regretted that no repurchase could be made under the existing circumstances. Although there had been some improvement in the trade and payments position, it had been achieved at the cost of a restrictive policy having an adverse effect on the level of economic activity and hence on the pace of development.

(b) The Governor of Da Afghanistan Bank advised that the recommended repurchase (US\$1.0 million) at that time would impose an unacceptable burden on the balance of payments because of the substantial increase in foreign debt service and a decline in traditional exports (i.e., excluding natural gas exports to the Soviet Union, which had commenced in the year under review). It was noted that debt service payments to both multi-lateral and bilateral areas had increased for the year to an estimated US\$9 million and US\$14 million, respectively.

(c) Calculations for Guatemala implied a recommendation for repurchase of the equivalent of US\$1.6 million. In a reply dated September 9, 1969, the President of the Bank of Guatemala expressed agreement with the recommendation, and suggested that it would be useful to discuss the form and date of repurchase on the occasion of the Annual Meeting, by which time assessment of the effects of recent adverse crop conditions and of changes in Central American Common Market trade prospects would be available. On that occasion, the staff was informed that Guatemala will effect the recommended repurchase in three monthly instalments.

(d) In the case of Colombia, the authorities were informed in a letter dated September 15, 1969 that calculations with respect to the reclassification of April 1968 for the year ending December 31, 1968 (the first 12-month period following the relevant shortfall period), implied a recommendation for repurchase of the equivalent of US\$1.9 million. A reply is awaited at the present time. Data are not yet available for calculation of the export excess, if any, for the year ending January 31, 1969 (the second 12-month period following the relevant shortfall period), with respect to the purchase under the Decision made on March 22, 1967.

(e) The recommendation applied for an amount equivalent to US\$0.2 million with respect to the purchase made by Haiti in August 1967. A reply is awaited from the authorities to a letter dated October 9, 1969.



Record Removal Notice

File Title Irving Friedman UNCTAD Files: Geneva Meeting on Supplementary Finance, August 26 - September 12, 1969 - Correspondence 01		Barcode No. 1787642		
Document Date 21 October 1969	Document Type Board Record			
Correspondents / Participants Executive Directors				
Subject / Title Resolution of UN Trade and Development Board - Extract from Verbatim Proceedings (2 copies)				
Exception No(s). <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Declassification review of this record can be initiated upon request.				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by A. Miller</td><td>Date Mar 28, 2013</td></tr></table>	Withdrawn by A. Miller	Date Mar 28, 2013
Withdrawn by A. Miller	Date Mar 28, 2013			

DRAFT

October 21, 1969

To: Mr. Ugo Sacchetti

From: Irving S. Friedman

Subject: Policy Paper on Supplementary Finance

1. I would appreciate your preparing a draft policy paper on supplementary finance. It should be suitable for submission to the Board after review by the Senior Staff. This paper should be operational in character in the sense that it should form the basis of a Board decision on Bank policy with respect to supplementary finance. It must be ready on December 1, 1969.

2. The paper should deal with the following key issues:

(a) What ~~are~~ the countries ^{might} ~~likely~~ to suffer from unexpected shortfalls in export proceeds which would disrupt their development programs.

(b) What is the probable extent of such shortfalls?

not answer (c) To what extent ^{could or should} can such disruption of development program be prevented or alleviated by supplementary financial assistance from the World Bank Group?

(d) In what amount and how might supplementary financial measures be financed?

(e) If the provision for supplementary finance is to be limited to a fixed sum, how should this sum be allocated to variable needs from time to time?

3. In preparing this paper, you should keep in mind that we have been asked by the Trade and Development Board to work out a scheme which would leave a large measure of discretion to the administering agency, i.e. the Bank. This is a crucial point in the agreement reached by the TDB. Consequently,

In what countries would UBG. likely to provide SF.

your conclusions on many points should indicate generally on what basis decisions would be made rather than detailed criteria or procedures. I appreciate that on some points you may wish, or be obliged, to offer alternatives or ranges.

4. In preparing the paper, a number of technical questions would also arise, such as measurement of export shortfalls and extent of disruption of development programs. You may make certain reasonable assumptions as bases for solving the technical questions.

5. In taking a position on the issues that arise in devising arrangements for supplementary finance, the paper should take full account of the views and concerns of the major governments, as expressed in previous discussions. I have in mind that we may wish to consult with the officials of the interested governments at a later stage.

6. In preparing the paper, Mr. Sundrum, Mr. Elz, as well as Professor Frank, will be available for consultations. On any legal matters that arise, you may avail yourself of the help of Mr. Ellsworth Clark, as has been agreed with Mr. Broches. You may also consult with the Area Departments, if necessary.

7. I intend to hold a meeting with you, Professor Frank and Jo Saxe in a day or two, to discuss further the outline of the policy paper.

Supplementary Finance

alternatives - basic concept must
additivity

(2) part 7 3rd replacement - to get
more than otherwise

regular (3) not part 7 3rd replacement - separate
(a) additional funds for IDA +
policy decision re use of bank resources

(b) outstanding funds like
relation to SDR's!

(3) part 7 4th replacement.

(2) Parallel negotiations - become
additive at end, if decisions
expressed

could start with same amount of IDA -
(whitens it is) - like a function -
and in practice demonstrates
need -

DRAFT MEMORANDUM TO MR. McNAMARA

Oct. 17 1969

Subject: Supplementary Finance

I am planning to send the attached note to Mr. Sacchetti but thought I should check it out with you to be sure that we are doing what you wish us to do.

October 16, 1969

OCT 17 1969
4 8-11

MEMORANDUM

TO: Mr. Irving S. Friedman

FROM: Isaiah Frank *IF*

Sidney Dell sent me a preliminary copy of the report of the U.N. Expert Group on International Monetary Issues which was completed last month. The group included Francis Bator, Paul Streeten, Otto Donner and a number of other familiar names.

I thought you would be particularly interested in Paragraph 28 of the report in which the Group states:

We also welcome the decision by the Trade and Development Board to invite the World Bank to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them. We consider that such arrangements would provide valuable additional protection to developing countries against disruption to development programmes resulting from adverse movements in export proceeds.

Mr. Robert S. McNamara

October 16 1969

Irving S. Friedman

Supplementary Finance: Paper on Issues

1. Attached herewith is a paper on issues relating to Supplementary Finance which need further consideration in the Bank. It has been drafted in such a way that, if you wish, it can be adapted for Board discussion with minor editing. The question of the appropriate timing of discussions with governments about Supplementary Finance, in relation to the discussions on the IDA replenishment, was dealt with separately in my memorandum to you of October 15, 1969.

2. I am planning to have Mr. Ugo Sacchetti of the Development Finance Study Group to be the coordinator of the staff team on Supplementary Finance, as he is no longer engaged in the work on the Third IDA Replenishment, instead of Mr. Sundrum. In this new assignment Sacchetti would, of course, have the help of Mr. Jo Saxe, formerly a member of the U.S. delegation to Supplementary Finance discussions, and Professor Isaiah Frank, who has been associated for a long time with the Bank work on this subject, as well as a few other experts from the Bank staff. Originally, I had thought that this work would have to be undertaken by Mr. Sundrum but now I would like him to be engaged fully in organizing the work in the Development Programs Study Group. This is a relatively new group, consisting mostly of new staff members. Sundrum would, of course, be available for consultations by the staff team on Supplementary Finance.

Att:

October 16, 1969
To Mr. FriedmanSUPPLEMENTARY FINANCE: OUTLINE OF ISSUES

It will be recalled that in late 1965, in response to a resolution adopted at UNCTAD in 1964, the Bank staff had prepared a study on a scheme for Supplementary Financial Measures. This study was transmitted to the Secretary General of the United Nations, and was extensively considered in the following year by the Trade and Development Board (TDB) and its appropriate committee. In September 1966, the TDB referred the scheme for consideration to an Inter-Governmental Group (IGG) which met in three sessions during 1966-67, and forwarded its report to UNCTAD II, held in New Delhi in 1968.

The UNCTAD II considered the report and in view of some unresolved issues, decided to expand the Inter-Governmental Group for further consideration of the scheme.^{1/}

The Inter-Governmental Group presented its report to the Trade and Development Board at its ninth session held during August 26-September 12, 1969. The IGG Report came to the conclusion that "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", and suggested that "supplementary financial arrangements should be administered within the Bank Group in consultation with the I.M.F." Responding to criticisms from certain donor countries, the IGG Report differed however from the Bank staff scheme in certain respects. These differences were reflected in the conclusions of the IGG transmitted to the TDB.

^{1/} Reports on the discussions of the Inter-Governmental Group on Supplementary Finance were distributed to the Executive Directors - Reference Sec M66-384, Sec M67-60, Sec M67-311, Sec M68-1, Sec M68-439, and Sec M69-390. Please see also Sec M69-207 for a detailed discussion of the various aspects of the Bank staff scheme.

At its ninth session, the Trade and Development Board adopted a resolution agreeing with the conclusions of the Inter-Governmental Group, and requesting the I.B.R.D. to "consider working out supplementary financial arrangements, on the basis of the conclusions of IGG, and, if appropriate, to consider introducing them."^{1/} This resolution was supported by all less-developed countries which were members of the group, and most donor countries (except France and Belgium which abstained).

By this decision, most governments - donor and developing - have agreed:

(i) with the basic objective of supplementary finance, i.e. helping a country facing adverse movements in export earnings to avoid disruption of its development program.

(ii) that such a scheme^{2/} be formulated and administered by the World Bank Group in consultation with the Fund.

(iii) that, in administering the scheme, account be taken of a country's development plan, including its targets. While it is not categorically stated, the general view is set forth in one of the conclusions of the IGG that financial resources for S.F. should be considered in terms of additions to basic development finance.

Essentially, the difference between the scheme envisaged in the above decision and the original staff proposal, is that the former does not specify the use of agreed five-year export projections as the means of measuring the unexpected export shortfalls, nor does it explicitly call for the use of prior policy understandings on development programs and performance undertaken at the beginning of each five-year period and periodically renewed, to ensure that any supplementary finance assistance would be used to defend a worthwhile development program.

^{1/} The TDB resolution is attached herewith. The conclusions of the IGG were annexed to this resolution.

^{2/} The word "scheme" need not imply anything more than a policy decision within the Bank. For convenience the word "scheme" is used in the paper interchangeably with "arrangements" or "policy".

The request to the Bank to formulate a scheme for supplementary financing is so worded as to leave considerable discretion to the Bank in formulating a scheme, in exploring ways of obtaining resources for the purpose, and in administering it. The Bank is to forward progress reports from time to time to the Trade and Development Board for its information. However, no time limit is set.

In response to the TDB request, as a first step, this paper attempts to outline briefly the main issues that need to be considered in formulating a scheme which would meet the specific criteria laid out in the TDB Resolution. For convenience, a summary list of these issues is also appended to this paper. Many of these issues have already been discussed extensively and relatively little further technical staff work is required. On all the issues the staff will immediately begin to prepare, as agreed, position papers in order to clarify the approach the Bank would consider appropriate in the list of ICG and TDB discussions. In the course of this staff work, it is also hoped to consult at the technical level with the governments most interested or concerned, in order to ensure that the scheme formulated by the Bank staff takes full account of the concerns and interests of the governments.

Main Issues:

1. Determination of the export shortfall:

An important feature of the scheme proposed by the Bank staff was an understanding between the administering agency and the country on an export projection for a period over which the country had formulated a development program. Furthermore, in the staff scheme, as long as a country was following agreed policies, any shortfall from this projection was presumed to be outside the country's control.

During the discussions of the subject, several major donor countries were critical of such a predetermined export norm. Germany argued that it was not possible to make dependable export forecasts for a period of five or six years, and in any case they could not be made the basis for financial claims and commitments. A suggestion was made by Germany that a determination as to whether the decline in export proceeds was a shortfall from reasonable expectations should be made by the administering agency ex post on the basis of certain established guidelines: e.g. if exports in a particular year were lower than the average for the two previous years.

At the Second UNCTAD in 1968, the U.S. representative explained that the U.S. authorities could not accept export projections for a five to seven-year period even subject to a mid-term review as a basis for the scheme. However, he reaffirmed U.S. support for the objectives of the recommendation of the first session of the Conference and expressed the willingness of the U.S. to participate in working out an (unspecified) alternative approach which would meet these objectives.

The U.S. viewpoint, as the staff understands it, has been that "disruption of development" and "reasonable expectations", terms which refer to development programs and projections of export earnings, respectively, should be so defined as to permit reasonably frequent revisions of both.

In the discussions of this issue in the ICG and elsewhere, the Bank staff has pointed out that the export projections of the kind envisaged in the scheme were nothing new, and were in fact necessary in formulating and evaluating a country's development program, as well as judging its creditworthiness. The important difference from the current practice was that

the projections would be made in consultation with the country and agreed with it in advance as part of the agreement on development programs and policies. Such projections could be subject to review, if a fundamental change in a country's situation occurred, but should not be revised too frequently since the purpose of the scheme was to protect the disruption of a development program based on the earlier export expectations.

However, neither the TDB Resolution itself, nor the recommendation of the IGG refers to any export norm. But, it is agreed that in order to meet the purpose of the scheme, there must be reasonable assurance of help to protect a country's development program against an export shortfall. The TDB Resolution agrees with the IGG view that the agency could take into account all information relevant to the objectives of supplementary financial measures. It is also hoped that as experience is gained in operating the scheme for supplementary finance, objective criteria for assessment of shortfalls can be developed.

Thus, the questions that the Bank needs to consider now are: If (prior) export projections and norms are not used, then what other techniques are possible? To what extent, and in what manner could the ongoing work in the Bank on commodities and export projections be utilized, as part of the available information? For a particular country, what part of the shortfall, however ^e determined, should be covered?

2. Policy understandings:

The 'performance' of a country remains a main economic basis for development assistance to a country. A multilateral institution, like the World Bank Group, while concerned with the efficient allocation of its own resources, also has a wider perspective, i.e. the improved performance of a

developing country in the mobilization and effective use of the totality of its resources, both domestic and external. Given this broad framework, there cannot, of course, be uniformity for all countries. One or another aspect of economic and financial policies and results may have to be considered in depth depending on the situation of a particular country. In considering and evaluating performance, flexibility is therefore essential.

In the Bank staff proposal a prior policy understanding was an essential element. It was emphasized by the Bank staff during discussions that, in general, the substance of policy understanding represents what a country discusses with donor countries and international institutions as a matter of course when it seeks basic development finance, and that such understandings were becoming more common. A measure of understanding on general policies was essential to give assurance to the providers of funds that economic development had a high enough priority in the policies of the recipient country. For the purpose of supplementary financing scheme, the implementation of prior policy understanding also provided reasonable assurance that the shortfall to be covered was due to reasons beyond the country's control. This assurance was essential for a speedy disbursement of assistance in case of a shortfall. It is worth noting that the developing countries generally agreed with this view.

Some donor members were, however, critical of this feature also; it was generally agreed that the basic concept of a policy understanding was sound and constructive, but it was perhaps not feasible to conclude agreements beforehand with each of a number of LDC's, especially when no firm and precise commitments could be given with respect to basic development finance.

The German representative suggested a more flexible procedure. A country wishing to avail itself of S.F. was to undertake to consult fairly regularly with the administering agency about its development and economic policies. These consultations were to be designed to make necessary adjustments, to encourage diversification, and to facilitate decisions by the administering agency at the time the shortfall occurs. The U.S.A. also stressed the need for reasonably frequent revisions of development programs and a very flexible approach in determining the 'disruption of development'. The U.K. thought that a mid-term review of both development programs and export projections might be enough to provide a way of assuring prompt assistance while avoiding any rigidity.

The TDB Resolution agrees with the views of the IGG that the agency should take into account the development plan, including its targets, and that any understandings involved in the operation of S.F. should be no different in character from those which now arise in the relationships between the Bank and member countries.

In view of the discussion of the IGG and TDB, the questions that the Bank has to consider are: in judging whether a country experiencing an export shortfall should qualify for assistance under S.F., to what extent and in what manner should the country's policy performance be the determining factor; what kind of policy understandings, if any, are feasible? If yes, what should be their content? Further, if there is no explicit, prior, policy understanding, what other means might be used to ensure sufficiently quick assistance? X

The issues are, of course, rendered less complex than appeared in the original staff proposal since S.F. is to be administered by the Bank Group.

Its experience in assessing development programs of countries, its consultations with individual member countries, and the relations being built up with them, and the continuing economic work on individual countries on a systematic basis should enable us to take a view of a country's economic situation and performance adequacy, fairly promptly when an export shortfall occurs. Consultations with the Fund in its country assessments would also be useful for the purpose as indeed for our present activities.

In passing, it may be mentioned that the Pearson Commission has recommended: "The World Bank and the IMF, in countries where both operate, should adopt procedures in preparing unified country assessments and assuring consistent policy advice." The Commission has also called on the President of the World Bank to convene a conference in 1970 to discuss the ways and means of devising improved machinery for standardized assessments of development performance, and for better coordination of aid and development policies. This recommendation is being considered separately, but progress in these directions may be expected by the time S.F. arrangements might be implemented, and should facilitate the task of performance evaluation for purposes of S.F. assistance when export shortfalls occur.

3. Relation with the ImM.F. and its Compensatory Financing Facility:

The TDB Resolution endorses the IGG recommendation that S.F. measures should be administered within the World Bank Group in consultation with the Fund. This consultation is necessary not only for avoidance of duplication and adoption of consistent policy advice, but also because the Fund already operates a compensatory financing facility designed to provide balance of payments support in case of temporary shortfalls. The question of the relationship ^e between S.F. and the Fund facility is therefore important.

It will be recalled that the idea behind a proposal for supplementary finance was to enable a country to carry on its investment and development program in the event of an unexpected shortfall rather than to enable it to cover a temporary or reversible payment problem. The latter purpose can be served by short-term borrowing and for this the Fund facility already exists. Under this facility, the shortfalls to be financed are assumed to be temporary, and the drawings are to be repaid within 3-5 years. S.F. on the other hand is expected to provide long-term development finance so that the original investment program may be carried out. Growth and development, rather than the adoption of restrictive measures or unnecessary exchange rate adjustments to achieve short-run payments equilibrium, may be said to be the main objective of S.F.

In actual operations of these two parallel schemes, certain questions arise which need to be considered: For example, when a country faces an export shortfall, to which facility does the country first turn for assistance - Fund's CFF or supplementary finance? While use of CFF is not prerequisite, it has been clearly understood that use of CFF is a means of meeting a shortfall and should be used where appropriate. Also, the country cannot obtain finance from both sources for the same shortfall.

During discussions in IGG, the U.S.A. at one point had expressed a view that funds provided to IDA for S.F. could also be used for refinancing repurchases under CFF. It needs to be considered whether this would be an appropriate use of the scheme; and if so, under what circumstances.

Accordingly, Fund-Bank Group consultation and coordination are essential. Germany at one time proposed that this can be best done through a joint committee of the Fund and IDA for coordinating S.F. and C.F.F.

In discussions, the U.S.A. did not see the need for such an institutional arrangement. What, then, would be the extent of and mechanism for consultation with the Fund? The machinery for consultation already exists (e.g. the Fund observer attends meetings of the Bank Economic Committee and consultation between the two staffs is also frequent) but may need to be strengthened or formalized.

4. Relationship with commodity agreements:

In the Resolution adopted on Supplementary Financial Measures, UNCTAD II had directed the TDB to study and take early action on the findings of the IGG, "taking account of any proposals for action in the field of international commodity policy which may be submitted to the Board of Governors by the IBRD and the IMF ..." At the time the TDB adopted the Resolution on S.F., France, Belgium, Australia, criticized it on the ground that the IGG recommendation and the TDB agreement with it did not do the above. Now that the Bank and the Fund have taken policy action in the field of commodities, the relationship of this action with any proposed scheme for S.F. needs to be examined.

During discussions, the Bank staff and various other member governments have pointed out that commodity agreements pertain to the trade field, while S.F. is in the financial area: one complements the other, and neither can wholly substitute for the other in the foreseeable future. It is for those countries that depend to a very large proportion (say, two-thirds or more) of their foreign exchange earnings on one or two commodities, that the need for S.F. would be of minor importance, provided these commodities were covered by effective international commodity agreements. But if commodity agreements cannot be reached or as these countries diversify, the proportion which one or two commodities form of total exports will tend to diminish.

The main questions in this area are: Do commodity agreements and S.F. complement or compete with one another in substance or for international support? Does the same answer apply to all countries?

5. Cost estimates, and other financial aspects:

A main question in S.F. discussions relates to the estimated cost of the scheme. In the Bank staff study, and during discussions, the staff presented certain estimates placing financial requirements at \$300-400 million a year, for an experimental period of the first five years of the scheme's operation. This estimate of requirements was based on a simulation exercise of past shortfalls (covering the period 1957-63), and on assumptions regarding other available financing and possible adjustments, and was therefore necessarily tentative. As the discussions advanced, IGG asked us to look at the cost aspect again, taking into account available data for more recent years also. This we did, taking into account available data for the more recent years (up to 1967). Adjusting for various factors as we did before, and subject to the limitations inherent in such an exercise, the revised estimate of financial requirements was placed at \$300 million a year.

As already noted, the IGG has offered some operational guidelines for the S.F. which are different from those proposed by the Bank staff. The IGG states that the cost of a scheme embodying the features suggested by it cannot be estimated at this stage, pending the preparation of a scheme. It may be mentioned that the UNCTAD Secretariat estimated that the cost of an alternative framework proposed by Germany (a discretionary variant) could have amounted to \$200-250 million a year during 1954-65. The question of resources thus needs to be examined afresh in light of the contents of any World Bank group proposed policy on supplementary finance.

In any case, under the guidelines suggested by the IGG, considerable judgment would be involved in estimating shortfalls and the objectives of S.F. arrangements would have to be met to the extent possible within the financial limits agreed upon by governments. Within a maximum ceiling ~~to~~ *of* the resources available for S.F. in any 3-5 year period, there would probably be need for rationing and allocating devices, as also for a provision to carry over any unused funds from year-to-year.

Apart from estimated requirements, thus, there would be several questions with respect to finances in actual operation, such as, the period to be covered; whether amounts should be earmarked as a separate fund for this purpose or be included in total IDA resources with a stated (maximum) limit for S.F. use; possible need for rationing devices (e.g.: do we establish some quotas?) Another question relates to the terms of S.F. assistance -- how concessional should they be? Should all resources for S.F. be provided by direct government contributions, or in some other ways too?

6. Lending Criteria

Apart from the need for rationing criteria, criteria for eligibility of countries for S.F. would need to be considered. On present thinking, all countries classified as developing (or all Part II IDA countries) would be eligible for financing in the event of an export shortfall (however measured), as long as their economic performance was judged to be adequate. This also seems to be in accord with the position of the member governments which have participated in the debate on supplementary financing. The TDB resolution, however, refers to "the special needs of least developed countries" and the question arises: while all countries would in principle be eligible for S.F., should countries at the lower end of the development spectrum be entitled to proportionately "more" assistance than those at the upper end?

Then there is the question of the form of assistance. If assistance is to be forthcoming to a country fairly quickly in the event of an unexpected export shortfall, to what extent would it need to be for program financing rather than tied to particular projects?

7. Legal and Administrative Aspects

The first question would be whether IDA as it is now constituted can take up S.F. administration, or some amendment of the Articles would be needed. Another question is whether S.F. would be merged in the working of IDA, or whether it would be kept as a distinct function of IDA with a separate fund. In fact, it is possible to visualize S.F. not as a separate scheme, or even as a distinct function, but as just a policy decision to include this purpose and extend assistance on a case-by-case basis, as part of the Bank Group's work. Questions of membership may be involved if some countries like Rumania which are not members of the Bank or IDA should wish to join for S.F.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

A large, handwritten mark, possibly a signature or a stylized logo, consisting of several overlapping loops and a long, sweeping line extending from the bottom left towards the right.

Resolution on Supplementary Financial Measures Adopted by the
Trade and Development Board on September 12, 1969

The Trade and Development Board,

Recalling decision 30(II) of the second Conference on supplementary financial measures,

Taking note of the report of the Inter-Governmental Group on Supplementary Financing on its fifth session (TD/B/260),

Reaffirming the objective set out in recommendation A.IV.18 of the first Conference and the objective laid down in decision 30(II) of the second Conference,

Recognizing that disruption to development programmes can arise from adverse movements in export proceeds (including, in appropriate cases, invisible exports) which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support,

Agreeing with the Conclusions of the Inter-Governmental Group hereto annexed,

1. Invites the competent organs of the International Bank for Reconstruction and Development, on the basis of the Conclusions of the Inter-Governmental Group and of the views expressed at the ninth session of the Trade and Development Board, taking into consideration the special needs of the least developed countries as contained in resolution 24 (II) of the second Conference, to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them.
2. Invites further the International Bank for Reconstruction and Development to make available from time to time to the Trade and Development Board through the Secretary-General of UNCTAD reports on the extent of the progress made on the subject matter referred to in the preceding paragraph.
3. Invites the International Bank for Reconstruction and Development when considering arrangements for discretionary supplementary financial measures on the basis of the Conclusions of the Inter-Governmental Group to give attention to paragraph (v) of those Conclusions.

See Annex A

ANNEX A

- (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.

Summary List of Issues on Supplementary Finance

I. Determination of Export Shortfalls

(a) If (prior) export projections and norms are not used, then what other techniques are possible?

(b) To what extent, and in what manner could the ongoing work in the Bank on commodities and export projections be utilised, as part of the available information?

(c) For a particular country, what part of the shortfall, however determined, should be covered?

II. Policy Understanding

(a) In judging whether a country experiencing an export shortfall should qualify for assistance under S. F., to what extent and in what manner should the country's policy performance be the determining factor?

(b) What kind of policy understandings, if any, are feasible?

(c) If there is no explicit, prior, policy understanding what other means might be used to ensure sufficiently quick assistance?

III. Relations With the IMF and its Compensatory Financing Facility

(a) What is the relationship of S. F. with compensatory financing facility of the Fund? When a country faces an export shortfall, where does the country first turn for assistance?

(b) What should be the extent and mechanism of consultation with the Fund? Is the existing machinery adequate?

IV. Relationship With Commodity Agreements

(a) What is the relationship of the recent Bank/Fund policy action in the field of commodities with any proposed scheme for S. F.?

(b) Do commodity agreements and S. F. complement or compete with one another in substance or for international support? Does the same answer apply to all countries?

V. Cost Estimates and Other Financial Aspects

(a) What are the resources required for operating the scheme proposed for supplementary finance? Over what period?

(b) Should the demand for S. F. assistance exceed available resources, what are the appropriate rationing criteria?

(c) What relationship should resources for S. F. have to the ordinary resources of the IDA? Should there be a separate fund or should these resources be included in total IDA resources with a prescribed maximum ~~use~~ for S. F. use?

(d) Should all resources for S. F. be provided by direct government contributions, or in some other ways too?

(e) What should be the terms of S. F. assistance?

VI. Lending Criteria

(a) What should be the criteria for eligibility of countries for S. F. assistance? Should all developing countries have access to S. F.? Should countries at the lower end of the development spectrum be entitled to proportionately "more" assistance than those at the upper end?

(b) What should be the form of assistance? Should it be in the form of program aid, or can it take the form of project financing?

VII. Legal and Administrative Aspects

(a) Can IDA as it is now constituted take up S. F. administration, or some amendment of the Articles would be needed?

(b) Should it be merged in the working of the IDA or should it be kept as a distinct function of IDA with a separate fund?

(c) What should be the criteria for membership in S. F.? Can countries which are not members of Bank or IDA be allowed to join?

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 15 1969

FROM: Irving S. Friedman

ISF

SUBJECT: Supplementary Finance and IDA Replenishment

1. In my memorandum of September 26, 1969 dealing with the outline of work on supplementary finance, I promised a separate memorandum on the relationship between supplementary finance and the third replenishment. This memorandum suggests a position on this issue. We are working on a separate paper on the issues involved in formulating a supplementary finance policy within the framework of the principles agreed by the Trade and Development Board. We plan to have this ready before your meeting with Mr. Perez-Guerrero.

2. The question of the relationship between supplementary finance and an expanded IDA has two aspects. One relates to the way in which supplementary finance should be administered -- whether as a separate entity or simply as an additional function of an enlarged IDA. The other relates to the timing of the Bank Group's work on supplementary finance in relation to the third replenishment. This memorandum is addressed to the latter issue.

3. Our main concern is with the "additionality" of resources for supplementary finance. IDA is a primary responsibility of ours and we cannot allow its replenishment at higher levels to be compromised by other considerations and requirements. At the same time, now that most governments are agreed on the objectives and feasibility of supplementary finance and have asked us to formulate and consider implementing arrangements for this purpose, this task cannot be unduly deferred. We should, therefore, seek a course that would best ensure additionality of resources for supplementary finance purposes, i.e., over and above what otherwise would be forthcoming for IDA. X

4. With respect to the timing of the negotiations for supplementary finance, there are essentially two alternatives:

(a) Complete separation of negotiations for supplementary finance from the third replenishment, and

(b) Some form of concurrent discussion and negotiation of the two subjects.

5. The first approach would be to defer active consideration of supplementary finance until after the negotiation of the third replenishment is completed, and perhaps legislative action as well. On present thinking this would be July 1971. Separation would have the advantage of assuring additionality of resources for supplementary finance over resources for third replenishment, and also of minimizing the possibility of delay in negotiating the third replenishment. However, [we probably do not have this option] because some major countries appear to agree with the Canadian view that "there is merit in integrating the supplementary finance facility into an expanded IDA" and therefore that the financing of the two cannot be completely separated. X

OCT 16 1969

Returned 11-15 a.m.

President has seen

October 15 1969

Moreover, the LDC's would feel let down by a long delay in IBRD follow-up of the Trade and Development Board Resolution on Supplementary Finance, which came after years of discussion and particularly in light of the favorable attitude towards supplementary finance in the Pearson Report.

6. The real question with respect to the second approach, that is concurrent discussion of supplementary finance and IDA, is at what point of time do we introduce the supplementary finance discussions in our consultations with member governments, on IDA. There are various considerations to be taken into account. As indicated in my memorandum of September 26 on the schedule of staff work it will take at least a few months before we can complete the preliminary staff work on supplementary finance along the new lines indicated in the TDB Resolution. Moreover, before finalizing any scheme we may wish to carry out technical discussions with at least some of the donor governments, particularly the United States, Germany, United Kingdom, Sweden and Canada, to ensure that the scheme we formulate accords with the concerns and interest of these countries. Nevertheless, the donor governments are likely to be thinking about supplementary finance as they talk about IDA replenishment, and are likely to raise this subject in their talks with the Bank. On the other hand, there is the consideration that introducing supplementary finance too early (that is, say in November-December 1969) might complicate the IDA negotiations. Finally, different donor governments may have conflicting views on when supplementary finance should be introduced into IDA discussions, and some consultations would be necessary to resolve these differences.

7. Keeping these various considerations in mind, and assuming that the consensus of donor government views is that agreement on supplementary finance measures within the Bank need not or should not be reached soon (say early 1970), I recommend that our approach be:

(a) Start the staff work on the scheme right away, in line with my memorandum of September 26, 1969 and, as the policy is formulated, begin informal technical consultations with the governments. This could take four to six months in all.

(b) In the course of this period, the thinking of donor governments on the scale of third replenishment should become clear.

(c) The Bank, in its IDA negotiations should, when asked, state that we are carrying on the staff work and would like to benefit from the views of donors as to the point at which they would like to bring the supplementary finance into discussions, emphasizing our views on additionality.

(d) The Bank would be prepared to bring supplementary finance into IDA discussions at any time suitable to major donors after March 1970.

8. However, if our IDA team brings back clear signals that an earlier decision on supplementary finance would facilitate the IDA discussions and facilitate an expanded IDA, as some donor officials imply, we would be prepared to accelerate this schedule and go to our Executive Directors in January, 1970.

cc: Sir Denis Rickett

*Copies sent to Messrs. Shuman
Jalan & Frank 10/15/69*

Mr. Robert S. McNamara

October 15 1969

Irving S. Friedman

Supplementary Finance and IDA Replenishment

1. In my memorandum of September 26, 1969 dealing with the outline of work on supplementary finance, I promised a separate memorandum on the relationship between supplementary finance and the third replenishment. This memorandum suggests a position on this issue. We are working on a separate paper on the issues involved in formulating a supplementary finance policy within the framework of the principles agreed by the Trade and Development Board. We plan to have this ready before your meeting with Mr. Perez-Guerrero.
2. The question of the relationship between supplementary finance and an expanded IDA has two aspects. One relates to the way in which supplementary finance should be administered -- whether as a separate entity or simply as an additional function of an enlarged IDA. The other relates to the timing of the Bank Group's work on supplementary finance in relation to the third replenishment. This memorandum is addressed to the latter issue.
3. Our main concern is with the "additionality" of resources for supplementary finance. IDA is a primary responsibility of ours and we cannot allow its replenishment at higher levels to be compromised by other considerations and requirements. At the same time, now that most governments are agreed on the objectives and feasibility of supplementary finance and have asked us to formulate and consider implementing arrangements for this purpose, this task cannot be unduly deferred. We should, therefore, seek a course that would best ensure additionality of resources for supplementary finance purposes, i.e., over and above what otherwise would be forthcoming for IDA.
4. With respect to the timing of the negotiations for supplementary finance, there are essentially two alternatives:
 - (a) Complete separation of negotiations for supplementary finance from the third replenishment, and
 - (b) Some form of concurrent discussion and negotiation of the two subjects.
5. The first approach would be to defer active consideration of supplementary finance until after the negotiation of the third replenishment is completed, and perhaps legislative action as well. On present thinking this would be July 1971. Separation would have the advantage of assuring additionality of resources for supplementary finance over resources for third replenishment, and also of minimizing the possibility of delay in negotiating the third replenishment. However, we probably do not have this option because some major countries appear to agree with the Canadian view that "there is merit in integrating the supplementary finance facility into an expanded IDA" and therefore that the financing of the two cannot be completely separated.

October 15 1969

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(a) Start the staff work on the scheme right away, in line with my memorandum of September 26, 1969 and, as the policy is formulated, begin informal technical consultations with the governments. This could take four to six months in all.

(b) In the course of this period, the thinking of donor governments on the scale of third replenishment should become clear.

(c) The Bank, in its IDA negotiations should, when asked, state that we are carrying on the staff work and would like to benefit from the views of donors as to the point at which they would like to bring the supplementary finance into discussions, emphasizing our views on additionality.

(d) The Bank would be prepared to bring supplementary finance into IDA discussions at any time suitable to major donors after March 1970.

8. However, if our IDA team brings back clear signals that an earlier decision on supplementary finance would facilitate the IDA discussions and facilitate an expanded IDA, as some donor officials imply, we would be prepared to accelerate this schedule and go to our Executive Directors in January, 1970.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

October 6, 1969

Mr. McNamara:

You may be interested in reading
this note when reading my memorandum of
October 6 to you on Supplementary
Finance.

Irving S. Friedman

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Irving S. Friedman

DATE: October 6, 1969

FROM: Jo W. Saxe JWS

DECLASSIFIED

OCT 6 1969

MAR 28 2013

SUBJECT: Supplementary Finance

WBG ARCHIVES

1. I hardly need remind you that from early in January 1966 until late in August 1968, I was deeply engaged in the analysis of the Bank staff scheme for supplementary finance measures and that I was the U.S. representative to the Intergovernmental Group on Supplementary Finance as its Vice Chairman and Rapporteur from its First Session until it reported to the Second Session of UNCTAD in February 1968.

2. The U.S. Administration took a decision about the matter at subcabinet level (in the NAC) on December 1967. This decision was endorsed by the New Administration just before the Ninth Session of the Trade and Development Board.

Two or three of my former colleagues who had helped me in this business while I was working on it have recently discussed it with me. They did so because they knew of my interest in the matter and, very possibly, to convey their reasoning and views through me to people here.

3. I have set forth below (in paragraph 5) the gist of what they told me. I might add that the paper we put to the NAC in 1967 and the statement I made at the Second Session of UNCTAD, which was drawn from it, have been and are the most authoritative statement of the formal U.S. view on the substance. The conversations I have mentioned above are, I am convinced, an authoritative view about timing and tactics.

IDA Third Replenishment and Supplementary Finance

4. First, here is a very brief summary of the U.S. position on the substance. At the Second Session of the Conference, the U.S. representative rejected a number of significant if not central features of the World Bank staff scheme. He explained that the U.S. authorities could not accept export projections for a five to seven years period even subject to a mid-term review as a basis for a scheme. He also said that the arrangements for prior approval of development plans and understandings about policy embodied in the scheme seemed to his authorities to be somewhat too rigid. He also called into question the cost estimates which had been made. However, he reaffirmed U.S. support for the objectives of the Recommendation of the First Session of the Conference and expressed the willingness of the U.S. to participate in working out an unspecified alternative approach to these objectives without these objectional features. Specifically, he advocated a discretionary scheme; one in which the management would have a great deal of latitude. In a subsequent meeting of the ICG (at its

October 6, 1969

Fifth Session) he stressed the necessity for close consultation between the Bank and Fund and mentioned the possibility that one element in a discretionary scheme might be provision for refinancing compensatory drawings on the Fund if the shortfall which had justified the drawing proved to be of a long term character.

5. The purpose of the U.S. authorities in agreeing to the decision taken at the Ninth Session of the (UNCTAD) Trade and Development Board about supplementary finance was to strengthen the case for a significant increase in IDA as well as to serve the purpose of the Recommendation taken at the First Session of UNCTAD. Their opposition to setting any date for action by the Management or Board of the Bank was derived from a desire to leave the utmost freedom to the Bank. In particular, they wish the Bank to be free to ascertain by consultations with potential contributors how and when the arrangements for supplementary finance which it might devise could contribute to a Third Replenishment larger than it might otherwise be. In their view it might be found desirable either to introduce these arrangements into discussion early (say, in the spring of 1970) or late (say, in the fall). They believe that only the Management can make this decision and that it can only do so after these consultations have been held. In short, they wish the Bank to be free to consult, to decide, and then to proceed in this matter. They wish to have ample time for consultation with the Management of the Bank and with other potential contributors.

JWS:mmm-v

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: September 29, 1969

FROM: N. A. Sarma *N. A. Sarma* SEP 29 1969
4 30 PM

SUBJECT: Supplementary Finance - Outline of Work - Questions by Mr. McNamara

Para 1: The Resolution adopted by the Trade and Development Board is attached hereto. The Conclusions of the Inter-Governmental Group are annexed to this Resolution. In the Resolution, it is stated that the TDB agrees with the Conclusions of IGG. The U.S. representative at the TDB voted for the Resolution, and did not make any reservation. (Please see my memo to you, of September 26).

Para 2: The purposes of S.F. were agreed to in recommendations adopted by UNCTAD I (1964 June, Geneva) and UNCTAD II (1968 March, New Delhi) - attached hereto, please. UNCTAD I stated that the resources for S.F. be administered by IDA. The IGG recommended that S.F. be administered within the World Bank Group. The Resolution by TDB, agreeing with the IGG Conclusions, "invites the competent organs of the IBRD ... to consider working out arrangements for S.F. and, if appropriate, to consider introducing them." As I mentioned in my memo to you of September 26, the reference to "competent organs of the Bank" and "working out arrangements" was to indicate that what was being expected was not a staff study, but an operational proposal from the Management and Executive Directors of the Bank. As for the terms "to consider" and "if appropriate", while they reflect a compromise between different approaches, essentially they reflected the desire of most delegations not to appear as if they were instructing the Bank; I was informed by representatives of both donor countries and LDC's that the wording reflected courtesy to the Bank.

Para 8: While Canada made specific references to S.F. in the context of an expanded IDA, both at the IGG meetings and at the TDB session, USA and U.K. also referred to this matter at the IGG sessions. Representatives of Sweden (nordic countries), Switzerland, the Netherlands, in informal meetings would seem to have expressed similar views.

Para 10: As noted earlier, USA voted for the entire Resolution in the TDB and made no reservation. In the discussions in the contact group that led to the text of this Resolution, it would appear USA opposed any suggestion or hint of a time limit. For instance, there was a view expressed by some LDC's, especially by Brazil, that there should be a progress report from the Bank to TDB for the latter's tenth session (i.e. by August 1970); USA did not agree with this. There is, however, no record of these consultations, and no formal statement is available by the U.S.

Mr. Robert S. McNamara

September 26 1969

Irving S. Friedman

U.S. Position on Supplementary Finance

This note by Sarma attempts to state the viewpoint of the U.S. on Supplementary Finance. Noting the statements made by U.S. representatives at various meetings, their participation in informal consultations, and the position taken by them with respect to the resolution adopted by the Trade and Development Board (TDB) early this month, Sarma expresses the definitive view that the U.S. has agreed to the objective and principle of Supplementary Finance.

I myself recall that the U.S. representatives were rather critical of certain aspects of the Bank staff proposal in earlier meetings, though they did not oppose Supplementary Finance as such. In the present Administration further consideration has been given to the matter, and a favorable decision in principle appears to have been reached on a discretionary scheme at a high levels in the Government. This impression would seem to be confirmed by my conversation with Emmett Rice.

There is, however, one important concern for us; this should be the concern of governments too -- the impact of Supplementary Finance on the availability of resources for IDA, especially through the Third Replenishment. We, on our part, in the discussions on Supplementary Finance, have consistently stated since 1965 that resources for Supplementary Finance should be additional to basic development finance. The Resolution adopted by the TDB specifically draws our attention to the view of the IGG that it would be of little value merely to divert available resources from basic development finance. Some donor country representatives, e.g. Canada, have referred to Supplementary Finance in the context of an expanded IDA. Most governments seem to be aware of the problem. The U.S. in particular appears to be of the view that the total resources for IDA replenishment and Supplementary Finance together would be larger than what otherwise would be for IDA purposes only. Supplementary Finance, instead of inhibiting IDA replenishment may, in fact, become a means of obtaining larger funds for IDA. In any case no deadline has been set for the Bank's work and it is therefore within our power to handle the matter in such a way as to maximize the favorable effect of Supplementary Finance on the total volume of resources to be administered by IDA.

I believe that the U.S. and the other donor countries, as well as the LDCs, agreed to refer the matter to the Bank have done so with a positive attitude. However, I do not wish to leave the impression that the U.S. has decided at this stage to put money into Supplementary Finance. More work within the Bank on the specifics of a scheme will be needed before such a decision can be taken by the U.S. or any other donor.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

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

SUBJECT: U.S. Position on Supplementary Finance

DATE: September 25, 1969

The note attached hereto is prepared at your request. It brings together the substance of statements by the U.S. representatives at the IGG sessions and the TDB meeting just concluded, on the basis of detailed notes I have of these proceedings.

On the basis of these views, as well as what I gathered of the private consultations during IGG and TDB sessions, it is my view that the U.S. has agreed to the principle and objectives of S.F., but has not indicated any particular time schedule for working out the scheme and for implementing it.

- In brief
Attachments

Supplementary Finance - U.S. Position

At the Second Conference on Trade and Development (UNCTAD II - Delhi: March 1968), it was decided to expand the Inter-Governmental Group on S.F., and to instruct it to consider further certain aspects of S.F., to work out measures for S.F., and to report to the Trade and Development Board not later than its Ninth Session. The First Session of this expanded group was held for a week during October 21-25, 1968, and was preparatory in nature for its next session. The final session was held for two weeks during June 23 - July 3, 1969. At this session a consensus recommendation was agreed upon, and forwarded to the TDB. The TDB, at its Ninth Session (September, 1969) adopted a (consensus) resolution on the subject, agreeing with the conclusions of the Inter-Governmental Group, and requesting the IBRD to consider working out supplementary financing arrangements on the basis of the IGG conclusions and, if appropriate, to consider introducing them.

The U.S. representative at the TDB meeting voted for the above resolution, and did not make any reservation, as Australia and a few others did. In fact, on September 9-10, i.e. two days before the final resolution emerged as a compromise text for approval, there were two draft resolutions - one by the LDC's and the other by some members of the 'B' Group (donor countries). USA was one of the sponsors of the 'B' Group draft. (Please see the drafts attached hereto). In substance, the two drafts were similar. USA was in the small contact group of the TDB President, which hammered out the final, agreed, text.

Earlier, in his general statement at a plenary session of TDB, the U.S. representative observed that it was an achievement for the IGG to have secured a consensus in this complicated matter, and that the TDB was to be asked to act on the IGG Report.

At the final session of the IGG (June-July 1969), the U.S. member felt that the comments of the Canadian member were useful and could be pursued further; in his view, if the decision was to implement a scheme of S.F., it would be best to entrust it to the Bank Group. (Canada had agreed in principle to S.F. but not to specific features such as a pre-determined export norm, and saw some merit in integrating S.F. into an expanded IDA.)

At the first (exploratory) meeting of the expanded IGG in October 1968, the U.S. member reflected at some length on certain aspects of S.F., and put forward certain suggestions as possible modifications of

the so-called German alternative. Inter alia, he expressed the view that the arrangements for S.F., if put into effect, should be administered by IDA, and funds for S.F. might be provided through an increase in the resources of IDA in the process of the Third or subsequent Replenishment.

Agenda item 6(a)

SUPPLEMENTARY FINANCIAL MEASURES

Draft resolution submitted by:

Canada, Federal Republic of Germany, Japan,
Netherlands, Spain, United States of America

The Trade and Development Board,

Recalling decision 30 (II) of the second Conference on
supplementary financial measures,

Taking note of the report of the Inter-governmental Group on
Supplementary Financing on its fifth session (TD/B/260),

Recalling the objective set out in Recommendation A.IV.18 of
the first Conference and the objective laid down in decision 30 (IX)
of the second Conference,

Recognising that disruption to development programmes can arise
from adverse movements in export proceeds (including, in appropriate
cases, invisible exports) which prove to be of a nature or duration
which cannot adequately be dealt with by short-term balance of payments
support,

Having full regard to the Conclusions of the Inter-governmental
Group hereto annexed,^{1/}

1. Inviting the competent organs of the International Bank for
Reconstruction and Development to consider whether arrangements for
supplementary finance can be worked out on the basis of the Conclusions
of the Inter-governmental Group report and of the views expressed at the
ninth session of the Trade and Development Board, taking into consideration
the special need of the least developed countries as contained in
resolution 24 (IX) of the second Conference,

2. Requests the IBRD to notify the Secretary-General of UNCTAD after a reasonable time for the information of the Board of the progress made in connexion with this work.

K. A. Gurus
20/2/11
9 September 1967 ✓

DRAFT RESOLUTION SUBMITTED BY THE
GROUP OF 21*

GROWTH, DEVELOPMENT FINANCING AND AID:
Supplementary financial measures: report
of the Inter-Governmental Group on
Supplementary Financing
Item 6(a)

THE TRADE AND DEVELOPMENT BOARD,

RECALLING Decision 30 (II) of the Second Conference on supplementary financial measures,

TAKING NOTE of the Report of the Inter-Governmental Group on Supplementary Financing on its fifth session (TD/P/250),

AGREEING with the conclusions and recommendations of the 250 hereto annexed,^{1/}

REAFFIRMING the principles and objectives set out in recommendation A.IV.18 of the First Conference and the objective laid down in Decision 30 (II) of the Second Conference,

CONVINCED of the urgent need to introduce arrangements for supplementary financing so as to protect developing countries against the effects of adverse movements in their export and invisibles proceeds,

1. INVITES the International Bank for Reconstruction and Development to work out the operational rules for the implementation of a scheme of supplementary financing measures on the basis of the conclusions of the Inter-Governmental Group Report and on the views expressed at the ninth session of the Trade and Development Board, taking into consideration the special needs of the least developed countries as contained in Resolution 24 (II) of the Second Conference,

2. INVITES FURTHER the International Bank for Reconstruction and Development to report to the tenth session of the Trade and Development Board on the progress made in the subject matter referred to in the preceding paragraph and annually thereafter on the operation of the scheme,

3. REQUESTS the International Bank for Reconstruction and Development to explore the possibility of obtaining additional resources required for supplementary financing.

^{1/} See Annex A.

* This text was also submitted to the secretariat.

September 25 1969

Mr. Sarma:

Mr. Friedman said to type up these notes for you and to tell you that he needed the drafts by early afternoon today.

1/ Is there an actual report, either verbatim or summary or other kind where the views of delegates are recorded, that could be appended to this memorandum? If not, then I think this should be clearly indicated in the covering report and some indication should be made of what your own personal recollection is, having attended these meetings.

2/ I note that in your memorandum as well as in the resolution, there are such phrases as "where arrangements for supplementary finance can be worked out (draft resolution)" and "if appropriate" (presumably in the final text of the resolution) and that your memorandum reports that the U.S. member felt that in his view "if the decision was to implement, etc." Do all these qualifications indicate that the U.S. was really saying that it wasn't agreeing to anything in substance but rather to the procedure of having the proposal transferred from the UNCTAD to the Bank? Even your reporting of the U.S. views on Canada is that they were "useful" could be pursued further and couldn't this be taken as diplomatic jargon to reflect a noncommittal, if not a hostile position, when expressed to a friendly country?

Please see the following:

Irving S. Friedman

While attending these meetings,

- 1/ I have made careful and detailed notes of the views expressed by delegations on S.F. (These have been reported from time to time, immediately on my return from the meetings). I have now added this in my memo to you, please. We could arrange to obtain summary records from Mr. Sidney Dell.
- 2/ Until UNCTAD II, and in their statements in UNCTAD II, the U.S. attitude was ~~critical~~ critical of various aspects of S.F. ~~It is only in~~ recent months, i.e. during discussions in the expanded IGG Group (October 1968 and June 1969) and most recently at the TDB meeting, gradually and increasingly the U.S. has evolved a favourable position. I have attempted to bring out this evolution in the note. What is important is their present position as expressed at TDB (September 1969). I start with that, and trace back to the final sessions of IGG (July 1969) and to the earlier sessions of IGG (October 1968). The U.S. position seems to have evolved not only as a result of internal discussions among their own departments, but also in the light of discussions with German, Canadian and other delegations during these meetings. The TDB resolution clearly agrees with the recommendations of the IGG on S.F. The IGG recommendation is annexed to the TDB resolution, placed below. The U.S. has agreed with this, without any reservation. The resolution is so drafted as to give considerable discretion to the Bank. The phrase, 'if appropriate', is to be understood in this context.

N. A. Lanning

9/25

W. Friedman

although never taking a position of general opposition, while various officials expressed



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United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Ninth session
Geneva, 26 August 1969
Agenda item 6(a)

SUPPLEMENTARY FINANCIAL MEASURES

Draft resolution submitted by the President of the Board

The Trade and Development Board,

Recalling decision 30(II) of the second Conference on supplementary financial measures,

Taking note of the report of the Inter-Governmental Group on Supplementary Financing on its fifth session (TD/B/260),

Reaffirming the objective set out in recommendation A.IV.18 of the first Conference and the objective laid down in decision 30(II) of the second Conference,

Recognizing that disruption to development programmes can arise from adverse movements in export proceeds (including, in appropriate cases, invisible exports) which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support,

→ Agreeing with the Conclusions of the Inter-Governmental Group hereto annexed^{1/},

1. Invites the competent organs of the International Bank for Reconstruction and Development, on the basis of the Conclusions of the Inter-Governmental Group and of the views expressed at the ninth session of the Trade and Development Board, taking into consideration the special needs of the least developed countries as contained in resolution 24 (II) of the second Conference, to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them.

2. Invites further the International Bank for Reconstruction and Development to make available from time to time to the Trade and Development Board through the Secretary-General of UNCTAD reports on the extent of the progress made on the subject matter referred to in the preceding paragraph.

3. Invites the International Bank for Reconstruction and Development when considering arrangements for discretionary supplementary financial measures on the basis of the Conclusions of the Inter-Governmental Group to give attention to paragraph (v) of those Conclusions.

ANNEX A

- (i) Arrangements for supplementary finances 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.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 26, 1969

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance: Outline of WorkSubstance of the Decision taken by TDB

At the Ninth Session of the Trade and Development Board, a consensus resolution was adopted on supplementary finance (S.F.), virtually unanimously - i.e. it was supported by most donor countries and all less-developed countries. By this resolution, the Board agrees with the conclusions of the Inter-governmental Group (IGG), and requests the IBRD to consider working out supplementary financing arrangements, on the basis of the conclusions of IGG, and, if appropriate, to consider introducing them. Attention is drawn specifically to the view of the IGG that it would be of little value merely to divert available resources from basic development finance for this purpose.

2. By this decision, most governments - donor and beneficiary - have reaffirmed:

(i) The basic objective of supplementary finance, i.e. helping a country facing adverse movements in export earnings to avoid disruption of its development program.

(ii) That such a scheme* be formulated and administered by the World Bank Group in consultation with the Fund.

(iii) That, in administering the scheme, account be taken of a country's development plan, including its targets. While it is not categorically stated, the general view emerged that financial resources for S.F. should be considered in terms of additions to basic development finance.

3. Essentially, the scheme envisaged in the above decision is "discretionary". It does not, as did the original staff proposal, specify the use of agreed export projections as the means of measuring the unexpected export shortfalls, nor does it explicitly call for the use of policy understandings on development programs and performance undertaken at the beginning of each five-year period and periodically renewed, to ensure that any supplementary finance assistance would be used to defend a worthwhile development program. Some (donor) countries were skeptical or critical of such predetermined norms, in the course of the discussions on the subject. The request to the Bank is, however, so worded as to leave considerable discretion to the Bank in formulating a scheme, in exploring ways of obtaining resources for the purpose, and in administering it. The Bank is to forward progress reports from time to time to the Trade and Development Board for its information. No time limit is set.

*The word "scheme" need not imply anything more than a policy decision within the Bank. For convenience the word "scheme" is used in the paper interchangeably with "arrangements" or "policy".

4. At the same time, the recommendation of ICG, which is endorsed in the decision of the Trade and Development Board, also states: "It can be expected that on the basis of the experience gained in the operation of supplementary finance appropriate objective criteria will be developed so as to provide reasonable assurance of help to protect a country's development plan or program against the effects of export shortfalls." This was the essence of the Bank staff proposal. There is also a reference in the ICG recommendation to understandings with member countries, but it is indicated that they should be no different from those which now obtain in the relationships between the Bank and member countries. We ourselves had stressed the point that the relationships necessary under S.F. should be the same as we were developing with member countries in the Bank, though the Bank staff proposal was silent on which agency should administer the scheme.

Framework Paper

5. The first step for the Bank, then, is to set out the issues involved in working out a scheme on the lines indicated in the recommendation of the ~~ICG~~ **166**. The main issues would have to be posed with great care, keeping in view the essential requirement of the operational feasibility of any suggestion. Consultations with the Fund are also required. In view of the considerable amount of work done by our staff on the subject already, and the viewpoints elaborated by government representatives on technical as well as administrative aspects during the course of discussions so far, it should be possible to prepare the paper setting forth the issues by the end of October which, if desired, could be the basis for a preliminary Board discussion. We would aim to give you a draft by October 15.

Papers on Issues

6. With respect to each of the main issues, on balance there is some advantage in preparing a separate brief paper in terms of alternative approaches which would go further than the preliminary paper referred to above. However, such paper would not attempt to formulate conclusions at this stage. Doubtless the staff members working on particular aspects would be going over interrelated questions among themselves. These papers could be got ready for circulation during November-December. Again, as we proceeded with respect to Commodity Stabilization Studies, these papers could be discussed in a series of Executive Board meetings over a period beginning whenever it seemed desirable from all viewpoints, including the Third IDA Replenishment. A judgment on this would probably best be made after preliminary exploration with some of the leading Part I countries. The staff would then be in a position to prepare and circulate a comprehensive paper, putting forward a "scheme" or policy proposal for approval.

7. Among the issues for consideration would be the following:

- (i) Determination of an export shortfall: As noted earlier the

resolution does not refer to any export norm, and divergent views have been expressed by particular countries. But, there is agreement that there should be reasonable assurance of help to protect a country's development program against an export shortfall. If export norms are not used, what other techniques are possible? Closely related questions are: in the case of a particular country, how significant is the problem in a given situation and what part of the shortfall can be covered?

(ii) Whether a country experiencing an export shortfall should qualify for assistance from the scheme, to what extent, how related to its policy performance, if not based on a prior "policy package" understanding, what other means might be used to ensure sufficiently quick assistance, etc?

(iii) The relationship with the Compensatory Financing Facility of the Fund: The main question relates to the different purposes that S.F. is intended to serve. 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 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 the Compensatory Financing Facility has to do with instability or short-term fluctuations in export earnings, and supplementary finance with uncertainty of export earnings. A closely related question is the continuing mechanism, if any, for consultation with the Fund in the implementation of any scheme.

(iv) The relationship with commodity arrangements: Are commodity agreements a feasible substitute for supplementary finance? Do they complement or compete with one another for international support? Does the same answer apply to all countries?

(v) Several questions arise with respect to financing: An estimate of requirements; how they are to be raised; the period covered; whether the amount should be earmarked as a separate fund for this purpose or be included in the total IDA resources with a certain (maximum) limit indicating for S.F. use; the possible need for rationing devices, etc.

(vi) The legal aspects arise from the institutional and administrative arrangements contemplated, whether S.F. would be merged in the working of IDA, or whether it would be kept as a distinct function of IDA, etc. Questions of membership may be involved if some non-members, like Rumania, should wish to join.

(vii) How should S.F. be provided, e.g. through the mechanism of the established vehicles of the World Bank Group, etc?

Paper on Relationship with IDA Replenishment

8. During the IGG session in June-July 1969 and later in the TDB discussions, specific references were made by some representatives to IDA replenishment and S.F. Canada has taken the view that "there is merit in integrating the S.F. facility into an expanded IDA". Several donor countries are evidently thinking on the same lines. Accordingly, it might be advisable for the Bank to consider S.F. in the context of the time table and procedures it proposes for negotiations leading to the Third Replenishment of IDA. This would help to maintain the "additionality" of funds for S.F. A separate memorandum on this matter is being prepared and will be available in about two weeks.

9. The time schedule given below assumes that a decision is made to proceed with the work on S.F. simultaneously with the IDA replenishment. If a different decision is made, a different schedule would, of course, be called for.

Time Schedule for further Steps

9. A fully elaborated scheme can only emerge after some time. This is because it would require detailed consideration in the Bank, especially by the Bank's Executive Board. It would also require consultations with at least some of the (donor) governments which have favored a discretionary scheme -- especially Germany, the U.S.A. and Canada. Because of these negotiating needs tentatively, June 1970 would seem a reasonable deadline for completing this part of the work, assuming the member governments, particularly the principal donors, wished us to proceed at this time with this matter.

10. The expectation of several governments, it appears, is that it might take between one and two years for a S.F. scheme to be actually implemented. In fact, a proposal that was seriously considered at one stage was to request the Bank to furnish the first progress report to the Tenth Session of TDB - i.e. by August 1970. In particular, the U.S.A., having agreed without any reservation to the decision of TDB, has refrained from indicating any time schedule for working out the scheme or implementing it. This view of the U.S.A. clearly emerged during the informal consultations preceding the agreed text. This question of timing is important and delicate. Views of at least some of the (donor) countries should presumably be ascertained before formally bringing up papers for discussion by Executive Directors.

Staff Arrangements

11. The question now arises of getting together a small staff team for undertaking the work. I have in mind the following persons:

R.M. Sundrum (Director, Development Programs Studies, Burmese national):
Very familiar with supplementary finance proposal and discussions.
Could be ~~Chairman of the Group~~ *coordinator of team.*

Ellsworth E. Clark (Special Counsel, Legal Department, U.S. national):
(Cleared with Ronnie Broches.)

Jo W. Saxe (Development Finance Studies Division, U.S. national):
Represented the U.S. in most of the discussions and was rapporteur
on supplementary finance for the UNCTAD II -- now works with
Sir Denis Rickett as part of the IDA team and could be the person
concerned with the interrelation between the S.F. proposal and the
Third IDA Replenishment.

Bimal N. Jalan (Returning from Pearson Commission staff on October 1,
Indian national): Was involved in original work for a number of years.

Dieter Elz (Trade Policies & Export Projections Division, German
national): He would be particularly concerned with export projections
and with the problem of projections in relation to commodity agreements
-- was very helpful in recent Commodity Stabilization Study.

I recommend that Isaiah Frank work as Advisor to this group since he
has worked with me on this matter since its inception. He and Jo Saxe
are very knowledgeable about the U.S. attitude and sensitive to the various
questions relating to U.S. support in such a scheme and its implications for
IDA replenishment.

Mr. Sarma is due to return to India. He has already stayed away much
longer than he originally planned when he came four years ago; his family
has already returned to Bombay and he feels he must go back for some months
at least to help them get installed. However, he has been a most useful
colleague and is now thoroughly versed, not only with the problems involved
in supplementary finance but also the viewpoint of donor and LDC countries.
He gained the respect of all these people as well as people in the UNCTAD
Secretariat who also have a keen interest. He indicates that, if I were to
request him to come back and work on this with me, he would be prepared to
ask Governor Jha of the Reserve Bank of India to allow him to come back during
1970 to do so.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Mr. Sarma to write a piece on
Supplementary Finance to be given to
Mr. McNamara on October 15.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Irving S. Friedman

SUBJECT: U.S. Position on Supplementary Finance

DATE: September 26 1969

This note by Sarma attempts to state the viewpoint of the U.S. on Supplementary Finance. Noting the statements made by U.S. representatives at various meetings, their participation in informal consultations, and the position taken by them with respect to the resolution adopted by the Trade and Development Board (TDB) early this month, Sarma expresses the definitive view that the U.S. has agreed to the objective and principle of Supplementary Finance.

I myself recall that the U.S. representatives were rather critical of certain aspects of the Bank staff proposal in earlier meetings, though they did not oppose Supplementary Finance as such. In the present Administration further consideration has been given to the matter, and a favorable decision in principle appears to have been reached on a discretionary scheme at high levels in the Government. This impression would seem to be confirmed by my conversation with Emmett Rice.

There is, however, one important concern for us; this should be the concern of governments too -- the impact of Supplementary Finance on the availability of resources for IDA, especially through the Third Replenishment. We, on our part, in the discussions on Supplementary Finance, have consistently stated since 1965 that resources for Supplementary Finance should be additional to basic development finance. The Resolution adopted by the TDB specifically draws our attention to the view of the IGG that it would be of little value merely to divert available resources from basic development finance. Some donor country representatives, e.g. Canada, have referred to Supplementary Finance in the context of an expanded IDA. Most governments seem to be aware of the problem. The U.S. in particular appears to be of the view that the total resources for IDA replenishment and Supplementary Finance together would be larger than what otherwise would be for IDA purposes only. Supplementary Finance, instead of inhibiting IDA replenishment may, in fact, become a means of obtaining larger funds for IDA. In any case no deadline has been set for the Bank's work and it is therefore within our power to handle the matter in such a way as to maximize the favorable effect of Supplementary Finance on the total volume of resources to be administered by IDA.

I believe that the U.S. and the other donor countries, as well as the LDCs, ^{which} agreed to refer the matter to the Bank have done so with a positive attitude. However, I do not wish to leave the impression that the U.S. has decided at this stage to put money into Supplementary Finance. More work within the Bank on the specifics of a scheme will be needed before such a decision can be taken by the U.S. or any other donor.

I cannot, of course, predict what the U.S. attitude will be if and when we have articulated a scheme requiring more money and it is then examined under a microscope by members of the Cabinet and perhaps even the President himself.

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September 25 1969

Mr. Sarma:

Mr. Friedman said to type up these notes for you and to tell you that he needed the drafts by early afternoon today.

1. Is there an actual report, either verbatim or summary or other kind where the views of delegates are recorded, that could be appended to this memorandum? If not, then I think this should be clearly indicated in the covering report and some indication should be made of what your own personal recollection is, having attended these meetings.

2. I note that in your memorandum as well as in the resolution, there are such phrases as "where arrangements for supplementary finance can be worked out (draft resolution)" and "if appropriate" (presumably in the final text of the resolution) and that your memorandum reports that the U.S. member felt that in his view "if the decision was to implement, etc." Do all these qualifications indicate that the U.S. was really saying that it wasn't agreeing to anything in substance but rather to the procedure of having the proposal transferred from the UNCTAD to the Bank? Even your reporting of the U.S. views on Canada is that they were "useful" could be pursued further and couldn't this be taken as diplomatic jargon to reflect a noncommittal, if not a hostile position, when expressed to a friendly country?

Irving S. Friedman

Mr. Sarma

1. List issues to be discussed or questions in substantive paper:

- (a) definition of export shortfall
 - (b) what countries qualify for supplementary finance assistance?
 - (c) how significant is the problem?
 - (d) amount of assistance -- e.g. entire shortfall or part - if part, how much?
 - (e) preconditions for assistance -- e.g. an understanding on economic performance, performance at time of shortfall, internal measures to cope with shortfall, etc.
 - (f) how administered -- e.g. as separate scheme or as policy of World Bank Group?
 - (g) how financed additions - IDA, World Bank (how to assure "additionality"? possible new sources for this special purpose -- e.g. special supplementary contribution, relation to SDR creation aside from organic links, etc.
- (L) content of performance criteria or "policy package"?
- (11) size of additional funds to be requested; what happens if not used; what happens if ~~not-used~~ inefficient, etc.
- (9) relations with IMF - It distinguishes between questions already thoroughly explored and widespread agreement ~~and~~ and those explored and still open and those not explored supplementary

INTERNATIONAL BANK FOR
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INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

September 24 1969

1. One paper discussing issues -- or series of action papers?
2. See likelihood of Board seminars or meetings of Bank Financial Policy Committee (chaired by President) as way to do it.

Mr. Sarma

1. List issues to be discussed or questions _____ paper:

- (a) definition of export shortfall
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DRAFT
NASarma
9/23/69

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE:

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance: Work ScheduleSEP 23 1969
4 p.m.

N.A. Sarma

(166) At the Ninth Session of the Trade and Development Board, (TDB) a consensus resolution was adopted on supplementary finance, virtually unanimously - i.e. it was supported by most donor countries and all less-developed countries. By this Resolution, the Board agrees with the conclusions of the Inter-Governmental Group and requests the IBRD to consider working out supplementary financing arrangements, on the basis of the conclusions of IGG, and, if appropriate, to consider introducing them. Attention is drawn specifically to the view of the IGG that it would be of little value merely to divert available resources from basic development finance for this purpose.

By this decision, most governments - donor and beneficiary - have reaffirmed: i) the basic objective of supplementary finance, i.e. helping a country facing adverse movements in export earnings to avoid disruption of its development program; ii) that such a scheme be formulated and administered by the World Bank Group, in consultation with the Fund; iii) that, in administering the scheme, account be taken of a country's development plan, including its targets. While it is not categorically stated, the general view emerged that financial resources for S.F. should be considered in terms of additions to basic development finance.

The resolution just taken does not mention

Essentially, the scheme envisaged in the above decision is discretionary." It differs from the one elaborated earlier by the Bank staff in two main respects: ~~no prior export projections or explicit policy understandings are required for individual countries.~~ The request to the Bank is also so worded as to leave considerable discretion to the Bank in formulating a scheme, in exploring ways of obtaining resources for the purpose, and in administering it. The Bank is only to forward progress reports from time to time to the Trade and Development Board for its information. No time limit is set.

Task of Development

At the same time, the recommendation of IGG, which is fully endorsed in the decision of the Board, also states: "It can be expected that on the basis of the experience gained in the operation of supplementary finance 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." ~~It may be recalled that this was the essence of the Bank staff proposal.~~ There is also a

agreed
 journal had specified the use of export projections as
 the means of measuring the ~~unnegated~~ export shortfalls
 and also specified the use of policy undertakings and performance
 indicators

*At the beginning of each five year period and periodically
 renewed to ensure that any such scheme would have to be used to defend
 a worthwhile development program*

before, during &

reference in the IGG recommendation to understandings with member countries, but it is indicated that they should be no different from those which now obtain in the relationships between the Bank and member countries.

The first step for the Bank, then, is to work out an outline of a scheme on the lines indicated above, for consideration by the Executive Directors. This outline, on the basis of the discussions that have taken place so far on the subject, and in the light of the TDB decision, would point up the main issues for consideration, so that a preliminary view could be taken by the Board. As the main issues would have to be posed with great care from the very beginning, and as consultations with the IMF are required, the paper could be got ready for circulation in approximately three months.

A fully elaborated scheme can only emerge after some time. This is because it would require detailed consideration in the Bank, especially by the Bank's Executive Board. It would also require consultations with some of the (donor) governments which have favoured a discretionary scheme - especially Germany, USA and Canada. Tentatively, June 1970 would seem a realistic deadline for completing this part of the work.

The expectation of several governments, it appears, is that it might take between one and two years for a S.F. scheme to be actually implemented. In fact, a proposal that was seriously considered at one stage was to request the Bank to furnish the first progress report to the Tenth Session of TDB - i.e. by August 1970.

During the IGG session in June-July 1969, and later in the TDB discussions, specific references were made by some representatives to IDA replenishment and S.F. Canada has taken the view that "there is merit in integrating the S.F. facility into an expanded IDA". Several donor countries are evidently thinking on the same lines. Accordingly, it might be advisable for the Bank to consider S.F. in the context of the time table and procedures it proposes for negotiations leading to the Third Replenishment of IDA. This would help to maintain the "additionality" of funds for S.F. The actual commitment of resources by governments for S.F. can, however, be made after IDA replenishment has been accomplished. A separate memorandum on this matter will be available in about two weeks.

Mr. N. A. Sarma has been closely associated with the various stages of the discussions on S.F., including especially the final session of IGG in June-July and the TDB session just concluded. He has attended several of the meetings with me, or by himself. His term with the Bank expires at the end of this month; at my request, he is staying on until October 15, for some of the immediate work. He then returns to the Reserve Bank of India.

In our deliberations we had stressed that this viewpoint that the Bank should not be a ~~bank~~ ~~relationship~~ ~~under~~ ~~by~~ ~~the~~ ~~Finance~~

the more we were developing with member countries in the Bank & the Bank itself proposed was a standard which agency would administer the scheme.

to
my
attent

revise

The question now arises of getting together a small staff team for undertaking the continuing work. I have in mind the following persons: Prof. Isaiah Frank (who will be in charge of the team); ~~Jo W. Saxe~~ (who would provide the link with IDA replenishment work); Mr. R. M. Sundrum (who was also generally associated with our earlier studies on S.F.); Mr. Hans Otto Schmitt; and Mr. James J. McGibbon (mainly for statistical work). It would be useful to associate a staff member from the Fund (perhaps, Mr. Rudolf R. Rhomberg) from a very early stage of the work. Later, when the stage comes for finalizing the scheme and negotiating with governments for funds, we may obtain one or two persons from outside, as consultants for a few months.

add Sundrum

OFFICE MEMORANDUM

DRAFT
NASarma
9/23/69

N. A. Sarma

TO: Mr. Robert S. McNamara DATE:

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance: Work Schedule

At the Ninth Session of the Trade and Development Board, a consensus resolution was adopted on supplementary finance, virtually unanimously - i.e. it was supported by most donor countries and all less-developed countries. By this Resolution, the Board agrees with the conclusions of the Inter-Governmental Group, and requests the IBRD to consider working out supplementary financing arrangements, on the basis of the conclusions of IGG, and, if appropriate, to consider introducing them. Attention is drawn specifically to the view of the IGG that it would be of little value merely to divert available resources from basic development finance for this purpose.

By this decision, most governments - donor and beneficiary - have reaffirmed: i) the basic objective of supplementary finance, i.e. helping a country facing adverse movements in export earnings to avoid disruption of its development program; ii) that such a scheme be formulated and administered by the World Bank Group, in consultation with the Fund; iii) that, in administering the scheme, account be taken of a country's development plan, including its targets. While it is not categorically stated, the general view emerged that financial resources for S.F. should be considered in terms of additions to basic development finance.

Essentially, the scheme envisaged in the above decision is discretionary. It differs from the one elaborated earlier by the Bank staff in two main respects: no prior export projections or explicit policy understandings are required for individual countries. The request to the Bank is also so worded as to leave considerable discretion to the Bank in formulating a scheme, in exploring ways of obtaining resources for the purpose, and in administering it. The Bank is only to forward progress reports from time to time to the Trade and Development Board for its information. No time limit is set.

At the same time, the recommendation of IGG, which is fully endorsed in the decision of the Board, also states: "It can be expected that on the basis of the experience gained in the operation of supplementary finance 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." It may be recalled that this was the essence of the Bank staff proposal. There is also a

reference in the IGG recommendation to understandings with member countries, but it is indicated that they should be no different from those which now obtain in the relationships between the Bank and member countries.

The first step for the Bank, then, is to work out an outline of a scheme on the lines indicated above, for consideration by the Executive Directors. This outline, on the basis of the discussions that have taken place so far on the subject, and in the light of the TDB decision, would point up the main issues for consideration, so that a preliminary view could be taken by the Board. As the main issues would have to be posed with great care from the very beginning, and as consultations with the IMF are required, the paper could be got ready for circulation in approximately three months.

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA

Federal Bar Building West, Room 450

1819 H Street, N.W.

Washington, D.C. 20006

CABLE: ECLAWASH

Telephone: 296-0822

September 18, 1969

SEP 19 1969

4 f r -

My dear Irving,

Many thanks for your kind letter dated September 15 that I had the pleasure of finding on my return. Precisely yesterday I saw Sidney Dell in New York, who showed me the resolution. He was very positive about it and I fully share his satisfaction.

Now you are sending me generous words about my role. My dear Irving, it is you who deserves the high praise for your outstanding contribution and the tenacity with which you were defending your ideas. Obviously you and I would desire to see the emergence of a scheme following the main lines of the original conception of the Bank. But I consider that this resolution is a good one and allows the Bank to start effectively in this matter. I am sure that you will do your best to assure the success of this operation.

With warmest regards,

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Raúl Prebisch', with a long, sweeping flourish extending to the right.

Raúl Prebisch

Mr Irving S. Friedman
President,
International Development
Association
Washington, D. C.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 16 1969

FROM: Irving S. Friedman

SUBJECT: Trade and Development Board - Ninth Session

I believe you will be interested in the attached report prepared
by Mr. Sarma.

cc: President's Council

OFFICE MEMORANDUM

SEP 15 1969

TO: Mr. Irving S. Friedman

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

SUBJECT: Trade and Development Board, Ninth Session
(Geneva: August 26 - September 12, 1969)

DATE: September 15, 1969

Supplementary Finance

1. At the Ninth Session of TDB, a consensus resolution was adopted on supplementary finance, virtually unanimously - i.e. supported by most donor countries and all less-developed countries. By this Resolution, the Board agrees with the conclusions of the Inter-Governmental Group, and requests the IBRD to consider working out supplementary financing arrangements, on the basis of the conclusions of IGG, and, if appropriate, to consider introducing them. Attention is drawn specifically to the view of the IGG that it would be of little value merely to divert available resources from basic development finance for this purpose.

2. It will be recalled that the Inter-Governmental Group on S.F., at its Fifth Session in New York during June 23 - July 3, 1969, adopted a report and forwarded its conclusions 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. (Please see my report, SecM 69-390, dated July 25, circulated to the Executive Directors and others).

3. In his statement to the Board on August 27, the Secretary-General of UNCTAD indicated that it would be appropriate at this session of the Board to forward the conclusions of IGG to the World Bank, "inviting it to consider the adoption of measures within the framework of the principles that were agreed". In the general debate on the substantive agenda items that followed, several delegations supported this view. (Please see summary record of these observations attached hereto.)

4. In the informal consultations that followed, it would appear Brazil voiced certain misgivings, mainly that the IGG Report had not elaborated a scheme and, therefore, it would be useful first to see what scheme would finally emerge. In the 'B' Group (i.e. developed market economy countries), France and Australia would seem to have maintained their known reservations. On September 9, two separate drafts were available - one from the developing countries and the other from the 'B' Group. In substance they were similar; the differences related to the manner of referring to implementation, additionality of resources, and progress reports to TDB. These drafts were not circulated, but were referred to a contact group so that a consensus could be worked out.

5. Finally, on September 12, a draft resolution was submitted by the President of the Board, and was approved by a roll call vote: 43 for, none against, and 7 abstentions. Among the developed market economy countries, only France and Belgium abstained. All the other countries of Group 'B', all developing countries, Yugoslavia and Rumania voted in favour. The other 'D' Group (Socialist) countries abstained. A summary record of the remarks and reservations made by some delegations is attached hereto. It may be noted that no reservations were made by U.K., the USA, Germany, the Netherlands, Canada, Italy, Sweden and Switzerland.

6. The text of the Resolution follows:

The Trade and Development Board,

Recalling decision 30(II) of the second Conference on supplementary financial measures,

Taking note of the report of the Inter-Governmental Group on Supplementary Financing on its fifth session (TD/B/260),

Reaffirming the objective set out in recommendation A.IV.18 of the first Conference and the objective laid down in decision 30(II) of the second Conference,

Recognizing that disruption to development programmes can arise from adverse movements in export proceeds (including, in appropriate cases, invisible exports) which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support,

Agreeing with the Conclusions of the Inter-Governmental Group hereto annexed,

1. Invites the competent organs of the International Bank for Reconstruction and Development, on the basis of the Conclusions of the Inter-Governmental Group and of the views expressed at the ninth session of the Trade and Development Board, taking into consideration the special needs of the least developed countries as contained in resolution 24 (II) of the Second Conference, to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them.

2. Invites further the International Bank for Reconstruction and Development to make available from time to time to the Trade and Development Board through the Secretary-General of UNCTAD reports on the extent of the progress made on the subject matter referred to in the preceding paragraph.

3. Invites the International Bank for Reconstruction and Development when considering arrangements for discretionary supplementary financial measures on the basis of the Conclusions of the Inter-Governmental Group to give attention to paragraph (v) of those Conclusions.

See Annex A

ANNEX A

- (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.

Summary Record of Observations by Some Delegations
on the Resolution on S.F. Adopted by the Board

(September 12, 1969)

France:

Cannot agree with this text for two main reasons:

- 1) true solution lies in organization of trade conditions, and stabilization of commodity prices;
- 2) according to UNCTAD II Resolution, the question of S.F. should have been considered in the light of the commodity studies prepared by IBRD and Fund; this has not been done.

Australia:

We support the Resolution, but with reservations as before: the Resolution makes no reference to the role that commodity agreements can play and to the proposals of Bank and Fund in this regard.

Belgium:

Objection is not to the objectives sought, but to the approach: no mention is made of the link between S.F. and commodity agreements.

Japan:

Particularly happy in expressing our agreement; we were one of the co-sponsors of 'B' Group draft. Operative para. 3 (resources) should not impede IBRD to take its own decisions in this regard.

Uganda (on behalf of LDC's):

Hopes that those countries which have expressed reservations would join the scheme finally.

New Zealand:

In supporting the Resolution, endorses the remarks of Australia.

Brazil:

Some doubts remain as to the extent to which a discretionary scheme would meet the objectives of S.F., especially in regard to reasonable assurance of assistance. We hope these apprehensions would be allayed by the scheme when actually worked out. Additionality of resources is stressed.

India:

Recalls her earlier statement about additionality of resources for S.F.

Spain:

Shortfalls in earnings from invisibles should also be taken into account.

Sweden (speaking for all Nordic countries):

Expresses pleasure at adoption of this Resolution, which represented a landmark for UNCTAD.

Poland:

The position of 'D' Group remains unchanged (abstain).

Trade and Development Board, Ninth Session
Geneva, August/September 1969

Observations made by Government Representatives on Supplementary
Financing in their General Statements at Plenary Sessions

Brazil

The discretionary scheme now proposed by the IGG does not meet the objectives of the UNCTAD resolutions on supplementary finance.

Uganda (spokesman for the Group of 77)

We would appreciate the early and practical implementation of a discretionary scheme. No further studies are needed.

Australia

We note with interest the views expressed by the Secretary-General on the subject. It would be useful now to remit this matter to the Bank for its consideration.

Yugoslavia

We regret that it was not possible to reach an agreement in the IGG on the basis of the Bank staff scheme. We appreciate the work of the IGG and we propose that further steps be taken now to implement a scheme of supplementary finance by referring it to the World Bank at this session.

Indonesia

A scheme of supplementary finance should be put into operation with little delay.

Chile

We are prepared to accept the IGG conclusions as providing the basis for working out a supplementary finance scheme. We would like to know at this stage what degree of support the developed countries are prepared to extend to a discretionary scheme as proposed in the IGG report. If their position is not clarified at this session of the Board, we, like several other LDCs, would have to go back to a more automatic scheme.

Philippines

We endorse the suggestions of the Secretary-General with respect to supplementary finance.

Switzerland

Our interest in supplementary finance has been a continuing one. We take note of the IGG report and would support any procedures which would give a concrete shape to this new initiative in the field of international development finance.

New Zealand

We note the report of the IGG. We do not oppose a scheme of supplementary finance, but its implementation should not divert attention from commodity agreements.

Denmark (on behalf of all Nordic countries)

We have always considered supplementary finance a useful way of assisting countries to protect their development programmes against export shortfalls. The emphasis placed by the Secretary-General on this matter is appropriate. Following the report of the IGG, the momentum should be maintained and steps should now be taken to work out a scheme of supplementary finance.

United Kingdom

The United Kingdom Government is pleased at the agreement reached in the Intergovernmental Group.

Netherlands

It is the view of the Netherlands Government that the agreement reached in the Intergovernmental Group on supplementary finance is most welcome. It should now be transmitted to the World Bank Group for implementation.

Canada (the remarks of the Canadian Representative were confined to two specific topics: Preferences and Supplementary Finance)

We are gratified at the report of the IGG and the results that were achieved in IGG. There was enough support for supplementary finance from both developed and developing countries. In our view, a discretionary scheme on the lines suggested in the IGG report can safeguard the development programmes of countries. There is merit in integrating supplementary finance facility into an expanded IDA. Accordingly, the implementation of supplementary finance cannot be independent of IDA replenishment. In our view, it is now appropriate to invite the World Bank to prepare a scheme on the lines recommended in the IGG report.

Guatemala

Supplementary finance is absolutely essential for the LDCs, but we doubt whether the developed countries have the will to provide the necessary resources for it. We would prefer to revert to the original proposal of the Bank staff.

United States of America

The Board would be asked to act on the IGG report. It was an achievement for the Intergovernmental Group to obtain a consensus in this complicated matter.

Mexico

A scheme of supplementary finance should be implemented right from the beginning of the second development decade.

Venezuela

We trust that it would be possible, with the assistance of the developed countries, to evolve a discretionary scheme which would implement the objectives of UNCTAD resolutions on supplementary finance.

India

We support the proposal to invite the World Bank to implement a scheme of supplementary finance, but, in our view, the resources for supplementary finance must be additional.

United Arab Republic

The report of the Intergovernmental Group on supplementary finance is a step forward and we urge IBRD to put this scheme into effect at an early date.

Nigeria

On the basis of a compromise, a practical scheme must be worked out, that will start functioning in a year or two.

Gabon

Hopes for early implementation of SF.

Members of UNCTAD's Trade and Development Board.

Algeria	Madagascar
I Australia	Malaysia
I Austria	Mexico
I Belgium	I Netherlands
Brazil	New Zealand
Bulgaria	Nigeria
I Canada	Pakistan
Chile	Peru
Colombia	Philippines
Costa Rica	Poland
Czechoslovakia	Rumania
I Denmark	Ruanda
I Germany, Federal Republic	Senegal
I Finland	Somalia
I France	Spain
Ghana	I Sweden
? I Greece	Switzerland
Guatemala	Syria
Hungary	Tunisia
India	Uganda
Indonesia	U.S.S.R.
Iran	I U.K.
Iraq	I U.S.A.
I Italy	Venezuela
Ivory Coast	Yugoslavia
Jamaica	
I Japan	

*Norway
U.S.A.
Luxembourg*

*52
45 = ~~others~~ members
8 - ~~Switz~~
6 - ~~Current~~
Countries
non-members*

Mr. Robert S. McNamara

September 16 1969

Irving S. Friedman

Trade and Development Board - Ninth Session

I believe you will be interested in the attached report prepared
by Mr. Sarma.

cc: President's Council

DECLASSIFIED

MAR 28 2013

WBG ARCHIVES

PERSONAL

September 15 1969

Dear Raul,

I have just been informed of action taken by the Trade and Development Board adopting the resolution on Supplementary Finance.

I would like to express my personal appreciation on your role in discussions in previous years on this matter, without which we would not have reached this hopeful stage.

With warmest regards,

Sincerely,

Irving S. Friedman

Dr. Raul Prebisch
Inter-American Development Bank
Room 512
Annex A
1701 Pennsylvania Ave, N.W.
Washington D.C.

September 15 1969

My dear Sarma,

I have just read the cable addressed to Mr. McNamara from Mr. Perez Guerrero on supplementary finance. I would like to record my warm appreciation for your help and role you enacted in bringing these discussions to this hopeful stage.

Thanks again.

Irving S. Friedman

Mr. N.A. Sarma
IBRD
Washington D.C.

DECLASSIFIED
MAR 28 2013
WBG ARCHIVES

September 15 1969

PERSONAL & CONFIDENTIAL

My dear Manuel,

I was pleased to receive this morning your cable to Mr. McNamara, and also to get a first-hand report from Sarma on the meeting of the Trade and Development Board.

I am personally most gratified to see this outcome of our work and know from Sarma how important a part you played in achieving this agreement. I believe it could represent an important step forward and do wish to express my appreciation for your leadership in this matter and believe it is a demonstration that the Trade and Development Board can play a constructive role on important issues in achieving agreement among the many diversified countries concerned.

Hope to see you soon.

With warmest regards,

Sincerely,

Irving S. Friedman

Mr. Manuel Perez-Guerrero
Secretary-General
United Nations Conference on
Trade and Development
Palais des Nations
1211
Geneva 10 Switzerland

OFFICE MEMORANDUM

SEP 16 1969
3:12 p.m.

TO: Mr. Irving S. Friedman

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

SUBJECT: Trade and Development Board, Ninth Session
(Geneva: August 26 - September 12, 1969)

DATE: September 15, 1969

Supplementary Finance

1. At the Ninth Session of TDB, a consensus resolution was adopted on supplementary finance, virtually unanimously - i.e. supported by most donor countries and all less-developed countries. By this Resolution, the Board agrees with the conclusions of the Inter-Governmental Group, and requests the IBRD to consider working out supplementary financing arrangements, on the basis of the conclusions of IGG, and, if appropriate, to consider introducing them. Attention is drawn specifically to the view of the IGG that it would be of little value merely to divert available resources from basic development finance for this purpose.
2. It will be recalled that the Inter-Governmental Group on S.F., at its Fifth Session in New York during June 23 - July 3, 1969, adopted a report and forwarded its conclusions 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. (Please see my report, SecM 69-390, dated July 25, circulated to the Executive Directors and others).
3. In his statement to the Board on August 27, the Secretary-General of UNCTAD indicated that it would be appropriate at this session of the Board to forward the conclusions of IGG to the World Bank, "inviting it to consider the adoption of measures within the framework of the principles that were agreed". In the general debate on the substantive agenda items that followed, several delegations supported this view. (Please see summary record of these observations attached hereto.)
4. In the informal consultations that followed, it would appear Brazil voiced certain misgivings, mainly that the IGG Report had not elaborated a scheme and, therefore, it would be useful first to see what scheme would finally emerge. In the 'B' Group (i.e. developed market economy countries), France and Australia would seem to have maintained their known reservations. On September 9, two separate drafts were available - one from the developing countries and the other from the 'B' Group. In substance they were similar; the differences related to the manner of referring to implementation, additionality of resources, and progress reports to TDB. These drafts were not circulated, but were referred to a contact group so that a consensus could be worked out.

*acted on Report of Inter-Govt'l Group -
11 vote
4 part paper for Community Study*

5. Finally, on September 12, a draft resolution was submitted by the President of the Board, and was approved by a roll call vote: 43 for, none against, and 7 abstentions. Among the developed market economy countries, only France and Belgium abstained. All the other countries of Group 'B', all developing countries, Yugoslavia and Rumania voted in favour. The other 'D' Group (Socialist) countries abstained. A summary record of the remarks and reservations made by some delegations is attached hereto. It may be noted that no reservations were made by the U.K., the USA, Germany, the Netherlands, Canada, Italy, Sweden and Switzerland.

6. The text of the Resolution follows:

The Trade and Development Board,

Recalling decision 30(II) of the second Conference on supplementary financial measures,

Taking note of the report of the Inter-Governmental Group on Supplementary Financing on its fifth session (TD/B/260),

Reaffirming the objective set out in recommendation A.IV.18 of the first Conference and the objective laid down in decision 30(II) of the second Conference,

Recognizing that disruption to development programmes can arise from adverse movements in export proceeds (including, in appropriate cases, invisible exports) which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support,

Agreeing with the Conclusions of the Inter-Governmental Group hereto annexed,

1. Invites the competent organs of the International Bank for Reconstruction and Development, on the basis of the Conclusions of the Inter-Governmental Group and of the views expressed at the ninth session of the Trade and Development Board, taking into consideration the special needs of the least developed countries as contained in resolution 24 (II) of the Second Conference, to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them.

2. Invites further the International Bank for Reconstruction and Development to make available from time to time to the Trade and Development Board through the Secretary-General of UNCTAD reports on the extent of the progress made on the subject matter referred to in the preceding paragraph.

3. Invites the International Bank for Reconstruction and Development when considering arrangements for discretionary supplementary financial measures on the basis of the Conclusions of the Inter-Governmental Group to give attention to paragraph (v) of those Conclusions.

See Annex A

ANNEX A

- (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.

Summary Record of Observations by Some Delegations
on the Resolution on S.F. Adopted by the Board

(September 12, 1969)

France:

Cannot agree with this text for two main reasons:

- 1) true solution lies in organization of trade conditions, and stabilization of commodity prices;
- 2) according to UNCTAD II Resolution, the question of S.F. should have been considered in the light of the commodity studies prepared by IBRD and Fund; this has not been done.

Australia:

We support the Resolution, but with reservations as before: the Resolution makes no reference to the role that commodity agreements can play and to the proposals of Bank and Fund in this regard.

Belgium:

Objection is not to the objectives sought, but to the approach: no mention is made of the link between S.F. and commodity agreements.

Japan:

Particularly happy in expressing our agreement; we were one of the co-sponsors of 'B' Group draft. Operative para. 3 (resources) should not impede IBRD to take its own decisions in this regard.

Uganda (on behalf of LDC's):

Hopes that those countries which have expressed reservations would join the scheme finally.

New Zealand:

In supporting the Resolution, endorses the remarks of Australia.

Brazil:

Some doubts remain as to the extent to which a discretionary scheme would meet the objectives of S.F., especially in regard to reasonable assurance of assistance. We hope these apprehensions would be allayed by the scheme when actually worked out. Additionality of resources is stressed.

India:

Recalls her earlier statement about additionality of resources for S.F.

Spain:

Shortfalls in earnings from invisibles should also be taken into account.

Sweden (speaking for all Nordic countries):

Expresses pleasure at adoption of this Resolution, which represented a landmark for UNCTAD.

Poland:

The position of 'D' Group remains unchanged (abstain).

Trade and Development Board, Ninth Session
Geneva, August/September 1969

Observations made by Government Representatives on Supplementary
Financing in their General Statements at Plenary Sessions

Brazil

The discretionary scheme now proposed by the IGG does not meet the objectives of the UNCTAD resolutions on supplementary finance.

Uganda (spokesman for the Group of 77)

We would appreciate the early and practical implementation of a discretionary scheme. No further studies are needed.

Australia

We note with interest the views expressed by the Secretary-General on the subject. It would be useful now to remit this matter to the Bank for its consideration.

Yugoslavia

We regret that it was not possible to reach an agreement in the IGG on the basis of the Bank staff scheme. We appreciate the work of the IGG and we propose that further steps be taken now to implement a scheme of supplementary finance by referring it to the World Bank at this session.

Indonesia

A scheme of supplementary finance should be put into operation with little delay.

Chile

We are prepared to accept the IGG conclusions as providing the basis for working out a supplementary finance scheme. We would like to know at this stage what degree of support the developed countries are prepared to extend to a discretionary scheme as proposed in the IGG report. If their position is not clarified at this session of the Board, we, like several other LDCs, would have to go back to a more automatic scheme.

Philippines

We endorse the suggestions of the Secretary-General with respect to supplementary finance.

Switzerland

Our interest in supplementary finance has been a continuing one. We take note of the IGG report and would support any procedures which would give a concrete shape to this new initiative in the field of international development finance.

New Zealand

We note the report of the IGG. We do not oppose a scheme of supplementary finance, but its implementation should not divert attention from commodity agreements.

Denmark (on behalf of all Nordic countries)

We have always considered supplementary finance a useful way of assisting countries to protect their development programmes against export shortfalls. The emphasis placed by the Secretary-General on this matter is appropriate. Following the report of the IGG, the momentum should be maintained and steps should now be taken to work out a scheme of supplementary finance.

United Kingdom

The United Kingdom Government is pleased at the agreement reached in the Intergovernmental Group.

Netherlands

It is the view of the Netherlands Government that the agreement reached in the Intergovernmental Group on supplementary finance is most welcome. It should now be transmitted to the World Bank Group for implementation.

Canada (the remarks of the Canadian Representative were confined to two specific topics: Preferences and Supplementary Finance)

We are gratified at the report of the IGG and the results that were achieved in IGG. There was enough support for supplementary finance from both developed and developing countries. In our view, a discretionary scheme on the lines suggested in the IGG report can safeguard the development programmes of countries. There is merit in integrating supplementary finance facility into an expanded IDA. Accordingly, the implementation of supplementary finance cannot be independent of IDA replenishment. In our view, it is now appropriate to invite the World Bank to prepare a scheme on the lines recommended in the IGG report.

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Supplementary finance is absolutely essential for the LDCs, but we doubt whether the developed countries have the will to provide the necessary resources for it. We would prefer to revert to the original proposal of the Bank staff.

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The Board would be asked to act on the IGG report. It was an achievement for the Intergovernmental Group to obtain a consensus in this complicated matter.

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A scheme of supplementary finance should be implemented right from the beginning of the second development decade.

Venezuela

We trust that it would be possible, with the assistance of the developed countries, to evolve a discretionary scheme which would implement the objectives of UNCTAD resolutions on supplementary finance.

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We support the proposal to invite the World Bank to implement a scheme of supplementary finance, but, in our view, the resources for supplementary finance must be additional.

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The report of the Intergovernmental Group on supplementary finance is a step forward and we urge IBRD to put this scheme into effect at an early date.

Nigeria

On the basis of a compromise, a practical scheme must be worked out, that will start functioning in a year or two.

Gabon

Hopes for early implementation of SF.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: September 12, 1969

FROM: Andrew M. Kamarck *amk*SUBJECT: Attached Letter from Mr. Sarma

Attached is a letter from Sarma. Mr. Demuth has received a copy of this through Mr. Consolo. Mr. Demuth thought that it would be useful to circulate this to the President and President's Council as indicating that there are a number of countries that are pushing for supplementary finance.

Attachment



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXecutive 3-6360



Geneva, 3 September 1969

Dear Mr. Kamarck,

I enclose a summary record of the observations made by government representatives on supplementary financing in their general statements at plenary sessions on August 27 to September 2.

Regards.

Sincerely,

N. A. Sarma

N. A. Sarma

Mr. A. M. Kamarck,
Director, Economic Department,
International Bank for Reconstruction
and Development,
1818 H Street NW,
Washington DC 20433.

1969 SEP 11 09:10:10



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Call Address - INTRABAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

Call Address - INDEVAS

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXchange 3-6360



Geneva, 3 September 1969

Dear Mr. Kamark:

I enclose a summary record of the observations made by
Government representatives on supplementary financing in their general
statements at plenary sessions on August 27 to September 2.

Regards.

Sincerely,

N. A. Strauss

N. A. Strauss

Mr. A. M. Kamark,
Director, Economic Department,
International Bank for Reconstruction
and Development,
1818 H Street NW,
Washington DC 20433.

1969 SEP 11 AM 10:44

RECEIVED
SEP 11 1969

Geneva, 3 September 1969

Trade and Development Board, Ninth Session
Geneva, August/September 1969

Observations made by Government Representatives on Supplementary
Financing in their General Statements at Plenary Sessions on
August 27 to September 2, 1969

In his statement to the Board, the Secretary-General of UNCTAD himself drew attention to the Intergovernmental Group report on supplementary finance. He thought it would seem appropriate that the conclusions of the Group might be transmitted to the World Bank, inviting it to consider the adoption of measures within the framework of the principles that were agreed upon by the Group.

Brazil

The discretionary scheme now proposed by the IGG does not meet the objectives of the UNCTAD resolutions on supplementary finance.

Uganda (spokesman for the Group of 77)

We would appreciate the early and practical implementation of a discretionary scheme. No further studies are needed.

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We note with interest the views expressed by the Secretary-General on the subject. It would be useful now to remit this matter to the Bank for its consideration.

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It is the view of the Netherlands Government that the agreement reached in the Intergovernmental Group on supplementary finance is most welcome. It should now be transmitted to the World Bank Group for implementation.

Canada (the remarks of the Canadian Representative were confined to two specific topics: Preferences and Supplementary Finance)

We are gratified at the report of the ICG and the results that were achieved in ICG. There was enough support for supplementary finance from both developed and developing countries. In our view, a discretionary scheme on the lines suggested in the ICG report can safeguard the development programmes of countries. There is merit in integrating supplementary finance facility into an expanded IDA. Accordingly, the implementation of supplementary finance cannot be independent of IDA replenishment. In our view, it is now appropriate to invite the World Bank to prepare a scheme on the lines recommended in the ICG report.

Guatemala

Supplementary finance is absolutely essential for the LDCs, but we doubt whether the developed countries have the will to provide the necessary resources for it. We would prefer to revert to the original proposal of the Bank staff.

United States of America

The Board would be asked to act on the ICG report. It was an achievement for the Intergovernmental Group to obtain a consensus in this complicated matter.

Mexico

A scheme of supplementary finance should be implemented right from the beginning of the second development decade.

Venezuela

We trust that it would be possible, with the assistance of the developed countries, to evolve a discretionary scheme which would implement the objectives of UNCTAD resolutions on supplementary finance.

India

We support the proposal to invite the World Bank to implement a scheme of supplementary finance, but, in our view, the resources for supplementary finance must be additional.

United Arab Republic

The report of the Intergovernmental Group on supplementary finance is a step forward and we urge IBRD to put this scheme into effect at an early date.

INCOMING CABLE

DATE AND TIME
OF CABLE:

SEPTEMBER 12, 1969

1927

LOG NO.:

WU TELEX / 13

TO:

MCNAMARA INTBAFRAD

FROM:

GENEVA VIA UN NEW YORK

ROUTING

ACTION COPY: MR. DEMUTH

INFORMATION
COPY: MR. MCNAMARA

DECODED BY:

TEXT:

CORRECTION

THIRD LINE FROM END OF TEXT SHOULD READ:

THAT THE WORLD BANK WILL NOW FEEL ABLE TO GO AHEAD IN SEEKING AN EFFECTIVE
SOLUTION TO THE MOST IMPORTANT PROBLEM OF SUPPLEMENTARY FINANCE. I LOOK
FORWARD TO AN EARLY OPPORTUNITY OF DISCUSSING THIS WITH YOU.

PEREZ GUERRERO

SECRETARY GENERAL UNCTAD GENEVA

COMMUNICATIONS
SECTION
SEP 12 3 08 PM 1969

1969

IR

ALL PEOPLE

SEP 17 9 48 AM 1969
GENERAL FILES
COMMUNICATIONS



Done ✓



Distr.
LIMITED

TD/B/L.190
12 September 1969

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Ninth session
Geneva, 26 August 1969
Agenda item 6(a)

SUPPLEMENTARY FINANCIAL MEASURES

Draft resolution submitted by the President of the Board

The Trade and Development Board,

Recalling decision 30(II) of the second Conference on supplementary financial measures,

Taking note of the report of the Inter-Governmental Group on Supplementary Financing on its fifth session (TD/B/260),

Reaffirming the objective set out in recommendation A.IV.18 of the first Conference and the objective laid down in decision 30(II) of the second Conference,

Recognizing that disruption to development programmes can arise from adverse movements in export proceeds (including, in appropriate cases, invisible exports) which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support,

Agreeing with the Conclusions of the Inter-Governmental Group hereto annexed^{1/},

1. Invites the competent organs of the International Bank for Reconstruction and Development, on the basis of the Conclusions of the Inter-Governmental Group and of the views expressed at the ninth session of the Trade and Development Board, taking into consideration the special needs of the least developed countries as contained in resolution 24 (II) of the second Conference, to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them.

2. Invites further the International Bank for Reconstruction and Development to make available from time to time to the Trade and Development Board through the Secretary-General of UNCTAD reports on the extent of the progress made on the subject matter referred to in the preceding paragraph.

^{1/} See Annex A.

3. Invites the International Bank for Reconstruction and Development when considering arrangements for discretionary supplementary financial measures on the basis of the Conclusions of the Inter-Governmental Group to give attention to paragraph (v) of those Conclusions.

ANNEX A

- (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.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 10 1969

FROM: Irving S. Friedman

SUBJECT: Trade and Development Board: Supplementary Finance

Attached is a letter which just came in from Mr. Sarma which I believe you will find of interest.

I find it gratifying that there is this reported widespread support at the IDB Meeting that there ought eventually to be a scheme within the framework of the World Bank for supplementary financing, although, of course, it is impossible to be certain of the outcome of the TDB Meeting until it is concluded this week. It is well understood by all that resources for supplementary finance are to be additional to those for basic development financing and therefore need not be part of the Third Replenishment exercise.

I believe that the emphasis placed in some of these comments on a so-called "discretionary" scheme as against an "automatic" scheme is an over-emphasis. Our scheme was never intended to be automatic. It was designed to be discretionary in that no country would be entitled to access to supplementary financing unless its over-all development programs and policies had been agreed with the World Bank Group. We would have a mechanism for keeping in touch with the country concerned so that at the time for the need of supplementary financing the implementation of assistance could be relatively rapid to avoid unnecessary and avoidable setbacks in development. Those who have argued for a so-called discretionary scheme have essentially been skeptical whether we would be able to get such understandings or be sufficiently in touch with countries concerned that at the time of need for supplementary financing we could feel assured that their development programs and policies were worthy of support (or were not). Therefore, they have argued that a more comprehensive and time-consuming review would, in their opinion, be necessary at the time when a country requested assistance under supplementary finance. The whole tenor of our Bank work, including the measures being taken to schedule missions on a longer-term basis and the broadening of our economic reports give reason to believe that, at least for a large majority of countries, the Bank would be in a position to know at the time of an export shortfall whether the country should be given assistance under any supplementary financing policy.

Of course, there will be a need for additional work to modify our original proposals to take into account the views expressed by governments during the last four years of discussions and also the evolution of our own thinking as we have gained experience, if there is a decision taken by the Trade and Development Board to refer the matter to the World Bank to work out some scheme run by the Bank in consultation with the International Monetary Fund as recommended by the Inter-governmental Group on Supplementary Financing. This has been the outcome that some of us have anticipated from the very beginning of the submission of our staff proposals in 1965. These necessary Bank discussions, if they are requested, will mean that any negotiations for supplementary finance will come after the Third IDA replenishment and give ample opportunity to stress the point of additionality.

I am attaching for handy reference a memorandum from Mr. Kamarck of Sept. 3 which was distributed to the President's Council.

Att:

156



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXecutive 3-6360



Geneva, 3 September 1969

SEP 9 1969

3:30 p.m.

Dear Mr. Friedman,

I enclose a summary record of the observations made by government representatives on supplementary financing in their general statements at plenary sessions on August 27 to September 2.

I gather that a few countries like Brazil on the LDC side and Australia in the "B" group continue to have some reservations regarding the course of action to be adopted by TDB. These are likely to be sorted out in the next couple of days, and it is expected that a request will be forwarded to the Bank Group on the lines indicated in my earlier letter to you.

Kind regards.

Sincerely,

N. A. Sarma

N. A. Sarma

Mr. Irving S. Friedman,
The Economic Adviser to the President,
International Bank for Reconstruction
and Development,
1818 H Street NW,
Washington DC 20433.



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Kind regards.

Sincerely,

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Mr. Irving S. Friedman,
The Economic Adviser to the President,
International Bank for Reconstruction
and Development,
1818 H Street NW,
Washington DC 20433.

1969 SEP -9 PM 10:48



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Geneva, 3 September 1969

Trade and Development Board, Ninth Session
Geneva, August/September 1969

Observations made by Government Representatives on Supplementary
Financing in their General Statements at Plenary Sessions on
August 27 to September 2, 1969

In his statement to the Board, the Secretary-General of UNCTAD himself drew attention to the Intergovernmental Group report on supplementary finance. He thought it would seem appropriate that the conclusions of the Group might be transmitted to the World Bank, inviting it to consider the adoption of measures within the framework of the principles that were agreed upon by the Group.

Brazil

The discretionary scheme now proposed by the IGG does not meet the objectives of the UNCTAD resolutions on supplementary finance.

Uganda (spokesman for the Group of 77)

We would appreciate the early and practical implementation of a discretionary scheme. No further studies are needed.

Australia

We note with interest the views expressed by the Secretary-General on the subject. It would be useful now to remit this matter to the Bank for its consideration.

Yugoslavia

We regret that it was not possible to reach an agreement in the IGG on the basis of the Bank staff scheme. We appreciate the work of the IGG and we propose that further steps be taken now to implement a scheme of supplementary finance by referring it to the World Bank at this session.

Indonesia

A scheme of supplementary finance should be put into operation with little delay.

Chile

We are prepared to accept the IGG conclusions as providing the basis for working out a supplementary finance scheme. We would like to know at this stage what degree of support the developed countries are prepared to extend to a discretionary scheme as proposed in the IGG report. If their position is not clarified at this session of the Board, we, like several other LDCs, would have to go back to a more automatic scheme.

Philippines

We endorse the suggestions of the Secretary-General with respect to supplementary finance.

Switzerland

Our interest in supplementary finance has been a continuing one. We take note of the IGG report and would support any procedures which would give a concrete shape to this new initiative in the field of international development finance.

New Zealand

We note the report of the IGG. We do not oppose a scheme of supplementary finance, but its implementation should not divert attention from commodity agreements.

Denmark (on behalf of all Nordic countries)

We have always considered supplementary finance a useful way of assisting countries to protect their development programmes against export shortfalls. The emphasis placed by the Secretary-General on this matter is appropriate. Following the report of the IGG, the momentum should be maintained and steps should now be taken to work out a scheme of supplementary finance.

United Kingdom

The United Kingdom Government is pleased at the agreement reached in the Intergovernmental Group.

Netherlands

It is the view of the Netherlands Government that the agreement reached in the Intergovernmental Group on supplementary finance is most welcome. It should now be transmitted to the World Bank Group for implementation.

Canada (the remarks of the Canadian Representative were confined to two specific topics: Preferences and Supplementary Finance)

We are gratified at the report of the IGG and the results that were achieved in IGG. There was enough support for supplementary finance from both developed and developing countries. In our view, a discretionary scheme on the lines suggested in the IGG report can safeguard the development programmes of countries. There is merit in integrating supplementary finance facility into an expanded IDA. Accordingly, the implementation of supplementary finance cannot be independent of IDA replenishment. In our view, it is now appropriate to invite the World Bank to prepare a scheme on the lines recommended in the IGG report.

Guatemala

Supplementary finance is absolutely essential for the LDCs, but we doubt whether the developed countries have the will to provide the necessary resources for it. We would prefer to revert to the original proposal of the Bank staff.

United States of America

The Board would be asked to act on the IGG report. It was an achievement for the Intergovernmental Group to obtain a consensus in this complicated matter.

Mexico

A scheme of supplementary finance should be implemented right from the beginning of the second development decade.

Venezuela

We trust that it would be possible, with the assistance of the developed countries, to evolve a discretionary scheme which would implement the objectives of UNCTAD resolutions on supplementary finance.

India

We support the proposal to invite the World Bank to implement a scheme of supplementary finance, but, in our view, the resources for supplementary finance must be additional.

United Arab Republic

The report of the Intergovernmental Group on supplementary finance is a step forward and we urge IBRD to put this scheme into effect at an early date.

Mr. Friedman

SEP 4 1969

9.18.69

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Andrew M. Kamarck *amk*

SUBJECT: Trade and Development Board Meeting: Supplementary Financing

DATE: September 3, 1969

Mr. Sarma, the Bank Observer at the TDB Meeting, reports that in his statement before the Board on August 27 the Secretary-General of UNCTAD said the following on supplementary financing:-

"I have particular pleasure in informing the Board that, at its final session, the Intergovernmental Group on Supplementary Financing reached some bases of agreement. Already at the first session of UNCTAD the question had been raised whether it would be possible to work out a long-term system of financial assistance for the developing countries to help them to prevent the disruption of their development programmes resulting from export shortfalls or from causes beyond their control. This question has now been answered and it has been agreed that arrangements for supplementary financing can be made for this purpose.

"It was also agreed that this supplementary financing should be administered by the World Bank, in consultation with the International Monetary Fund. The execution of these financial measures should leave the operating agency a certain margin of discretion. It is hoped, however, that certain appropriate objective criteria will be developed to ensure that a country's development plans and programmes will be adequately protected from the effects of export shortfalls.

"It was also recognized that there would be no sense in merely diverting resources from basic development financing for purposes of supplementary financing. I take this position of the Group to mean that the resources for supplementary financing are to be additional to those already envisaged for basic financing.

"The Board will have to decide on the most practical procedures for applying the principles agreed to by the Intergovernmental Group. It would seem appropriate that at this stage the results achieved by the Group might be transmitted to the World Bank inviting it to consider the adoption of measures within the framework of the principles that were agreed. I would hope that the Bank might be in a position to do this expeditiously so that this question could be considered in connection with the next replenishment of IDA.

September 3, 1969

"The arrangement with the World Bank might provide that, after a reasonable period, the Bank would inform us of the results of its efforts to devise machinery for the agreements reached by the Group. I am confident that an arrangement of that kind would be acceptable to the Bank."

Mr. Sarma reports, as regards the concluding paragraph, that he has been definitely given to understand that the Secretary-General had no time limit or target date in mind, but only some kind of progress report in due course.

cc: President's Council



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Geneva, 3 September 1969

SEP 9 1969

3.30 p.m.

Dear Mr. Friedman,

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Kind regards.

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Trade and Development Board, Ninth Session Geneva, August/September 1969

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Mr. Friedman

SEP 4 1969

9.15 a.m.

OFFICE MEMORANDUM

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FROM: Andrew M. Kamarck *amk*

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DATE: September 3, 1969

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Geneva, 29 August 1969

SEP 3 1969

11.30 -

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I understand you will be back in the office next week. I trust you are quite well.

I gather there is likely to be a decision at this session of the Board requesting the Bank Group to formulate a scheme of supplementary finance on the lines recommended by the intergovernmental group and to implement it as early as possible. No time limit or target date would be set. There may be a request for some kind of progress report after an appropriate interval.

I came here on the 25th and will return to Washington by September 15.

Kind regards.

Sincerely,

N. A. Sarma

N. A. Sarma

Mr. Irving S. Friedman,
The Economic Adviser to the President,
International Bank for Reconstruction
and Development,
1818 H Street NW,
Washington DC 20433.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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International Bank for Reconstruction
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1818 H Street NW,
Washington DC 20433.

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TAD/404 (BOARD)
27 August 1969

STATEMENT BY THE SECRETARY-GENERAL OF UNCTAD, MANUEL PEREZ-GUERRERO,
TO THE TRADE AND DEVELOPMENT BOARD, GENEVA, 27 AUGUST 1969

The agenda of this ninth session of the Board and the documentation concerning the various items are indicative of the magnitude and complexity of the trade and development problems confronting the world and of the inescapable responsibilities that fall to UNCTAD in the search for satisfactory solutions. They reflect both a certain amount of progress already achieved and the amount of work that remains to be done. At the same time, they show the importance of UNCTAD as a central organ of the United Nations in this area of supremely critical significance, and the need for it to bring together and combine the policies of Governments so as to give direction and really dynamic impetus to the process of development everywhere.

We are now a year and a half away from the New Delhi Conference, or half way along the road between it and the Third Session. The aim we set ourselves at New Delhi was to make the fullest use of the permanent machinery, namely the Board and its subsidiary bodies, in taking concrete steps towards the full implementation of the programme that emerged from the Second Session.

Today, therefore, as we begin to review, under item 4 of the agenda, the implementation of the recommendations of the Conference, it is particularly appropriate that we should take stock of the present trade and development situation, examine the steps taken and what requires still greater efforts through the permanent machinery, and at the same time begin to make our plans for the Third Session.

Although it is true that in 1968 certain positive things are discernible in the movement of international trade and world economic growth, it is equally true that fundamentally the enormous inequalities that have existed for many years still persist. The developments of a slightly promising nature that occurred in 1968 were not sufficient to counteract others that continued to operate to the detriment of the economies of the developing countries. Exports from those countries as a whole rose by 8 per cent, a rate approximately 4 per cent higher than that of 1967, but their share of world trade fell even further because the growth in the exports of the developed countries was considerably greater.

Some commodities exported by the developing countries maintained relative price stability. Unfortunately, it could not be said that this was a general tendency, or that it will continue even in those special cases. Moreover, in some cases price stability was not accompanied by an increase in volume of exports, so that some countries found their export earnings reduced as a result.

The tendency noted in recent years towards a deterioration in the terms of trade of the developing countries persisted. It is obvious that it has continued to affect the import capacity of those countries. It has been estimated for the period 1965 to 1967 that the loss to the developing countries as a result of their unfavourable terms of trade with the developed countries, amounted to an annual average of \$1,300 million, a figure sufficient in itself to show the unbalanced distribution of the benefits of international trade.

There is no doubt that the economic growth of the developing countries in 1968 made progress in comparison with 1967, but the distribution of this growth is still very unequal, and in many cases the expansion was only enough to compensate for losses or recessions in previous years. As a result, their living standards did not rise in comparison with those at the beginning of the first Development Decade.

The disturbing state of affairs I have outlined which certainly calls for effective permanent measures, has been worsened by the manifest instability of the world monetary situation. It is clear that in this field major adjustments will have to be made, if currency relations are to be established on more equitable and rational bases. There is an awareness of the difficulties confronting some countries and of the hard struggle they must wage to solve their monetary problems. It is essential, however, that while full use is made of the valuable instruments of the present international monetary system, now 25 years old, the way should be opened to the growing movement for reform. Otherwise, monetary problems will continue to arise and to become daily more serious, thus affecting the possibility of improving systems of international trade and of promoting economic development, the latter being an objective not well served by the present monetary system.

Let us now consider what steps have been taken by UNCTAD during the last year and a half to deal with the critical situation of trade and development. UNCTAD's activities have continued to concentrate on the dual objective of promoting a rational and equitable system of commodity trade and of increasing the export of manufactures from the developing countries to the markets of the developed countries, as a basis and result of the process of industrialization. The success achieved in one of these objectives will reinforce the success in the other, and it is therefore necessary to advance simultaneously on both fronts, without neglecting thereby other complementary areas. The economies of the developing countries still depend basically on commodities and will continue to do so for many years. We must gradually change this situation by diversifying the production of those countries and by expanding their trading opportunities in all sectors.

Since its last session significant advances have been noted that now require action by the Board in order to consolidate them, and to enable further progress to be made, without which the ground gained may be lost.

As regards trade in manufactures, the Special Committee on Preferences, after an anxious period of uncertainty and resulting delay, recommended a new timetable for the implementation of resolution 21 (II). It is hoped that in the first months of 1970 the system of generalized, non-reciprocal and non-discriminatory preferences will enter the operational phase on a sufficiently wide basis, and will represent something really meaningful in unfettering trade. After successive evaluations and consequent modifications designed to make it more effective during the initial period of its operation, this scheme will appreciably facilitate the access to the markets of the developed countries of those traditional or new products of the developing countries which can be exported on increasingly competitive terms with respect to quality, cost and delivery.

The general scheme system of preferences should bring about the progressive elimination of special and reverse preferences, in keeping with a realistic timetable and on the basis of equivalent benefits for the developing countries concerned. Moreover, it should encourage diversification of both exports and markets. The vulnerability of the economies of many of the developing countries is due to the combination of their single-commodity production and their dependence on a specific geographical export market. It is necessary that we should go about remedying this situation while bearing in mind that if we are to eliminate the traces of economic systems unsuited to the dynamics of full development, more suitable methods must be tried out and their effectiveness tested.

With regard to diversification the Committee on Commodities at its third session established certain bases that represent considerable progress. The ratification and development of the concept that diversification is an instrument of unique importance for the developing countries is in itself a significant advance. In the immediate future specific action programmes will have to be planned that will help to translate these ideas into practice. In this area, governments have a great responsibility of their own, especially as regards vertical diversification, which is reflected in an increase in the added value of exports and gives substantial and healthy encouragement to industrialization, levels of employment and training of national manpower, and at the same time provides greater opportunities of export earnings. Consequently efforts must not be underestimated which contribute to the increasingly intensive and extensive processing of commodities within the territory of each developing country.

In close connexion with diversification, appreciable progress was made in the area of synthetics and substitutes. Since their exports are concentrated on a few commodities, and many obstacles impede their access to international markets, it is unthinkable that the economies of the developing countries, profoundly vulnerable as they are in the present world situation, should be heedlessly prejudiced even further by human ingenuity and technological achievement in the name of and as a result of progress.

It is therefore gratifying that at its fourth session the Committee on Commodities approved a text which while not ideal, constitutes progress in the way the question of synthetics and substitutes should be treated. It was agreed that the developed countries should give sympathetic consideration to requests for assistance for developing countries producing natural products which suffer serious competition from synthetics and substitutes, in order to help them to diversify into other areas of production. Moreover the Permanent Group on Synthetics and Substitutes is to play a greater role in co-operation with other international agencies, in analysing the problem and in recommending appropriate remedial action.

In this connexion, the important role of research will have to be considered, especially in reducing costs, improving quality and finding new end products for commodities. At the national level such research requires international financial assistance and the establishment of international study centres. It must be remembered that in the developed countries millions of dollars are spent annually on subsidies to protect certain products and on research on synthetics and substitutes, with negative repercussions for a number of commodities exported by the developing countries.

But in the matter of commodities, however important their local processing and productivity may be, the determining factor is price. Unfortunately, it has not been possible to reach agreement on a prices policy. No-one questions the fact that such a policy should have for its objective stable, equitable and remunerative prices, and should take into account the interests of both the producer and the consumer. But there has been no agreement on the machinery and the allocation of responsibilities.

The fact that prices of some agricultural or mineral commodities are at present at a satisfactory level, and in certain cases have remained at that level for some time, is no cause for complacency. The circumstances that have produced this situation are not permanent; deterioration is continuing in many cases and is a constant threat in almost all commodities. The harm that is caused to a producing country by a decline in prices is greater and has a more far-reaching effect than the benefit derived from a transitory rise in price.

When the prices of manufactures fall in the industrial centres, there is talk of recession and economic crisis, which, if aggravated, may drag down all countries to ruin. When there is a decline in the prices of primary commodities, the economies of the producer countries, and particularly those in the developing world, are severely affected. If the first case represents an emergency calling for and receiving universal attention, the second, too, should be regarded as such, since it involves a reduction of revenue with all its negative effects, a set-back on the road to development, a reverse in the battle against underdevelopment in which we are all engaged. In both cases the present and future welfare of millions of people is at stake. The problems of the developing countries are sufficiently well known, and there is no need to dramatize them, just as are also well known many corrective and regulatory tools which attenuate the serious repercussions of this problem and may lead to their disappearance. We must attack those problems with the firmness they require and evolve methods of action which will have a practical even if limited effect, and which will in the long run, when jointly applied, represent an efficient, economic and socially productive system of international collaboration.

In this context, we must note, as a partial success, the agreement achieved in the matter of buffer stocks as one of the appropriate techniques for stabilizing the markets for certain commodities. In each case the most suitable methods and procedures will have to be determined, particularly as regards the provision of the necessary funds to ensure the proper functioning of the scheme that is being adopted.

The recent decisions taken by the International Monetary Fund and the World Bank are useful steps in that direction. This was recognized by the Advisory Committee to the Board and to the Committee on Commodities at the session it has just held in Geneva. As will be seen from its report, the Advisory Committee concentrated on this and other important aspects of commodity problems. I also believe that the Board will agree with me as to the desirability of this Committee's meeting regularly, so that its very valuable contribution may always be available.

Since the second session of UNCTAD, the new Sugar Agreement has been concluded and the machinery set up under that Agreement is already in operation. The Agreement has had a favourable effect on the sugar market and has tended to stabilize the price of sugar at a fairly satisfactory level. To ensure its proper functioning, its base should be enlarged by the accession of certain important countries which decided to remain outside when it was signed, although they did not intend to oppose its purposes. This is an example of how a major initiative can be brought to fruition, even without initial participation by one or several countries of particular importance. When their governments judge that these countries are ready to join the fold, they will be welcome. They will thus have the satisfaction of giving direct and continuing support to an undertaking launched without any obstruction on their part. In situations of special importance, of course, no country should draw away or stand aside for any length of time, because this would mean that it does not assume its share of responsibility in common with the others. And for the major countries that share is quite naturally a large one.

The negotiations for the Cocoa Agreement have not made sufficient progress to bring the Agreement close to the conclusion stage, which a year ago seemed on the point of being reached. While in the most recent consultations, positions on certain pending issues were clarified and brought closer together, the range of these issues was widened. This has still further increased the need for a new series of consultations, which I am arranging at the request of the group of producer and consumer countries that met in June in order to hold technical consultations in preparation for a new conference. The conference will be convened as soon as the conditions for its success exist. Despite the difficulties that have arisen along the way, I am encouraged by the positive attitude of governments towards an agreement on cocoa. I trust that in the next few months, we shall reduce differences, until we dispose of them by acceptable compromise formulas. The importance of this instrument for the economic life of a number of countries and for our whole organization is obvious, and no effort must be spared to overcome finally the obstacles barring the road to early agreement.

In this context I would refer to an announcement made at the last meeting of the Committee on Commodities, informing the governments concerned that two important meetings are being convened: an ad hoc FAO/UNCTAD meeting, with the emphasis on action, of the Study Group on Oilseeds, Oils and Fats, and another meeting on iron ore, for the purpose of identifying the problems of the international trade in that product. Both meetings will be held, the first in London and the second in Geneva, in the first few weeks of next year. Preparations have already begun.

At the beginning of this month, a meeting on tea was held in Mauritius, as a continuation of others held in Dar-es-Salaam and Rome. In all these meetings, UNCTAD took an active part, jointly with FAO, and I am happy to report that at the last meeting the producers laid down foundations likely to promote the conclusion of an agreement. This was due to an obvious political determination on the part of participating governments, which enabled the difficulties encountered during the negotiations to be overcome. The Director-General of FAO and myself have agreed to redouble the convergent efforts of our respective organizations to make what contribution we can towards the achievement of informal practical understandings or formal agreements or conventions, as circumstances may require, on agricultural products.

UNCTAD will act on similar lines in the field of mineral products, where it is to play a leading role, still on the basis of resolution 16 (II). We intend to sponsor consultations on pepper, manganese ore and phosphates; those on the first-mentioned product would be held jointly with FAO. We are preparing a timetable which will enable us to cover satisfactorily all the products referred to in that resolution, including those of the temperate zones. In that connexion, we view the situation of the wheat market and its effects within the area of the International Wheat Agreement with some concern. The situation as regards that cereal and others grown in both the tropical and the temperate zones should be watched, since their relative abundance is likely to cause upsets later against which action must be taken wherever possible.

In addition to the efforts to secure the conclusion of new commodity agreements or arrangements, it must be seen to it that the existing ones are properly carried out and that provision is made for their extension beyond the expiry dates, with such amendments as circumstances may require. That happened in the case of coffee, for which a new agreement entered into force in October 1968, and in the case of olive oil, a Protocol for the extension of the Agreement concerning which was signed in March this year. Action for the extension of the arrangements concerning tin is also contemplated.

A commodity programme of such nature and scope involves many difficulties, which must not be underestimated. But each of the commodities is of vital importance for some member countries and therefore calls for our attention. Action taken may show unequal results, because the situations themselves are different. In appropriate cases, special machinery has to be set up with sufficient autonomy to reconcile the interests of exporters and consumers of the various products. We do not wish to contribute recklessly to the proliferation of intergovernmental bodies, but to decentralize in a rational manner international machinery like ours, which serves many purposes. The establishment of efficient machinery is fully justified in the case of problems of great magnitude seriously affecting the possibilities of progress in many countries.

It has been repeatedly pointed out that we should proceed product by product, since the characteristics and problems of each commodity differ, and that solutions must therefore be adapted to each particular case. But it would not be permissible to proceed product "after" product, with all the delays which that would involve and with the consequent repercussions and anxieties.

As regards trade in general, we must supplement the general scheme of preferences and the effort represented by the Kennedy Round - although the benefits of the Round for the developing countries are limited - by the vigorous pursuit of a policy of trade liberalization, eliminating Customs and other barriers, including restrictive business practices, which obstruct access to the developed countries' markets for the exports of the developing countries.

We must be the more vigilant and active in this respect, as openly protectionist tendencies have been evinced with an energy worthy of a better cause. Fortunately, these tendencies have given rise to many warnings pointing out that if protectionism were to gain ground, many of the advances made in the liberalization of trade would be lost. Our minimum aim must be to ensure that the situation is not worsened by the creation of new barriers or by the reinforcement of existing ones, particularly those affecting the developing countries. For the urgent tasks of trade liberalization in favour of these countries, UNCTAD and GATT must concert their efforts. We propose that formulae should be worked out for effective action which would avoid duplication. Otherwise, the scope both of the scheme of general preferences and of the commodity agreements would be reduced.

At the recent Congress of the International Chamber of Commerce, held at Istanbul, a recommendation was unanimously adopted for the establishment of a ten-year programme, starting from 1972, with the object of eliminating tariff and non-tariff barriers for manufactured products and liberalizing trade in agricultural products and other primary commodities. It was recognized at the Congress that adjustments were necessary in favour of countries whose economies depended on the export of a small number of commodities.

On the same occasion, it was stated that "production should take place where it can be most fruitful and all barriers to trade or to production itself should be dismantled. Nothing short of this sort of freedom is consistent with achieving world economic growth and rising living standards to which all peoples insistently aspire".

This task of liberalizing trade is not easy, but in my opinion the fact of recognizing its need should act as a spur to practical and sustained efforts towards that goal.

Similar intensified efforts should be made to enable the developing countries' primary commodities and manufactures to obtain gradual and substantial access to the markets of the socialist countries. For that purpose it will be necessary to adopt methods differing from those applicable to the market-economy countries, though tending to the same ends, taking advantage of the possibilities offered by the planned economies.

We all trust that at this session the Board will take positive and effective steps for the implementation of resolution 15 (II). We must not forget that the tasks involved undoubtedly call for considerable efforts on both sides if the results are to match effectively the proposed objectives. As a result of all these efforts, it is to be hoped that trade relations among countries having different economic and social systems will be strengthened.

In seeking to expand trade, special importance attaches to export promotion. For this reason, the developing countries are receiving aid through the UNCTAD/GATT International Trade Centre, with the collaboration of the United Nations Development Programme and with the help of special contributions from various governments.

But it is essential that the governments directly concerned should themselves make an effort, above all by utilizing their export potential in such a way that the developing countries are able to offer products on increasingly competitive terms as regards price and quality. All this presupposes an internal organizational management and a change in mental outlook similar to that which has taken place in countries of relatively recent, but substantial development, such as Japan, where the process is particularly impressive.

One of the principal endeavours which should be encouraged in the developing countries is that which is directed to the expansion of trade among those countries themselves, more especially through economic integration processes, which are among the most positive features of the present pattern of trade and development. Although responsibility for this endeavour devolves primarily on the countries concerned, an integral approach to the phenomenon and effective co-operation by the developed countries are important factors in its progress and success. This approach will make for the harmonious integration of such arrangements in the world economy as a whole.

This question, which has also been included in the agenda, will be the subject of a meeting of government experts next year, at which it is hoped that practical measures may be elaborated for encouraging and strengthening integration processes. UNCTAD has provided technical assistance for this purpose at the request of countries belonging to some of those integration movements.

It is worth mentioning that the activities of UNCTAD in respect to technical assistance, in matters of trade as well as of invisibles, have been strengthened since 1968, and will be further increased in the future in the light of its new status as participating agency in the United Nations Development Programme.

I should now like to make a few comments on the financial aspects of development. One of the outstanding results of the New Delhi Conference was the agreement that each economically advanced country should endeavour to provide annually to developing countries, in the form of transfers of financial resources, a minimum net amount equivalent to one per cent of its gross national product. Some of the advanced countries have not yet indicated when they propose to comply with that commitment. However, even though I, too, am discouraged at the meagre results obtained at New Delhi, I have no doubts about the good faith and dedication of all those who were instrumental in bringing about that agreement, and I trust that the conditions which have prevented its implementation, in some cases, have now been remedied. For that reason, I can only express my sincere hope that those countries which have still not done so will take all the necessary steps to attain the goal of one per cent of their gross national product, in the spirit of General Assembly resolution 2415 (XXIII) and resolution 27 (II) of the second session of UNCTAD.

It is my distinct impression that the increased determination on the part of governments to satisfy the wants of their less-favoured nationals will eventually create a healthy awareness of the sometimes greater needs of the citizens of other countries. Efforts to raise levels of living will never be confined within national boundaries, and for that reason I believe that internal and external aid programmes are complementary, rather than competitive.

A better order of priorities in both spheres should make it clear that balance-of-payments and budgetary difficulties should not be adduced as arguments against aid programmes. Human needs cannot be assigned a lower place in the scale of priorities than the balance of payments or the budget. Neither the one nor the other, nor any other similar consideration, have prevented man from exploring space and reaching the Moon. Neither should they be used to hold back the achievements necessitated by development.

It is encouraging to note that a small, but growing number of developed countries have recognized the need to place their aid programmes on a firmer and longer term basis. They are even planning to increase the volume of their contributions with a view to reaching certain levels by given dates. On the whole, the countries which have adopted this course are those whose contributions are relatively small. Nevertheless, their action is of great potential significance. In paying tribute to the positive nature of such an attitude, I should like to express the hope that their example may serve as an inspiration to other countries.

The OECD countries, through their appropriate channels, have announced that in 1968 their net flow of capital to the developing countries and multilateral agencies reached a record figure of 12,900 million dollars. I believe that we must all attribute to this the importance it deserves. Nevertheless, our satisfaction is tempered by the fact that the increase in the past year was concentrated entirely on the flow of capital from the private sector, including both direct investments and investments in securities issued by multilateral organizations. As a result, the flow of official capital in 1968 represented only 54 per cent of the total, as compared with 62 per cent in 1967 and an average of 65 per cent in previous years.

I do not in any way underestimate the importance of flows of capital from the private sector, although private investments certainly do not have the same characteristics as the financial co-operation of the official sector. The alarming aspect of this question is the stagnation and even relative decline in official participation in financial co-operation from all sources. Although the idea that official financial aid should constitute at least three-quarters of the one per cent target was not accepted unanimously at New Delhi, its merits and reasonableness have been generally recognized. The OECD countries, in the target adopted at the beginning of this year, have specifically indicated that that goal will not be regarded as having been achieved in cases where official participation in the total capital flow is significantly below the average. In short, this is a problem which is causing us serious concern, and to which I have wished to draw the Board's attention.

The OECD countries have also informed us that in 1968 the terms of official loans were softened: average interest rates fell from 3.8 per cent in 1967 to 3.3 per cent in 1968, and the repayment terms rose from 23 to 25 years. Nevertheless, this positive development was counteracted by a decline in the share of grants. In these circumstances, the view endorsed by the New Delhi resolution 29 (II) that "the terms of development assistance generally remain too hard" is still valid. Document TD/B/264, concerning prospects for the Second United Nations Development Decade shows that according to the projections for 1980 the non-oil-exporting developing countries will then have a trade gap of around 44,000 million dollars. Of this total, not less than 14,000 million dollars will be assigned for servicing external debt unless the present terms of financial aid are modified.

I recognize the effort made at the beginning of the year by the OECD countries in adopting new targets. The Secretariat is analysing the significance of those new objectives although no conclusions can yet be hazarded, since a great deal of information is still lacking. What may definitely be said at the moment is that a very considerable improvement in aid terms will be necessary if we are to avoid acute problems of debt-service accumulation in the years to come.

I have particular pleasure in informing the Board that, at its final session, the Intergovernmental Group on Supplementary Financing reached some bases of agreement. Already at the first session of UNCTAD the question had been raised whether it would be possible to work out a long-term system of financial assistance for the developing countries to help them to prevent the disruption of their development programmes resulting from export shortfalls or from causes beyond their control. This question has now been answered and it has been agreed that arrangements for supplementary financing can be made for this purpose.

It was also agreed that this supplementary financing should be administered by the World Bank, in consultation with the International Monetary Fund. The execution of these financial measures should leave the operating agency a certain margin of discretion. It is hoped, however, that certain appropriate objective criteria will be developed to ensure that a country's development plans and programmes will be adequately protected from the effects of export shortfalls.

It was also recognized that there would be no sense in merely diverting resources from basic development financing for purposes of supplementary financing. I take this position of the Group to mean that the resources for supplementary financing are to be additional to those already envisaged for basic financing.

The Board will have to decide on the most practical procedures for applying the principles agreed to by the Intergovernmental Group. It would seem appropriate that at this stage the results achieved by the Group might be transmitted to the World Bank inviting it to consider the adoption of measures within the framework of the principles that were agreed. I would hope that the Bank might be in a position to do this expeditiously so that this question could be considered in connexion with the next replenishment of IDA.

The arrangement with the World Bank might provide that, after a reasonable period, the Bank would inform us of the results of its efforts to devise machinery for the agreements reached by the Group. I am confident that an arrangement of that kind would be acceptable to the Bank.

It is also interesting to consider the progress that has been made in the consideration of international monetary questions in so far as they affect the developing countries. Since the Board's eighth session, the Committee on Invisibles and Financing has discussed the relevant problems. A large majority in the Committee was in favour of requesting the Secretary-General of UNCTAD to establish a small group of individual experts to analyse, in the light of New Delhi resolution 32 (II), the recent development of the world economy in general and of the international monetary system in particular, with a view to determining the effects on the trade and growth of the developing countries. The Committee also recognized that resolution 55 (VIII) of the Board, together with the generally favourable reaction of the Committee, constituted sufficient authorization for the Secretary-General of UNCTAD to convene this group of experts; and it was therefore considered unnecessary to adopt a new formal resolution on the matter.

Accordingly, I am pleased to inform you that the group of experts has already been formed and will meet from 17 to 25 September. The members of the group are distinguished experts in this field and broadly represent the various points of view on the subject. The International Monetary Fund has agreed to be represented at the meeting in accordance with the recommendation of the Committee that the group of experts should consult with the Fund in preparing this study. I am not able to make any further comment on the substance of the study at this time. I am sure, however, that the group will make a notable contribution to our ideas on the subject, including the very important concept of a possible link between the "special drawing rights" scheme and development financing.

While we must continue to stress the need for increasing the volume of external aid and making it less onerous for purposes of development - four-fifths of which, it must be remembered, is financed with the domestic resources of the countries concerned - the needs, and they are growing continuously, are so great that we must turn our thoughts to other resources which are still not fully available to mankind. A particularly important possibility is the exploitation and utilization of the resources of the sea-bed and ocean floor beyond the limits of national jurisdiction. Techniques have already been designed and tested which may become fully operational within a few years. This is a matter of importance not only because in this no man's land - and hence every man's land - there must be no irrational exploitation of the mineral resources lying there, with possible imbalances in international trade, but also because there is here a source of financial means to promote the progress of mankind, particularly as regards the tremendous needs of the developing countries, regardless of their geographical position. There is already a General Assembly resolution on this subject requesting the Secretary-General to report on the various aspects of this important question, to which I wish to draw the attention of the Board and of UNCTAD in general.

Another subject I must mention is that of shipping. This important area, dealt with by the Committee on Shipping, covers a wide range of topics including such different aspects as consultation machinery on shipping matters, factors relating to the expansion or establishment of merchant marines in developing countries, the level and structure of freight rates, freight markets, terms of shipment, port development and the rapid technological changes which are taking place in shipping and connected activities.

Progress has been registered on this broad front, although there has naturally been greater success on some points than others. We are all aware that there are divergent positions on certain questions, as in the case of freight rates. Nevertheless, it may be observed that attitudes are beginning to change, and we hope that this will result in a genuine effort of mutual comprehension, so as to permit interests to be reconciled which had previously been in continual conflict without any possibility of understanding. There is full acceptance of the idea that UNCTAD is an appropriate forum for such a dialogue and for achieving constructive action, especially as regards the important economic and financial aspects.

By way of illustration, I will refer to only two questions on which there has been significant progress. The first concerns the development and improvement of port facilities, which has been recognized as necessary, in that it is a factor contributing to the reduction of shipping costs for the benefit of all. It is gratifying to note that the relevant study submitted by the Secretariat to the Committee on Shipping at its third session was largely financed by a contribution from the government of an important shipping country, and that in addition the shipowner groups concerned are quite receptive to the idea of assisting in the financing required to continue this important task, which could be actively pursued over the next decade.

Again, while the practices of the shipping conference are still controversial, there has been appreciable progress in this field. The Secretariat has received some valuable additional data in meetings with representatives of the Conferences and the shipowner groups, and hopes that such co-operation will continue to grow, for this will facilitate the prompt completion of the study it has been requested to make by the Member Governments. I think the Board should also know that since the New Delhi Conference, consultation machinery has been established in some countries in the spirit of resolution 2 (II).

In the field of insurance and re-insurance, I only wish to mention that next October a seminar will be held at Prague with the participation of experts from various countries.

I have kept for the end of this review the subject of transfer of technology because, apart from being by its nature a new and constantly changing phenomenon, it is to become a new activity within UNCTAD's sphere of competence. This item has been included in the provisional agenda, and the Board will have to decide on what it considers the most appropriate procedure for dealing with it. Science and technology are of universal significance, and they interest all United Nations organizations, each of which has a greater or lesser share of responsibility in this area. No-one questions the fundamental importance which science and technology have for UNESCO, or the essential role which, as a central and co-ordinating body, the Economic and Social Council has to play, with the assistance of its Secretariat in the broad sense of the word, i.e. the Department of Economic and Social Affairs. There must be no duplication of any kind in the work done in this field by these and other bodies. Rather, we must make the most of that work, just as we hope they will also make the most of the work which we may be able to do in co-operation with them. What is more, for UNCTAD it is very important to arrive at some kind of co-operative arrangement with UNIDO to promote the transfer of technological knowledge.

More than anything else, UNCTAD must contribute towards a true understanding of the problem and the adoption of measures that will lead to its satisfactory solution.

Like the requisite expansion of exports, the development process as such cannot proceed at the necessary speed without an increasing measure of technological support. In many of the developed countries growth is taking place much more rapidly than in the developing countries, and this is undoubtedly due largely to technology. Since the most favourable environment for the evolution and use of operative technology is not usually to be found in developing countries, it is essential that in every country and region, as well as on the international scale, co-ordinated and vigorous efforts should be made, with the help of the international organizations, to facilitate the transfer of technology and to close the technological gap between the two groups of countries. The widening of the technological gap through inertia is one of the main

factors leading to the trade gap and, ultimately, to the ever-widening breach between the developing and the developed world which we all wish to see disappear. UNCTAD, by its mandate, cannot stand aloof from working on the great plans that are needed in this field.

This brings me to the question of a global development strategy, in which technology must hold a prominent place, since, along with trade and financing, it is one of the main levers in the development effort. These and other elements must be brought harmoniously into play, since if any one of them is found wanting the whole effort is affected.

In this connexion, I should like in particular to recall the creative work of my good friend and predecessor, Dr. Raúl Prebisch, whose vision and intimate knowledge of the complex problems of development make him particularly well-qualified to interpret its various aspects.

When we talk about a global strategy for development, we are thinking not only of the need to establish a set of coherent objectives, but also of the need to formulate the policies which must be applied and of the machinery of co-operation required for carrying out those policies.

Since the present international division of labour is not the most suitable one and, as a result, hinders development, it is necessary to make such modifications in it as will make it contribute to the development process. If that is the case - and it is generally agreed that it is the case - that should be the underlying idea driving and guiding the international development strategy.

Development is a global phenomenon which cannot recognize frontiers. No country, and no people, must remain outside its scope. It cannot, however, be regarded as a positive factor that in the industrialized countries the rate of development is more rapid than in the developing countries. A situation cannot be allowed to continue in which, while per capita income in the developed countries is increasing by tens and sometimes by as much as a hundred dollars a year, it is scarcely increasing in the developing countries by even single dollars, and at the most ten dollars. By the same token, it is impossible to ignore the special difficulties which, within the Third World itself, confront the relatively less developed countries and the land-locked nations, which should not be left lagging behind the general progress. That is a serious problem with which the international community as a whole must deal practically and effectively. I have already referred to it more than once and shall have occasion to do so again.

A basic change is a long-term undertaking. What is needed is a modification of present trends. But that will be impossible unless it is recognized that efforts must be concentrated on the advancement of the developing countries. Being a long-term undertaking, it needs urgent and devoted attention on the part of all. The primary responsibility, it must be repeated, rests with each individual country. Each country and each people must choose its own way; but it also has the inescapable duty to pursue the goals it has set itself efficiently, as regards both the production, mobilization and use of wealth and its better distribution. These efforts must be made simultaneously in areas which go beyond the competence of UNCTAD, such as the demographic, employment, fiscal, agrarian, educational and other fields, where sound policies, taking account of the circumstances obtaining in each country, are also needed. However, the effectiveness of the international measures that are taken at the level of UNCTAD largely depends on the effectiveness of those other measures which are adopted at the national level. But the inverse also holds true. It is necessary therefore to include among the latter the domestic policies chosen by the developed countries to facilitate the growth of the developing countries.

The interest of an organization like UNCTAD in the promotion of convergent and concomitant measures is evident from this interdependence. All this implies continuous co-ordination through regional, sub-regional and national bodies in addition to a very close co-operation between all international organizations.

The aspirations of the member countries must be taken into account in fixing the main lines of the global strategy of development; and this in turn must serve as a guide for action in each country or group of countries, so that they can make their appropriate contributions to the vital task of development.

This is the direction which should be given to the second Development Decade. We are all agreed that one of the main causes of the lack of success of the first Decade was precisely the absence of a global development strategy. I shall not expatiate on the second Development Decade now, because that will be a subject for consideration by this Board at its resumed session and because we have already started to deal with it. All I wish to do now is to make a brief comment as it is necessary to concentrate here on the numerous items that have to be dealt with in this first part of the present session.

I am convinced that we are all determined to continue and to increase our efforts as much as may be necessary to complete the task of formulating UNCTAD's contribution to the Decade. All the members of the Board undoubtedly feel the more committed to that task as they understand the full importance of our role in this vital enterprise. The second Development Decade will not be adequately prepared unless this function of UNCTAD in its important sphere of action is properly defined; and this task of definition is a responsibility which rests with UNCTAD alone. Although we are dissatisfied at not having completed this work earlier, that does not mean that no progress has been made. It should be remembered that the difficulties are largely due to the importance and complexity of the problem, and to the fact that it involves some highly sensitive policy aspects. It is not only UNCTAD but the international community which has been unable to reach agreement on all the objectives and policies that must be promoted over the next few years in the area within our competence. I am confident that there will be a meeting of wills that will enable us to make realistic and rapid progress, although they may not all simultaneously manifest themselves at this stage of preparation for the Decade. What has to be done now is to put the finishing touches to the basic structure needed for making this preparatory work easier.

We all want UNCTAD, with vision and at the same time a sense of reality, to help to give the Decade a vigorous thrust towards the future, a forward look, that will make it dynamic.

From a realistic and objective standpoint, there is no doubt that we have a wide-ranging programme of action, particularly if we carry out all the agreements already reached, to the point where they are effectively implemented and if, in addition, there is evidence of a firm intention of reaching as soon as possible, agreements on matters which were left in suspense at the second Conference. To a great extent, this programme already exists: what it needs is a more concrete approach and a more harmonious structure. We have, moreover, the instruments needed to translate our common ideas into reality. It is, however, essential that the intention to reach new agreements should be firm and serious. Otherwise, there would be no sense in preparing for a new Development Decade.

It is neither necessary nor desirable to wait until the second Decade is officially inaugurated before advancing further in this direction, towards the fulfilment of this programme. What we propose to do during this first part of the Board's session is proof of this. Then, at the resumed session, we shall return to these matters and we hope, be able to see what lies ahead with sufficient clarity and precision.

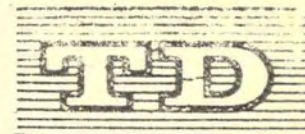
Mr. President, at the beginning of this ninth session of the Board - the first session I am attending in my present capacity - I have taken the liberty of making this statement in order to help in the establishment of a well balanced and selective approach to the important problems with which the Board is faced and which, as the principal organ in UNCTAD's continuing machinery, it must consider and must do what it can to solve. The Board's responsibility is very great, and for that reason the Secretariat is always ready to assist it in its effort continually to improve both its own functioning and that of its subsidiary bodies, in the light of experience.

In the same way we in the Secretariat are resolved to give every possible help, by every means at our disposal, to ensure that the next Conference is organized and carried out in the conditions most conducive to its success. One of the greatest contributions we can all make is to try to avoid any confrontations from arising between the several parties that go beyond those which may serve to establish positions facilitating the search for formulae of conciliation. If our endeavours lead to clear and continuing progress, we shall derive from the fact a real sense of achievement which will be of benefit to all, because development is everyone's concern. It should be stressed that this undertaking admits of no interruptions - let alone for passing circumstances. It is a task which cannot be postponed, and which demands a great deal of tenacity and firmness as well as an interplay between the sense of reality and the sense of urgency.

In all of this, it is necessary to intensify and diversify the efforts aimed at creating in all quarters in each country, a greater understanding about trade and development problems not only to obtain the indispensable support of public opinion but also a more active participation of all sectors in this process of advancement. And perhaps the principal endeavour in this respect should be to incorporate the younger generations in this undertaking so that they can fully contribute to a new order of things in what, after all, will be their world.

The present situation of development is very far from satisfactory, and this should prompt us to act more vigorously and effectively. It is opportune to recall in this respect that within this very hall, United Nations Secretary-General U Thant has more than once pointed out the importance of intensifying economic and social efforts as a key means of building and consolidating peace in the world. And, not too long ago, during his memorable visit to Geneva, Pope Paul VI also made a similar appeal stressing that the new name of peace is development. Their voices, like other also highly respected ones which have been raised for this same purpose, faithfully reflect the aspirations of peoples everywhere.

Mr. President, the stage which our work has reached is a very arduous one, although it can be very promising if we are prepared to decide and act. The road to be followed is clearly marked out. But we must move along it resolutely, in the conviction that we can and must help to raise the dignity of man and promote the well-being of all peoples - and more particularly of the peoples that most need it.



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United Nations Conference on Trade and Development

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TRADE AND DEVELOPMENT BOARD
Ninth session
Geneva, 26 August 1969
Item 6(a) of the provisional agenda

SUPPLEMENTARY FINANCIAL MEASURES REPORT OF THE INTER-GOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING ON ITS FIFTH SESSION

held at United Nations Headquarters from 23 June to 3 July 1969

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INTRODUCTION

1. In its decision 30 (II) the Conference decided to continue in existence the Inter-governmental Group suitably expanded. Expressing its appreciation of the reports of the Inter-governmental Group on supplementary financial measures,^{1/} the Conference instructed the Group to consider and attempt to resolve certain outstanding issues. The Conference also instructed the Group in the light of this attempt, to work out measures for supplementary finance and to report to the Trade and Development Board no later than its ninth session.
2. The present report is the result of the work undertaken by the Group in conformity with the above mandate. The Group wishes to emphasize that its work has been greatly facilitated by the written and oral information submitted to it by the secretariat of UNCTAD and the staffs of the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) in response to questions posed to them.
3. During its discussions the Group has attempted to clarify certain aspects of a supplementary financial mechanism as proposed by the IBRD staff in response to recommendation A.IV.18 of the first Conference. Its findings on this topic are summarized in chapter I of the present report.
4. The Group has also examined certain questions associated with proposals made by some members of the Group as alternatives to the proposals of the IBRD staff. The views of the Group on this subject are set out in chapter II.
5. The conclusions reached by the Group following its attempts to work out measures for supplementary finance are included in chapter III of the report.
6. Chapter IV deals with organizational matters.

^{1/} "Intergovernmental Group on Supplementary Financing: Report on its first session" - TD/B/C.3/41-TD/B/C.3/AC.3/16;

"Report on its second session" - TD/B/C.3/44-TD/B/C.3/AC.3/17;

Supplementary Financial Measures - Final Report of the Inter-governmental Group on Supplementary Financing - TD/33/Rev.1 (United Nations publication, Sales No. E.68.II.D.3).

Chapter I

ISSUES ARISING FROM FURTHER CONSIDERATION OF THE IBRD STAFF SCHEME

(a) The definition and method of assessment of reasonable expectations

7. This issue is dealt with in paragraphs 42 to 57 of TD/33/Rev.1. The advantage claimed by many members of the Group for an export norm is that it is related directly to the planning process, and thereby provides a base from which the disruptive effects of export shortfalls can be assessed fairly clearly and without delay. The opinion was also expressed that these objectives, which are an essential part of the Scheme according to their interpretation of recommendation A.IV.18 of the first Conference, can only be met by employing objective criteria. Some other members of the Group are, however, of the opinion that shortfalls measured from an export norm in the form of projections agreed in the context of a plan could not provide a satisfactory basis for determining the amount of assistance to be provided by the administering Agency, and consequentially for the determination of financial commitments by Governments. These members consider that the objectives of recommendation A.IV.18 could be achieved by allowing the Agency discretion to assess requirements for supplementary finance according to the circumstances of individual countries and the merits of each case. (Proposals along these lines are discussed in the next chapter.)

(b) The development programme, policy understandings and consultations

8. These issues are dealt with in paragraphs 20 to 41 and 76 to 78 of TD/33/Rev.1. In addition the Group sought information from the Bank and the Fund as to the extent to which the consultation procedures presently employed by these two institutions could encompass the purposes of the IBRD staff Scheme. The representative of the Fund stated that the Fund consultations can be broadly divided into (a) annual consultations, and (b) consultations associated with the use of Fund resources. The former, which constitute the basis for a continuing dialogue between the Fund and its members, consist of a systematic review of the major elements of the member's economy including an evaluation of past economic developments and an appraisal of the policies being followed. Such discussions centre on policies to maintain balance of payments equilibrium while promoting growth in a framework of financial stability.

9. The representative of the Fund stated that consultations associated with the use of Fund resources are normally related to the formulation of a programme of action describing the main lines of policy proposed and the measures already taken. Such a programme constitutes a consensus between the member and the Fund staff on policies

agreed as appropriate to the circumstances, and is reviewed by the Fund's Executive Board, whose decision reflects the collective judgement of the Fund's membership that the policies adopted are adequate and constructive. In making its resources available the Fund is guided by certain policies which make the availability of resources progressively more conditional on a justification for the use of such resources and on undertakings to take remedial action. These policies range from the quasi-automatic use of resources in the "gold tranche" to the use of resources in the higher "credit tranches" where substantial justification is required and the country makes important policy undertakings.

10. The representative of the Bank stated that the consultations envisaged in the scheme could be accommodated within the present framework of consultations although, given the objectives of the scheme, i.e. speedy assistance to preclude plan disruption from unexpected export shortfalls, more attention would need to be paid to the export aspect. Furthermore, close co-ordination between the administering Agency and the World Bank Group and the Fund would be necessary in their respective fields of expertise.

(c) Adjustments

11. This issue is dealt with in TD/33/Rev.1, paragraphs 73 to 75. With respect to the points of view and conclusions contained in these paragraphs the opinion was expressed that narrow limits of resources of developing countries did not in practice leave much room for significant adjustments. It was nevertheless the consensus of the Group that certain adjustments would probably be possible and that these should be carried out by the country in consultation with the Agency.

(d) Relationship between supplementary finance and the IMF compensatory financing facility

12. Different aspects of this relationship are dealt with in TD/33/Rev.1, paragraphs 70 to 72 (recourse to Fund resources) and paragraphs 45 and 46 (export projections). The Group, with the assistance of the representative of the Fund, addressed itself to the following main issues: (i) the relationship between growth and financial stability, (ii) the method of assessment of export shortfalls, (iii) the determination for recourse to compensatory financing facility versus supplementary financing.

13. (i) The relationship between growth and financial stability

Over the past two decades the Fund's experience has shown that inflationary processes, if unchecked, result in serious price distortions resulting in a misallocation of resources. An overvaluation of the currency, in particular, hampers

the expansion of exports and the development of import-competing industries, and such developments can lead to serious balance of payments problems. The Fund has thus found much evidence to support the conclusion that aspirations for growth are best realized within the framework of financial stability.

14. An annual financial programme can facilitate the harmonization of growth and financial stability in seeking to balance aggregate demand on resources with their availability and thus to avert undue strains on the internal price level and the balance of payments. The Fund has played an important role in assisting countries in the formulation of such programmes.

15. The use of Fund resources during the adjustment process has helped to overcome balance-of-payments difficulties but was not specifically intended to help finance development. It has, however, served development efforts by helping to maintain an adequate level of imports and by fostering confidence in the management of the economy. This has also facilitated the continuing flow of external resources.

(ii) The method of assessment of export shortfalls

16. Differences in practice in the method of assessment of shortfalls between the IBRD staff Scheme and the Compensatory Financing Facility of the Fund are related to their respective objectives which are reflected in different concepts of export norms. This had already been explained in the Secretariat paper (TD/B/C.3/AC.3/5). Statistical studies made by the Bank and Fund staffs showed that there could be considerable differences in the shortfalls achieved according to the formula used. It would, for example, be possible because of these differences in calculations and concepts for a shortfall of one kind to occur without there necessarily having been a shortfall of the other kind.

(iii) The determination for recourse to compensatory financing facility versus supplementary financing

17. The Fund must be satisfied that a member making drawings under the Compensatory Financing Facility will co-operate with the Fund in efforts to solve its balance of payments difficulties. The representative of the Fund stated that drawings under the Compensatory Financing Facility are subject to defined conditions as to charges, limits to the size of drawings and the acceptance of repurchase obligations. Another provision of the facility relates to the policies of the member. A comparison of these aspects of the Compensatory Financing Facility with the practice which might be followed under a supplementary financing scheme is difficult until the practices of the latter have been determined.

18. As regards the relationship between the Compensatory Financing Facility and a scheme of supplementary financial measures, from the point of view of the balance-of-payments assistance provided by the Fund, it would be more compatible if the country's needs were considered after taking account of any financing assistance of a long-term duration. Moreover, the specific purpose of the Compensatory Financing Facility that of smoothing export availabilities, might be lost if such financing were used as a partial contribution towards the realization of prior export expectations.

19. Comments by the Bank and Fund representatives lent support to the view that in practice the relationship between the operation of the Compensatory Financing Facility and supplementary financial measures would be a matter for close consultation and co-operation between the Agency, the Fund and the Bank, and the countries concerned.

(e) Financial implications of supplementary finance, including the determination in quantitative terms of the disruption resulting from export shortfalls

20. The financial implications of a supplementary financing scheme are considered in paragraphs 85 to 88 of TD/33/Rev.1. The estimates of the cost of the IBRD staff Scheme given in TD/33/Rev.1 are based on an examination of the period 1957-1963. The representative of the Bank reported to the Group that more recent estimates by the Bank staff based on larger samples of countries and for a longer period (1957-1967) indicate that an amount of not more than \$300 million annually would be required for an initial five-year period.

(f) General discussion

21. Representatives of developing countries members of the Group stated that they had come to the present session of the Group, after several years of discussions, in the hope of reaching a meaningful agreement with developed countries on a possible scheme of supplementary financing. In this connexion they stressed that, although they supported the IBRD staff Scheme in principle, they were prepared to approach the different elements of such a scheme with flexibility. They subsequently invited developed countries members of the Group to state their position as clearly as possible on the IBRD staff Scheme or any other scheme considered to be acceptable by them.

22. In response to this appeal, several representatives of developed market economy countries members of the Group, while agreeing with the need for a flexible approach to this question, stated that, although the IBRD staff Scheme was a valuable aid to the Group's discussions, they would not be in a position to accept a scheme along the lines proposed by the Bank staff. Most of them expressed a preference for considering a discretionary arrangement.

23. The views of representatives of developed market economy countries members of the Group are reflected in subsequent sections of this report.

Chapter II

ALTERNATIVE PROPOSALS FOR SUPPLEMENTARY FINANCIAL MEASURES

24. At the first session of the expanded Inter-governmental Group the secretariat was asked to undertake an analysis of the alternative scheme outlined in Chapter IV, section A of TD/33/Rev.1. The main characteristics of this simplified scheme, as outlined in that report are as follows: the scheme would omit export projections and any prior understanding on policy matters. A determination as to whether a decline in export receipts was a shortfall from reasonable expectations would be made by an agency ex post on the basis of certain established guidelines. After determining the amount of the shortfall in accordance with these guidelines, the Agency would take into account a number of considerations in order to arrive at a decision on the amount and terms of assistance. There would be a close connexion with the IMF Compensatory Financing Facility, and close co-operation between the Agency and the Fund. The secretariat's elaboration and analysis of this scheme and modifications suggested at the fourth session of the Group (document TD/B/C.3/27) were welcomed by the Group and served as a basis for the discussion of possible variants of or modifications to the IBRD staff Scheme. The representative of one developed market economy country member of the Group stated that a decision on the need, feasibility and essential characteristics of a supplementary financing scheme could not be taken in abstract terms, without first working out acceptable and specific features of such a scheme. In his view, the discretionary scheme had not yet been fully worked out and therefore he felt unable at this stage to take a definite position.

25. The comments and suggestions of other members focused on the following main elements.

(a) The determination of the shortfall

26. Some members of the Group expressed the view that an export norm in the form of a projection was not necessarily the most appropriate means for measuring or determining a shortfall in export receipts; for these members the determination of

the shortfalls should be ex post and the decision as to the appropriate level of compensation would be based upon a case-by-case examination at the time the need arises. Some of these members thought, however, that objective criteria, such as the average level of exports of the two preceding years and relevant aspects of the development plan or programme, should be taken into account. The Group recognized that an ex post discretionary scheme would represent a substantial departure from the concept underlying the IBRD staff Scheme. In the view of some members, such a scheme would also represent a departure from the basic objective of recommendation A.IV.18. Other members, however, did not feel that this was necessarily the case. Concern was also expressed that a discretionary scheme would result in delays and would reduce the element of assurance of assistance aimed at the prevention of disruption of development programmes.

(b) Other possible causes of disruption

27. The point was made by a few members of the Group that in the case of a discretionary scheme aimed at avoiding the disruption of development plans or programmes, there is no compelling reason to limit the compensation to overcoming the effects of unexpected export shortfalls.

(c) The administering Agency and its relations with the participating countries

28. It was recognized that in the case of a discretionary scheme the administering Agency would have to evolve its technique of operation on a pragmatic basis. The view was expressed that because of the nature and quality of its operations and of its long experience the World Bank Group was undoubtedly the most suitable institution to administer a scheme of this kind. In particular the existing framework of consultations between the World Bank Group and the potential recipient countries would provide a basis for the most effective and equitable administration of the scheme.

(d) The financing of a discretionary scheme

29. It was recognized that there are a number of questions in respect of the financing of a discretionary scheme. A study by the UNCTAD secretariat suggested

that the cost of the scheme outlined in Chapter IV, section A of TD/33/Rev.1 would be of the order of \$200-250 million per annum. Some members expressed the view that the amount of resources provided for supplementary financing could not be determined independently of the total future resources available to IDA and in particular prior to determination of its third replenishment. It was 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 propriety of supplementary finance

30. One member of the Group, whilst recognizing that disruption of development by unforeseen circumstances can pose serious difficulties for developing countries, said that in his view these difficulties, if of a long-term nature, could not appropriately be dealt with by measures for supplementary financing. Provision already exists, though the IMF Compensatory Financing Facility, to alleviate short-run balance-of-payments difficulties resulting from a shortfall in export earnings. Protracted balance-of-payments problems would be most properly solved through international commodity arrangements, to ensure access to world markets at remunerative prices, as well as structural adjustments in the economy of a developing country. Another member suggested that even for structural adjustments, financial resources are needed, which could be provided through supplementary financing.

31. One member of the Group restated his position with regard to the conceptual distinction between supplementary financing and the organization of markets. He considered that efforts to find a purely financial solution to problems which arise because of the current system of trade relations between industrialized countries and primary commodity producers are not addressed to the basic causes of the difficulties which they are intended to resolve.

32. In this context, the importance of the outcome of the studies on commodity policies at present under way in IBRD and IMF was stressed by some members.

Chapter III

CONCLUSIONS

33. In accord with recommendation A.IV.18 of the first Conference and decision 30 (II) of the second Conference, 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 developed market economy countries members of the Group believe that the IBRD 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.

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

(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/}

^{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 (TD/B/C.3/AC.3/27), have been in the order of \$200 to \$250 million per annum.

Chapter IV
ORGANIZATIONAL MATTERS

35. The session was opened on 23 June 1969 by Mr. M. Mermolja (Yugoslavia), Chairman of the Group. The Vice-Chairman and Rapporteur was Mr. A. Dunkel (Switzerland), who was elected to that office at the Group's fourth session.

36. Seven meetings were held between 23 June and 3 July 1969.

Adoption of the agenda

37. The provisional agenda circulated before the session (TD/B/C.3/AC.3/26) was adopted without change and is reproduced below:

1. Adoption of the agenda
2. Issues raised by the Conference:
 - (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) Relationship between supplementary finance and the IMF Compensatory Financing Facility
 - (e) Financial implications of supplementary finance, including the determination in quantitative terms of the disruption resulting from export shortfalls
3. Alternative proposals for supplementary financial measures
 - (a) A simplified scheme
 - (b) Refinancing the Fund Facility
 - (c) The propriety of supplementary finance
4. Other issues raised within the Group
5. Report to the Trade and Development Board at its ninth session
6. Other business.

Attendance

38. All the members of the Group were represented at the fifth session, as follows: 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.

39. The following States members of the Conference sent observers to the session: Austria, Belgium, Central African Republic, China, Colombia, Congo (Democratic Republic of), Cuba, Denmark, Ecuador, Finland, Gabon, Israel, Jamaica, Kuwait, Madagascar, Nepal, Netherlands, Norway, Peru, Philippines, Republic of Korea, South Africa, Spain, Thailand, Turkey, Uganda.

40. The following specialized agencies were represented: International Bank for Reconstruction and Development, International Monetary Fund.

41. The following inter-governmental bodies were represented: European Economic Community, Organization for Economic Co-operation and Development.

42. The list of participants is contained in document TD/B/C.3/AC.3/INF.3.

Organization of work

43. The Inter-Governmental Group had before it the following documents in addition to the material submitted at the first four sessions of the Group which was relevant to the deliberations at the fifth session:

- | | | |
|------------------|---|---|
| TD/33/Rev.1 | - | Report of the Inter-Governmental Group on Supplementary Financing to the second session of UNCTAD |
| TD/B/200 | - | Report of the Inter-Governmental Group on |
| TD/B/C.3/53 | - | Supplementary Financing on its fourth session |
| TD/B/C.3/AC.3/25 | | |
| TD/B/C.3/AC.3/26 | - | Provisional agenda and annotations for the fifth session |
| TD/B/C.3/AC.3/27 | - | Supplementary financial measures: an analysis of Scheme A in chapter IV of the report of the Inter-governmental Group on Supplementary Financing on its third session - study by the UNCTAD secretariat |

TD/B/C.3/AC.3/28 - Hypothetical case studies in supplementary financing -
Report by the UNCTAD secretariat

"	28/Add.1	"	"	A case study of Ceylon
"	28/Add.2	"	"	A case study of Colombia
"	28/Add.3	"	"	A case study of Ghana
"	28/Add.4	"	"	A case study of Sudan

Adoption of the report of the Group to the Trade and Development Board

44. At its 60th meeting on 3 July 1969, the Group adopted the present report on its fifth session.

Sir Denis Rickett

September 4, 1969

Andrew M. Kamarck

SEP 5 1969

Attached Letter from Mr. N. A. Sarma

11 6.~.

Attached is a copy of a letter that just came in from
Mr. Sarma. I believe you may find this of interest.

cc: Messrs. Friedman ✓
Sacchetti

AMK/vhw



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Geneva, 1 September 1969

Dear Mr. Kamarck,

In his statement to the Board, the Italian representative referred to a bill under consideration in Italy for interest free loans with respect to IDA replenishment. The original version of his statement in French follows:-

"A titre d'exemple, je suis heureux de vous confirmer que le Parlement italien est en train d'approuver un projet de loi concernant le deuxième 'replenishment' IDA. Ce projet en effet prévoit la possibilité d'octroyer des prêts sans intérêt dans l'attente de l'entrée en vigueur de l'accord multilatéral."

Today Switzerland explicitly stated its support to a scheme of supplementary financing.

Sincerely,

N. A. Sarma

N. A. Sarma

Mr. A. M. Kamarck,
Director, Economic Department,
International Bank for Reconstruction
and Development,
1818 H Street NW,
Washington DC 20433.

ROUTING SLIP

FICHE DE TRANSMISSION

TO:

A:

Mr. Irving Friedman

FOR ACTION		POUR SUITE A DONNER
FOR APPROVAL		POUR APPROBATION
FOR SIGNATURE		POUR SIGNATURE
PREPARE DRAFT		PROJET A REDIGER
FOR COMMENTS		POUR OBSERVATIONS
MAY WE CONFER?		POURRIONS-NOUS EN PARLER?
YOUR ATTENTION		VOTRE ATTENTION
AS DISCUSSED		COMME CONVENU
AS REQUESTED		SUITE A VOTRE DEMANDE
NOTE AND FILE		NOTER ET CLASSER
NOTE AND RETURN		NOTER ET RETOURNER
FOR INFORMATION		POUR INFORMATION

I thought you might be
interested in this, if it
has not already come to
your attention.

SEP 3 1969

11.30 am

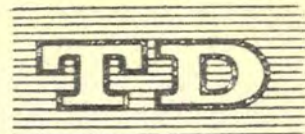
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FROM:

DE:

David Palmer



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-GENERAL

TD/B/270
24 July 1969

Original: ENGLISH/FRENCH/SPANISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Ninth session
Geneva, 26 August 1969
Item 6(b) of the provisional agenda

GROWTH, DEVELOPMENT FINANCE AND AID

(b) REPORT OF THE COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE ON ITS THIRD SESSION

Comments by Governments on the possibility of convening an inter-
governmental group to consider the question of establishing
a multilateral interest equalization fund

Report by the UNCTAD Secretariat

1. At its third session, the Committee on Invisibles and Financing related to Trade authorized the Secretary-General of UNCTAD to consult member Governments with a view to exploring the possibility of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margin between loans obtained on international capital markets and concessional development loans, and to report thereon to the ninth session of the Board (see document TD/B/236, para. 36).
2. By a note verbale dated 18 April 1969, the Secretary-General of UNCTAD invited the Governments of all States members of UNCTAD to submit their comments on this matter.
3. At the time of issuance of this document, thirty-three Governments had replied to the note verbale. Of these, sixteen stated their view that the convening of an inter-governmental group would be useful; nine were not in favour of constituting such a group; and eight had no objection to its establishment.

4. Three of the Governments not in favour of the group expressed their agreement to its establishment if a majority of the UNCTAD membership so desired. One Government not in favour said that it would review the question of its own participation if a majority of the States members desired to establish the group.
5. One Government having no objection to the convening of an inter-governmental group stated that it would be unable to participate in the work of the latter, if constituted.
6. The substance of the comments received from Governments to date is reproduced in the present document for the information of members of the Board.

SUMMARY TABLE OF GOVERNMENT REPLIES^{1/}

I.	In favour	Ceylon, Colombia, Cyprus, Ecuador, Ghana, Indonesia, Israel, Ivory Coast, Malta, Mexico, Niger, Pakistan, Republic of Korea, Swaziland, Venezuela, Yugoslavia	16
II.	No objection	Cameroon, Hungary, Kenya, Lebanon, Madagascar, Mauritania, New Zealand, Norway	8
III.	Unconditionally against	Australia, Belgium, Italy, Japan, Spain, United States of America	6
IV.	Conditionally against	Federal Republic of Germany, France, Netherlands	3
			<hr/>
			Total 33
			<hr/>

^{1/} The summary table is for indicative purposes only and is not intended as a complete statement of the views of the governments concerned. The table should be read in conjunction with the respective statements given below.

AUSTRALIA

Note verbale from the Permanent Mission
dated 28 May 1969

"In the light of the comments expressed ... at the third session of the Committee on Invisibles and Financing related to Trade earlier this year, it is the view of the Australian Government that no useful purpose would be served by convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional development loans. This proposal has been discussed extensively within UNCTAD since it was first submitted to the 1964 Conference by Mr. D. Horowitz, Governor of the Bank of Israel. These discussions have revealed that the proposal raises many difficulties both of a policy nature and from a practical point of view. The Australian Government therefore doubts whether it would be advisable to pursue the proposal any further at this stage. It is felt that the international community could more profitably direct its attention towards other ways and means by which the needs of the developing countries for more development assistance on concessional terms could be met".

BELGIUM

Letter from the Permanent Representative of Belgium to the International
Economic Conferences, dated 26 June 1969

"I have the honour to acknowledge receipt of your communication, dated 18 April 1969, in which you invited the Belgian Government to make known its views concerning the possibility of convening an Intergovernmental Group to consider the question of establishing a multilateral interest equalization fund.

"After reconsidering the matter, the Belgian Government still believes that the convening of such a group would not be advisable.

"In its statement on this subject at the second session of the Committee on Invisibles and Financing related to Trade, the Belgian delegation clearly stated Belgium's views regarding the idea of introducing any automatic and generalized equalization of interest rates.

"The conclusion of that statement, the text of which is enclosed, was that, in the view of the Belgian Government, the best way of ensuring the transfer of capital to the developing countries on liberal terms was to make use of budgetary funds, and, by that, we were referring in particular to the replenishment of the resources of IDA.

"In addition to the arguments advanced in that statement, which we believe are still entirely valid, I should like to put forward a few additional considerations.

"I propose to ignore the problem of the various difficulties involved in the transfer to the developing countries, through the financial markets, of part of the savings of the developed countries.

"In view of what I have just said regarding the replenishment of IDA resources, the burden of interest on loans granted to the developing countries by the Bank at market rates is lighter in the case of a number of those countries (e.g., India, Pakistan, Cameroon, Tunisia, Senegal, etc.), which also receive IDA loans.

"This applies also to the regional development banks, which have for some time been doing all they can to increase their resources, not only by issuing loans on the capital markets of the developed countries but also by setting up special funds with capital contributed by those countries on liberal terms. For instance, the Inter-American Development Bank has managed to keep the average interest rate on all loans at slightly over 4 per cent, by adding to its resources accruing from loans those of its Special Operations Fund.

"Lastly, we should not overlook the fact that consideration of a plan to set up a multilateral interest equalization fund would raise serious problems, namely:

"(1) The problem of the establishment of priorities by the developed countries.

Interest rebates must be regarded as grants; this means that the contributions of the developed countries to the multilateral fund compete with other categories of aid which those countries are already giving in the form of grants;

"(2) The problem of the difficulties inherent in applying a generalized system of interest rebates.

These difficulties may arise from the need to take into account:

- "(a) The economic and financial situation of the countries receiving loans from the international body, particularly as regards their debt-servicing capacity;
- "(b) The nature of the projects to be financed by the loans in question. Different financing terms are required depending on whether the projects concerned offer a quick return from a balance-of-payments or development standpoint, on the one hand, or a more long-term or deferred return or a return in terms of infrastructure, on the other.

"The foregoing constitute, I believe, the reasons which have led the Belgian Government to deem it preferable not to convene an Intergovernmental Group to consider the possibility of establishing a multilateral interest equalization fund; the work of such a group would inevitably prove disappointing."

ANNEX

Statement made by the Belgian delegation
on 14 April 1967

"Mr. Chairman,

"Allow me to first express my gratitude for the report by the Group of Experts on the economic and financial problems involved in the Horowitz proposal, and similar schemes and possible variations, including any consequences they may have on other methods of bringing about the transfer of real resources on concessional terms to the developing countries.

"I should also like to thank Mr. Dell for his very clear statement this morning, which will help us in considering the report of the Group of Experts.

"I do not propose to dwell on the working of the Horowitz proposal, which has been well described in the World Bank's report and summarized in paragraph 3 of the report of the Group of Experts. In order to implement the Horowitz plan it would be necessary for the Governments of the developed countries to enter into various commitments. They would have to:

- "(a) guarantee repayment of principal and payment of interest on loans to be made by IDA;

- "(b) guarantee the possible refinancing of such loans;
- "(c) contribute to the interest equalization fund;
- "(d) undertake to authorize borrowing on their own capital markets.

"Whereas the first three long-term commitments raise legislative and, more particularly, budgetary difficulties, the undertaking relating to access to capital markets is, so far as most of the developed countries are concerned, dependent on various factors such as the capital market situation, the balance-of-payments position and the internal development requirements.

"The report clearly shows the major difficulties involved in using capital markets to accelerate the transfer of resources to the developing countries.

"The Group of Experts considers that the only way of providing the large amounts of soft aid required on a multilateral basis would be to increase the amount of budgetary allocations or direct government loans to IDA. My delegation considers this a very realistic view, because, for the method advocated by Mr. Horowitz to succeed, the Governments of the developed countries would have, in addition to making the above-mentioned commitments, to undertake to supply funds if the international institution (IBRD or IDA) was unable to place its bonds on their markets.

"If such an undertaking were given by the developed countries, however, IDA might be expected - in view of the capital market situation in most of the developed countries and the manner in which funds are allocated - to avail of the undertaking and this would prevent the realization of the main objective of the Horowitz proposal, namely, the substitution of capital market funds for budgetary funds.

"Mr. Dell referred this morning to the possibility of applying the principles to the Horowitz proposal within the framework of the treaties of association between the European Economic Community and certain countries. In this connexion, however, I wish to draw attention to the fact that an undertaking of the kind I mentioned earlier was entered into between the States members of EEC and the European Investment Bank, and that the latter has already had to avail of that undertaking. The Bank's loans to Turkey under the Treaty of Association of 12 September 1963 were financed by the members of EEC from budgetary funds.

"I should now like to review briefly the points raised by the Horowitz proposal and dealt with, inter alia, in paragraphs 10-14 of the report.

- "(1) As regards the choice of IDA as the borrowing agency, I fully agree with the view expressed by the Group of Experts, namely that it would not be feasible owing to IDA's charter and its credit standing;
- "(2) I also agree with the Group of Experts that if IBRD was chosen to make loans to IDA which were guaranteed by the Governments of the developed countries, the credit standing of IBRD might be adversely affected;
- "(3) As for the direct granting of loans by IBRD to IDA without any specific guarantee on the part of the Governments of the member countries - a procedure suggested in the amended version of the Horowitz proposal and applied in dealings between the Bank and IFC - I believe that this solution would also raise difficulties for the following reasons:

"(i) IFC and IDA are both affiliates of the Bank, but their capital and their objectives are entirely distinct:

IFC has a capital of \$100 million, while IDA has \$1,750 million. The objective of IFC is to invest in and grant loans on normal market terms to private enterprise in the developing countries, whereas that of IDA is to grant soft loans (50 years, service charge of 0.75 per cent);

"(ii) The charters of IDA and IBRD would have to be modified;

"(iii) This would adversely affect the credit standing of IBRD; even if the sums involved were relatively small, they would have a disproportionate effect on its credit standing;

"(iv) Government guarantees would be required.

"We must avoid making proposals that might harm the credit standing of IBRD, which is playing a very important role in the development of the less advanced countries.

"In conclusion, my delegation still thinks that a better way of ensuring the transfer of resources to the developing countries on terms as favourable as those put forward in the Horowitz proposal would, in view of the capital market situation and the manner in which funds are allocated, be to make use of budgetary funds; and by this I am referring to the replenishment of IDA resources."

CAMEROON

A. Note verbale from the Ministry of Foreign Affairs,
dated 11 June 1969

"The Ministry of Foreign Affairs of the Federal Republic of Cameroon ... has the honour to inform [the Secretary-General] that Cameroon has no objection to the convening of an inter-governmental group to consider the question of establishing a multilateral interest equalization fund."

B. Letter from the Ministry of Foreign Affairs,
dated 3 July 1969

"Further to my letter ... of 11 June 1969 concerning the establishment of an interest equalization fund, I have the honour to communicate hereunder the general views of the Cameroon Government with regard to the subject of your inquiry.

"The problem - which calls for prior consultations between the aid-supplying rich countries - is to set up a system of co-operation which will permit a further increase in the volume of grants and contributions classifiable as such, and to achieve greater flexibility and uniformity in the terms and conditions governing aid provided in the form of loans.

"Despite its relatively favourable economic structure, Cameroon - like most other developing countries - is limited as regards its possibilities of accumulating sufficient internal savings to finance its economic and social development plans. Consequently, our need for capital from abroad is still very great. If its objectives are to be achieved, our second Five-Year Plan will require foreign public capital amounting to roughly 61,000 million CFA francs. The aid we have received falls far short of this amount, and the prospect of any alteration in the situation as regards future programmes will remain bleak unless the rich countries make greater efforts to increase their contributions.

"At the same time, the volume of contributions obtained in the form of grants is decreasing each year as the volume of repayment commitments rises. While our economy has a fairly high capacity to absorb foreign financing, there is still a danger that, with the present stringent terms, the level of indebtedness will, during the coming years, rise beyond our internal means. Most of the multilateral loans so far obtained

by Cameroon have been subject to stringent terms as regards interest rates and repayment periods. The interest rate on IBRD loans, for example, is 6 to 6.5 per cent. Moreover, the waiver period granted on some loans is shortly due to expire. In other words, our budgets will, for some time to come, have to face heavy charges imposed by the servicing of our external public debt, of government-backed debts in the private sector, and by recurrent expenditure on investments carried out with the proceeds of the loans.

"Paradoxically, our countries generally are finding that this situation is leading to an increase in the flow of capital back to its country of origin. It has been found that certain countries members of the Development Assistance Committee (DAC) have been receiving annually in interest and capital repayments, under their bilateral public commitments, more than 50 per cent of the amount of aid granted during the same year.

"The prospects seem scarcely more favourable as regards future developments in invisible capital transfers in the areas of foreign trade and private investment.

"The volume of commercial credit granted for our imports shows an upward trend in the returns from our short-term commitments. Although no detailed figures are currently available, there is reason to believe that transfers of funds (net receipts from current invisible transactions of the aid-supplying exporting countries) from the poor countries represent a sizable volume of resources which could be used to advantage for the internal financing of our development programmes. The same applies to the downward trend in the value of our exports, caused - despite their increase in volume - by persistent fluctuations in commodity prices and the lack of any multilateral system for stabilizing commodity prices. This downward trend in value is unfortunately accompanied by an equally large-scale transfer of dividends and compulsory interest payments.

"The foregoing gives an idea of the magnitude of the reverse flow of the financial resources obtained from foreign contributions, private investment and foreign trade transactions, and the growing potential pressures on our balance of payments. It also means that the overall aid problem can be solved only by gradually eliminating these adverse factors, by increasing the volume and aligning the terms of reimbursable aid. This, however, constitutes only a preliminary step towards a real approach to the problem.

"If our privileged partners were really determined to help towards the economic take-off of our countries, they should also make greater efforts to eliminate the speculative practices of international trade and support any system designed to soften the terms of aid to the developing countries. It has been rightly said that co-operation will in no way benefit the rich countries if their less developed partners remain for long burdened by heavy foreign debts. The burden of debt should therefore be lightened immediately, in accordance with the recommendation adopted in 1965 by the Development Assistance Committee and later taken up by UNCTAD.

"With regard to the terms and conditions of repayable public grants, since IDA is at present the sole multilateral supplier granting loans at relatively low interest rates (less than 3 per cent and generally 1 per cent), it seems logical that the multilateral interest equalization fund proposed by the Conference should be established at the IDA level.

"After all, the objective seems to be to increase IDA's financial resources rather than to persuade the suppliers of aid to soften their terms immediately.

"In our opinion, if the multilateral fund were to be financed from budgetary funds provided by the Associated States, including the developing countries, the operation would be of less interest to the latter because of the additional burden they would have to bear. On the other hand, it is clear that additional contributions from the rich countries alone would endow both IDA and the fund with greater resources and at the same time reduce the burden which the servicing of their foreign debt imposes on the poor countries. This does not mean, of course, that the developing countries should not play a meaningful part in the operation of the new system which, created for their benefit, should be given the full benefit of their views.

"It is still debatable, however, whether the setting up of an institution for this purpose and the periodic payment of larger contributions might not induce those of the developed countries which grant public aid on liberal terms to align their bilateral aid policies on those of the countries which impose hard credit terms.

"This aspect of the problem provides food for thought, because, in changing the method of financing the fund - by issuing bonds, for example - each Associated State would have to be certain that the bonds offered the requisite guarantees in order to warrant full Government coverage. Again, the time it would take to place the bonds on national financial markets would depend on the credit standing of the fund.

"Lastly, and assuming these problems to have been overcome, the foreseeable impact of the snow-balling effect among the Associated States as regards their bilateral aid policies might have a modifying influence on the position of the States and of the Conference with regard to the effectiveness of a multilateral interest equalization fund for development loans."

CEYLON

Note verbale from the Permanent Mission
dated 30 June 1969

"The Permanent Mission of Ceylon ... has the honour to state that the Government of Ceylon considers that it would be useful to convene at this stage an inter-governmental group to consider the question of establishing a multilateral interest equalization fund."

COLOMBIA

Letter from the Permanent Representative,
dated 14 May 1969

"With reference to the inquiry contained in your note TDO 280/5 of 18 April, I have the honour to inform you that my Government is in favour of exploring the possibility of convening an Intergovernmental Group to consider the question of establishing a multilateral interest equalization fund."

CYPRUS

Note verbale from the Ministry of Foreign Affairs
dated 30 May 1969

"The Ministry of Foreign Affairs of the Republic of Cyprus ... has the honour ... to inform the Secretary-General that the Government of Cyprus favours the proposal of convening an Intergovernmental Group to consider [the question of establishing a multilateral interest equalization fund]".

ECUADOR

Note verbale from the Permanent Mission
dated 2 June 1969

"The Permanent Mission of Ecuador to the United Nations Office and the specialized agencies at Geneva ... has the honour to inform you that the Ecuadorian Government has no objection to and in fact supports the convening of an Intergovernmental Group to consider the question of establishing a multilateral interest equalization fund, and that it will communicate its views on the matter in due course."

FEDERAL REPUBLIC OF GERMANY

Letter from the Deputy Permanent Representative
dated 26 June 1969

"I have the honour to submit to you the following reply of my Government to the [note verbale TDO 280/5 of 18 April 1969].

"The proposal of establishing a multilateral interest equalization fund has been discussed for a long time in the competent international organizations, particularly in the relevant bodies of UNCTAD. Your attention is drawn to the report of the staff of the IBRD of 1965 (TD/B/C.3/1), to the report of the group of

experts of 11 April 1966 (TD/B/C.3/23) and to the study of the Secretary-General of UNCTAD of 6 December 1967 (TD/7/Supp. 1) as well as to the discussion in the Committee on Invisibles and Financing. The Federal Government has the impression that the highly complicated arguments which can be presented in favour of and against the proposal have been put forward and examined in great detail and on a high level at the international discussions which have taken place so far. It is therefore doubtful whether an inter-governmental group to be newly established may arrive at essentially new results in their deliberations.

"The Federal Government would, therefore, not advise to convene an inter-governmental group to consider the question of establishing a multilateral interest equalization fund. It would only agree to the setting up of such a group if a substantial majority among the member countries would support the formation of such a group."

FRANCE

Letter from the Permanent Representative
dated 2 June 1969

"The proposal to establish a multilateral interest equalization fund, first put forward in 1964, was discussed by the Committee on Invisibles and Financing related to Trade at its first session and examined in detail by a Group of Experts convened for the purpose in April 1966.

"Since then, the question has been regularly included in the agenda of the last two sessions of the Committee on Invisibles and Financing related to Trade and in that of the second Conference, held at New Delhi.

"The discussions in these various forums pinpointed the main questions and objections raised in connexion with the idea of establishing a multilateral interest equalization fund.

"Thus, it was pointed out that there were no real grounds for maintaining that the system would permit the mobilization of sufficient private capital to offset the

difficulties which many of the industrialized countries are experiencing in appreciably increasing their aid to the developing countries: borrowings on capital markets which are covered by guarantees benefit from interest rebates are in fact more in the nature of public funds than of genuine private resources.

"It was also felt that there was nothing in the present economic circumstances to suggest that it would be a simple matter to obtain on the capital markets the sums needed at other than a prohibitive cost. In view, inter alia, of the present level of interest rates throughout the world, the budgetary cost of reducing interest charges would eventually be higher than the amount of capital lent.

"It was also argued that bonds issued by the World Bank for the purposes of the system would be bound to find themselves in competition with those normally issued by the Bank, which, moreover, will increase considerably in the years to come.

"The proposal to establish a multilateral interest equalization fund, the essential purpose of which is to increase the resources available to the International Development Association, was therefore deemed too complex by many Governments of industrialized countries which consider that the aim sought could be achieved by other means that might be less difficult to implement.

"Bearing in mind the very reserved position taken, even recently, by the vast majority of the developed countries, the convening of an Inter-governmental group to consider the question of establishing a multilateral interest equalization fund would not be a positive contribution to the solution of the problems of aid to the developing countries.

"Obviously, however, if consultations undertaken by the Secretary-General of UNCTAD before the ninth session of the Trade and Development Board reveal a consensus in favour of establishing an Intergovernmental Group, the French Government would give timely consideration to the question of its possible participation in the Group."

GHANA

Note verbale from the Permanent Representative dated 30 May 1969

"The Permanent Representative of Ghana ... has the honour to refer to the Secretary-General's note ... in connexion with the convening of an inter-governmental group to consider the question of establishing a multilateral interest equalization fund ... The Government of Ghana supports the meeting of such a Group and will endeavour to participate in its deliberations when it is convened."

HUNGARY

Note verbale from the Permanent Mission dated 9 June 1969

"The Hungarian People's Republic has no objection to the convening of an Inter-governmental Group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional development loans."

INDONESIA

Note verbale from the Permanent Mission dated 28 May 1969

"The Permanent Mission of the Republic of Indonesia ... has the honour to inform the Secretary-General of UNCTAD that in the light of the hardening of over-all terms of development finance and the substantial increase of world interest rates on private borrowings, the Government of Indonesia is in favour of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional developmental loans."

ISRAEL

Note verbale from the Permanent Representative dated 6 June 1969

"The Government of Israel attaches great importance to ways and means of increasing the flow of capital to the developing countries, and has, to this end, submitted the "Horowitz Proposal", in which the establishment of a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional development is propounded. This proposal has been thoroughly discussed in the Committee on Invisibles and Financing related to Trade and has met with general support from the developing countries.

"A number of studies have been made which have shown that the proposal is feasible and that it can contribute significantly to the increase of capital flows to the developing countries at concessional terms. In his opening statement at the third session of the Committee on Invisibles and Financing Related to Trade, the Director of the New York Office referring to the Horowitz Proposal said, inter alia:

'All these studies make it quite clear that the proposal is technically feasible, but that it raises policy issues which only governments can decide. If further study is worth while, therefore, it is only at the inter-governmental level that results could be achieved.'

"Thus, at this stage, the convening of an inter-governmental group seems to be the best means of furthering the realization of the proposal. The Government of Israel accordingly recommends the convening of such a group at an early date and would also be willing to participate in its work."

ITALY

Letter from the Permanent Representative dated 23 June 1969

"I have the honour to inform you that for the time being the competent Italian authorities do not at present consider it possible to convene an Intergovernmental Group to consider the question of establishing a multilateral interest equalization fund (Horowitz proposal).

"The Italian Government considers that any future consideration of the possibility of implementing the Horowitz proposal would call for preliminary study of the progress made in this sector with other current or planned schemes for overcoming the difficulties of countries unable to secure loans on commercial terms, and improving the terms of financing generally.

The competent Italian authorities also draw attention to the fact that the difficulties encountered in connexion with the second replenishment of IDA have not yet been solved, whereas there has been a clear improvement in the general development aid terms of the developed countries following the new supplement of last February to DAC recommendation 69."

IVORY COAST

Letter from the Minister of Foreign Affairs dated 25 June 1969

"Further to your letter TDO 280/5 dated 29 April 1969, and in pursuance of the recommendations made by the Committee on Invisibles and Financing related to Trade at its third session (TD/B/236, TD/B/C.3/69), I have the honour to inform you that the Government of Ivory Coast is in favour of convening an intergovernmental group to consider the establishment of a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional development loans.

"The Government of Ivory Coast will make arrangements to be represented as soon as it is informed of the agenda and date of the meeting."

JAPAN

Note verbale from the Permanent Representative dated 6 June 1969

"The Permanent Delegate of Japan to the International Organizations in Geneva ... has the honour to communicate herewith the following replies of the Japanese Government:

"The Government of Japan is not in favour of convening an intergovernmental group to consider the question of setting up a multilateral equalization fund at this stage.

"The IBRD staff report points out that the questions such as access to capital markets and securing resources to cover the interest differential between the bond floated and aid on concessional terms, which form the essential feature of the scheme, pose special difficulties as compared with other forms of multilateral aid.

"The Government of Japan considers that these difficulties still prevail and that the feasibility of this scheme remains doubtful."

KENYA

Letter from the Ministry of Commerce and Industry dated 9 June 1969

"I refer to your communication TDO 280/5, dated 18 April 1969, and wish to advise you that we would have no objection to the convening of an international group to study the question of the establishment of the multilateral interest and equalization fund."

considering also the developments that have taken place on the financial markets over the last few years and the increasing severity of terms of credit, the Mexican Government is in favour of convening the intergovernmental group referred to in the Secretary-General's enquiry."

NETHERLANDS

Note verbale from the Permanent Representative,
dated 12 June 1969

"The Permanent Representative of the Kingdom of the Netherlands to the Office of the United Nations and other international organizations in Geneva ... with reference to the Secretary-General's note TD0 280/5 of 18 April 1969 has the honour to inform the Secretary-General as follows.

"The Netherlands Government endorses the desirability to come to an extension of aid and a further softening of the terms on which the aid would have to be granted. However, it might be asked whether the creation of a multilateral interest equalization fund is the appropriate means to this end, in view of the objections which in the opinion of the Netherlands Government are attached to the creation of such a fund.

"It is the view of the Netherlands Government that the object aimed at can be reached also either through existing international institutions, notably through an increase of the resources of the International Development Association, or by means of direct long-term loans to be granted by governments at low interest rates.

"Now that the contributions to the International Development Association have meanwhile been increased considerably, as a result of which the object in view has to a large extent been met, the Netherlands Government wonders whether it should be considered opportune at this time to take the initiative to convene an intergovernmental group to study the possibilities of establishing a multilateral interest equalization fund.

"If it should appear that the developing countries attach much importance to the convening of the aforementioned group, the Netherlands Government will have no objections."

NEW ZEALAND

Letter from the Department of External Affairs,
dated 19 May 1969

"I have the honour, by direction of the Minister of External Affairs, to refer to your note TDO 280/5 of 18 April 1969 concerning the possibility of convening an intergovernmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained in international capital markets and concessional developmental loans.

"The New Zealand authorities have considered this matter and wish to advise the Secretary-General that New Zealand shares the concern of the developing countries about the rise in interest rates on international capital funds, which has given rise to the revival of their interest in the possibilities of an interest equalization fund. While New Zealand is not convinced that this particular approach is the best way of dealing with the problem of increasing the flow of private capital on reasonable terms to the developing countries, it would not oppose the setting up of the proposed intergovernmental group."

NIGER

Note verbale from the Ministry of Foreign Affairs,
dated 2 June 1969

"The Ministry of Foreign Affairs of the Republic of Niger ... has the honour to communicate ... below its views on the possibility of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund.

"The problem is broadly associated with the exploration of the possibilities offered by the proposal formulated at the First UNCTAD Conference in 1964 by Mr. David Horowitz and later elaborated within the competent organs of the Trade and Development Board.

"Since the developing countries need to increase considerably their capacity to secure concessional loans from the International Development Association, and since IDA is facing growing financial difficulties owing to the conditions imposed by certain industrialized countries the last time its resources were replenished, it is certainly desirable that the plan to set up an interest equalization fund should be implemented.

"By covering with adequate resources the existing margin between the financial charges resulting from the present operating methods of the capital market, and the charges on IDA-type loans, the proposal should, at least in principle, enable the developing countries to resort to the facilities offered by the international capital markets. In the present tense interest-rate situation they can hardly ever do so. Moreover, even IBRD is finding it increasingly hard to secure at acceptable rates the funds it needs for its operations.

"No doubt the budgetary and monetary difficulties of certain industrialized countries are likely to delay the establishment of an equalization fund originally planned to rely to a large extent on budgetary grants from the industrialized countries. This state of affairs is however almost certainly temporary, and in any event the technical preparations needed for setting up a multilateral interest equalization fund will necessarily take some considerable time."

NORWAY

Note verbale from the Permanent
Mission dated 5 June 1969

"The Permanent Representative of Norway to the United Nations Office at Geneva ... has the honour to give the following reply to the note of 18 April 1969 on the possibility of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional developmental loans.

"The Norwegian authorities would not be opposed to the convening of such an intergovernmental group, without taking any position as to the substance of the question of establishing a fund of this kind."

PAKISTAN

Note verbale from the Permanent
Mission dated 5 June 1969

"The Permanent Representative of Pakistan to the United Nations Office at Geneva ... has the honour to ... inform that the Government of Pakistan supports the proposal of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional developmental loans."

REPUBLIC OF KOREA

Note verbale from the Permanent
Representative dated 10 July 1969

"The Permanent Representative of the Republic of Korea ... has the honour to inform that the Korean Government is in favour of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund."

SPAIN

Letter from the Permanent Mission
dated 4 July 1969

"On the instructions of my Government I have the honour to inform you in connexion with your communication TDO 280/5, dated 18 April, concerning a multilateral interest equalization fund, that the competent Spanish authorities do not consider the present circumstances very propitious for the convening of an inter-governmental group to consider the question of establishing a multilateral interest equalization fund."

"Indeed, serious difficulties are at present being encountered in the capital markets, and any further shortage in these would make them more difficult to approach. Moreover, capital suppliers are considering a rise in their rates, and any steps taken to drain funds from their markets would intensify that trend.

"In other words, the outcome might be counter-productive: terms on capital markets would become more stringent, and funds needed for development and for which channels already exist would be diverted."

SWAZILAND

Note verbale from the Department of Foreign Affairs dated 22 May 1969

"The Department of Foreign Affairs of the Kingdom of Swaziland presents its compliments to the Secretariat of the United Nations Conference on Trade and Development and has the honour to refer to the latter's invitation to submit comments on the possibility of the establishment of a multilateral interest equalization fund.

"His Majesty's Government is very interested in the proposed fund, and although it may not be in a position to send a delegate to the inter-governmental group convened to discuss the establishment of such fund, His Majesty's Government would wish to be kept fully informed of any decision taken by this group."

UNITED STATES OF AMERICA

Note verbale from the Permanent Mission dated 2 June 1969

"The Permanent Mission of the United States of America ... has the honour to refer to the Secretary-General's Note No. TDC 280/5 to the Secretary of State of the United States inviting the United States to submit comments on the possibility of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund.

"The United States is strongly interested in discussing with other nations ways of increasing the flow of development finance and improving the terms and conditions of such financing. The question of a multilateral interest equalization fund has been examined in some detail and does not appear to be an effective method for improving the flow of concessional assistance to developing countries. A detailed study of the proposal by Governor Horowitz done by the staff of the World Bank in 1965 showed that such a fund would present a number of difficult problems. Subsequent discussion of the proposal and

possible variants in UNCTAD has confirmed these problems. It does not appear likely that a multilateral interest equalization fund would ease the budgetary constraints that influence direct assistance contributions. The United States, therefore, is not able to support the suggestion for the convening of a group to consider this question.

"The United States, nevertheless, does remain prepared to engage in further discussions on possible means of increasing financial assistance and improving over-all aid terms. Such discussions, we believe, could be most appropriately undertaken within the existing UNCTAD structure."

VENEZUELA

Reply from the Government of Venezuela
dated 3 June 1969, transmitted by the Permanent Representative

- "1. The Latin-American countries have supported the idea since the First UNCTAD, and have indicated their support both in the Charter of Tequendama and in the Charter of Algiers.
- "2. Venezuela supports the idea of convening an intergovernmental group to consider once more the possibility of establishing a multilateral interest equalization fund.
- "3. Machinery of this nature is so important to the developing countries that every possible effort must be made to bring about in the industrialized countries a change of policy towards the problem.
- "4. The advanced countries' reasons for withholding support from the proposal have in fact hitherto been political. It is therefore essential to keep the idea alive and to declare that the implementation of the proposal is not only technically feasible but also politically desirable."

YUGOSLAVIA

Letter from the Permanent
Representative dated 13 May 1969

"I have the honour to refer to your note TDO/5 dated 18 April 1969 concerning the possibility of convening an inter-governmental group to consider the question of establishing a multilateral interest equalization fund to cover the interest margins between loans obtained on international capital markets and concessional development loans and to inform you that the Yugoslav Government will extend their support for the convening of the above mentioned conference."